

# THE HOSPITALITY JOURNAL

www.hftpnyc.org

Chartered Chapter of the  
Hospitality Financial and Technology Professionals

Summer 2010

## From the President's Desk

### IN THIS ISSUE:

Where Bean-Counting Means Jelly	2
The Justice Files	2
Children Say "No" to Kids' Clubs	3
2010 Annual Convention & Tradeshow	3
Save the Date!	3
PKF Perspectives: Hiring Incentives to Restore Employment Act of 2010	4
TripAdvisor Friends Facebook	6
Is Supply-Side Strategies The Key for Hospitality Operators Battling Diminishing Economic and Accounting Profit?	7
Financials	11

Dear Members,

2010 is flying by and it has been hot this summer! It's hard to believe that September is almost here and we will install your new officers. Joseph Delgado, John Hyland, Elena Mitronich and Humphrey Feliciano are all long time members and have proven their dedication to HFTP over the years. Our chapter couldn't be in better hands going forward. I am sure you all join me in congratulating and offering our support to them.

During the second quarter, we were hosted by The Tudor Hotel in April, The Yale Club in May and The Penn Club in June. As usual, our hosts went above and beyond to ensure a successful meeting and our guest speakers provided insightful presentations. We are always appreciative to those that assist us to accomplish our goals to have our monthly meetings and provide education to our members. So a special thank you to our host properties, who have now hosted us annually, and guest speakers for the second quarter!

Our Education Committee should be congratulated on a very successful Education Day back in May. Their hard work resulted in a well attended session that provided insightful information from all of our speakers. Again, thanks to The Radisson Martinique for providing the venue and to our speakers who volunteer their time and energy to furthering our knowledge of the industry.

Our Chapter's 10<sup>th</sup> Annual Golf Outing will be held on September 28 at Saint Andrew's Golf Club. For several years now we have raised funds for the Alzheimer's Association of New York City, and they are truly grateful. Our chapter should be proud of the fact that we have raised almost \$100,000 for this worthy cause. We are counting on our members and past participants to make this year's outing a success. So mark your calendars and send your response in soon.

Lastly, this will serve as my last newsletter communication as President of the New York City Chapter. I would like to take this opportunity to thank the membership for your support and the Board of Directors for their guidance over the last few years. This has truly been a rewarding experience and I am grateful that you gave me the opportunity to serve.

Sincerely,

Clare E. Cella  
President

*"Be a yardstick of quality.  
Some people aren't used to an  
environment where excellence is  
expected."*

**STEVE JOBS**

## Where Bean-Counting Means Jelly

As I settle into my “comfy” coach seat, courtesy of delayed flights, lost baggage, no meals airline, I can finally take off my mouse ears and drift into sweet memories of riding the Mad Tea Party while the screams of pre-schoolers were drowned out by the constant droning of “It’s a Small World”; Man! I love Disney.



As difficult as it may have been, I did tear myself away from the Country Bear Jamboree long enough to attend this year’s HITEC Conference in Orlando, FL. In addition to topics ranging from Social Networking, PCI Compliance, Identity Theft and the cleverly titled “Cloud Computing” (a catchphrase for locating systems out of your hotel to a centralized location), there was an outstanding opening session hosted by the renowned speaker Frank Abagnale. You’re probably familiar with Mr. Abagnale’s exploits from the movie *Catch Me If You Can*, but while Hollywood’s portrayal of his crimes was certainly entertaining, it could not match the intrigue and excitement of hearing them told by the man himself. This session alone was worth the price of attending.

I must congratulate HFTP for once again putting together an interesting and informative mix of concurrent sessions which ranged from wireless connectivity, sustainable “Green” initiatives, distribution channels, Web 2.0 and guestroom technology featuring Guestroom 20X. If that wasn’t enough, HFTP “gilded the lily” by co-hosting the Club & Hotel Controller’s Conference at the Orange County Convention Center. There you could enjoy more financially specialized topics including Tax Management, Internal Controls, Audit Preparation, etc. as well as, networking with the non-techie crowd.

All in all, I had a terrific experience and I can’t wait til this year’s Annual Convention in San Diego, where you might see me roaming around Sea World; I’ll be the guy with the shark visor. See you then.

*Humphrey Feliciano, Union Club City of New York, Inc.*

## The Justice Files

Section 206 of the General Business Law provides that a hotel must post copies of Sections 200 and 201 of the General Business Law in a “public and conspicuous place and manner” in the public areas of the hotel. This means, but is not limited to the hotel’s main registration desk, each guest room floor at the elevators, and in the public wash rooms.

Sections 200 and 201 deal with the hotel’s limitation of liability by providing safe deposit boxes in the office of the hotel for money, jewels, securities (Section 200) and for the loss of personal property (Section 201). The hotel safe must be available on a twenty-four hour basis.

*Bleam v. Marriott Corporation*, a case decided by the Supreme Court, Appellate Division, Second Department, illustrates how these laws are applied.

While attending a baseball card show at the Nassau Coliseum, the plaintiff, who was in the business of buying and selling baseball cards, left five briefcases full of valuable baseball cards, along with several thousand dollars in cash, checks and credit card receipts in his room at a hotel owned by the defendant Marriott Corporation. When he returned from dinner he found that all of his property had been stolen.

It was undisputed that the plaintiff did not declare to any agent or employee of the hotel the value of the merchandise that he was keeping in his room. Therefore, the defendant’s liability was limited to \$500 under Section 201 of the General Business Law.

In addition, as the plaintiff admittedly failed to use the safe deposit boxes supplied by the defendant for his checks and credit card receipts, he could not recover for their loss under the provisions of Section 200 of the General Business Law.

Moreover, the record established that the hotel conspicuously posted the text of General Business Law sections 200, 201, and 206 above the hotel registration desk in the main lobby, in full view of all those checking in, on the door to the bellman’s room where guests could store large items of luggage, and on the bathroom door of each guest room. The defendant was therefore in compliance with the posting requirements of the General Business Law, triggering the statutory limitations on its liability.

The plaintiff’s mere allegation that he did “not” recall seeing these notices was not sufficient to raise an issue of fact requiring trial. Summary judgment was granted to the defendant dismissing the complaint insofar as it sought to recover damages in excess of the statutory limitation of liability provided pursuant to the General Business Law.

*By John A. Hyland, Sherry & O’Neill*

## Children Say “No” to Kids’ Clubs

Most children don't want to be packed off to a kids' club when they're on holiday, according to research.

Despite the growing number of holiday companies that offer kids' clubs, research by Advantage Travel Centers shows fewer than 10% want to go to them, preferring instead to be with their mom and dad.

A third of children said their parents let them help decide where to holiday, according to the Advantage Kids on Holiday 2010 survey.



The research showed 60% said going on holiday was what they want to do most this summer, with 94% wanting to go to a beach destination, the number-one choice.

A theme park holiday was second on the list, with a private villa with a pool at number three.

A hotel with a pool and a family activity holiday took fourth and fifth places.

Camping came in sixth, with more kids happy to stay in their home country rather than camp abroad.

City breaks, cruising and skiing, were then next on the shortlist for the annual family getaway.

Half want to take their whole family on holiday, with 25% wanting to take friends.

John McEwan, chief executive of Advantage, said: “Holidays have traditionally been a time for the whole family to have some fun and spend time together. I'm glad to say that despite the constant talk of family values diminishing, celebrity culture being king and the nation's children turning into insular computer crazy couch potatoes, the annual family summer holiday is still alive and kicking.”

Source: [e-tid.com](http://e-tid.com)

## 2010 Annual Convention & Tradeshow

Covering the full spectrum of a complex work environment, Hospitality Financial and Technology Professionals has announced the education program for the 2010 HFTP Annual Convention & Tradeshow. The convention will be held on October 11 through 14 at the Hilton San Diego Bayfront Hotel in San Diego, California.

It offers attendees a way to find cost-effective solutions to their current work challenges, stay informed on the hottest hospitality industry topics, expand their network, increase their professional value and become empowered.

"The work environment is rapidly changing with four generations working side-by-side, innovative technologies on the horizon, employees taking on more responsibilities than before and more," said HFTP Global President Terry Price, CPA, CHTP, CHAE, CIO of The Grove Park Inn Resort & Spa. "With five concurrent education tracks, the program lets attendees get an update on their specific sector in the hospitality industry, as well as utilize the other concurrent tracks to embrace the challenges they face in their current work environment."

Along with three general sessions, the Annual Convention's education program includes industry-specific, concurrent session tracks – club, hotel, general, technology and leadership unlimited. The concurrent education sessions cover topics important to the industry like fraud trends, cost-saving ideas, tax issues, club finance, freeware and more.

Visit [www.hftp.org](http://www.hftp.org) for complete information on the education schedule, registration and hotel/travel. For more information, contact the HFTP Meetings & Special Events Department at [education@hftp.org](mailto:education@hftp.org).

## Save the Date!

### HFTP NYC CHAPTER MEETINGS

Wednesday, September 22

Wednesday, October 27

Wednesday, November 17

Keep a close watch for monthly meeting email notifications for location and complete details.

## PKF Perspectives: Hiring Incentives to Restore Employment Act of 2010

In February 2010, prior to the enactment of the health care act, the President signed into law the *Hiring Incentives to Restore Employment Act of 2010* ("the HIRE Act"). The centerpiece of this Act is a payroll tax holiday and up-to-\$1,000 tax credit for businesses that hire unemployed workers. The HIRE Act also includes a one-year extension of the enhanced small business expensing option under Code Section 179. Both of these provisions are important to many businesses.

### Payroll Tax Holiday and Up-to-\$1,000 Credit for Employers Who Hire Unemployed Worker

The new law exempts any private-sector employer who hires a worker who had been unemployed for at least 60 days from having to pay the employer's 6.2% share of the Social Security payroll tax on that employee for the remainder of 2010. A company can save a maximum of \$6,621 if it hires an unemployed worker and pays that worker at least \$106,800—the maximum amount of wages subject to Social Security taxes—by the end of the year.

As an additional incentive, for any qualifying worker hired under this initiative who the employer keeps on payroll for a continuous 52 weeks, the employer is eligible for an additional non-refundable tax credit of up to \$1,000 after the 52-week threshold is reached. In order to be eligible, the employee's pay in the second 26-week period must be at least 80% of the pay in the first 26-week period.

Workers hired after the date of introduction of the legislation (February 3, 2010) are eligible for the payroll tax forgiveness and the retention bonus, but only wages paid after March 18 receive the exemption for payroll taxes.

Some additional features of the new hiring incentive include:

1. The tax benefit of the new incentive is immediate. It puts money into a business' cash flow immediately, since the tax is simply not collected in the first place.
2. The tax benefit generally applies only to private-sector employment, including nonprofit organizations—public sector jobs are generally not eligible for either benefit. However, employment by a public higher education institution qualifies.
3. There is no minimum weekly number of hours that the new employee must work for the employer to be eligible, and there is no limit on the dollar amount of payroll taxes per employer that may be forgiven.
4. For workers that would otherwise be eligible for the Work Opportunity Tax Credit (i.e., another type of employment tax

credit), the employer must select one benefit or the other for 2010.

5. An employer cannot claim the new tax breaks for hiring family members.
6. A worker who replaces another employee who performed the same job for the employer isn't eligible for the benefit, unless the prior employee left the job voluntarily or for cause.
7. For the hiring to qualify, the new hire must sign an affidavit, under penalties of perjury, stating that he or she has not been employed for more than 40 hours during the 60-day period ending on the date the employment begins.
8. The incentive is not biased towards either low-wage or high-wage workers. Under the measure, a business saves 6.2% on both a \$40,000 worker and a \$90,000 worker.
9. The payroll tax holiday does not apply with respect to wages paid during the first calendar quarter of 2010. Rather the amount by which the Social Security payroll tax would have been reduced under the payroll tax holiday provision during the first calendar quarter is applied against the tax imposed on the employer for the second calendar quarter of 2010.
10. The Act creates a similar new set of rules allowing a payroll tax holiday for railroad retirement tax purposes.
11. The credit for retaining qualifying new hires is the lesser of \$1,000 or 6.2% of the wages paid by the taxpayer to the retained worker during the 52-consecutive-week period. Thus, the credit for a retained worker will be \$1,000 if, disregarding rounding, the retained worker's wages during the 52-consecutive-week period exceed \$16,129.03.

### Extended Enhanced Small Business Expensing

The new law extends for one year the life of the enhanced expensing rules, which allow qualifying businesses the option to currently deduct the cost of business machinery and equipment, instead of recovering it via depreciation over a number of years.

For tax years beginning in 2010, the maximum amount that a business may expense is **\$250,000**, and the expensing election begins to phase-out when a business buys more than \$800,000 of expensing-eligible assets.

These dollar limits are the same as those that were in effect for 2008 and 2009. Had the HIRE Recovery Act not been passed and signed into law, these dollar limits would have dropped this year to \$134,000 and \$530,000 respectively.

## INTERNATIONAL PROVISIONS

### Withholdable Payments to Foreign Financial Institutions and Other Foreign Entities

#### *Current Law*

Payments made to foreign persons of fixed or determinable annual or periodical (“FDAP”) income from U.S. sources are subject to a 30% U.S. withholding tax, unless the beneficial owner qualifies for an exemption or a reduced withholding rate under an income tax treaty. FDAP income includes interest and dividends but not gains on sales of property.

Statutory exemptions from withholding apply to interest on bank deposits; portfolio interest; and capital gains.

Many U.S. income tax treaties provide for zero withholding on fixed interest payments and reduce the withholding rate on dividends to 15% (for portfolio dividends) and 5% (for direct investment dividends paid to a 10% or greater shareholder).

A withholding agent that makes payments of U.S.-source amounts to a foreign person must report those payments, including any amounts of U.S. tax withheld, to the IRS on Forms 1042 and 1042-S by March 15 of the calendar year following the year in which the payment is made.

The U.S. withholding tax rules are administered through a system of self-certification. A nonresident investor seeking to obtain withholding tax relief for U.S.-source investment income typically must provide a certification on Form W-8 to the withholding agent to establish foreign status and eligibility for an exemption or reduced rate.

The Form W-8 also establishes an exemption from the rules that apply to many U.S. persons governing information reported on Form 1099 and backup withholding.

#### *New Law*

The Act adds new Code Sections to the Internal Revenue Code (Code Sec. 1471 through Code Sec. 1474). It provides for withholding taxes to enforce new reporting requirements on specified foreign accounts owned by specified U.S. persons or by U.S.-owned foreign entities.

The Act establishes rules for withholdable payments to foreign financial institutions and for withholdable payments to other foreign entities. These rules are generally effective for payments made after December 31, 2012. However, they do not apply to any obligation outstanding on March 18, 2012, or from the gross proceeds from any disposition of the obligation.

**Payment to foreign financial institutions:** Generally for payments made after December 31, 2012, a withholding agent must deduct and withhold a tax equal to 30% of any withholdable payment made to a foreign financial institution that does not meet certain requirements. A “withholdable payment” is non-effectively connected

- (1) U.S. source FDAP income,
- (2) (2) gross proceeds from the sale of property that produces interest and dividend income, and
- (3) interest on deposits with foreign branches of a domestic commercial bank.

To avoid this 30% withholding requirement, a “foreign financial institution” must **either** enter into a Code Section 1471(b) agreement with the IRS and satisfy the requirements listed below, **or** satisfy one of several alternatives.

**Code Section. 1471(b) agreement:** Withholding on withholdable payments is not required if a Code Section. 1471(b) agreement is in effect between the foreign financial institution and the IRS in which the institution agrees to:

1. Obtain information regarding each holder of an account maintained by the institution to determine which accounts are U.S. accounts;
2. Comply with verification and due diligence procedures prescribed by the IRS to identify U.S. accounts;
3. Report annually for any U.S. account, identifying information as to the specified account holder and any substantial owner of a U.S.-owned foreign entity;
4. Deduct and withhold 30% from certain pass-through payments made to “a recalcitrant account holder” or certain other foreign financial institutions;
5. Comply with the IRS requests for additional information for any U.S. account maintained by the institution; and
6. Attempt to obtain a waiver where a foreign law would prevent the reporting of information required by these rules for any U.S. account maintained by the institution, and, if a waiver is not obtained, to close the account.

**U.S. Accounts:** A U.S. account is any financial account which is held by one or more “specified U.S. persons” or a “U.S.-owned foreign entity” (with an exception where all accounts held by a natural person do not exceed \$50,000). A specified U.S. person is any U.S. person other than

- i. a corporation whose stock is regularly traded on an established securities market or members of its “expanded affiliated group,” and
- ii. certain entities that are exempt or have a special status and government bodies.



(PKF Perspectives continued from page 5)

A “U.S.-owned foreign entity” is a foreign entity with one or more substantial U.S. owners, applying a more than 10% ownership test.

**Payments to other foreign entities:** Generally for payments made after December 31, 2012, a withholding agent must deduct and withhold a tax equal to 30% of any withholdable payment made to a nonfinancial foreign entity if the beneficial owner of the payment is a nonfinancial foreign entity that does not meet specified requirements.

Withholding is not required if the payee or the beneficial owner of the payment provides the withholding agent with either a certification that the foreign entity does not have a substantial U.S. owner, or provides the withholding agent with the name, address and TIN of each substantial U.S. owner.

Withholding does not apply to any payments to a publicly-traded corporation. Nor does it apply to any payment:

- (1) entity organized under the laws of a U.S. possession, which is wholly owned by one or more bona fide residents of that possession;
- (2) foreign government, political subdivision thereof,
- (3) international organization;
- (4) foreign central bank of issue;
- (5) any other class of persons identified by the IRS for these purposes; or
- (6) payments identified by the IRS as posing a low risk of U.S. tax evasion.

*Items in this publication should not be considered official statements of position, nor advice for individuals or organizations without consulting a professional advisor. This information is not intended to be, nor can it be, used by any taxpayer for the purpose of avoiding tax penalties. For more information, please contact tax directors Leo Parmegiani or Joe Lee.*



Certified Public Accountants  
29 Broadway • New York, NY 10006  
Tel: (212) 867-8000 • Fax: (212) 687-4346

## TripAdvisor Friends Facebook

TripAdvisor launched the travel industry's first major implementation of the Facebook Open Graph. TripAdvisor's Trip Friends feature allows travelers to tap into their social network to find friends that can offer advice about a destination.

Trip Friends signifies how travel search and discovery processes are becoming more personalized. This is something travelers have been waiting for. They are used to tapping the wisdom of the crowds; now they get to share the wisdom of friends. Through Facebook, TripAdvisor can show travelers which of their friends have reviewed, visited or lived in a destination. Someone who searches for Barcelona hotel reviews will find a neighbor who lived there and can message that person for advice. When friends exchange dialogue and reviews, the travel experience becomes more relevant, trusted and targeted.

The power of Facebook's Open Graph is clear. This is one of its largest utilizations; a first for travel and a sign of more to come. The tip of the iceberg, it is not just about destinations. Travelers want to share information about hotels, flights, activities and interests. The Open Graph empowers us to leverage our social network to shape our decisions.

The feature is readily available to millions of travelers. Facebook recently reached 500 million global users and TripAdvisor receives 34 million monthly visitors, but the effects will be even more widespread. By harnessing the power of word of mouth, we can expect the Open Graph to have huge implications on advertising and booking. In the ever-changing world of online travel, Trip Friends is the first sighting of big changes straight ahead.

Source: [.traveldailynews.com](http://traveldailynews.com)

The Hospitality Journal

Publisher

The Hospitality Financial & Technology Professionals  
New York City Chapter

Editors

Clare E. Cella and Fabiola Compres

The Hospitality Journal is published by HFTP NYC Chapter, a chartered member of the Hospitality Financial and Technology Professionals. HFTP is not responsible for any inaccuracies contained in material supplied to us by contributors of the newsletter.

## Is Supply-Side Strategies The Key for Hospitality Operators Battling Diminishing Economic and Accounting Profit?

Increasingly, revenue management and other strategies are posing more challenges for hospitality businesses as sources of demand for hospitality services become sparse and fragmented. The growth of the internet and other means of accessing hospitality services, render demand side economic strategies as a determinant of profitability inadequate. Hospitality businesses will need to augment demand side economic strategies, specifically under current market conditions in order to yield growth. There are noticeable failures in managing demand elasticity as a means of stabilizing shrinking economic and accounting profits within the industry. Despite the economic downturn and irrespective of franchise or no-franchise relationship, it is apparent that the traditional two-step simpler approach to profitability remains the popular choice: Cut prices, deep discounts and reduce labor force. Is this primarily demand side driven approach the best strategy in a weak hospitality market?

To the demand-side proponents, it may seem that during this economic downturn, reducing staff and price cuts are the logical choices. Notwithstanding, the resurgence of the Austrian Based Cycle Theory, ABCT, in providing an explanation for economic downturns and offering possible alternative in supply-side economic strategies should not be ignored. ABCT analysis emphasize "injection effects", impact of interest rates all macroeconomic phenomena. However, Austrian business cycle theory highlights borrowing by businesses to finance activities including hospitality businesses and possible mal-investment. Although a macro-economic theory, ABCT implications are far reaching and embodied micro-economic effects, such as pricing hospitality services for profit. Essentially, excessive credits results in soaring general prices, hotel services and the value of hospitality real estate included as well. The continued struggle of the hospitality industry with traditional revenue management strategies and demand side pricing is not immune to the underpinning of Austrian Based Cycle Theory. As such, operators could borrow from the ABCT and its supply-side micro-economic teachings on shoring up shrinking owners' equity going forward. A shift in strategies is essential to heightened quality of services provided and re-evaluating cost associated with provision of such services will become increasingly crucial to hospitality business' growth. For this reason among others, revisiting supply-side economic strategies is warranted in this article.

Under current market conditions, coupled with some scholars' view that the economy continues to show sign of double dipping recession, the key model to stabilizing or fostering potential economic growth for hospitality businesses hinges on supply side economics rather the seemingly temporary measures, and elusive, demand driven pricing strategies. Niche market will render the foregoing even more significant in what promises to be a model

adjustment for some hospitality businesses going forward. In recent years and with the booming real estate market, the model many operators adopted included heavy leveraging of the historical increases in prices of the tangible real property behind the intangible services delivery derived from the hospitality promise. As advanced by ABCT, "malinvestment" inherently will impact hospitality businesses as the real estate and financial market failed to deliver expected results. Together, many hospitality operators had hoped that historical growth in real estate value coupled with returns on services delivered would have resulted in considerable increases in equity harnessing a dual profitability growth model. Today, sustaining the dual model and delivering the hospitality promise of service quality cannot be achieved through demand pricing strategy alone and could yield conflicting result. This will become increasingly evident as the challenges of managing debt services persist for hospitality businesses. In addition, the process of achieving dual profitability may have resulted in minimizing the focus on services for profit and its supply side components. Will the hospitality promise of quality services be compromised as operators continue to experience diminishing economic and accounting profit? The answer to this question will require empirical investigations. As such, qualitatively this paper seeks to sensitize the hospitality operator to the benefits of shifting focus to supply side strategies and the possibilities it offers in stabilizing shrinking owners' equity.

### Inadequacies of the Two-Steps Traditional Approach

**The first traditional approach represents layoff and cutting workforce:**

Protecting the hospitality promises while stabilizing declining profits normally requires great care by hospitality operators, specifically in recessionary market. The best strategy that will aid in preventing a compromise of guest services delivery cannot weigh heavily on reduced workforce as is traditionally held. Steep cut in trained labor force frontline or otherwise could prove costly both in the short and long-run. The fact is operators who are inclined to adopt this traditional approach could risk diminished competitiveness and profitability considering the fragmentation of sources of business and changing characteristics of market segments. Instead, supply side economic strategies such as those steps taken that aim at lowering the barriers to providing competitive guest services, delivering the hospitality promise, must be considered. Riley (1993) stated that labor turnover in hospitality businesses hurts the specialized skill-set required to sustain good quality guest services, an essential ingredient for hospitality businesses to profit. Crotts et al (2009) emphasized that hospitality organizations selling intangible experiences are ultimately some of the most difficult businesses

(continued from page 7)

to manage profitably.

Meeting, let alone exceeding, the guest expectation, Crofts et al (2009) argued, must be achieved by apt and trained front line employees who remain stable and loyal to their duties assigned. Cutting labor during economic downturn seems prudent but must be done measurably in order to remain competitive as well as stabilize shrinking bottom-line. Meyer (2006) captured the essence of creating a level of hospitality that speaks to the customers' soul, one strategy in creating repeat guests. Crofts et al (2009) empirically showed service-profit correlation remains statistically significant and customer loyalty could be impacted by employee's morale, loyalty due to turnover, layoffs included, and quality of services.

**The second traditional approach represents steep price reductions and discounts:**

The price value perceptions remain very dominant in the hospitality industry: so that an inexpensively priced meal or hotel room could imply poor or substandard quality services relative to standards established. Data reviewed by Crofts et al (2009) reflect that hospitality business' operating profits before capital reserves, debt services, rent, income taxes, depreciation and amortization are shrinking and will heighten the pressure on managers to meet obligations. Evidently, steep discounts and price cuts will not help operators shore up profitability unless demand changes significantly. During periods of economic uncertainty, such as the current market, expectation for sustained demand increases for hospitality services could be unrealistic. What are the strategic alternatives? As the Austrian scholars, ABCT, believe, market forces driven by focus on supply-side efficient management of cost of production so that a heightened level of production and services specific to the hospitality industry remains key.

While ABCT remains controversial, their position on supply-side represents great hopes for hospitality businesses when taken at a micro-level. Evidence of this approach could be seen recently at the HITEC show held in Orlando, Florida, as one traversed the aisles between technology vendors. It became increasingly evident that hospitality businesses will need to refocus on supply side strategies as opposed to competitive set, comp-set, pricing strategy that emphasizes revenue management and demand side economics. The latter approach alone will increasingly render hospitality businesses incapable of meeting debt services or aid operators in shoring up shrinking owners' equity. Withiam (1999) writes that although hotels have taken advantage of technology offered by the so-called "new economy" it is observed that hotels generally make money the old-fashioned way; taking advantage of demand changes and aggressively price accordingly. Varying prices to meet demand changes. Is this strategy still a viable option during a recessionary period? How deep can operators' discount without risking business failures, especially knowing that many operators may have

over-leveraged during the heights of the real estate bubble? How will potential future price changes impact long-term guest and other consumers' expectation and the price value perceptions? The fall-out could produce counterintuitive results when demand fails to respond.

Bear-in-mind that demand side economics for hospitality businesses work best when operators can pass price changes through to the customers. Sanson (1997) found empirically that with ever-increasing competition, including internet bookings, hospitality businesses are facing a growing inability to pass along price increases. As such, one cannot afford not to get the best deal, Sanson (1997) concluded. At HITEC, suppliers to hospitality businesses competing for the eyes and ears of operators represents an encouraging and remains one solid example of how supply side economic should be the focus of hospitality business operators. While HITEC offering is not a new phenomenon, what remain new and emerging are the possibilities for hospitality businesses to share cost of production without losing their unique identity and niche driven characteristics. Here is how?

In the past, many individual operators and franchises were confronted alone with designing and implementing costly technology to improve service quality. Now, this cost could easily be augmented with varying technology models available on the market.

**First**, the introduction of "Cloud Computing" promises to remove the individual cost currently borne by operators in providing competitive guest services. We know that similar service input does not guarantee similar result in output of quality services; strategies employed in the process matter. Therefore, the risk of losing niche and service identity is non-essential relative to the cost savings. The hospitality industry, though labor intensive, remains one sector at an advantage by owing the flexibility to leverage both technology and labor in producing quality services a supply-side strategy. As a means of increasing profitability, specifically arising from the dynamic shift of demand from hospitality services, the following additional examples of supplies side approach can also be employed; that is removing or minimizing the barriers to provision of guest services.

**Second**, revisit vendor loyalty: Be reminded that viability remains key unless your loyal vendors are willing to help reduce cost, "vote with your feet." Talk to franchisors regarding the required vendor alliances that may not satisfy your needs and economic advantages. Many franchisor package deals for franchisees are costly and offer very little value added. Revisit these agreements in an objective but analytical manner. Sanson (1997) captured it correctly in that operators should remember that the people who supply you with goods and services can't afford to alienate you for the same reasons, and the chances that they are intentionally depriving you of the best deal are slim, regardless it critical to be alert. Review, excessive delivery costs and other costs added to cost of goods sold that may be spread among a multitude of buyers similar to your businesses.

(continued from page 8)

**Third**, explore purchase associations while avoiding vendors' exploitation arising from effects of mimetic and contractual restrictions. Here, volume discounts can be phenomenal if the correct strategies are employed. Conduct a thorough cost benefit analysis and explore exit options as well as associations fees. Sanson (1997) says partnering with suppliers is vital these days because they often have a lot to offer in terms of research and development, new products, marketing ideas, and other things that can improve businesses.

**Fourth**, revisit outsourced functions and contractual obligations struck during the past economic boom. Many of these agreements are riddled with unreasonable cost structures that could easily be removed. Many agreements were constructed during the economic boom in the hospitality industry and are now either maturing or due for expiration. Consider no new agreement for more than three years. Specifically, technology related agreements, insurance brokerages and securities.

In addition outsourced functions that in-house labor could perform with minimum efforts and transactional costs cannot be overlooked. With changing technology, features once outsourced could be reclaimed and produced internally at a much lower cost. For example, many hospitality businesses are increasing their profitability by removing outsourced payroll services. With most jurisdictions requiring online tax filing, the transaction cost burden and question of efficiency faced in the past are now significantly reduced. Underutilized staff, already trained, could assume more of a role creating full and efficient employment of your workforce instead of layoff and recalls an adverse morale creator. Not only will employee morale be higher but unemployment cost, often overlooked, will be controlled. Avoid the dead-weight loss created where neither the guest nor the employer captures any value added for employees laid off or underutilized.

While the supply-side approaches mentioned here are not by any means exhaustive, each serves to remind operators, who may have been discouraged by the conflicting signal of demand, of an alternative approach in offering sustained, competitive and profitable hospitality services. In addition, with the changing nature of the business, one might need to redesign pricing models to minimize demand pricing strategies to focusing on the proactive long-term supply side approach that seems to be more self sustaining for hospitality business growth. Many may have been bamboozled by the emphasis on escalating value of hospitality real estate as the means for growing owners' equity and this is not by any means a new phenomenon, neither will it remain an isolated historical period. However, the strategy, leveraging escalating value of real hospitality property, though crucial in some markets, generally should be adopted so that the hospitality promise is not overshadowed. The wisdom of savvy hospitality operators will recognize that the core, quality services, of hospitality businesses

cannot be minimized if sustained profitability remains the objective. Evidently, fundamental to provision of competitive guest services is supply-side economic strategies. While readers contemplate supply-side strategies for their respective hospitality businesses, listed below are additional perspectives offered by Sanson (1997) a decade ago but remain true today:

Service- for profit adopted by organization addresses the following propositions:

- Profit and growth are dependent primarily on customer loyalty;
- Loyalty is a direct result of high customer satisfaction;
- Satisfaction is largely influenced by the value of services provided to customers;
- Value is created by satisfied, loyal and productive employees; and
- Employee satisfaction results from high-quality support services and policies that empower employees to serve customers well.

*Calvester.C. Legister, MBA, CHAE, Cosmopolitan Club*

- 
1. Sanson, Michael. (1997, February). Supply-side economics. *Restaurant Hospitality*, 81(2), 50-56.
  2. Glenn Withiam. (1999). A lesson in old-fashioned economics (Maybe). *Cornell Hotel and Restaurant Administration Quarterly*, 40 (4), 12.
  3. Riley, Michael. (1993). Labour turnover: Time to change the paradigm? *International Journal of Contemporary Hospitality Management*, 5(4),
  4. John C. Crotts, Robert C. Ford, Vincent C.S. Heung, & E.W.T. Ngai. (2009). Organizational alignment and hospitality firm performance. *International Journal of Culture, Tourism and Hospitality Research*, 3(1), 3-12



# PKF

Certified Public Accountants

## SERVING THE HOSPITALITY INDUSTRY SINCE 1911

Whether your business takes you around the corner or around the world, you can count on PKF to provide quality accounting, auditing, tax and business advisory services to your organization.

29 Broadway • New York, NY 10006

Tel: (212) 867-8000 • Fax: (212) 687-4346 • [info@pkfny.com](mailto:info@pkfny.com) • [www.pkfnewyork.com](http://www.pkfnewyork.com)

**HOSPITALITY FINANCIAL AND TECHNOLOGY PROFESSIONALS  
NEW YORK CITY CHAPTER**

**BOARD OF DIRECTORS****OFFICERS**

President

Clare E. Cella, CPA  
PKF, LLP

Vice President

Joseph Delgado  
Radisson-Martinique

Treasurer

Elena Mitronich  
The Cornell Club

Secretary

John A. Hyland, Esquire  
Sherry & O'Neill**DIRECTORS**

Nabil Fahmy

The Penn Club of New York

Humphrey Feliciano, CHAE  
Union Club of the City of New York

Chuck Harris

Jetcom Communications Inc.

Calvester Legister, CHAE  
Cosmopolitan Club

Dan Neumann, CPA

The Leading Hotels of the World, Ltd.

Felicia Schroeder

Global Recruiters of Red Bank

**LEGAL COUNSEL**

Robert P. O'Neill, Esquire

John A. Hyland, Esquire  
Sherry & O'Neill

PO Box 3432 ▪ New York, NY 10163  
hftp@optimum.net ▪ www.hftpnyc.org

PROFIT & LOSS November 1, 2009 - May 15, 2010		TOTALS
<b>Revenue</b>		
Dinner Meetings		\$13,575.00
HFTP International Membership Funding		\$10,150.00
HFTP International Event Stipend		-
Annual Golf Outing		\$500.00
Annual Education Day		\$3,280.00
Annual Holiday Event		\$5,650.00
50/50 Collections		\$617.00
Postage Reimbursement		-
Interest (Bank Accounts)		\$93.97
Miscellaneous		\$71.00
<b>Total Revenue</b>		<b>\$33,936.97</b>
<b>Expenses</b>		
Office Supplies		\$163.30
Dues & Subscriptions		\$660.00
A/V Rental		-
Donations		-
Scholarship 2008		\$3,000.00
Dinner Meeting		\$17,000.67
Monthly Administrative Services		\$2,850.00
Postage (Including Mailings)		-
Annual Golf Outing (Including Donation)		-
Bank Fees		\$195.12
Education Day		-
Holiday Event		\$5,409.90
Travel & Entertainment		-
Advertising		-
Newsletter & Supplies		-
<b>Total Expenses</b>		<b>\$29,278.99</b>
<b>Excess/(Loss) Revenue Over Expenses</b>		<b>\$4,657.98</b>
Closing Balance Citibank Operation Account		\$29,111.65
Closing Balance Citibank Scholarship Account		\$6,172.90
Money Market Account		\$15,228.50
<b>Total Cash</b>		<b>\$50,513.05</b>
<b>Golf Outing Reserve Prior Year</b>		<b>(\$5,749.50)</b>
<b>Golf Outing Reserve Current Year</b>		<b>(\$20,020.00)</b>
<b>Net Position</b>		<b>\$24,743.55</b>