Cost of Living Crisis
Changes to the Hospitality industry landscape, customer demands and trends.

Introduction

This Institute of Hospitality brief presents a range of research and data sources to provide our members with an overview of the developing picture of the Cost of Living Crisis - changes to the Hospitality industry landscape, customer demands and trends.

- Rising costs from energy to food to staff, combined with a cost of living crisis that has left consumers struggling to justify the cost of certain ‘luxuries’ have created a perfect storm that has resulted in a large number of high-profile restaurant closures.

- Spiralling operating costs have hugely impacted profit margins across the industry.

- Between December 2021 and December 2023, the price of food rose by over 26.2%, and 2022 saw energy prices rise by an average of 238% for hospitality. Inflation reached a 41-year high in October 2022.

- Since then, it has been generally slowing, and the outlook is somewhat positive as it held steady at 4% in December 2023 and January 2024; economists are optimistic that throughout 2024, it will continue to slow, with predictions by the end of the year sitting between 2% and 3.1%.

Staffing levels

- Recruitment, retention, staff turnover... These were always an important focus in the hospitality industry, but they are now words that likely haunt the dreams of hospitality operators.

- The cost of turnover in hospitality is huge. It’s not just the hiring, onboarding, and training costs to consider; there’s also the impact on customer service, and additional pressure on existing staff during the process.

- According to UK Hospitality, as of July 2023, 42% of hospitality staff leave their roles in the first 90 days. Combine that with the fact that in 2024, hospitality vacancies are still more than 25% higher than pre-pandemic levels, and it’s easy to see why staff shortages are one of the key challenges facing hospitality businesses.

Wage increases

- In April 2024, the national living wage will increase by 9.8%, and will now include 21- and 22-year-olds. At the same time, the national minimum wage for 18–20-year-olds will rise by 14.8%, and for 16- and 17-year-olds will rise by 21.2%.

- As the cost of living continues to impact employees, many are looking for higher wages, and employers who wish to retain talent will have to respond accordingly.

Consumer spending

Fig 1: In May 2022 less affluent households inflation rates were 2.6% higher than more affluent households

Source: Retail Economics

- Rising costs over the past few years have seriously reduced consumer spending power, and as we enter 2024, and inflation slows, rising interest rates are putting further pressure on consumers, who find themselves with even less disposable income.

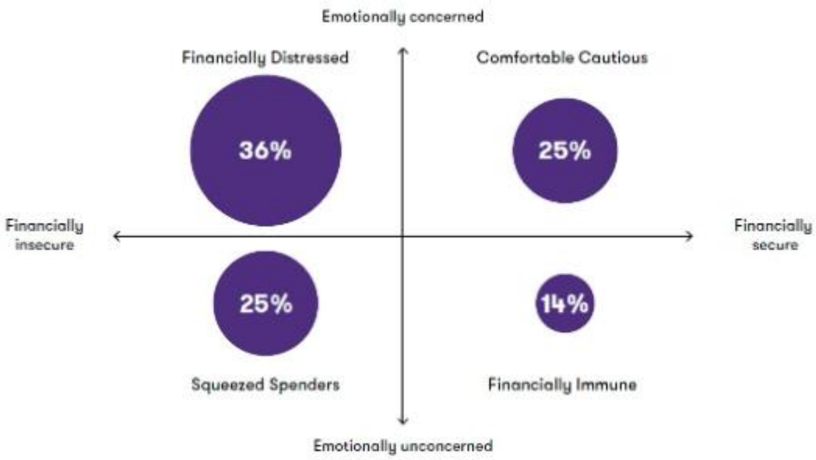
- Despite all of this, The CGA RSM Hospitality Business Tracker has shown increased confidence in the industry, and year-on-year sales growth figures in November and December 2023 were 4% and 8.8% respectively.

- And CGA has further good news in the form of their Business Confidence Survey, with 84% of hospitality leaders saying they operated at a profit in the second quarter of 2023, and 44% of customers saying they plan to prioritise visits to hospitality premises in the next 12 months (this is higher than another discretionary spending like clothing, holidays, vehicles and home improvement).

- While confidence is returning, it’s vital to stay competitive. It’s becoming clear that customer expectations of hospitality establishments have shifted; they increasingly want experiences when they go out. It's not all about the food or drink, and hospitality businesses need to deliver. Finding ways to elevate the customer experience from the moment they enter your premises is vital. Prioritising staff training and customer service and creating an inviting and inspiring environment will give people a reason to come back time and again.

- As a result of their budgets being squeezed, many consumers will be forced to adopt recessionary behaviours such as saving less, trading down, or cutting back on spending. A significant percentage of consumers (41%) expect this squeeze on living standards to impact their spending habits until at least the end of 2023, which could have negative implications for the retail, leisure industries, and wider economy.

Fig 2: 36% of households are financially distressed



Source: Retail Economics

New regulations

- Savvy hospitality leaders will be keeping a close eye on government legislation and calculating the potential costs of new laws to their business.

- Administration costs may be on the rise for many, particularly businesses operating across multiple sites, as the Employment (Allocation of Tips) Act 2023 comes into force on the 1st of July 2024.

- In Scotland, the current Minimum Unit Pricing provisions are due to expire in April 2024. The Scottish Government is highly likely to continue and expand on this legislation.

Regional variations

- Hospitality cost of living challenges also vary by region. For businesses operating multiple sites across the UK, it's important to understand the shifting trends and available support to allocate resources over the coming years.

- As more people return to work in the office, cities and town centres are busier again. But they haven't fully recovered, and, likely, we've now settled into a new 'normal'. Towards the end of 2023, rush hour footfall in London on weekdays remained at 80% of pre-pandemic levels. Office vacancies are at 10%, compared to a fairly steady 6% before Covid.

- Meanwhile, tourist-dependent areas may feel nervous about the tightening legislation on short-term lets. Whether this will have a detrimental effect on tourist towns or a positive effect on hotels in those areas remains to be seen.

- The cost of Business Rates also varies depending on location. In England, Business Rates Relief is still at 75%, but in Wales, this support has been cut to 40%. In Northern Ireland and Scotland, there is no rate relief at all (apart from the Scottish islands).

Source:

- How Hospitality Will Survive The Cost of Living Crisis (theaccessgroup.com)
- The Cost of Living Crisis: The Effect on Different Consumers
- University of Birmingham - REDI-Updates: How are Consumer Trends Changing in the Cost-Of-Living Crisis?
- Hospitality firms adapt to survive as costs rise – BBC News
- high-profile restaurant closures. - The Caterer

Mr. Sam Coulstock FIH MIEP
Head of Professional Development