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ROUND TABLE

INSTITUTE OF HOSPITALITY

WHITE PAPER

COST OF LIVING CRISIS

Changes to the hospitality industry landscape, customer demands and trends

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by Katherine Price MIH

SAVOY EDUCATIONAL TRUST

"What is very important is you understand your customer and it's not easy to understand the customer when there are so many things changing at the moment. You really need to take a step back and think, 'what is my strategy going forward?'... when you're doing your business forward planning, you've got to anticipate what the issues might be and how they're going to affect your business revenue streams."

Alastair Good MIH, managing director, Hospitality Resource

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The challenge

Rising costs from utilities and food to staff, combined with a cost-of-living crisis that has left consumers tightening their purse strings, have all resulted in an extremely difficult trading environment for hospitality businesses that has already caused many high-profile restaurant closures.

Spiralling operating costs have hugely impacted profit margins across the industry and good businesses that were once profitable are having to close their doors as the numbers simply do not add up anymore. Revenues are high, but this is not being reflected in profits. Is there anything operators can do to reduce costs without negatively affecting the guest experience, and what support does the industry need?

The background

Skyrocketing costs

Between December 2021 and December 2023, the price of food rose by around 26% (1). However, inflation has slowed, falling to 3.2% in March, and is expected to continue falling in 2024, with forecasts expecting inflation to hit 2.2% in the fourth quarter (2).

However, skyrocketing costs over the last few years have seriously undercut consumer spending power, and as a result many are being forced to cut back and trade down. Well over half (57%) of respondents to a CGA survey (3) said they were still severely or moderately impacted by the cost-of-living crisis. Two-thirds (69%) of those who were going out less often said it was because of this, while nearly half cited menu price increases (48%). CGA's latest Cost of Living Pulse research found that more consumers were going out to eat or drink at least weekly as well as spending and planning to spend more on it.

And the CGA RSM Hospitality Business Tracker (4) reported above-inflation like-for-like sales growth of 5.2% in March 2024. While confidence seems to be on the rebound, operators need to be aware that customers will have high expectations when they do choose to visit hospitality establishments to spend their hard-earned cash.

The background

Staff and wages

In April 2024, the National Living Wage (NLW) increased by 9.8% to £11.44, and now includes 21- and 22-year-olds. The National Minimum Wage (NMW) for 18-20-year-olds rose by 14.8%, and by 21.2% for 16-17-year-olds. Impacted by the cost-of-living crisis, some employees will also be placing even greater importance on the remuneration employers can offer.

On top of rising wage costs are continuing staffing woes. There were 121,000 unfilled roles in the sector between July and September 2023, according to the Office for National Statistics (ONS), 36% higher than in January to March 2020 (5), which will not only impact businesses and customer service, but also existing staff, too.

Regulations and regions

New tipping legislation is expected to come into force in October 2024. Meanwhile, in Scotland, the minimum price per unit of alcohol will increase by 15p from September. The impact of new rules around short-term lets and tourist taxes in various parts of the country is yet to be seen; meanwhile, the impact of business rates cannot be understated. While business rate relief is 75% in England, it's just 40% in Wales, with no relief at all in Northern Ireland and mainland Scotland.

And although more people have returned to offices, cities and town centres, some may never fully recover. Mid-week, the morning footfall peak across 17 City of London stations has recovered to 80% of pre-Covid levels (6). Meanwhile, annual office take-up levels across the big six regional city centre markets was, on average, 11% below the 10-year pre-Covid-19 average, although there was positive leasing momentum building by the end of 2023, with Q4 2023 take-up across the six regional markets 4% above the previous quarter (7).

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Operators are having to establish a difficult balance, reducing costs without negatively affecting the guest experience. Prices are increasing, which businesses may have to pass on to the guest, but customers are not necessarily getting better service or value from that.

Simultaneously, operators are expected to be making efforts to be more environmentally sustainable, but this often comes at an increased cost. However, there are opportunities in this area, for example using more seasonal, local produce that is less affected by inflationary pressures on gas and fuel costs that is both more sustainable and potentially cost-effective.

Customers trading down

> Make sure there's a really good one-night package to get people spending, because [otherwise] they'll spend elsewhere in your vicinity or locally.
>
> **Isabel Hargreaves MIH, head of membership sales, Institute of Hospitality**

With the cost-of-living crisis hitting customer purse strings, some hotels are seeing a reduction in length of stay, and a drop in total spend as a result. But at the same time, when they are out, guests are often splashing out, with a mindset that may be time-rather than budget-limited. In other words, guest may be staying with you for a shorter period, but how can you maximise spending opportunities during that smaller window?

However, as customers are going out less, their expectations are higher when they do. Operators need to truly be ensuring they are delivering both great food and service.

Business owners also need to understand their customers and the changing trends and expectations within their customer group. For example, a hotel that is trying to attract international guests needs to know how to cater to that segment and meet their expectations, and that starts with clearly understanding what their expectations are.

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Leaner teams

This isn't an easy ask with staff issues plaguing the sector. Businesses are having to be more efficient, running on leaner teams due to both staff shortages and wage increases. These increases impact not only those on NLW or NMW but their entire teams, who need to see appropriately increased remuneration in line with that of their colleagues.

Some operators are thinking differently and considering departmental cross-pollination, multiskilling staff to work across different areas of the business depending on need, and exploring the opportunities of broader job descriptions, for example, 'guest service assistant'.

> 'Some hotels and hospitality businesses in the UK and Ireland make staff savings by having the same person handle check-ins and later serve you drinks'
>
> **Eóin McGrath FIH, sales & revenue director, Hastings Hotels**

At the same time, it's important to be conscious of not overburdening your existing staff or assigning them tasks that are outside of their competencies, or risk further exacerbating any retention issues. Operators need to be supporting their colleagues' mental health, with food and beverage departments particularly struggling. Operators could consider how shifts can be more clearly structured or packages be more competitive to attract staff.

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>
> **Alastair Good MIH, managing director, Hospitality Resource**

Operators also need to be aware of and forecasting for other 'icebergs' that could hit the market, for example mortgage costs that are expected to knock consumer confidence further over the coming years.

There are reasons to be optimistic about the future of the hospitality sector, as certain costs seem to be plateauing and inflation is expected to fall. International visitors, particularly from the United States, are increasingly confident about travelling to Europe again, which itself has become a more attractive and cost-friendly destination to certain regions for geopolitical reasons.

And although working from home has hit businesses that previously relied on office workers, some regional and rural locations are potentially now seeing some of that custom. If your business is one that has lost out on post-Covid trends, is there an alternative network of customers in your area that could be tempted to engage with your business?

While for many businesses, location and customer behaviour are outside of their control, along with the disposable income of their community, consider how your business plan could shift to attract a different customer that may be available to you instead.

Best practice

> We have saved hours every week using this system.
>
> **Jessie Mckelvie, housekeeping manager, Hilton Belfast**

The Hilton Belfast hotel is using technology to aid cost savings. The business implemented a digital staff and operations management technology solution which supports time management, replacing time-wasting and inefficient clipboards and providing teams with the information they need at their fingertips.

Not only has it enabled better time and therefore budget forecasting, but team members have the option of using those hours saved to support other areas of the business. The hotel's housekeeping department saw a saving of £400 on just one day due to the implementation of this technology.

While the cost of such solutions does require initial investment, in the long-term it could save money.

Solutions

Smart discounting

Consider deploying discounts or a great value set menu, for example, to bring in custom during quieter periods, particularly custom that perhaps would otherwise be unlikely to use your venue or services.

However, businesses must be smart about discounting so as not to dilute their offering or risk customers who are paying full price not feeling they're getting the experience they paid for.

On quiet days, staff at Swissport International's lounge at Belfast City Airport have trialled handing out 40% discount vouchers around the terminal building to push up volume and attract guests who wouldn't necessarily have considered using it.

Vouchers are for on-the-day use and food for consumption within the lounge. The lounge also engages with and offers vouchers to local businesses and hotels – prime locations of potential airport custom.

The aim is that customers will consider the discounted experience good value, worth paying the full amount, and become a full-paying returning customer.

> It's worked tremendously. We started off with 50% and it worked brilliantly and then we thought, 'let's try and make a wee bit more revenue, we'll drop it to 40%', because it's still a really good offer."
>
> **Heather Wilson, lounge manager, Belfast City Airport, Swissport International**

Some airport lounges have served bars to avoid abuse of services, while others ensure food and beverages are not in small bottles or packaging that customers could take away with them and result in the offer backfiring and costing more money than it brings in.

Solutions

Train staff

Your teams are key when it comes to cost savings and training them in day-to-day energy saving measures are great for both the bottom line and the planet. This can be as simple as turning off air conditioning units, using less water, or closing curtains to keep heat in. Empower your staff to feel that they have a role to play in the sustainability of the business – environmentally and economically.

Find the upselling opportunities

Even if your business offers set pricing, are there areas in which you can offer ‘premium’ products for a small additional cost? For example, a set menu that offers an upgrade to additional dishes or more premium alcohol.

Work together

Particularly in rural locations, the infrastructure and community around your business should be part of your business plan. Engage with and support local taxi firms, community associations and church groups, for example, which could in turn help bring more awareness and business your way.

Industry-wide, consider hospitality associations and partnerships that could allow your business to learn from someone bigger – or smaller – than you, as well as campaign on your behalf on issues such as business rates.

Next steps

1) Research the opportunities in cost-saving technologies

2) Consider whether staff could be redeployed from quieter to busier areas of the business

3) Train staff in cost-saving measures

4) Explore whether smart discounting could bring in additional volume and/or revenue

5) Maximise on-site spending

6) Identify upselling opportunities

7) Consider the risks, trends and changes that could impact your business

8) Ensure employment packages are competitive

9) Engage with businesses and groups in your local community

10) Look for alternative sources of custom in your area

Methodology

This white paper has been produced following a round table discussion at the Leonardo Hotel Belfast on 24 April 2024.

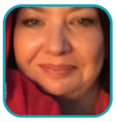
Round table chair
Caitriona Lennox FIH, head of Northern Ireland, The Springboard Charity

Alastair Good MIH, managing director, Hospitality Resource

Eóin McGrath FIH, sales & revenue director, Hastings Hotels

Heather Wilson, lounge manager, Belfast City Airport, Swissport International

Isabel Hargreaves MIH, head of membership sales, Institute of Hospitality



Jessie Mckelvie, housekeeping manager, Hilton Belfast

Michael Cafolla MIH, franchise partner, BeckettHanlon, and owner, Cafolla's Newtownards and Olive by Cafolla's Greyabbey

Sam Coulstock FIH MIEP, head of professional development, The Institute of Hospitality

Resources

Hospitality Action
The Springboard Charity
Employment (Allocation of Tips) Act 2023
Access Group: Surviving the Cost of Living Crisis in Hospitality
West Berkshire Council's Sustainable Hospitality Webinar
UKHospitality Tipping Act guidance
The Caterer Rising Cost of Labour Webinar
The Institute of Hospitality Knowledge Library
The University of Birmingham City-REDI Blog: How are Consumer Trends Changing in the Cost-Of-Living Crisis?
Retail Economics: The Cost of Living Crisis: The Effect on Different Consumers

References

(1) Office for National Statistics: Consumer price inflation, UK: December 2023 (2024)

(2) UK Parliament House of Commons: Rising cost of living in the UK (2024)

(3) CGA: Consumers' spending confidence rises as cost of living pressures ease for some (2024)

(4) RSM: Celebrations and early Easter holiday lift hospitality groups to 5.2% growth in March (2024)

(5) The Caterer: Hospitality job vacancies up 32,000 on pre-pandemic levels

(6) Centre for Cities: How much closer is the City to pre-pandemic levels of office working? (2024)

(7) Savills: Spotlight regional office outlook – spring 2024 (2024)