

## Celebrity chefs can create recipe for success

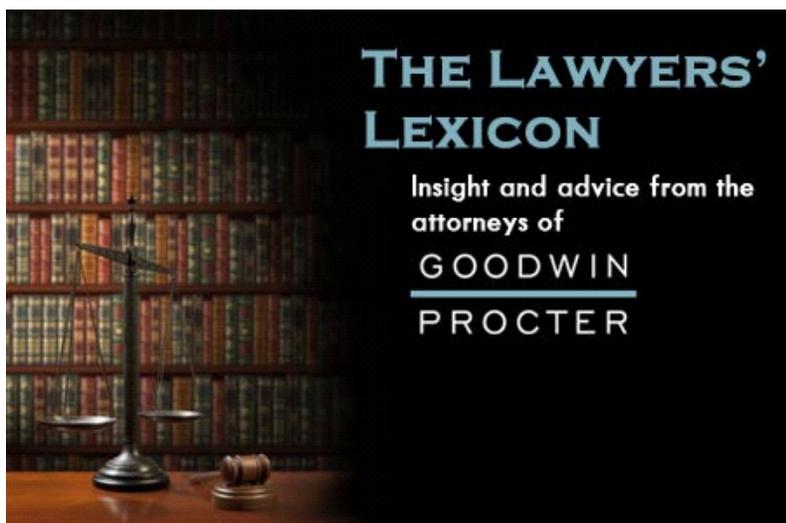
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### Story Highlights

The hotel owner and operator must agree on whether to allow a celebrity chef to operate a restaurant in the hotel, as well as the identity the celebrity chef.

Under the lease structure, the hotel owner leases the restaurant space in the hotel to the celebrity chef, and the chef is responsible for the day-to-day operations of the restaurant.

Under a license structure, the celebrity chef licenses his name for use at the restaurant and agrees to provide consulting services to the restaurant, but day-to-day operations are the responsibility of the hotel operator.



The number of restaurants in branded luxury hotels led by celebrity chefs has grown significantly in recent years. Several factors contribute to increasing popularity of combining these two elements: improved operating efficiencies for the celebrity chef, broader/deeper brand exposure for both the celebrity chef and the hotel, and reciprocal demand drivers to each element.

As hotel owners and their operators consider joining forces with celebrity chefs, several issues should be considered. First, how do hotel owners and operators decide whether to involve a celebrity chef with the hotel's restaurant operations?

The hotel management agreement should provide that the owner and operator agree on whether to allow a celebrity chef (or other third-party restaurant operator) to operate a restaurant in the hotel and, if so, they must agree upon the identity of the celebrity chef (or other third-party restaurant operator). Once the parties agree on these threshold matters, the parties must determine how to structure the relationship with the celebrity chef.



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The importance of food-and-beverage operations to the overall success of the hotel puts a premium on getting these initial judgments correct. There are two primary structure options: 1) a lease between the hotel owner and the celebrity chef or 2) a license/consulting agreement among the hotel owner, hotel operator and celebrity chef.

Second, what are the key considerations for the hotel owner and the hotel operator in deciding between a lease structure or a license structure?

### Lease structure

#### *Hotel owner*

Under the lease structure, the hotel owner leases the restaurant space in the hotel to the celebrity chef, and the chef is responsible for the day-to-day operations of the restaurant (including developing menus, managing employees and purchasing supplies). A lease structure caps the economic upside of the hotel owner as rent payable by the celebrity chef will generally be a mix of base rent plus an agreed-upon percentage of the restaurant's gross revenue. In return, day-to-day operating risks and

expenses are the responsibility of the celebrity chef.

These trade-offs need to be considered in light of the projected financial performance of the restaurant outlet. In addition, a lease structure requires dedicated internal resources of the hotel owner to manage the ongoing relationship with the celebrity chef. The hotel owner serves as a key link in balancing the distinct set of interests between the celebrity chef and the hotel operator, ensuring the hotel operator and celebrity chef collaborate to drive overall performance of both the hotel and the leased restaurant.

#### *Hotel operator*

In a lease structure the hotel operator has limited control over day-to-day restaurant operations. While this limits the hotel operator's financial exposure, it creates a risk to the hotel operator's brand if the quality promise of the celebrity chef is not fulfilled. This further underscores the importance of selecting the right celebrity chef for the particular hotel brand and creating a framework that gives the hotel operator a voice to influence ongoing quality standards at the restaurant. Also, given the celebrity chef's staff will be on the hotel premises on a daily basis, the hotel operator will want the ability to define and control how, when and to what extent the restaurant's staff can access the hotel's back-of-house areas.

Access to certain back-of-house areas of the hotel contributes to the celebrity chef's **operational efficiencies**, but it also creates a **potential** source of tension or disruption to the hotel's operations.

#### **License structure**

##### *Hotel owner*

Under a license or consulting arrangement, the celebrity chef licenses his name for use at the restaurant and agrees to provide consulting services to the restaurant (e.g., menu and recipe development), but day-to-day operations are the responsibility of the hotel operator. Given that the celebrity chef will typically receive a fixed percentage of the restaurant's revenue under a license arrangement, this structure creates a higher risk/reward dynamic for the hotel owner. If the restaurant is a success, the hotel owner participates in that success at a higher level than it would under a lease structure. In return, the hotel owner assumes responsibility for ongoing operating costs/expenses and general liabilities of the restaurant in the license context, resulting in a higher quantum of financial exposure. In balancing these issues, the hotel owner must consider the hotel operator's F&B capabilities/expertise, as well as the hotel operator's ability to leverage the brand of the celebrity chef to improve overall financial performance at the restaurant.

##### *Hotel operator*

The hotel operator has direct day-to-day operational control of the restaurant in a license context. Consequently, the risk of damage to the hotel brand and operational disruption to the hotel is much lower in a license context. The licensed restaurant's revenues and expenses are generally included in the calculation of the hotel operator's fees under the hotel management agreement. As a result, the hotel operator must give significant consideration to the synergies between the hotel brand and the celebrity chef's brand.

These considerations also should include an analysis of whether the financial performance of the restaurant will be enhanced to a level that justifies the additional cost and complexity of structuring and managing the relationship with the celebrity chef under a license agreement.

Here are recommendations to help the hotel owner and hotel operator navigate the celebrity chef question:

- It is never too early for the parties to discuss goals, philosophy and general approach to the hotel's F&B operations. The parties should define with precision, as early as the letter-of-intent stage of the hotel management agreement, the types of third-party restaurant branding/celebrity-chef concepts that fit with the quality and operational aspirations of the hotel.
- The parties should get early visibility on the regulatory/licensing environment in the hotel's jurisdiction. Cultural considerations in various non-U.S. jurisdictions around the serving of alcohol (and, therefore, the availability of liquor licenses) will influence the threshold question of whether to structure the celebrity-chef relationship as a lease or license. In various Middle East jurisdictions, for example, restaurants are required to rely upon the hotel's liquor license. Given the hotel operator's limited control over day-to-day operations in a lease structure, the hotel operator will need sufficient protection—from a liability and an operational

perspective—in the event the celebrity chef acts in a manner that jeopardizes the hotel's liquor license.

- The parties should undertake a meaningful market analysis to determine the projected financial performance of the restaurant affiliation with a celebrity chef. The basic question is whether the business case for the celebrity chef is compelling enough to introduce the additional cost and higher order of structuring and operational complexities resulting from inviting a celebrity chef into the hotel.

If the hotel owner and operator invite the right celebrity chef into the hotel and structure the relationship correctly, it can be a meaningful accelerator to the hotel's financial performance. **Alternatively, if the wrong celebrity chef is chosen for the particular hotel's brand/market position or the parties do not structure the relationship properly, it can become a lasting drag on the hotel's financial performance.**

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