Fourth

The Hospitality Workforce Report

H1 2024

A precarious moment for UK hospitality.

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A Successful 2024 Hangs in the Balance



Sebastien Sepierre
Fourth Managing Director
EMEA

We're heading into the new year with tempered optimism. Customer demand has been surprisingly resilient and initial sales figures from the festive season are positive.

The cost of doing business remains high, and incoming minimum wage increases are a source of anxiety for many when it comes to workforce management. Our research shows that headcount across the industry was down quite significantly on last year, suggesting operators are aiming to find efficiencies in labour costs to compensate.

Yet, we are starting to see more optimistic signals. The cost of food is beginning to stabilise, and the latest data suggests that inflation is falling quicker than the Bank of England expected. Analysts are targeting an interest rate fall this year as well, which will be welcome news to those operators burdened by debt.

Sales during the festive period surpassed expectations, despite early warnings of low demand due to the cost of living crisis. Pubs and restaurants, operating with leaner teams, saw impressive sales growth in both November and December 2023, compared to the year before.

> *"Headcount across the industry was down quite significantly on last year, suggesting operators are aiming to find efficiencies in labour costs."*

These positive signs will be welcome news for an industry that's been battered and bruised over the last few years, but whether 2024 will spark a turning of fortunes remains to be seen. If operating costs start to stabilise and consumer demand holds up, then our optimism will be warranted. But there are many factors that could tip the scales the other way. Increases in National Minimum Wage will push up labour costs, and ongoing hostilities in the Middle East have the potential to put pressure on both oil prices and food imports. Initial research suggests that 45% of consumers intend to spend less eating out this year too, which could be a real blow for hospitality operators.

As an industry, we're heading into the New Year in a precarious position – with a number of factors that could potentially tip us one way or another.

It will come as no surprise that we firmly believe new technology will play an important role in helping operators achieve success in this climate. Achieving best in class labour productivity, controlling costs and leveraging AI to forecast demand are all in reach with Fourth's Workforce Management solutions. Your business, and our industry, deserve to thrive no matter what 2024 has in store.

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Reflections on 2023 Festive Trading

Early analysis warned operators that the cost of living crisis would negatively impact trading throughout the festive season, and many seem to have taken the warnings to heart. Pubs and restaurants went into November 2023 with leaner teams than the year before, headcount was down 5.0% and 2.3% respectively in November compared to 2022.

> *"Pubs and restaurants went into November 2023 with leaner teams than the year before, headcount was down 5.0% and 2.3% respectively in November compared to 2022."*

Despite these gloomy warnings, initial data from 2023 festive trading suggests that sales during the festive period were far stronger than expected. Looking across the whole sector, sales revenue was up 6.1% in Q4 2023 compared to 2022, with November up 4.0% on 2022 and December's sales increasing a whopping 10.5% compared to the previous year. Ending on a relatively positive note, drinks sales were up 7.0% year-on-year in the last two weeks of 2023.

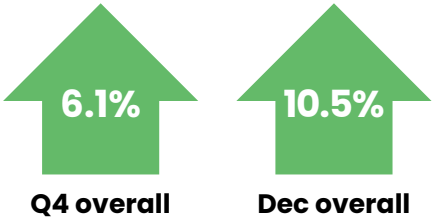
> *"Fourth noted a positive trend in sales across the sector as a whole, with November up 4.0% on 2022 and December's sales increasing 10.5%."*

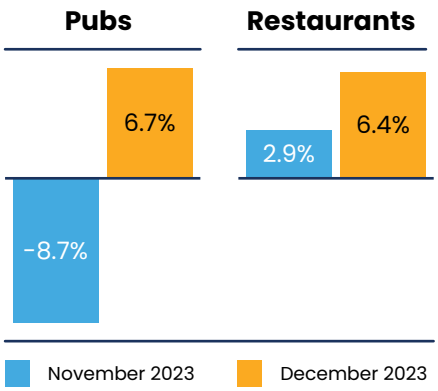
For pubs, there was little change in trading throughout November and December 2023 period compared to 2022; the main difference was the timing of the peaks. Sales in November 2022 were high thanks to an influx of early revellers – likely the result of wide scale train strikes that took place that December, these then had a negative impact on December 2022 pub sales. With far less disruption to public transport in 2023, revellers got off to a slower start in November with sales down 8.7% on 2022, but sales in December quickly overtook those of the year before, increasing by 6.7%.

Restaurants enjoyed a slightly better festive season in 2023 than the previous year, with sales up around 5% across November and December. The trading pattern for restaurants this festive season was far less changeable than pubs, and almost directly comparable to 2022 – sales peaked on the last Saturday of November in both years.

The proprietary data presented in this report is based on Fourth analytics and is taken from a sample of 700+ UK businesses using Fourth's workforce management solution in Q4 2023.

Sales Revenue vs 2022





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2023 Workforce Trends

Headcount

As last year drew to a close, the trend towards decreased headcount noted in our previous two Workforce Management reports continued. Headcount across the hospitality industry was down 2.2% in December, compared to the same month in 2022. The usual boost in hiring to cover the festive period was also lower, with the number of new starters in November 2023 down by 30% compared to 2022.

The biggest decline was once again seen in pubs, where headcount decreased 6.0%. By contrast, headcount in restaurants fell by 2.5%. Hotels actually charted modest growth, increasing 0.8% year-on-year.

Headcount Changes December 2022 vs 2023

-2.5%	-6.0%	+0.8%
Restaurant	Pub	Hotel

-2.2%

Overall drop in headcount vs December 2022

-30%

Overall drop in new starters vs November 2022

"These headcount decreases are potentially a result of the growing cost of doing business in 2023, caused by a combination of closures and operators seeking to manage down their labour spend as other costs soared." explains Max Tucker, Director of Fourth Analytics. The total debt for the hospitality sector is now estimated to be around £12bn, meaning last year's interest rate rises – rates hit 4.25% in March and continued to rise to the current peak of 5.25% – piled the pressure onto already tight margins.

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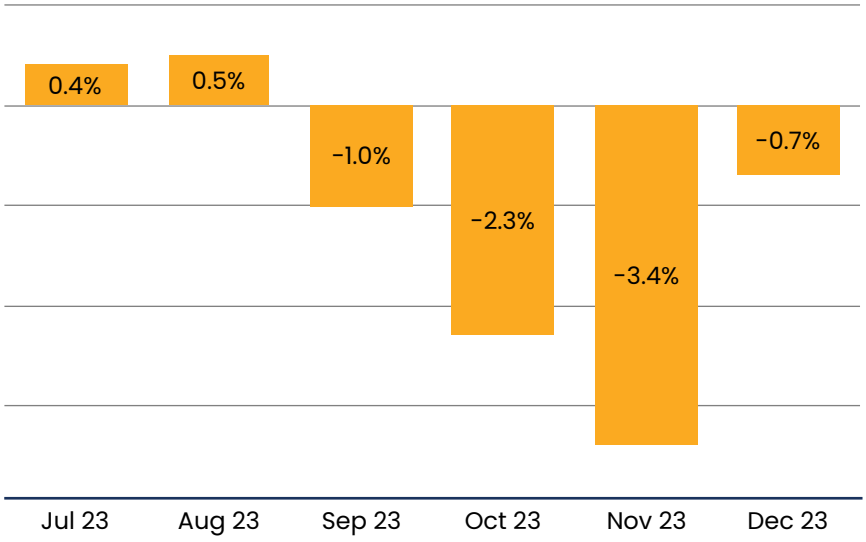
Scheduled Hours

The average number of hours worked by employees is declining alongside headcount. One in five pubs and restaurants cut their opening hours last year to reduce capacity, leading to a 0.7% decrease in the average number of hours worked across the sector in December 2023 compared to December 2022.

Restaurants were the hardest hit, with monthly hours worked down by 3.7% year on year by December. Hours in pubs also declined, down 0.8% in December 2023 compared to 2022. As with headcount, hotels seem to be faring slightly better and were the only sector where hours worked grew in December 2023 compared to the year before, up 0.8%.

While average hours in hotels grew throughout the year, both pubs and restaurants experienced prolonged periods where scheduled hours were down compared to the same month the year before.

Overall Change in Hours Worked vs 2022





Productivity Consulting

Not Sure Where to Make Workforce Efficiencies?

Fourth's **David Ellmer** and his team of Productivity Consultants work with you to identify areas where your business can make efficiency savings and support you as you adopt them. This change management service leverages their years of experience helping mid market and enterprise clients to optimise their operations and get the most out of Fourth's technology solutions.

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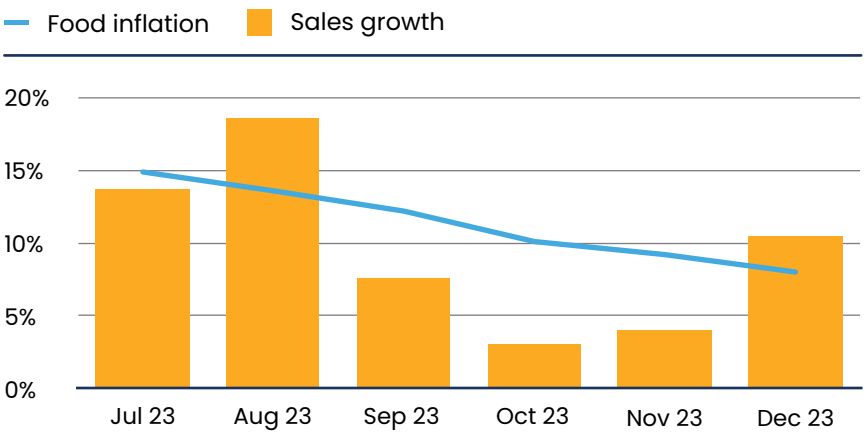
The Growing Cost of Doing Business

The capital required to run a successful hospitality business has grown substantially over the past few years. The pandemic forced many to take on additional debt, and interest rate rises in the subsequent years have increased the cost of servicing that, at a time when the cost of food and drink, labour, insurance and energy have all skyrocketed, as well.

It's the perfect storm – and it has hit many businesses hard. There were a record breaking number of restaurant closures in the first three months of last year, and multiple high profile closures at the start of January suggest we may see a similar pattern in 2024, too.

Hospitality Professionals Association (Hospa) CEO Jane Pendlebury told The Independent that skyrocketing costs meant many hospitality businesses were struggling to keep their doors open. "The ongoing cost of living crisis in the UK only magnifies these issues, rendering it increasingly difficult for businesses to sustain viability – while also having a huge impact on consumer spending habits," she said.

Sales Growth (YoY) vs Food Inflation



Food inflation was a significant issue for the sector in 2023, outstripping revenue growth for much of the year, meaning operators were having to absorb a proportion of the costs, rather than passing on to consumers. Although, on a positive note, December saw sales revenue growth exceed inflation. With analysts expecting inflation to continue to fall in 2024, this may be one area that becomes less of a pressing concern for operators.

For those that have made it this far, there are still many workforce changes on the horizon with the potential to push the cost of doing business up still further; changes to legislation and tax coming into force this year will increase administrative costs and have a significant impact on the cost of labour.

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Wage Costs

Labour costs account for a significant percentage of total overheads and increases to the legal minimum wage – which comes into effect in April – will put further pressure on operators' margins.

The changes mandate a £1.02 per hour increase to the minimum wage and extend it to include 21 and 22 year olds for the first time. Shore Capital anticipates that this, together with increased inflation, will add an additional 3-4% to operators' margins.

The allocation of tips, gratuities and service charges (Tronc payments) is set for an update in May under the Employment (Allocation of Tips Act) 2023. It will require operators to distribute 100% of all tips, gratuities and services, and prevents tips from being used to cover any shortfall in contractual wages.

Tax Updates

As the third largest private employer, hospitality is a key pillar of the economy, contributing around £93bn annually.

In July 2020, the government temporarily reduced VAT (value added tax) from 20% to 5% for hospitality, hotel and leisure operators, before ending the measure in April 2022. Trade body, UK Hospitality (UKH) is now calling for the UK Government (UKG) to reduce VAT on hospitality permanently to support tourism, a measure that could help smaller operators in particular to offset rising costs.

A 2023 petition asking for VAT on hot food, soft drinks and door tickets to be reduced by 10% prompted the Government to confirm it had no plans at the time to reduce VAT for the sector. However, pressure has been mounting in light of the obstacles currently facing the industry, celebrity Chef Tom Kerridge recently added his voice to the debate in an interview with The Independent, "That 10% would be a massive difference for businesses – that's the difference between surviving and staying open, or closing. It's a release of the pressure."

UKH has also suggested that added visiting costs resulting from tourist taxes introduced by Scotland and potentially Wales this year could provide an incentive for the Government to reassess its VAT position.

Advanced Analytics

Understand Your Business in More Detail than Ever Before

In a climate where margins are being squeezed on every front, operational efficiency becomes increasingly important. Fourth's Advanced Analytics sit at the very heart of that, allowing operators to see running costs and respond in real time.

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Fluctuating Demand

While consumers have been surprisingly resilient up until this point, everyone is now paying more for food – both in the home and outside of it – and that resilience can only stretch so far. A recent survey found that 45% of consumers are expecting to scale back their eating out budgets in 2024. As well as the impact on operators' bottom lines, changing demand will make accurate scheduling even more of a challenge.

> *"45% of consumers are expecting to scale back their eating out budgets in 2024."*

It's a slightly rosier picture for hotels and the tourist industry, with four in five Brits saying they're already planning a staycation for 2024, and nearly half (46%) of Europeans say that their travel budget was higher at the end of last year compared to pre-pandemic levels.

AI Forecasting

Using artificial intelligence (AI) to drive profitability

Hospitality operations are built on revenue forecasts, they're the starting point for financial planning, demand forecasting, staff scheduling and inventory management.

Fourth's AI forecasts are trained on one of the industry's biggest datasets, and take into consideration a number of macro factors to provide accurate, automated forecasts your teams can trust.



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A Look at the Year Ahead

Despite the challenges around legislation and tax changes, 2024 could still be a positive year for operators. A slowing in inflation will be gratefully received by many, and positive indicators from the festive period will have offset some of the January blues and put a skip in the step of operators heading into the new year.

Revenue for London based operators grew last year, up from £43bn in 2019 to £46bn in 2023. Sales were positive nationally as well, with the UK hospitality revenue growing on average 5.6% a month in 2023. The festive period was similarly buoyant, and Fourth data shows that hospitality sales for November grew 4.0% in 2023 compared to the year before, and 10.5% in December. This is good news for depleted hospitality teams and will help put operators in a position where they can start reinstating hours and growing headcount once again.

That hope is spilling into households as well, and more than half are optimistic about their financial outlook for the next twelve months. However, there is evidence that the pandemic and cost of living crisis have sparked a shift in consumer spending habits, with two in five people now prioritising spending on experiences rather than possessions. That means competition for consumers' pounds is more fierce than ever, and hospitality operators are no longer just competing with each other for customers. XP Factory, which operates the Escape Hunt and Boom Battle Bar, grew revenue in 2023 by 95% compared to 2022. It attributes much of its success during the festive season in particular to record corporate sales, as customers swapped traditional office Christmas parties for activity-based experiences.

With research suggesting that many intend to spend less eating out this year, operators need to make every experience count if they're to convince guests an evening spent with them is preferable to an evening spent in an escape room or throwing axes. That means customer experience shoots up the agenda to become arguably the most important measure of success. A stand out experience is not only vital to encourage repeat custom at a time when consumers are going out less, but also to attract and retain new customers as well. Training staff to provide exceptional levels of care, and ensuring the workforce is engaged and motivated to go the extra mile for guests, will have an outsized impact on profitability.

"Hotel operators are at a significant advantage when it comes to delivering experiences that not only delight customers, but differ significantly from their last visit," explains Fourths Customer Success Director, Adam Dattis. "Themed events, spa packages and immersive accommodation can all help to put your venue on the map and mean that, even for returning guests, no two visits are the same."

Restaurant and pub operators might have fewer opportunities on the experiential side, but there are still plenty of options for those seeking to differentiate. Guest chefs, cookery classes, themed nights and tasting menus are just a few ways to create experiences that are noticeably different from a standard visit.

"Of course, all the standard practices around enhancing the guest experience still remain true," says Dave Ellmer, Fourth's Head of Global Productivity Consulting. "Ensuring staff are well trained and service levels remain high, collecting feedback and actioning it where necessary, creating a pleasant physical environment and consistently delivering high quality food and service is just as important as it's ever been."

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Top Trends for 2024

As well as an increased focus on customer experience, there are a couple of workforce trends we're expecting to see influence the hospitality industry over the next twelve months and beyond.

Tech adoption steps up

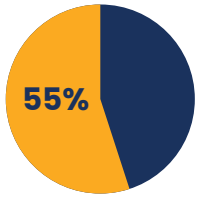
Operators will step up their adoption of technology solutions in 2024, something Hospa's CEO Jane Pendlebury has been advocating for. She advises operators to maximise their use of technology and increase automation to optimise through current business challenges – and 61% of industry leaders expect to do just that this year.

Four in five are intending to implement new tech to positively increase productivity, while 55% will focus on automating scheduling, and 43% aim to improve inventory management.

A survey of US restaurant operators found that 41% are intending to invest in artificial intelligence (AI) this year. With the ability to forecast revenue, automate administrative heavy tasks like scheduling and inventory, optimise labour and improve customer and staff experience, it'll quickly become obvious which businesses are successfully implementing the technology – and which are not. Developments like generative AI, which make models and outputs accessible to non-technical users through conversational interfaces, will also further open up access to AI and its benefits.

> *"61% of industry leaders are expecting to implement new tech solutions this year."*

Sebastine Sepierre, Fourth's MD for EMEA notes that, "Businesses can no longer afford operational inefficiencies, and last year's headcount decreases show that many are already identifying and making savings where they can. But there is still slack in the system, and technology solutions like Fourth's AI Forecasting and Intelligent Scheduling are an effective way of identifying exactly where you can afford to make cuts without reducing service levels and staff wellness."



55% of operators will focus tech investment on automating scheduling.

Intelligent Scheduling

Increase labour productivity with AI driven scheduling.

Ongoing demand volatility and rising costs highlight the increasing importance of scheduling to driving profits in restaurants, pubs and hotels. But getting it right is hard. Under-staff and you miss sales, over-staff and you lose margin. You need to strike the right balance.

Fourth's Intelligent Scheduling leverages AI to enable operators to accurately forecast demand, easily identify the optimal staff and optimise the deployment of workers across locations.



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HR Compliance Gets More Complicated

As well as April 2024's Tronc and minimum wage updates, operators will also need to make provisions for updates to the UK paternity scheme and holiday entitlement for part time and irregular hours workers – both also likely to come into force in April. Going back to September 2023, the Workers (Predictable Terms and Conditions) Bill gave millions of workers more rights over predictable working hours.

With each new legislative change, hospitality employers will increasingly find themselves having to manage provisions like pensions, salary sacrifice and benefits they wouldn't traditionally have needed to consider for front line workers. While in most cases this is great news for workers, this greatly increases the complexity of administration and compliance, with a failure to comply raising the risks of fines such as from unintentional breaches in minimum wage calculations. Going forward, operators should remain on the lookout for further changes and ensure they act quickly to mitigate the potential impacts on their business and workers.

HR and Payroll

Consistent and Compliant HR and Payroll

A fractured human resources and payroll system often leaves businesses vulnerable to inaccuracies and inefficiencies. Improve speed and accuracy with a fully integrated HR and Payroll service from Fourth.

With a constantly evolving solution, and dedicated payroll experts, we provide a seamless and personalised service and solution to ensure your HR and payroll processes are efficient, consistent and compliant.

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Dates for the Diary

Third party events are key drivers of demand, and help when forecasting peaks and busy periods. Below is a calendar of major events likely to impact the hospitality industry in the first half of 2024.

Sports | Celebration | Public Holiday | Entertainment | Pubs | Hotels | Restaurants

Event	Date	Type	Region	Sector
Rugby Six Nations	2 February - 16 March	Sports	London / National	Pubs, Hotels
USA Superbowl	11 February	Sports	National	Pubs
Tyson Fury and Oleksandr Usyk (Heavyweight Boxing)	17 February	Sports	National	Pubs
Masters Tournament	8 March - 14th March	Sports	National	Pubs
Mother's Day	10 March	Celebration	National	Pubs, Hotels, Restaurants
Rugby Six Nations Round 5	16 March	Sports	London / National	Pubs, Hotels
St. Patrick's Day	17 March	Celebration	National	Pubs
London Marathon	21 March	Sports	London	Pubs, Hotels, Restaurants
Good Friday	29 March	Public Holiday	National	Pubs, Hotels, Restaurants
Easter Monday	1 April	Public Holiday	National	Pubs, Hotels, Restaurants
The Grand National	11 April - 13 April	Sports	North West	Pubs, Hotels
Bruce Springsteen Tour	5 May	Entertainment	Cardiff	Pubs, Hotels, Restaurants
Early May Bank Holiday	6 May	Public Holiday	National	Pubs, Hotels, Restaurants
May Bank Holiday	27 May	Public Holiday	National	Pubs, Hotels, Restaurants
ICC Men's T20 World Cup (Cricket)	1 June	Sports	National	Pubs
Liam Gallagher Definitely Maybe 30 Years Tour	3 June	Entertainment	Cardiff	Pubs, Hotels, Restaurants

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Dates for the Diary (Continued)

Sports | Celebration | Public Holiday | Entertainment | Pubs | Hotels | Restaurants

Event	Date	Type	Region	Sector
Liam Gallagher Definitely Maybe 30 Years Tour	6 June - 11 June	Entertainment	London	Pubs, Hotels, Restaurants
Taylor Swift The Era's Tour	7 - 9 June	Entertainment	Edinburgh	Pubs, Hotels, Restaurants
Taylor Swift The Era's Tour	13 -15 June	Entertainment	Liverpool	Pubs, Hotels, Restaurants
Liam Gallagher Definitely Maybe 30 Years Tour	15 June - 16 June	Entertainment	Manchester	Pubs, Hotels, Restaurants
Father's Day	16 June	Celebration	National	Pubs, Hotels, Restaurants
UEFA Euro 2024	16 June - 14 July	Sports	National	Pubs
Taylor Swift The Era's Tour	18 June	Entertainment	Cardif	Pubs, Hotels, Restaurants
Taylor Swift The Era's Tour	21 June - 23 June	Entertainment	London	Pubs, Hotels, Restaurants
Glastonbury Festival	26 June - 30 June	Entertainment	Somerset	Pubs, Hotels, Restaurants
Liam Gallagher Definitely Maybe 30 Years Tour	27 June - 28 June	Entertainment	Manchester	Pubs, Hotels, Restaurants
ICC Men's T20 World Cup (Cricket) Final	29 June	Sports	National	Pubs
Tour de France (Cycling)	29 June - 20 July	Sports	National	Pubs
The Championships, Wimbledon 2024	1 July - 14 July	Sports	London / National	Pubs, Hotels, Restaurants
British Grand Prix	7 July	Sports	National / Silverstone	Pubs, Hotels
The Championships, Wimbledon Women's Singles Final	13 July	Sports	London / National	Pubs, Hotels, Restaurants

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Dates for the Diary (Continued)

Sports Celebration Public Holiday Entertainment Pubs Hotels Restaurants

Event	Date	Type	Region	Sector
The Championships, Wimbledon Men's Singles Final	14 July		London / National	
UEFA Euro 2024 Final	14 July		National	
Bruce Springsteen Tour	25 July - 27 July		London	
Paris 2024, Summer Olympic Games	26 July - 11 August		National	
Taylor Swift The Era's Tour	15 August - 20 August		London	
Reading and Leeds festivals	23 August - 25 August		Reading / Leeds	
Summer Bank Holiday	26 August		National	
Paris 2024, Summer Paralympic Games	28 August - 8 September		National	

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Conquer the Day

Reach greater heights with Fourth's AI-driven Workforce and Inventory Management Platform, empowering you to build loyal teams, overcome tight margins, and deliver exceptional customer service.

We are a leader in data-driven workforce and inventory technology for the retail, restaurant, and hospitality sectors Proudly serving 15,000 customers across 100,000 sites globally, with 2.5m users.

To discover how we can help you to simplify your operations and boost efficiency and profitability, please get in touch.

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