

Presentations and Speeches

Management's Perspective on Unionized Hotel Restaurants

June 18, 1997 Presentation to HERE General Executive Board

1. Management and Labor Have Come To a Stalemate With Respect to Hotel Restaurants in Recent Years.

Your local unions have successfully obtained strong no subcontracting clauses for hotel restaurants in New York, Chicago, Las Vegas, San Francisco, San Jose and Honolulu among other cities. These clauses prevent the hotels from subcontracting out their restaurants to non-union companies without the union's consent.

However, instead of continuing to operate restaurants, unionized hotels faced with such clauses have permanently closed one hotel restaurant after another and turned the space into banquet rooms or retail outlets in the past 10-15 years, including:

San Francisco

L'Etoile at the Huntington
Cafe Vienna at the Mark Hopkins
Victors at the St. Francisco
Pierre's at the ANA
Squire at the Fairmont
Phil Lehrs at the Hilton
English Grille at Westin St. Francis

New York

Cafe Royale at St. Regis (Retail/Antiques)
Laurent in the Lombardi
Star Café at Elysis (Health Club)
Hampton House

Moreover, some of remaining highly praised unionized hotel restaurants in major cities continue to lose money and may also soon be closed, including:

New York

Bull and Bear at the Waldorf
The Dining Room at the Park Lane

Chicago

Entre Nous at the Fairmont

San Francisco

Masons at the Fairmont
Fournio's Oven at the Stanford Court
Garden Court at the Sheraton Palace

The **reality** of life is that union no subcontracting clauses cannot make the hotels keep their restaurants open and that hotels are continuing to close them, laying off workers, and offering less services to their hotel guests.

Moreover, this is continuing during the biggest boom in hotel business in many years, so imagine what it will look like in the next downturn for the industry.

2. While this Is Happening at Union Hotels, What Is Happening at the Non-Union Hotels?

While unionized hotels are thus closing restaurants across the country, many non-union hotels are opening up extremely profitable hotel restaurants in every major city, like the Kimpton Hotels and Campton Place in San Francisco and the Ian Shrager Hotels in Miami and LA. Each of these and many others have trendy, new non-union hotel restaurants generating millions of dollars each year in hotel profits and providing the hotel guests with more services and frankly more glamour than any unionized hotels in these cities.

Kimpton's hotels in San Francisco host some of the most successful and popular restaurants in the city, including Wolfgang Puck's Postrio, Scalias, Kulettos, and others, all of which are located in hotels. Ian Shrager has opened Coco Pazzi Italian restaurants in its hotels in Miami and LA and other cities and they are also fabulously successful. These are new, trendy restaurants, full all of the time, turning the tables several times a night, and making millions of dollars for their investors and their hotels, in sharp contrast to the dead and dying restaurants in most unionized hotels.

3. What Does this Mean in Terms of Lost Opportunities for Unionized Hotels and the Hotel Workers Union?

On a micro scale, each time a gourmet restaurant in a major hotel is converted into a retail or banquet space instead of being made into a new restaurant, the union loses on average probably 50 union jobs.

If we just looked at 10 major US unionized cities, such as NYC, Boston, Washington, Chicago, Detroit, Pittsburgh, Las Vegas, San Francisco, LA and Honolulu, and if we assume there are on average at least 30 major unionized hotels or 300 major hotels collectively in those ten cities and that each hotel on average would have at least 1 **more** restaurant than they do currently **if** it could be **profitable**, we are talking about a minimum of 15,000 unionized restaurant jobs that could be created in those cities alone. When you expand that to

the rest of the cities and unionized hotels in America, you are talking about a significant number of potential new union jobs.

When you expand that further to the rest of the hotels in America and the restaurant industry itself, the potential union jobs at play are huge.

The National Restaurant Association 1997 Restaurant Industry Fact Book and Web Page indicates that there are over 17,000 hotel restaurants overall in America.

4. The Next Logical Question is Why Are Unionized Hotels Across America Closing Restaurants and Turning Them into Banquet Rooms and Retail Outlets?

First, it is absolutely true that hotel management often does not "understand" or "manage" restaurants well and that is part of the problem today. Certainly, they need to get better at this. However, the fact that executives at the Kimpton & Ian Shrager Hotels can operate hotel restaurants generating millions in profits in the same cities means that hotel chains are capable of doing this as well. All of you know executives at Hyatt, Westin, Sheraton, Hilton & HI that are at least as bright as the executives you know at the Kimpton & Ian Shrager chains. So, there is something else wrong besides weak management.

The other thing that is wrong is the work rules and wage and benefit rates in union contracts that make unionized hotel restaurants unable to compete for the modern restaurant customers, whose needs and demands have changed dramatically in the last 10 to 15 years. **Today's restaurant** customers want fast, trendy service, "mid-range pricing," and a variety of new things to taste and explore, and employees who meet all of their needs and get them in and out of the restaurant fast. Hotel union contracts were written in a different age and met the needs of the customers, managers and employees of that period, but they no longer work in today's dramatically different restaurant industry.

5. What is It in Union Hotel Contracts That Makes the Unionized Hotel Restaurants Unable to Compete?

Union contracts have many more job classifications than non-union hotel restaurants. These contracts have classifications seniority lines which impose strict limits on the type of work each kind of worker can do. In non-union hotel restaurants without these restrictions, restaurant workers often work in multiple jobs during a day or a week to meet the needs of the customer. To make restaurants profitable and to satisfy today's fast-paced customers, you need to have wait staff take orders, sell wine, occasionally clear tables, and reset the room, if necessary, in order to expedite table turns, meet the guest needs for 1 stop service, and to increase covers and profitability. New technology eliminates the needs for cashiers and for other positions and allows for more staff to be directed to the service and sales function, both to please the guest and to increase the covers and profitability of the restaurant.

Other union work rules that are sharply different between unionized hotel restaurants and non-union ones also make the unionized restaurants unable to compete, including:

Shift Pay And Shift Premiums vs. Hourly Pay

Overtime After 8 vs. Overtime After 40

Restrictions on Cross Class/Outlet Work and Rigid Seniority Bidding

"It's Not My Job Attitude/Atmosphere" in Restaurants (Customers are in a hurry and don't like to wait)

Admittedly, these classifications and work rules in unionized hotels were created originally either at the request of employers or to prevent employer abuses. However, in these changed times for the restaurant business, these same work rules put the unionized hotel restaurants at a severe competitive disadvantage to the non-union hotel restaurants in meeting today's customers' needs.

But fixing these work rules alone is not enough; the wage and benefit differences are also far too great to ignore. Unionized hotel restaurants pay combined wage and benefit packages that are substantially higher than their competitors. Waiter, line cook and steward wage and benefit rates are all much higher in unionized than non-union hotel restaurants. In addition to wages and HW, vacation, sick leave and holiday benefits are all sharply higher. See waiter, line cook and steward charts!

As a consequence of all of this, labor cost as a % of total sales in hotel restaurants today is often close to 60% in many major unionized hotels, compared to about 30% for non-union hotel restaurants, or about twice as high.

This results in rigid, high-priced restaurants which are unable to change in unionized hotels. Overall, this means that hotel restaurants, with a few notable exceptions, are witnessing declining covers and revenue as the guests abandon them for the moderately-priced, fast-paced Kimpton and Shragger-type restaurants.

This also means that unionized hotel restaurants more and more are operating in the red today. A typical revenues and covers projection for unionized hotels shows red ink for the last several years.

This translates into making it virtually impossible to build or open major new hotel restaurants in unionized properties in several major American cities. One specific example of this comes from a study we are doing with Local 2 at present regarding union and non-union hotel restaurants. It shows a comparison of the profitability of a Kimpton's restaurants to that of a potential unionized hotel restaurant directly across the street. You should note the labor costs of 30% vs. 60% and the profitability of 38% vs. 3.5% as a result. At 3.5% profitability, you could never pay back the loan it would take to build out the restaurant in the first place, which would exceed \$2 million dollars for an average restaurant.

Moreover, while other food and beverage such as banquets continue to generate a profit, the red ink from the restaurants is **dragging down** their overall F&B profitability and making the unionized hotel chains report about 25% in F&B profitably overall while non-union chains report 30%+. Union chains look worse to real estate investors and to Wall Street than the non-union chains as a result of this extrapolation.

As we all know, the hotel chains today are run by hard driving business executives who must obtain public funds and institutional investors to survive. These executives are increasingly having to answer to stock and real estate investors about any portion of their business that is not performing as well as their competitors. Steve Bollenbach, Randal Arasgog, Barry Sternlicht, Jay Pritzker and others like them are upset because their F&B operations are producing 5% to 10% poorer results than Marriott and Doubletree and this affects their stocks and makes it harder for them to attract new hotels and capital.

This is the financial reality of hotels today; financial analysts pore over the results of every department and the significant competitive differences in F&B profitability are having a major impact on unionized hotel companies. This is a major reason why non-union chains attract more flags and money and can grow faster than union chains.

The old mentality of viewing restaurants as an amenity has changed at virtually every major hotel chain in America. Right or wrong, it is absolutely clear that the new breed of management companies and owners will no longer run hotel restaurants at a major loss and subsidize them from banquets and other profit centers in the hotels. Absent finding a new way to operate hotel restaurants, they will close them and rent out space for retail stores or use as banquet rooms. At most, they need small single outlets for breakfast and dinner with few employees and some don't believe they need that. As one NY hotel executive was quoted as saying in May 12, 1996 NYT: "This hotel is a piece of real estate, and we have to maximize its use. While I'm sure a small percentage of guests would like to order a pot of coffee to their rooms, most of our guests don't miss food service at all." Right or wrong, that is management's attitude today, and the concept of keeping restaurants as an **amenity** is increasingly a myth in every major hotel chain in America -- they can no longer afford the luxury of that type of thinking.

6. The Long-Run Implications of this Trend for Unionized Hotels and Their Unions Are Extremely Negative.

Unionized hotels **themselves** will, **in my opinion**, become less competitive overall vis a vis non-union hotels if this trend in restaurants continues, and this will inevitably impact the rest of the workers in these hotels. Unionized hotels without restaurants will become **crippled** competitors in an **unforgiving** marketplace in the years ahead.

Without restaurants and bars, their guests might as well stay in non-union, lower cost hotels or in non-union luxury hotels, both of which offer better value for the costumers' money. Proimus Hotels from Memphis, which owns Hampton Inns, Embassy Suites and Homewood

Inns, offers free breakfast buffets and often free cocktail hours as well in their less expensive hotels. Marriott, Ritz Carlton, Doubletree, Kimpton, Shrager and other non-union chains often charge similar rates but offer more restaurants and food options which they aggressively market.

Why stay in a luxury unionized hotel and pay top dollar if you can get the same levels of service at a much cheaper non-union hotel next door or better service for the same money at a Marriott, Doubletree, or a Ritz also located next door?

7. How Do You Break The Current Unhealthy Stalemate of Strong No Subcontracting Clauses and Losing Restaurants?

What do Hotel Chains say it will take to reverse this downward trend in unionized hotel restaurants?

1) Hilton, Sheraton and Hyatt Chains

All see their unionized hotel restaurants as characterized by:

rigid classification and seniority;
elaborate complicated scheduling and bumping;
costly wage and benefit levels; and
an "it's not my job" mentality.

On the other hand, their non-union hotel restaurants, while still paying substantially higher wages and benefits than non-union restaurants, are nonetheless profitable and they perceive them as:

flexible classifications, scheduling and work assignments
creating a culture of cooperation where individuals are free to try out new jobs and assignments, and enhance their skill levels

They each believe that a profitable hotel restaurant should have only 2 or 3 required classifications, which are wait persons and kitchen workers, and they believe that other classifications should be optional and used only when business demands require it.

They also believe that overtime and shift premiums are a problem; and that traditional sick leave systems force workers to lie and take sick days at the wrong times does not make sense.

They believe that what money made in unionized hotel restaurants gets consumed by too many classifications, too many restrictions on what workers and managers can do

in meeting the customers' needs, and by wage and benefit costs that are too high to allow them to compete.

- 2) The **solution, however**, is **not** to copy the non-union hotel and restaurant industry.

The hotel chains are not looking for "sweatshop conditions" side by side with decent unionized jobs in their hotel and they are not looking for rock bottom wages and no benefits.

While the non-union restaurants are currently making a lot of money, there are problems with such companies that likely will get worse. In the recent National Restaurant Association Annual show here in Chicago, as reported in June 2 Restaurant News, these non-union restaurant employers are worried about shortages of competent workers, high levels of turnover, and the poor quality of their applicants.

They bemoan the fact that their industry is plagued with dissatisfaction and defection among young workers, that kids are not interested in a career in their industry, that turnover is huge, as much as 120% a year, because of low pay and benefits, and that those that stay often are less desirable employees.

Some restaurant chains are beginning to offer benefit plans as a result. Many state that to keep a core of good workers who do not turn over, they must offer good benefits, training and full-time work.

As these shortages of workers increase for the non-union restaurants and their wages and benefits slowly rise to attract and retain workers, some of the differences with unionized restaurants will diminish in the years ahead and may make it somewhat easier for the unionized restaurants to create a viable and competitive alternative model that isn't contingent on starvation wages and a total lack of benefits.

The solution, I believe, is **not** to copy the non-union restaurants, but to create a new model for unionized hotel restaurants that is economically viable and is fair to everyone involved.

- 3) What Should That New Model for the Future of Unionized Hotel Restaurants Look Like?
- a) In exchange for lower wage levels, we need to consider creating profit sharing plans where the workers and management share the proceeds if the restaurant is successful.

Both sides make initial sacrifices in order to open new restaurants, the hotel's is the cost of building out the restaurant and the union's is in changed wage, benefit

and work rules. Both sides should then share in the success if it occurs.

Profit sharing programs make everyone focus on success, on proper staffing, on pleasing the guest, and on continuing to change when needed.

Customer satisfaction incentive pay plans would get everyone focusing on the guest, as occurs at NUMMI auto plant and Ritz Carlton Hotel Chain and as the Dodgers and other companies are beginning to explore.

- b) In exchange for changing work rules, we need to implement new concepts to protect workers from abuse and to ensure fairness, we should **explore**:

Reasonable work load language that can be grieved.

Employee participation committee that meets regularly on paid time to review staffing, workload, profitability and other issues, with full union involvement.

Employee and union participation in the hiring of managers and coworkers.

Maximize and guarantee full-time employment to improve job security and careers for employees and to reduce turnover and benefit load for employers. (To do this, employees must be able to work in various jobs with reasonable combinations of hours and shifts.)

Replace existing sick leave, holiday and vacation programs with more intelligent personal time off programs which may be ideally suited to restaurant industry's peaks and valleys and allow restaurants to keep workers employed through the troughs while still having the flexibility to vary their work force size as business dictates.

- c) We also need to explore replacing existing high benefit contributions which are making hotel restaurants unable to compete with alternatives, such as:

Lower cost restaurant health and welfare plans, as unionized hotels can't pay \$300-\$500 a month when competitors pay 0 to \$100 a month.

Considering new plans, possibly a national plan for restaurants, while grandfathering existing restaurant workers in their current plans, if necessary.

Consider cafeteria style plans, so that young restaurant workers could get tuition reimbursement for college, single health insurance coverage, and 401ks while older workers can opt for family health insurance and defined benefit pension plans.

8. Instead of Accomplishing All this Through *Traditional* Collective Bargaining, We Should Consider Using New Process That Can Better Accommodate Each Parties' Changing Needs.

Traditional processes of grievance and arbitration, adversarial collective bargaining and side deals do not lend themselves to such fundamental change in hotel restaurants.

New processes like those we have been working on with Local 2 in San Francisco for 4 years now, such as joint studies, using professional facilitators and coordinators, interest-based problem solving with workers, union leaders and managers meeting together regularly, and taking the time necessary to find new solutions, is the best way to create fundamental change that will work in the long term to solve this problem.

9. Conclusion.

We need to find ways to change the perception of the hotel chains towards unionized hotel restaurants. Unions in the restaurants are perceived today by management as slow and obstructionist, impeding progress, not associated with profitable restaurants, and not truly empowering workers, and many companies are fighting union organizing drives in restaurants today by focusing on precisely these issues. We should find a way that union would instead be perceived as source of training, of providing skilled workers, of minimizing turnover, of efficiently delivering benefits, of being an effective voice on the job for workers, and of helping to solve problems facing unionized hotel restaurants.

If we can create in the unionized sector a hotel restaurant model that allows for a profitable restaurant while at the same time providing workers with decent wage and benefit levels and a real voice on the job through their union representatives, we might be able to attract and retain the best restaurant workers in America and we might be able to give unionized hotel restaurants for the first time in many years a true competitive advantage. This may, in turn, break the current stalemate and cause hotel chains to begin opening unionized restaurants again instead of continuing to close them!! We need unionized hotel restaurants at Hyatts, Holiday Inns, Hiltons, Sheratons, and Westins that can compete with those at Marriotts, Ritzs and Doubletrees. I believe that it is in both sides' interest to make this occur.

Again, President Hanley, thank you for giving me this opportunity to address your General Executive Board on this topic of vital importance to my clients in the hotel industry.