

C O P Y

HOTELS STATLER COMPANY, INC.
Hotel Pennsylvania
New York 1, N. Y.

John L. Hennessy
Chairman of the Board

September 24, 1947

Governor James K. Vardaman, Jr.
Federal Reserve System
Washington, D. C.

Dear Governor:

In re the statement given me a couple of weeks ago setting forth the data compiled by your people regarding the operation of the cafeterias at the Federal Reserve Banks and the Board, the following are our comments.

It is clear that the increase in "cost absorbed" was brought about mainly by failure to adjust selling prices in line with general increase in food prices. The cost per meal increased from 24¢ in 1946 to 27¢ in 1947 but the average check increased only 1¢, namely from 27¢ to 28¢. In Boston, New York and San Francisco the average check is exactly the same for 1946 and 1947. The figures for Kansas City reflect a decrease in average check.

COST OF FOOD

It is of course difficult to say whether the cost of food detailed in Table II is out of line. The cost per meal at our various Employees' Cafeterias for the month of June this year were:

Buffalo	24¢
Cleveland	26¢
Detroit	24¢
Washington	25¢
New York	27¢
Pittsburgh	27¢

There are no indications that your figures are seriously out of line in this respect.

LABOR COSTS

(1) Your labor cost is shown as 68% of the cost of food consumed. Please note the following comparisons.

September 24, 1947

	<u>NO. SERVED</u>	<u>WAGE COST</u>	<u>AVG. WAGE RATE</u>
New York	398,412	\$88,839	\$950.00
Chicago	393,101	56,456	944.00

Certainly if these operations are similar, New York is seriously out of line.

Kansas City uses 28 employees to serve 500 meals a day; San Francisco serves more meals with only 15 employees.

(2) In our Employees' Cafeterias labor cost averages about 42% of the cost of food consumed. In our guests' cafeteria in St. Louis it runs about 40%, in our sandwich shop in Boston it averages 45%.

(3) Inconsistency in labor control is brought out in Table V.

FOOD PRICING

There seems to be a lack of consistency here. In San Francisco a meal costing 31¢ is sold for 37¢, whereas in Dallas a meal costing 36¢ is sold for 29¢. The variations are all shown in Table VI.

My thoughts as to what action might be taken are as follows:

(1) Establish a budget on food cost equal to 75¢ of the receipts. If in operation during the first six months of 1947 the budget would have saved \$126,000.

(2) Consideration might be given to the establishment of budgets of say about 200 working hours per 1000 servings. This would result in a saving of approximately \$50,000. This reduction, together with recommendation #1, would reduce the "cost absorbed" figure from \$303,000 to \$129,000 or about 8¢ a meal.

NOTE: It would seem that immediate steps to wipe out the deficit entirely would involve increases in selling prices to an extent that would be undesirable from a personnel standpoint.

Perhaps I'll have some additional thoughts for you at the luncheon a week from Friday.

Sincerely,

(Signed) J. L. Hennessy

Cafeteria Expenses and Receipts At
Federal Reserve Banks and Branches
During 1946

	<u>Total expense</u>	<u>Receipts</u>	<u>Net expense</u>	<u>Ratio of net expense to total expense (per cent)</u>
<u>Head Offices</u>				
Boston	\$89,812	\$53,689	\$36,123	40.2
New York	384,849	250,065	134,784	35.
Philadelphia	107,766	58,261	49,505	45.9
Cleveland	1/ 10,738		10,738	
Richmond	61,061	40,926	20,135	33.
Atlanta	60,000	37,888	22,112	36.9
Chicago	256,302	176,836	79,466	31.
St. Louis	93,269	62,120	31,149	33.4
Minneapolis	2/ 8,285		8,285	
Kansas City	89,709	51,307	38,402	42.8
Dallas	86,448	48,451	37,997	43.9
San Francisco	74,813	60,088	14,725	19.7
TOTAL 3/	1,304,029	839,631	464,398	35.6
<u>Branches</u>				
Buffalo	3,904		3,904	
Cincinnati	4/			
Pittsburgh	4/			
Baltimore	4/			
Charlotte	4/			
Birmingham	12,156	7,920	4,236	34.9
Jacksonville	4/			
Nashville	4/			
New Orleans	28,846	21,426	7,420	25.7
Detroit	42,117	31,255	10,862	25.8
Little Rock	4/			
Louisville	4/			
Memphis	4/			
Helena	4/			
Denver	8,979	6,276	2,703	30.1
Oklahoma City	9,403	7,113	2,290	24.4
Omaha	222		222	
El Paso	4/			
Houston	4/			
San Antonio	4/			
Los Angeles	50,045	37,725	12,320	24.6
Portland	17,209	13,526	3,683	21.4
Salt Lake City	11,745	10,207	1,538	13.1
Seattle	23,796	16,964	6,832	28.7
TOTAL 3/	204,296	152,412	51,884	25.4
SYSTEM 3/	1,508,325	992,043	516,282	34.2

Source - Functional expense reports for year 1946.

1/ Represents amount of concessionaire fee

2/ Represents amount absorbed under contract

3/ Totals exclude offices which because of special arrangements reported no receipts.

4/ No cafeteria expense reported

Cafeteria Expenses and Receipts At

Federal Reserve Banks and Branches

During Second Half — 1946

	Total expense	Receipts	Net expense	Ratio of net expense to total expense (per cent)
<u>Head Offices</u>				
Boston	\$46,237	\$25,492	\$20,745	44.9
New York	207,650	127,556	80,094	38.6
Philadelphia	57,958	29,889	28,069	48.4
Cleveland	1/ 5,394		5,394	
Richmond	32,648	20,765	11,883	36.4
Atlanta	30,735	17,966	12,769	41.5
Chicago	148,281	96,159	52,122	35.2
St. Louis	52,175	33,078	19,097	36.6
Minneapolis	2/ 4,980		4,980	
Kansas City	45,629	24,617	21,012	46.0
Dallas	46,114	24,618	21,496	46.6
San Francisco	40,886	31,065	9,821	24.0
TOTAL 3/	708,313	431,205	277,108	39.1
<u>Branches</u>				
Buffalo	1,891		1,891	
Cincinnati	4/			
Pittsburgh	4/			
Baltimore	4/			
Charlotte	4/			
Birmingham	12,156	7,920	4,236	34.9
Jacksonville	4/			
Nashville	4/			
New Orleans	14,244	10,925	3,319	23.3
Detroit	24,403	17,523	6,880	28.2
Little Rock	4/			
Louisville	4/			
Memphis	4/			
Helena	4/			
Denver	5,282	3,431	1,851	35.0
Oklahoma City	6,641	4,858	1,783	26.8
Omaha	123		123	
El Paso	4/			
Houston	4/			
San Antonio	4/			
Los Angeles	25,287	18,465	6,822	27.0
Portland	9,167	7,083	2,084	22.7
Salt Lake City	6,178	5,130	1,048	17.0
Seattle	11,955	8,506	3,449	28.8
TOTAL 3/	115,313	83,841	31,472	27.3
SYSTEM 3/	823,626	515,046	308,580	37.5

Source - Functional expense reports.

1/ Represents amount of concessionaire fee.

2/ Represents amount absorbed under contract.

3/ Totals exclude offices which because of special arrangements reported no receipts.

4/ No cafeteria expense reported.

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Talk by

John L. Hennessy

1947 AHA Convention

San Antonio, Sept. 29, 1947

During the gone-but-not-forgotten days of the OPA, a Southern hotel operator went up to Washington to seek permission to raise the price of his chicken dinner. His request was denied. That night, while discussing his trouble with other hotel men, he said, "You know, I began serving chicken dinners for \$1.50 about 20 years ago. I became well-known because of these dinners and year after year I sold plenty of them. Somehow I never got around to changing the price. Along came the OPA and the price was frozen at \$1.50. All I can say now is that either I robbed my patrons years ago by charging them \$1.50...or I'm a damn fool to be serving it to them now at the same price."

I don't know what that man is charging for his chicken dinner today, but I've a suspicion he may be asking \$2.50. Not because he has taken the time and effort to figure that \$2.50 is the lowest possible price he can serve the dinner and still show a fair profit...but only because he believes he might as well try to collect all the money he can while the public still is eating many of its meals away from home.

My Southern hotel friend is no different, in some respects than our hotel industry. As an industry, we have been doing so many things the same way, year after year, that it is extremely difficult for us to make a change. As an industry, we are serving the same type of meals as years ago.... preparing these meals the same old way....utterly ignoring the new and better methods.

Because of this reluctance of our industry to recognize and accept the scientific advances made by others in the food business, I'm deeply con-

cerned about the hotel food of tomorrow. Very few of us today are operating our dining rooms at a loss. Most of us, however, are familiar with the recent sharp drop in volume of sales, that is, number of persons served and unless we take every precautionary step possible, our profits of today may be replaced by losses tomorrow. We should be planning at this minute to make profits out of current debit items.

I'd like to discuss the hotel food of tomorrow from two angles. First, from an industry viewpoint; and, secondly, from the viewpoint of the individual hotel operator. I'll start with the industry problem.

During the war, our hotel dining rooms were called upon to serve more patrons than at any time during our industry's history. We turned in a mighty fine job. We did this despite scarcities of many popular foods, a shortage of trained employees, mounting costs, and with our prices frozen by the OPA.

But...and this we cannot ignore...we made some enemies. After V-J Day, many public feeding establishments acted as though they no longer had an obligation to their patrons, to the Federal Government, and to the industry of which they are an important part.

There's no need to recall the wartime mistakes our industry made in the handling of food. These mistakes will probably plague us for many months to come. They may cut into our current profits unless we quickly recognize that it is imperative that operators of hotel dining rooms collectively raise their sights. Our industry must realize it has a vital role to perform in improving the physical and health standards of American citizens. No longer can the food hotels prepare and serve be viewed as a matter of concern only to the operators and patrons of such dining rooms.

Today the food consumed in hotels must be studied in the light of

the food supplies needed by our entire civilian population....by our Army and Navy....and by the starving millions in foreign countries. I am not stretching the importance of American food when I say that the future of many nations.... yes, perhaps that of the entire world....may depend on what we in this country do with our food the next two years. Therefore, we must work hand-in-hand with the Government and private agencies dealing with the improvement of food, with the nation's food processors, and with manufacturers of food equipment.

The hotel industry has a grave responsibility in helping to make needed food available for starving nations and, at the same time, not shirk its duty to provide wholesome and appetizing meals for the millions of Americans who eat one or more meals daily in hotel dining rooms. We must never forget that good food means good health!

This means the hotel industry must make the most efficient use possible of available food supplies and equipment. It calls for the best possible use of food research. Unfortunately, the American Hotel Association is not in a position to offer its members much in the way of direct food research. The AHA has no food laboratories, no food research institute of its own, and no funds to make fellowship grants to young men interested in studying the science of food. A program combining all these features of research would cost the AHA far more than it now spends on its entire annual budget.

Yet no one can deny that we of the hotel industry are in need of food research. Since the war, many new foods....new procedures....and new equipment have been placed on the market. Many more foods and equipment are now in the laboratory, or experimental, stage; food and equipment that may mean the difference between profit or loss in tomorrow's hotel dining rooms. In fact, the frozen food and oven-prepared food specialists are predicting they'll revolutionize the public and private eating fields before 1950.

I'd like to briefly describe a few of the improvements that have been made recently in the food business:

- (a) Packaging of fresh produce to guarantee freshness.
- (b) The meat, poultry, and fish processors are now using machinery designed to give you exact portions of meat cuts (steaks, chops, outlets, stew meat, etc.) and selected cuts of chicken (breasts, legs, and backs) and fish is being processed to portion sizes.
- (c) Show new temperature control for grease.
- (d) Flavor esters are being extracted from fruit before the fruit is processed into jam and jelly. After the jam or jelly is processed the flavor esters are put back in, thereby creating a brand new taste flavor.
- (e) Cakes are now being successfully baked in tins which guarantee their freshness for long periods of time.

Only last week I visited an eminent food scientist at the Massachusetts Institute of Technology. The advances that his department has made are breathtaking. I'll relate just a few:

1. Pills are Out

You have all heard from time to time the saying, "What's the use of worrying about food, soon we will be eating pills instead of meals." Well, if you do eat a pill it will have to be as large as a hen's egg and you will take it three times a day for the human system is designed to assimilate a little better than one pound of solids per day, exclusive of the liquids it needs. I believe that I would rather pull my chair up to a table and raise knife and fork to a well prepared meal from a hotel kitchen than

2. Nutrition to the Rescue

I was shocked to learn recently that six out of ten persons who were examined for the military forces during World War II were found to be nutritionally deficient. In connection with this, I asked Professor Campbell of M.I.T. to give me some information on this subject. He took me to a laboratory where they were control feeding families of guinea pigs. Those that were fed balanced diets containing all of the necessary food elements had rich coats, bright eyes, and were certainly alert and keeping busy, while those that were fed an unbalanced diet had poor coats, were listless, and had no desire to do anything that required exertion. I understand that the guinea pigs are chosen for such tests because their metabolism is more like that of a human being than any other animal.

3. Electronic Cooking Retains More Vitamins

Electronic cooking of foods, I am told, retains by more than 30% the essential food elements (thiamin) as compared with the same food cooked by conventional methods. This is possible because of the speed with which electronics cooks the food. Therefore, the vitamins and essential food elements are not cooked out by time.

4. Speeding the Aging of Meat

New ray processes have been developed which will age meat in controlled temperatures of 60 to 65 degrees Fahrenheit. At these temperatures fresh meat can be aged in 36 hours, as compared with three weeks using the conventional method of aging

meat at normal storage temperatures of 38 to 40 degrees.

5. Central American vs. North American Foods

I had an opportunity to look at an interesting study that had been made on Central American vs. North American Foods with respect to essential food elements. I was surprised to learn that the grains, fruits, dairy products from Central America were richer in essential food elements by beyond 50% over the same class of foods grown in North America. That prompted a question, "Why?" The natives of those countries have been practicing crop rotation and soil conservation since the days of the Aztecs and Incas and the results speak for themselves.

6. The Atomic Stockpile - and Good Food

Radioactive calcium from the atomic stockpile is incorporated in foods which are fed to guinea pigs and white rats so that the food technicians can trace the dispersal of the food elements in the system. In other words, what vitamins and food elements go where in the system and the benefits that we derive from those food elements.

7. Canning and Preserving Speed-ups

High voltage cyclons developing four million volts traveling at the speed of light, 186 thousand miles per second, will kill bacteria in the processing of canned foods at the rate of one thousand cans per minute. I was told that the food technicians could take a can of fresh peas, vacuum seal the can, apply the voltage and when the can is opened the peas would be the same color and have the same flavor as peas that had

just been picked in the garden.

The lunch which will be served at the head table today was cooked two months ago in New York. This luncheon will be reconstituted, or brought back to its original cooked state, through the medium of electronics in a matter of minutes...or perhaps less time than it takes to serve one table of ten persons the opening course of any meal. The reconstituting of this frozen food does not destroy any of its flavor or eye-appeal.

But...and here I offer a warning...the developments of food research will be of little value to the hotel food industry unless its members are capable of taking full advantage of these improvements. The American Hotel Association, unable to create its own food research laboratories, must cooperate with Government agencies, schools, and colleges, and private organizations qualified to carry on this very vital work.

Such cooperation will not prove expensive to the AHA. Every cent the AHA spends in this field will be returned to its members many times over. The information obtained by the AHA would be made available immediately to each member. The small hotel operator would be apprised as quickly as the operator of a large hotel of the latest findings of food scientists. Data on new food items, new and improved methods of preparation, and the latest equipment would benefit the resort and small hotel operator as well as the chap running a large hotel.

We must look to the AHA for this help and guidance. Because of

this, we invited Col. Lawrence and Dr. Gunderson to be here with us today. They will explain briefly what their organization is doing to improve American food and how the AFA can benefit from their organization's work.

Now for the second phase of the hotel food problem...that directly concerning the individual hotel operator and the ways he can turn debits into profits.

This calls for plain talk. It won't help either the individual operator or the hotel industry to deliberately ignore certain facts which must be evident to all of us. Hotel food sales are dropping and there is no indication that the bottom of the decline has been reached.

Let's examine the food situation. Why are sales dropping? It isn't because the millions who were employed during the war years and used our dining rooms for the first time NOW are out of work. Government statistics reveal that employment is approximately as high as it ever was during the war. Certainly, very few of the millions who had to dine out during the war years because they lacked housekeeping facilities have been able to buy or rent a home or apartment. Military travel has declined drastically yet railroad, bus, plane, and automobile statistics prove that travel, in general, still is increasing. To further prove my point that our potential sales are as large as those which existed in 1946, I'll cite Federal Reserve Board records that the money in circulation the first week of September of this year was the highest in any week since March, 1933.

Why, then, with such favorable factors are dining room sales declining?

It is my opinion the decline can be traced to the following:

1. Pricing of meals beyond patrons' ability to pay.

2. Lack of new and tempting dishes.
3. Poor promotion of food sales.
4. Inadequate training programs of catering department.
5. Enemies made during the war and reconversion years.

These five reasons add up to a serious indictment of hotel operators.

There's no need today to cry over wartime spilt milk. Let's admit we made too many wartime enemies and turn our attention to the other four reasons for declining food sales.

My first point was high menu prices. Notice that I did not say unwarranted high menu prices. Food costs today are higher than they've ever been. Furthermore, there is no assurance that costs will come down within the next six months. A Gallup poll the other day disclosed that the American people, by a 5 to 1 majority, believe prices will at least remain at the present high level for another six months.

Hotel food costs have advanced the same as the housewife's. I made a survey of hotel food costs last week and the findings may surprise, as well as interest, you. Here they are:

	1940	1947	Pct. Increase
1. Payroll (average hourly wage)	\$.37	\$.716	93
2. China (average unit cost) Dz.	2.97	4.18	41
3. Linen (average unit cost) Dz.	3.86	10.99	185
4. Glass (average unit cost) Dz.	.80	1.14	43
5. Silver (average unit cost) Dz.	5.77	6.18	7
6. Cost of Food (B.L.S. Index) Dz.	.97	1.59	62

On the surface, this would lead to the conclusion that the American

public, with more cash in circulation than in 14 years and fully expecting high prices to continue for at least another six months, will not object to paying high prices for hotel meals. That conclusion, however, is a false one.

The American public today is price conscious. Many are caught in an economic squeeze resulting from mounting prices. Men and women are shopping to get the best value for each dollar spent. This is as true of hotel food as it is of furniture, clothing and food to be consumed in the home. We in the hotel food business must realize that the first consideration of most of our patrons today is price. They have just so much money to spend on meals and they refuse to pay more. This means we must price our meals and food within the range of our patrons' pocketbook. It does not mean that we must serve food at a loss. Instead, it may mean providing a new-type menu perhaps which has a price range equal to the patron's ability and willingness to pay.

Specifically, we must offer meals and/or cooked and other dishes that are attractive in price as well as in preparation and eye-appeal. For every \$3 dinner, there should be a dinner to satisfy the customer who has a \$2 limit. And for every \$2 luncheon we offer, there should be others attracting the man or woman willing to pay from seventy-five cents to \$1.50.

What we must seek is volume of sales. If sales are declining because our menus are top-heavy with \$3 or \$4 dinners, \$2 and \$3 luncheons, and \$1.50 breakfasts, it's smart business to add combinations that we can sell at much lower costs and still show a profit.

How can this be done? That's my point No. 2. It may mean a detailed study of your raw food costs and an over-hauling of your wartime

mark-up policy. This study will prove worthwhile. One operator's recent study showed that his food costs had gone up 16 per cent since June 1 of this year. He knew a 16 per cent mark-up in price would drive many of his regular patrons away. So he increased his menu prices only 7 per cent and held onto his high and profitable volume of business.

I must remind you that the mere adding of these combinations to the menu will not assure acceptance on the part of guests. There must be proper merchandising of the new combinations. This can be done in a number of ways... including the use of menus and tent cards. The best method, however, is through the enlisting of your dining room employees. On the day a new combination is to be offered, call your hostess or captain...and perhaps one or two waitresses or waiters...into the kitchen and serve them a portion of the new combination. Explain what is in it, how it was prepared, and the price at which it is being offered on the menu. In other words, give them a sales message they can pass on to the many patrons who ask "what do you suggest today?"

If the new combination is well received, use the menu or tent card the next time for a brief message describing the result of the first test. Invite guests to try the combination. Stress the price as well as the quality.

During the war years, millions of men and women lived and dined in a hotel for the first time. They enjoyed their experience even though they frequently were subjected to inconveniences. They stood in line in order to eat in our dining rooms. Today many of those lines have disappeared. We must try to bring back our wartime guests. We can start by placing our menu prices within reach of their pocketbook. We can follow this by calling their attention to the delicious and nutritious meals or combinations they can enjoy. This can

be done through newspaper and radio advertising and the use of sales messages to our dining room employees and on our menus and tent cards. But all this won't be enough. There still remains Point No. 4 of my reasons why hotel food sales are declining.

Point No. 4 concerns the adequate training of kitchen and dining room personnel. To me, this represents not only one of the most important problems facing the catering department but a problem that must be solved if our hotels are to continue to prosper and provide the finest hotel service to be found anywhere in the entire world.

Many of us had reasons for discontinuing employee training programs during the war. Our turn-over of employees was high. It would have been very expensive...and foolish...to train workers who expected to quit after working a month or two. Many other employees planned to quit once the war was over. So there was no need to spend money training these men and women. As a result hotel service frequently fell to an all-time low. The public and press, however, were sympathetic during the war years. Now it is different. While many operators have revived training programs and are insisting upon better service in all departments, there still is need for improvement. This is particularly true of the catering department.

We must improve the quality of our personnel in food departments. This improvement must cover the entire range of personnel. We can do this by attracting better men and women to the food end of the hotel business. Is there any sound reason why every college man who walks into a hotel for a job should be interviewed solely as a front office possibility? Let's put college men and other alert and ambitious youngsters into the back of the house. Furthermore, let's give these men and women a well-developed plan of training.

Assure them of regular promotion if they make good and see that they get the promotion. Teach them an appreciation of good food and they'll discover ways and means of improving the preparation and service of food. The manager of the catering department of a hotel...whether large or small...should be paid a salary commensurate with his abilities and responsibilities. If the manager builds the food and beverage departments to the point where the profits are larger than those of room sales, pay him accordingly.

In the light of the four points I've discussed, what is the future for hotel dining rooms? It is my belief that despite our many mistakes there is a splendid future for the well-managed hotel dining room. I base my belief on the knowledge that millions of Americans regularly welcome an opportunity to enjoy a delicious and tempting meal away from home, that travel will continue to increase for a number of years, and my hope that our industry will recognize the need for improvement in its food departments; improvements that will combine better personnel with the application of new foods, processes and equipment developed by those directing food research.

Successful operation of a hotel dining room calls for work. Hard work. It calls for constant supervision and training of employees in the kitchen and dining rooms. It demands skillful purchasing. It requires a daily study of food, labor, and administrative costs so that price adjustments can be made quickly...and the savings passed along to the guest. The hotel operator must be keenly interested in food and anxious to keep abreast of new techniques and developments in equipment and preparation. The operator who eats most of his meals in his own apartment or office cannot hope to know whether or not his patrons are being served food that is properly prepared. Neither can this type of operator know if his employees are efficient and courteous.

And, in the light of the need of better menu pricing, operators must not be guilty of spending too much money on decorations of the dining rooms and too little on improving food and service. A new drapery can never be an acceptable substitute for a thick yet tough steak.

We must remember that the food problems of the world place a grave responsibility upon the operators of hotel dining rooms. We must not be guilty of waste and spoilage...we must admit that the food served in hotels whose operators are not food conscious can be no better than the knowledge of those in charge of the catering departments...and sometimes that knowledge is nothing to cheer about. It should be borne in mind that the successful hotel of tomorrow will strive to use its dining rooms four times a day and not be content with using a room, or rooms, for only two meals a day.

I appreciate this opportunity to discuss hotel food problems for it is my firm belief that a hotel not only can help improve our nation's health in perilous times like the present but through sound management of its food departments it can derive profit from today's debit side of the ledger.