MARKET REPORT

Challenging Trends Currently Facing Hospitality Executive Teams

OCTOBER 17, 2022

As the hospitality industry reopens, organizations face challenges that include labor shortages, rampant inflation, and soaring demand. An active mergers and acquisitions (M&A) market and widespread global instability are compounding the issues, forcing executive teams to find innovative ways to survive and thrive.

As the pandemic continues to ease its grip on society, hospitality is reopening and people are ready to travel, dine out, and spend money on leisure and entertainment. However, trends and challenges facing tourism, hotels, and restaurants make it difficult for some venues to adapt. The market is also exceptionally competitive for various reasons, and the situation shows no sign of improving soon. Here are the top trends facing hospitality executives.

Labor Shortages

The hospitality industry is facing labor shortages never seen before. As we emerged from pandemic constraints, U.S. hotels expected to employ 2.19 million staff by the end of 2022. According to the American Hotel and Lodging Association[1] (AHLA), this would bring industry employment back up to 93% of pre-pandemic levels. The goalposts are moving away from that target, however, as executive teams realize it will be very challenging to meet. Many restaurants are suffering a loss in sales because they simply can't get their venues fully staffed. They must either reduce operating hours, decrease the number of guests they can accommodate, or take other mitigating steps that impact their profits.

Rampant Inflation

On June 24, 2022, Bloomberg reported long-term U.S. consumer inflation expectations had dropped[2]. Initially projected to rise to a 14-year high of 3.3% over the next five to ten years, the latest projections pegged the rate at 3.1%. That might sound like good news, but with monthly inflation having hit a whopping 8.6% recently[3], hospitality executives are seeing dramatic hikes in food costs. While they have managed to pass many of these increases on to consumers, they're still having to come up with innovative ways to address the problem long term. These include:

- Taking a long, hard look at their data to determine which menu items are selling well, which aren't, and where they can reduce costs on specific items.
- Generally narrowing down and trimming any items that are less profitable or popular.

- Working closely with their culinary staff and supply chain teams to contain costs.

The labor shortage also means companies are being forced to offer higher wages, particularly for skilled positions, all while taking a hit to their bottom line. This factor contributes to rising inflation.

High Demand for Hospitality

On the flip side, consumers are having a field day. Right now, they don't seem to care about increasing prices. Over the past two pandemic years, people were so trapped at home that they're now willing to go out and spend whatever it takes to enjoy travel, meals, and hotels. The National Restaurant Association reports[4] that sales are up, although revenue is still below pre-pandemic levels even after adjusting for menu-price inflation. All indications are that Americans are ready to travel again[5] and that the mismatch between supply and demand is overwhelming businesses. This is resulting in diminished experiences[6] for customers and workers alike.

Unpredictable Hiring Trends

After being an employer's marketplace with multiple contenders vying for most positions, we saw the switch flip in the summer of 2021. The current scenario favors candidates and, combined with the labor shortage, is causing unpredictability. HVS Executive Search has shown a substantial increase in placements over the last 12 months. Now, we find ourselves continuously needing to educate our clients about the changing state of hiring. Some issues hotels and restaurants are facing include:

- Urgency in hiring timelines. Companies can no longer delay scheduling an interview or making an offer. If they like a candidate, it's imperative to move quickly to secure them—before someone else snaps them up.
- Focusing on employee retention strategies. Without a viable method to keep key staff engaged, other organizations are likely to make attractive offers to lure them away. Sign-on bonuses can be structured to address this challenge by making them repayable if the employee leaves within a fixed period.
- Remote work remains a massive drawcard[7], and hospitality companies have to embrace this option to compete for top industry talent. Most have adapted to hybrid work models where employees come into their offices for a couple of days each week and work from home the rest of the time.

This tight, new, candidate-driven market has given applicants at all levels more freedom in their job search, and they are no longer prepared to settle for anything less than top pay. Hospitality companies need to invest the same amount of time, money, and attention to attract talented employees as they do customers. Revamped employee benefits, top-level compensation, referral bonuses, flexible schedules, a fun work environment, and career growth opportunities are all critical to enticing best-in-class employees.

Active M&A Market

Mergers and Acquisitions have long been a way for hospitality organizations to ensure they continue to grow, and the current scenario is no exception. Globally, we're seeing a lot of M&A activity, with deals ranging from obscure to relatively high-profile. Recent deals include:

- Summit Hotel Properties' acquisition[8] of AC Hotel by Marriott & Element Miami Brickell's 264-room hotel for $89

Million.

- The 2021 merger[9] of Benchmark Global Hospitality and Pyramid Hotel Group.
- Philadelphia-based HHM's buyout of Urgo Hotels and Resorts[10] which will increase the company size by 30%.
- Acquisition on July 18, 2022 of fast-casual restaurant brand[11] Bellagreen by Au Bon Pain's owner Ampex Brands for an undisclosed amount.
- In June, eatertainment company Dave & Buster's completed the acquisition of Texas-based bowling and arcade entertainment company, Main Event.

Mergers & Acquisitions can create additional stress for hospitality executives as they work to combine and streamline operations, update the brand of the merged properties, and optimize staffing and assets.

The Perfect Storm

Looking at the situation holistically, it's no surprise the industry is currently in the throes of the perfect storm. The war in Ukraine has added to the tension, with the increase in fuel prices compounding inflation and economic uncertainty. For hotels and restaurants to survive these uncertain times, it's essential they find ways to tighten their belts, deliver the best customer experiences they can under the circumstances, and build innovative, loyal executive teams to carry them through to the other side.

[1] AHLA , AHLA SOTI Report, Retrieved June 25, 2022.

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[3] Statista, Monthly 12-month inflation rate in the United States from January 2020 to August 2022, Retrieved June 25, 2022.

[4] National Restaurant Association, Restaurant sales continue to trend higher, Retrieved June 25, 2022.

[5] Destination Analysts, Update on American Travel Trends & Sentiment—Week of February 28—Going to New Places, Traveling Sustainably, Retrieved June 25, 2022.

[6] Marketplace, As travel rebounds, hospitality workers are in high demand, Retrieved June 25, 2022.

[7] Forbes, Remote Work Is Here To Stay And Will Increase Into 2023, Experts Say, Retrieved June 25, 2022.

[8] Cision, Summit Hotel Properties Completes Acquisition of AC Hotel by Marriott & Element Miami Brickell for $89 Million, Retrieved June 25, 2022.

[9] Hotel Management, Benchmark, Pyramid Hotel Group merge, Accessed Oct 9, 2022

[10] Hotel Business HB Exclusive: HHM to acquire Urgo Hotels & Resorts, Retrieved June 25, 2022.

[11] Fast Casual , Bellagreen acquired by Ampex, Retrieved June 25, 2022.