

# **UK Hospitality Industry Overview Of The Current State Of The Sector**

**by Fergal Bell and Jamie Rose**



# UK Hospitality Industry

Overview of the current state of the sector

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## **1. Introduction**

The hospitality sector is a significant contributor to the UK economy in financial, employment and reputational terms. However, similar to the wider economy the sector is experiencing changes and challenges - economic, legislative and technological - which will continue to have an impact in the short to medium term.

## **2. Contribution of the hospitality industry to UK economy**

There are approximately 10,000 hotel businesses in the UK, contributing around £18 billion to the UK economy. According to research by match.com and the Centre of Economic Business Research, dates by couples alone contributed £1.3bn to the hospitality and entertainment industries while the Office for National Statistics (ONS) has calculated that hotels and restaurants, together with distribution, make up 18% of the entire UK services industry.

Taking another tack, the British Hospitality Association and Oxford Economics examined the hospitality industry's contribution to each of the 406 local authorities in England. They found that the industry directly employs 2.4m people and is responsible for providing £46bn in wages and profits annually to local economies.

The hospitality industry is a key driver of employment in many local authorities. In Kensington and Chelsea 86,000 people work in the sector, comprising 16.8% of the local workforce. The proportion is equally high in a number of other authorities, such as the Isles of Scilly (15.9%), South Lakeland (15.7%), Eden (15.6%) and Scarborough (14.9%). When considering the direct and indirect financial contribution, the hospitality industry is responsible for 39.3% of revenue in the Isles of Scilly.

### **Strategic initiatives**

In August 2010 David Cameron announced that tourism would be a key part of the UK's economic recovery and stated his vision that the UK would become one of the world's top five tourist destinations. The tourist authorities have sought to maximise the value of national and international events, such as the Royal wedding in 2011, the Queen's Diamond Jubilee and most recently, the Olympic and Paralympic Games. In August 2012 VisitEngland launched a £41 million marketing campaign targeting British tourists via local destination marketing. The three-year campaign is being jointly funded by the Government's Regional Growth Fund, VisitEngland, in addition to the private sector and is expected to create around 9,000 jobs.

Recent figures released by the Office of National Statistics (ONS) showed that the UK economy grew by 1% between the second and third quarters of 2012, with the growth being attributed to foreign visitors during the Olympics and Paralympic Games. Conversely ordinary and commercial tourism to London appears to have been detrimentally affected by the Games, as the city's residents stayed away from capital's bars, restaurants and sightseeing attractions.

Growth in international visitors to the UK has been slow, in common with other sectors of the UK economy. However, numbers have picked up in recent times with a 2.6% year-on-year increase in the second quarter of 2012. Drilling down into the figures shows a 7% rise in visitors from North America and a 5% increase in business travel.

### **Hotel owners managing resources**

Data collected by PKF Hotel Consultancy Services, the professional services firm, shows that hoteliers are managing bookings effectively in the face of challenging occupancy rates. The average daily room rate per occupied room increased by 44.4% in London in the twelve months to August 2012 (from £115.04 to £166.15). This was in spite of a zero change to occupancy rates (82.4%). The strong performance has probably been aided by one off national events such as the Olympic and Paralympic Games. In the regions, hoteliers successfully managed to secure greater profitability even as occupancy levels fell. The average daily room rate increased by 4.6% in the twelve months to August 2012 (from £59.12 to £61.86) despite a fall in average daily occupancy rates of 2% (76.8% v. 75.3%).

The PKF hotel trends survey principally features a wide range of hotels across the UK, many in the 3 – 4 star categories with an emphasis on chain operated hotels.

### **Disposable Income and the search for value**

Figures from the Office for National Statistics show that when inflation is taken into account, national income per person has fallen by more than 13% since the start of 2008. To put this in context, the drop constitutes a reduction in spending power greater than the period following the UK's two most recent recessions, in the 1990s and following the 1979 oil crash and Winter of Discontent.

Ironically, constraints on income combined with a weakened pound have benefited the UK hospitality industry as British people have found overseas holidays relatively expensive and opted to stay at home. The year on year statistics show a 1.8% and 0.3% drop in the number of people taking overseas holidays, in the first and second quarters of 2012. Instead more people are taking 'staycations' or 'daycations' (short 2 – 3 day breaks) within the UK.

This pattern of holidaying at home is reflected in the figures for domestic tourism, which show an increase of 2% last year, equating to almost 124 million trips. The research, conducted by consumer strategy research company Euromonitor International represented a recovery from the previous year, when domestic trips fell by 6%. In the view of the organisation: "Value for money, but not necessarily the lowest prices, has become an essential element of holidaying amongst many British consumers; with their disposable income diminishing or anticipated to diminish, consumers are increasingly trying to spend their money wisely and costs of trips within the UK are of high importance in holiday choice."

The importance of value as a motivating factor is repeated in the pub and restaurant sector, where figures show the real growth in turnover increased by 1.7% in the second quarter of 2012. The part of the sector that has best withstood economic pressures has been the 'value' providers - pubs, takeaways, off licenses.

### Illustration of sterling's performance against international currencies over the last 5 years

**Chart 1: £1 : US \$**



Source: XE.com

**Chart 2: £1 : €**



Source: XE.com

**Chart 3: £1 : AUS \$**

Source: XE.com

These macro-economic factors have given the UK tourism industry a boost, which is likely to continue while conditions remain the same. With public sector cuts set to result in increased unemployment among workers, the prospects for domestic tourism look positive for the short to medium term.

### High cost of the UK

However, the UK hospitality industry suffers from a lack of price competitiveness that may be restricting its long term potential. Currently the UK ranks an incredibly poor 135<sup>th</sup> out of 139 countries in the World Economic Forum's Travel and Tourism Competitiveness Index.

The index considers factors that affect price competitiveness, such as Air Passenger Duty, visa controls and the higher VAT rate. The latter is a particular issue because the majority of EU member states have reduced VAT on accommodation and attractions in recent years. If the issues affecting the UK's international competitiveness remain unchanged the hospitality industry may struggle when economic conditions present people with a choice about whether to stay in the UK or to holiday abroad.

On the prospects for the UK economy, Euromonitor International has argued that "The UK economy is very slowly recovering from the recession, although public spending cuts and job losses continue but at a more suppressed level. Consumers continue to be impacted with lower disposable incomes and consumer confidence is expected to remain low for some time, forcing UK consumers to spend smart."

## **Travel websites**

Online travel sales continue to grow their market share and were responsible for approximately half of all consumer travel sales in 2011. This continues a consistent trend where customers are predominantly or exclusively using the Internet to search for holiday information.

Review sites that provide customers with feedback about locations and accommodation continue to be popular, while websites that offer customers discounted accommodation but also highlight product quality, are increasingly important. Travelers appear willing to forego a degree of choice in order to obtain higher end accommodation at a favourable price.

## **3. Employment law**

Some of the principal legislative areas that affect the hospitality industry and have been in the news recently include the following:

### **Agency Workers Regulations (AWR)**

New regulations governing the conditions for temporary workers were introduced in October 2011 and have now been in place for a year. The AWR provide for equal conditions for temporary workers in many areas including: pay, benefits such as holidays and bonuses, staff facilities as well as access to permanent roles. Working time also falls within the realm of the regulations and so, after the qualifying period, temporary workers are entitled to equal treatment in relation to shifts, night work, rest periods and rest breaks.

The regulations mean that after 12 weeks in a role temporary workers are entitled to receive equal treatment as permanent employees who are in comparable roles, in compliance with the EU Temporary Agency Workers Directive 2008.

Prior to the introduction of the regulations there were widespread fears that temporary workers would become too expensive to hire and that there would be a collapse in the temporary worker market. There are differing views as to whether the impact has been so severe. The Recruitment and Employment Confederation (REC) has conducted research twelve months after the introduction of AWR and in their survey of 600 employers found that 91% believed that AWR had had some or less impact than originally feared but had not fundamentally altered the way that they used agency staff. However, the Confederation of British Industry (CBI) said that its own research indicated that 57% of firms had reduced their use of temps and 8% had stopped using temps completely. The government is planning a review of AWR in 2013.

### **Automatic pensions enrolment**

From 1 October 2012 larger employers have been obliged to automatically enrol all eligible employees who were not already members of a scheme into a workplace pension or the National Employment Savings Trust pension scheme (NEST). The October start date applied to companies with more than 120,000 PAYE workers and the start dates for all other organisations will follow on a phased basis according to their size. Employers with between 50,000 – 119,999 employees must begin to auto-enrol on 1 November, while those with 30,000 – 49,999 will start from 1 January 2013. Smaller employers still have some time before auto-enrolment must begin. Those with less than 1,250 employees will not have to begin enrolling staff until 1 October 2013 and the smallest (those with fewer than 30) will not have to do so until 1 January 2016.

In terms of contributions, the pension schemes will receive a minimum contribution of 8%, covered by the employer (3%), employee (4%) and the government (1%), in the form of tax relief. These are the minimum contributions and employers can put in more if they wish. The 3% employer level will also be introduced on a phased basis with the deadline for the full 3% contribution coming on 30 September 2018. Where temporary workers are concerned, the responsibility falls to the organisation paying them, which will usually be their agency.

Employees can choose to opt out of the pension scheme after they have been automatically enrolled if they wish to avoid their 4% personal contribution. However the government is keen to ensure as many workers as possible are enrolled in a pension scheme and the employer will have a duty to re-enrol those workers automatically every three years.

According to recent research by the National Association of Pension Funds less than a quarter of low paid workers are currently saving into a workplace pension scheme. The organisation surveyed nearly 1,000 employed employees and found that only 24% of those earnings £14,000 or less are currently in a scheme. Inclusion rates were better for higher paid workers but were still less than half (46%) of those surveyed.

Commenting on auto-enrolment, Joanne Segars, NAPF chief executive, said: “This is a game-changer that will get millions of people saving for their retirement. The UK is drifting towards an iceberg when it comes to paying for its old age, and we need radical reforms like this.”

Gurmukh Hayre, partner in pensions at KPMG, has expressed the view that businesses with high staff turnover and large numbers of moderately paid staff, such as in the hospitality sector, are likely to use the NEST option. This is effectively a portable pension that employees can take with them when they change employers.

### **Third party harassment**

In October 2012 the Government announced that it would be abolishing employer liability for third-party harassment provisions, as contained in the Equality Act 2010.



The provisions in the Act place an onus on employers to act in cases where staff are harassed by clients.

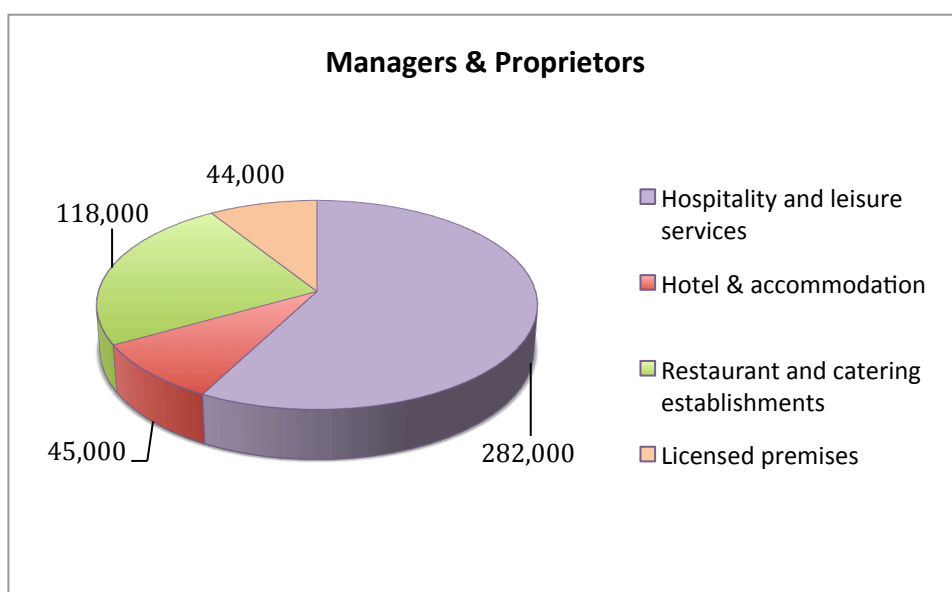
The law has particular relevance for hotel staff and indeed the legal framework for protection from third parties was partly based on case law from the decision in *Burton and another v De Vere Hotels Ltd.* [1997], also known as the 'Bernard Manning' case. In that instance the hotel group were found liable for harassment of two of its staff that were the subject of racist and sexist jokes by Mr. Manning, notwithstanding the fact that the comedian was not an employee of De Vere Hotels. The company was held liable for failing to take steps to protect their employees.

However, the government announced in May 2012, as part of its Red Tape Challenge to cut bureaucracy, that it plans to abolish the provision following an assessment. The Business, Innovation and Skills department (BIS) reported that the protection was unnecessary as only one case has been ruled on by an employment tribunal since the protection was introduced in April 2008. Furthermore, it believes protection can be provided by other legislation.

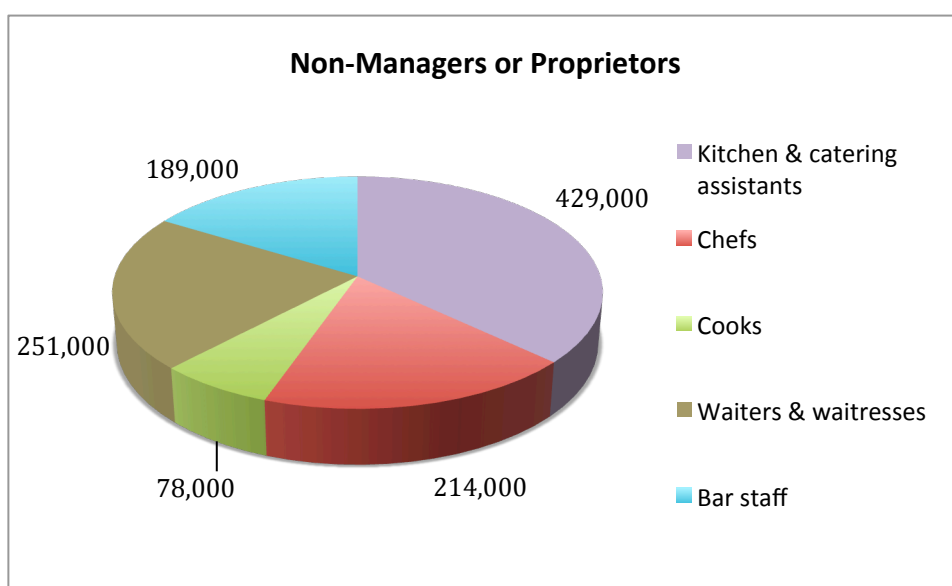
## 4. Job types within the industry

The hotel industry comprises approximately 10,000 establishments in the UK and is responsible for between 4 – 5% of employment in the UK. There is greater representation by women (58%) and it is well represented by younger workers, with 44% being under 30. Due to the nature of the industry there is a sizeable proportion of part-time or temporary workers and just 53% of individuals work full-time, while 21% are migrant workers.

### Sector size



Source: ONS: April – June 2012

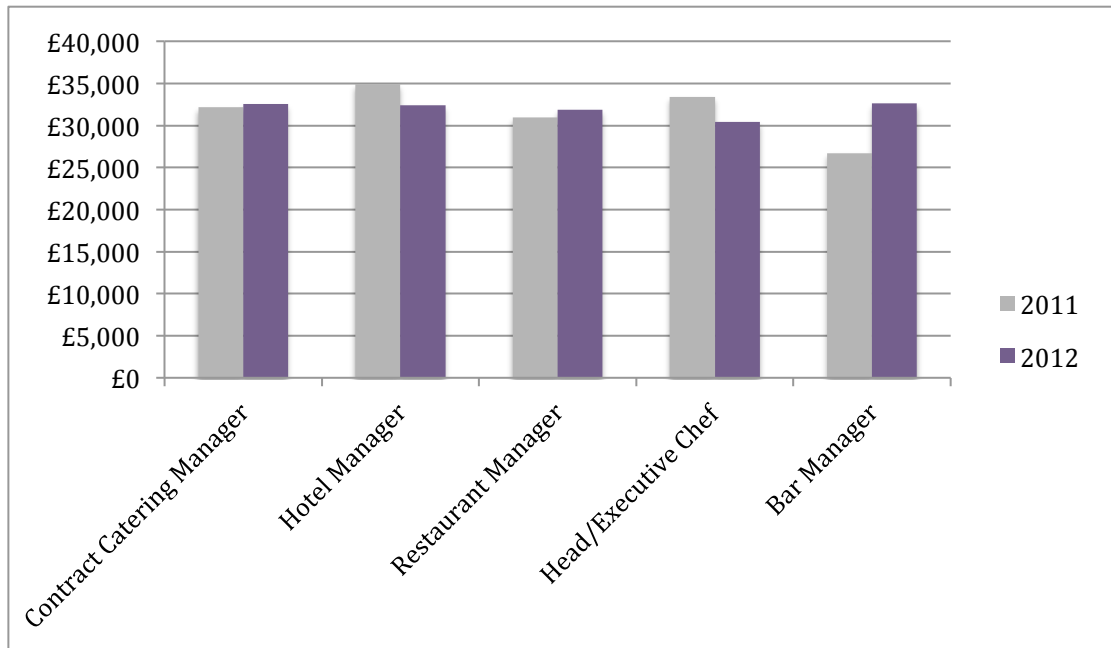


Note: Some occupation classes include staff employed in non-hospitality sectors. Also catering managers and bar managers are classified separately to managers/proprietors by the ONS.

Source: ONS: April – June 2012

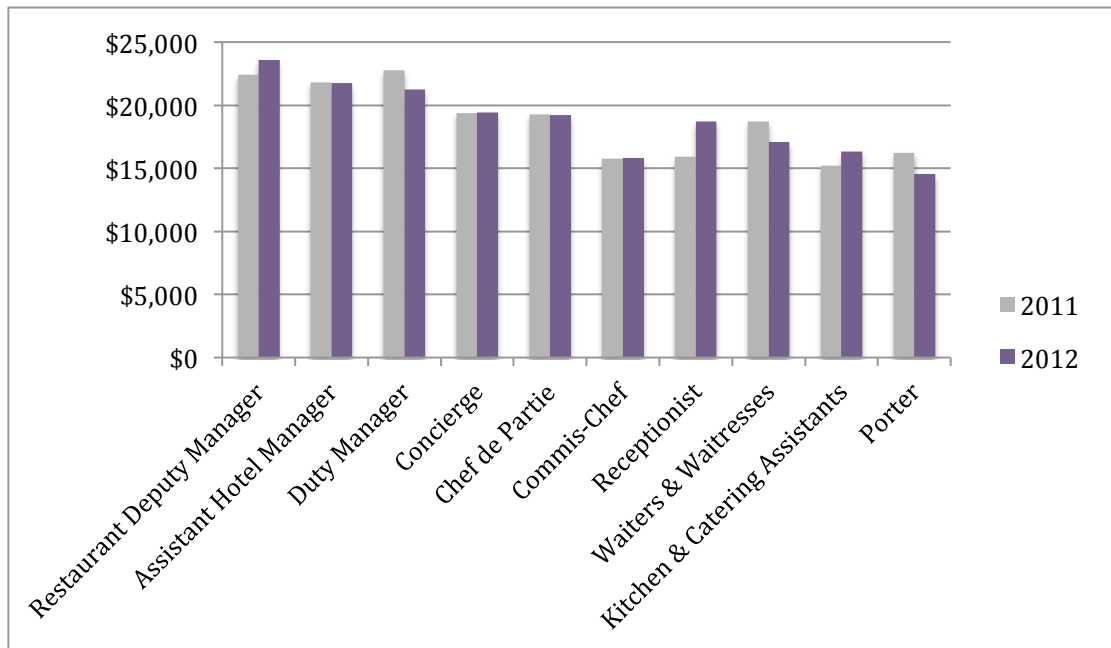
## Hospitality & Catering Average Salaries in UK

### Managerial



Source: reed.co.uk

### Non-managerial



Source: reed.co.uk

## 4. Star-rating system

Hotels in the UK are rated according to a standardised system that was introduced in 2007 using National Quality Assurance Standards and rates establishments from 1 to 5 stars, evaluated by mystery inspectors. [The hotel star-rating system](#) replaced the previous assessment methods, which had included diamonds, stars and moons among others. These were thought to be too confusing and so the star-rating system was introduced. It is followed by the four UK assessment bodies – VisitBritain, VisitScotland, VisitWales and the AA, and covers approximately 8,700 UK establishments.

### Hotels

- *Hotels*: offer full hotel services including dining, concierge, 24-hour reception and room service. Will usually have in excess of 20 bedrooms.
- *Country House Hotel*: situated in a rural or semi-rural setting with ample grounds and gardens and an emphasis on peace and quiet.
- *Small Hotel*: Owner-run with up to a maximum of 20 bedrooms and likely to have a limited function business.
- *Town House Hotel*: high quality, boutique-style property with a maximum of 50 bedrooms in an urban location. High staff-to-guest ratio and either dinner or room service available.
- *Metro Hotel*: urban-based, full-service hotel excluding dinner but within easy walking distance to a range of eating options.

### Guest Accommodation

An umbrella term encompassing any property that falls outside standard definitions and including: Bed and Breakfasts (B&B), Guest Houses, Farmhouses, Inns and Restaurants with rooms.

- *Bed and Breakfasts (B&B)*: accommodation in an owner-run private house for up to 6 paying guests.
- *Guest House*: accommodation for more than six paying guests with the inclusion of additional services, such as dinner).
- *Farmhouse*: B&B or guesthouse accommodation on a working farm.
- *Inn*: accommodation on a fully licensed establishment that must be a public house providing food in the evenings.

- *Restaurant with Rooms*: includes any restaurant offering accommodation with up to 12 bedrooms.
- *Self-catering*: accommodation provided for business or holiday purposes for a fixed term rental, usually 1 week.

In addition to the star-rating system the AA also recognises hotels with additional designations including: rosettes, merit scores, Inspectors' Choice, gold star awards and the AA Hospitality Awards. The organisation stresses that the establishments it has accredited achieve higher revenue as a result

### **Concerns with evaluation systems**

Research by Which? suggests that the rating systems may still be confusing visitors. The organisation contacted 1,045 members of the public in August 2012 found that only 29% of people understood the difference between a three or four star hotel and just 16% knew who set the star ratings in the UK. Which? also found that 57% of respondents favoured online reviews more than star ratings.

However, online review sites have been shown to be fallible. One of the best-known sites was investigated by the *Telegraph* in March 2012 and found evidence that hoteliers were abusing the review site to falsely improve their rankings. One restaurant was ranked as 17<sup>th</sup> best in London, despite not having opened at the time and the newspaper reported that two of its readers were offered £180 to delete a negative review that they had posted of a Gloucestershire hotel. The review site allows reviews from anonymous users rather than authenticated customers, which has received criticism in some quarters.

Notwithstanding critical comment, research suggests that online reviews and ratings can make a substantial difference to business. Two economists at the University of California, Berkeley, Professors Michael Anderson and Jeremy Magruder, published in the *Economic Journal*, found that restaurants in San Francisco that had received a slightly higher rating than a competitor received much higher levels of bookings, even where the quality was almost identical. They looked at the ratings of 328 restaurants on the travel site Yelp.com and found that those with fairly identical average ratings (e.g. 3.70 versus 3.77) showed significant differences in bookings, because the site rounded to the nearest half point and one restaurant received a 3.5 star rating while the other received a 4 star rating, even though their actual scores were almost the same. The researchers discovered that moving from 3 stars to 3.5 stars increased the chances of a restaurant being booked out during peak hours from 13% to 34%, while improving from a 3.5 star to a 4 star rating increased the chances of selling out by 19%.

## **5. Conclusion**

The UK hospitality sector has benefited from an international economic situation that makes the UK a more attractive proposition for domestic tourists who have become increasingly price and value conscious. This favourable situation acts as a buffer in the short to medium term but may not survive against a lack of price competitiveness in the future. Hoteliers are managing resources well in light of challenging circumstances and the industry has sought to meet the challenge through greater clarity for consumers and innovation.

\* This document was produced by SecretHotels.Org ([www.secrethotels.org](http://www.secrethotels.org)).

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