Fourth

The Hospitality Workforce Update

August 2023

Employee experience grows in importance as costs soar

Contents

What is 'normal'?

Over the last three years, our industry has grappled with a depleted workforce, border restrictions, a global pandemic, an energy crisis, and now we have cost of living restrictions as well. Not one of the trends that popped up against that backdrop and was subsequently labelled the 'new normal' has stuck – so who's to say what 'normal' is any more? We *can* say that demand volatility and labour shortages are (unfortunately) two trends set to continue throughout 2023 and into next year.

Fourth's latest research, presented in this report, shows that UK headcount is down for the first time since 2021 when the furlough scheme ended and Deloitte predicts that labour shortages will continue into 2025. Meanwhile, fluctuations in demand caused by unseasonal weather, changing consumer behaviours and the cost of living crisis mean most operators have a rocky understanding of what demand really is right now. Many are exploring advanced forecasting solutions to help them run more efficiently and remove pressure from a workforce that has had to pick up the slack of vacancies. Despite soaring venue closures in some sectors, hours worked by employees across UK hospitality are at 105% of last years' level.

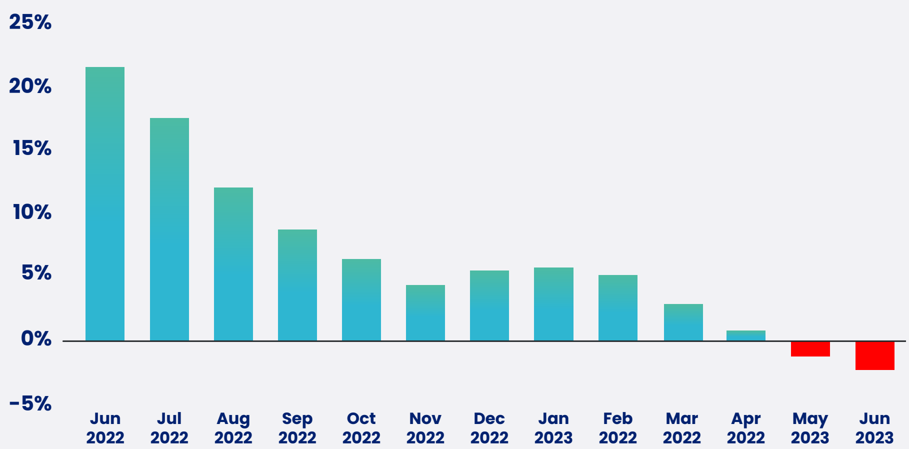
Against a backdrop of ongoing uncertainty, a trained and engaged workforce is a high value asset – and operators are making moves to protect it. Most recognise that putting more pressure on fewer people isn't the way forward and are embracing innovations to better utilise their staff; matching staffing levels to demand forecasts, automating scheduling and shift swapping, and offering flexibility across sites and job roles. Increasing efficiency, reducing burnout and maximising the employee experience is the smart route to optimise through uncertainty. And if the last few years have taught us anything, it's that the unexpected is the only thing we can expect.

Sebastien Sepierre,
Fourth Managing Director – EMEA

Key themes of 2023

In the [Hospitality Workforce Report published in Q4 2022](), we highlighted a trend towards decreased headcount in pubs. As of June, that is now replicated across restaurants and hotels, with headcount industry-wide down 2.4% compared to June of last year. This marks the first industry-wide drop since 2021 when the furlough scheme ended.

Figure 1: Headcount growth industry wide



> ***QSR is the exception to the trend towards declining headcount, it's up 3.9% in the year to June***

Quick service restaurants (QSR) are the notable exception to this trend and are helping to buoy industry numbers. Headcount in QSR grew 3.9% in the twelve months through to June. "We're definitely seeing quick service continue to expand," says Fourth's Customer Success Director, Adam Dattis. "Takeaways still appeal, even during a cost of living crisis. We know people aren't going out as much, they're more inclined to treat themselves at home."

> ***"Takeaways still appeal, even during a cost of living crisis. We know people aren't going out as much, they're more inclined to treat themselves at home."***

While labour shortages are an ongoing theme with 9% of roles vacant, headcount decreases in pubs, restaurants and hotels are at least partially attributable to a loss of venues. CGA puts closures through to March of this year at just over 12 venues a day. "There's a lot of brand consolidation at the moment," notes Adam Dattis, "Consolidating investment in performing brands and locations, and streamlining unprofitable ones is a trend that will persist as volatile consumer demand, soaring interest rates and fluctuating raw materials costs continue to plague operators."

> ***...hours worked by employees across the industry are now at 105% compared to the same period last year***

A shrinking workforce has put increased pressure on individuals, and hours worked by employees across the industry are now at 105% compared to the same period last year. This is a rise across all sectors except pubs, which have maintained productivity; hours worked by employees in this sector are 99% compared to June 2022.

As in most industries, cost increases are a prevalent theme for hospitality. Despite Government intervention, energy bills rose by 81% in the year to May and many in the industry have cited ongoing concerns around the cost of energy, with nearly 33% of operators labelling it their main concern going into the second half of the year. August also saw an increase in interest rates – an additional pressure for debt-burdened operators – and the introduction of new duties on alcohol that will increase prices for consumers already grappling with the rising cost of living.

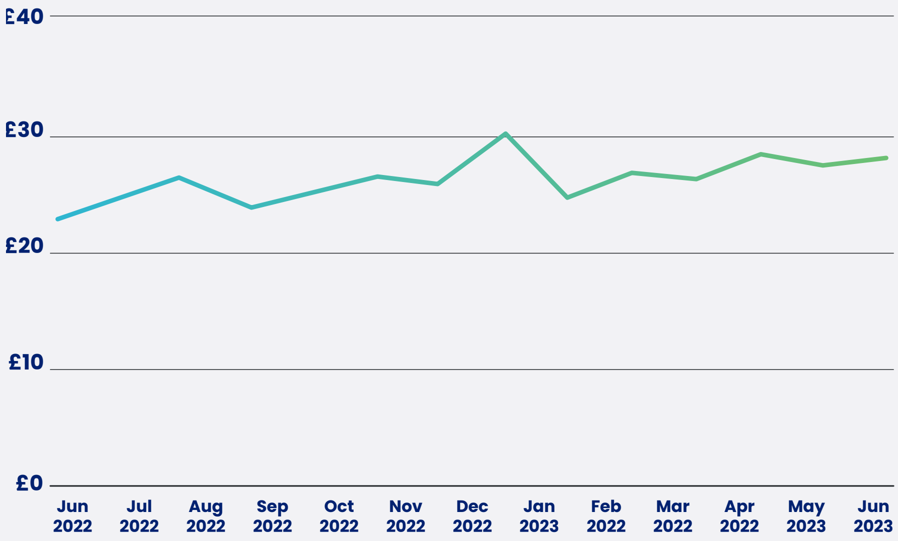
There is evidence that operators have been careful to avoid passing on all rising costs to consumers where they can. According to the Office of National Statistics (ONS), prices for food and drink (F&B) in cafes and restaurants increased by 9.1% in the year to June, yet fresh food inflation for the same period sat at 15.7%. Inflation on fresh food has since slowed to 14.3% in July, its lowest rate since November.

"Necessity breeds creativity," comments Fourth Managing Director – EMEA, Sebastien Sepierre, "Operators have been working closely with suppliers and logistics companies to understand where they can derive value, but eventually suppliers will have to pass on raw product cost inflation to operators, who will need to find a way to either remove those products altogether or decrease their usage."

To deep dive into the rising costs of F&B, their impact on profit margins and how operators are maximising inventory efficiency to combat it, check out our **latest report on the impact of supply chain fragility.**

Sales per labour hour, a key measure of productivity, is up 13% in the year through to June. While price increases at the till are a contributing factor, this growth is unlikely to be just down to inflation since F&B inflation has tracked at 9.1%. Record UK wage growth from April to June could have been another driver. Regular pay during this period increased by 7.8%, which goes some way towards explaining why the hospitality workforce is running leaner than it was last year.

Figure 2: Sales per labour hour



Running lean

Increasing efficiency and 'doing more with less' have been persistent themes within hospitality for the last decade. This year has marked a change in that strategy, with an increased number of operators seeking to not only leverage technology but get more sophisticated with its use.

> *For many operators, this has created an unstable understanding of what demand is*

Fourth's Customer Success Director, Adam Dattis observes, "Consumer demand is there but it's not fully understood. Demand is unpredictable, driven by factors including unseasonal weather, rapidly changing consumer habits in response to inflation, and nervousness about the long-term impact on disposable income. For many operators, this turbulent demand translates into an increasingly pessimistic view on traditional forecasting stability. Couple this with a highly-mobile workforce attracted by competitive offerings, and leaders are finding themselves fighting fires on multiple fronts. While some in the industry have responded with a risk averse approach, others are embracing transformational projects as the answer."

In short, the industry has turned to data, explains Fourth's Solutions Director, Sophie Waters. "Operators are seeking to create efficiencies with advanced forecasting that can support proactive decisions. If they can spot a trend ahead of time, then they can be proactive, rather than reactive."

The ability to accurately forecast demand has wide reaching implications. For one, it allows operators to move away from traditional, prescriptive strategies for scheduling staff. "The practice of defining headcount for certain events throughout the day – we need three people on for open, five across the lunch rush, two on at close – is a common cause of overstaffing and it is eating into already squeezed margins," explains Sophie Waters. "Operators increasingly understand that an investment in data infrastructure will enable them to forecast demand and match resources to it, scheduling the right staff, in the right place, at the right time."

Operators are seeking to create efficiencies with advanced forecasting that can support proactive decisions.

> ***The value of data initiatives increase exponentially when it comes to growth in a volatile market***

Managing down labour by creating efficiencies with data doesn't just extend to forecasting. For example, disseminating data entry by allowing employees to update their own personal information – such as email addresses – or swap shifts with manager approval, takes a significant amount of labour off administrators and managers, in turn freeing them to complete other tasks.

Ensuring data quality

Increasing reliance on data to generate efficiencies, however, poses challenges around its collection and quality control. "Forecasts are only as good as the data available," explains Adam Dattis. "And that can be problematic for those with inexperienced staff or legacy infrastructure."

He suggested that operators intending to increase their investment in data look inwardly and define strategies to enforce data collection. If they're relying on managers to input data, then what are the associated quality control procedures? Are quality controls transparent and compliant? Are they reinforcing managers' responsibility to upload data quickly and check it's correct?

Sophie Waters notes that hotel groups are among the most data mature in the industry, "These are the businesses that have historically placed high value on data collection and quality. The large hotel operators make data a key part of their managers' morning meeting, going through yesterday's data and reviewing forecasting as a group. This encourages timely data entry, adds accountability and means managers understand and trust forecast recommendations."

Forecasts are only as good as the data available.

Case study: Wagamama gets smart with scheduling to maximise profits

British restaurant chain Wagamama's employs 5100 people, a figure that is constantly growing as it opens up new restaurants. The management team were seeking to centralise operations, reducing administrative requirements when making changes at a restaurant level, ensuring continuity across the network and guaranteeing an exceptional customer experience.

Wagamama initially leveraged Fourth's Labour and Inventory software to forecast demand, schedule staff and streamline the inventory lifecycle, before expanding its use to include Fourth Analytics, as well.

Results

The restaurant chain cites smart rotas as a cornerstone of its labour strategy, enabling it to have the right people, in the right place, at the right time. It sees Fourth as a foundation of that, giving managers the tool kit to anticipate demand and schedule accordingly so they can maximise efficiency and profitability.

Analytics is similarly important, allowing teams to pull and interpret data easily. General Managers, Head Chefs and management teams throughout the business now rely on the solution to drill down and understand emerging trends. This focus on data enabled Wagamama to identify rising demand later into the night and adapt opening hours to capitalise on that.

"What works for us with Fourth is that there's a real understanding of the restaurant business, and that's obvious when you look at something like Fourth Analytics, which gives us exactly what we need. It's not a retail system that's been bodged to work in restaurants – and the same is true of other solutions as well."

David Campbell
Former CEO, Wagamama

The value of managers

Customer experience was a familiar topic in the year following the pandemic. Accelerated hiring meant opportunities for training were limited, and the resulting poor customer experience was a common problem discussed at length – both within and outside the industry.

> ***Customer satisfaction for the sector was down 1.8 points in July compared to the year before***

While it is no longer taking up column inches, customer satisfaction continues to wane. July figures from the Institute of Customer Service (ICS), which assigns scores for customer satisfaction to members across thirteen sectors, noted a decrease in customer satisfaction across all sectors. Leisure – predominantly made up of QSR, but also featuring independent restaurants and facilities such as cinemas – charted a sizable fall. Customer satisfaction for the sector was down 1.8 points in July compared to the year before.

While far from a workforce indicator, customer experience is known to be correlated with employee experience. The ICS has noted that brands with high levels of customer satisfaction routinely achieve better financial results, reducing the resources associated with handling issues and complaints, enhancing productivity and cultivating brand trust.

With labour shortages expected to continue into 2025, staff satisfaction and retention remains a priority for operators. Most brands know and understand the importance of maximising the employee experience. Today's market is a worker's market, and a loyal, happy workforce could prove to be a competitive differentiator – particularly during a period when customer satisfaction more generally is limited.

...labour shortages expected to continue into 2025

Many operators are putting managers at the centre of their retention strategies. With responsibility for training, scheduling and support, managers can have a significant impact on satisfaction among the rest of the workforce; [57% of UK hospitality workers] say a good manager is key to whether they remain in their role or not. These individuals also typically act as a repository for organisational knowledge on topics such as compliance, scheduling and demand.

"We are seeing a two-pronged strategy to retaining managers," explains Sebastien Sepierre, managing director – EMEA. "Operators know they need to encourage brand loyalty and instil clear paths for career progression, particularly at a time when competition for experienced workers is so high. They're also seeking to remove some of the administrative burden that typically falls to these roles, freeing up managers to focus on maximising employee experience and customer satisfaction."

> ***57% of UK hospitality workers say a good manager is key to whether they remain in their role or not***

It has long been known that hospitality managers are spending considerable time per week on administrative tasks and nearly [two in five restaurants] say they plan to automate operational activities this year to create staffing efficiencies. It's an initiative that could significantly reduce labour spend.

"Automating tasks removes a lot of the mundane day-to-day from managers while mitigating the risks associated with high churn in those positions," notes Sebastien Sepierre. "A lot of organisational knowledge sits with managers and is at risk of being lost when they leave. By incorporating these learnings into the automation, operators can ensure they retain this information while also reducing the learning curve for those onboarding into manager roles in the future."

Increasing the level of automation will inevitably free up managers, but it does add another facet to their role. While managers are no longer manually generating outputs, they will likely have a significant impact on data input. "Operators shouldn't overlook the importance of engaging managers with the roll-out of any new automation or additional functionality," advises Sebastien Sepierre. "They're critical to successful adoption. Managers need to be accountable for inputting accurate, timely information into the systems and reviewing it frequently against performance indicators."

Many operators are putting managers at the centre of their retention strategies.

Fourth

Case study: Five star scheduling makes for a five star service at Four Seasons

FOUR SEASONS
HOTEL
LONDON AT PARK LANE

The Four Seasons Hotel Group at London Park lane is known for exemplary service. So, when rigid scheduling restraints and volatile demand left them routinely over and understaffed, they turned to Fourth's Workforce Management platform to solve the problem.

Results

With Fourth's forecasting model, managers were able to understand demand and leverage these insights to adapt minimum staffing levels.

Cross departmental collaboration quickly became a core feature of the Four Seasons' labour strategy, thanks to Fourth's Scheduling tool. Replacing a cumbersome, legacy process that took managers hours, automated scheduling saved the team a huge amount of time while enabling them to employ a sophisticated, collaborative labour model.

It was a far cry from the inflexible, manual process managers had always known and staff benefited from secure working patterns, greater flexibility around shift swapping, and appropriately resourced shifts.

Department heads were able to report weekly to finance for the first time, encouraging discussions around how the labour model could be continuously shaped to achieve peak productivity while optimising costs.

> "A labour management solution is not about cutting labour, but improving the management of your labour, fitting your labour model to your business to deliver the best service to your guests and, at the same time, the best return to your owners."
>
> **Matthias Cocuron**
> Regional Director of Finance, Four Seasons

Catering to a multi-generational workforce

While labour shortages and the cost of living crisis create a unique set of challenges, they also present unique opportunities for hospitality.

> ***Q4 2022 saw 4 million hospitality job applications, 27% were seeking additional income***

The cost of living crisis has helped to drive demand for hospitality roles. Q4 of last year saw an estimated 4 million job applications, with 27% of applicants thought to be seeking roles as a means of securing additional income. This is far from a phenomenon limited to the younger generation. Around a quarter of the UK's hospitality workforce is estimated to be over 50, with many seeking additional work to top up their pensions.

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Four very different generations

For the first time in history, the workforce is now made up of four generations. The rise of the internet and the resulting digitalisation has helped to perpetuate differences between – and sometimes within – those generations.

- **Baby Boomers**, born between 1946 and 1964: Responsible for the term 'workaholic', Boomers are typically hierarchical and value workplace visibility.
- **Generation X**, born between 1965 and 1980: This generation had a front row seat to some of the biggest innovations of the last century and are tech savvy. They value work-life balance and are typically independent, preferring to work autonomously.
- **Millennials**, born between 1981 and 1996: Millennials are the largest segment of the global workforce. A sense of belonging, work-life balance and career progression are all important to this generation. They are early tech adopters and have high expectations of employers when it comes to technology.
- **Generation Z**, born between 1997 and 2012: The majority of this generation are not yet in full-time work. They are thought to be motivated by work-life balance, convenience and a positive culture. They have higher expectations of employee experience than previous generations.

Engaging an age diverse workforce

As the industry increasingly embraces data and technology to support front of house staff, operators need to consider diversity within the workforce and how new technologies impact employee experience.

> ***35% of hospitality workers have witnessed age discrimination in the workplace***

"Platforms that are designed to engage younger generations risk ostracising older employees," explains Managing Director – EMEA, Sebastien Sepierre. "At best, you end up with expensive tech that only half your team uses. At worst, you create an environment where older employees feel unwelcome and leave."

A 2023 report into inclusivity in the sector found that 35% of hospitality workers had witnessed age discrimination in the workplace, with age bias the third most reported form of discrimination after gender and race.

"Promoting inclusion in the hospitality workforce is a multifaceted challenge," says Sebastien Sepierre. "But the contribution of technology solutions to that overall picture is often overlooked. The tech staff are required to use, and how easy it is for everyone to master, can have a huge impact on addressing unhelpful stereotypes – or perpetuating them."

A study of US employees last year found that Gen Z were frustrated at being required to provide tech support to older colleagues, with a quarter stating that it prevents them from doing their own work.

"Platforms that are designed for a narrow range of users inevitably create a divide within the workforce," points out Sebastien Sepierre. "Employees with an affinity for these platforms resent having to support those that struggle to use them. While those who don't find the tech intuitive are equally frustrated at needing the help, and are less likely to fully adopt them."

> ***Platforms that are designed for a narrow range of users inevitably create a divide within the workforce***

He recommends that operators source uncomplicated technology solutions that can serve a broad user base. The latest app might look swish, but will it alienate large portions of the workforce? Do core features mirror useability employees will be familiar with, like social media platforms? Do solutions have a full suite of features, or will it mean workers are required to get to grips with multiple apps and platforms?

"Ultimately, it is a positive employee experience that is most important to staff, regardless of their age" says Sebastien Sepierre. "And tech solutions should be an important consideration for any operator seeking to optimise theirs."

Conclusion

The story of hospitality so far has been one of stretched margins and skyrocketing costs. With interest rates rising, new alcohol duties, and energy costs set to increase as we head into the cooler months, efficiency has never been more important.

> ***The reality of labour shortages and waning customer satisfaction shouldn't be downplayed***

This is driving a greater reliance on data, with operators seeking to understand volatile demand and deploy their resources most effectively. But it brings with it a new set of challenges, and operators must be confident of the processes they have in place to ensure timely and accurate data collection from across the business.

> ***...understanding how to engage and retain an increasingly diverse workforce will be key to the success of many brands throughout 2023***

The reality of labour shortages and waning customer satisfaction shouldn't be downplayed, and a highly engaged workforce is fast becoming a competitive differentiator. With headcount falling, operators are expecting more from employees, and understanding how to engage and retain an increasingly diverse workforce will be key to the success of many brands throughout 2023 and into next year.

Contributors to this report

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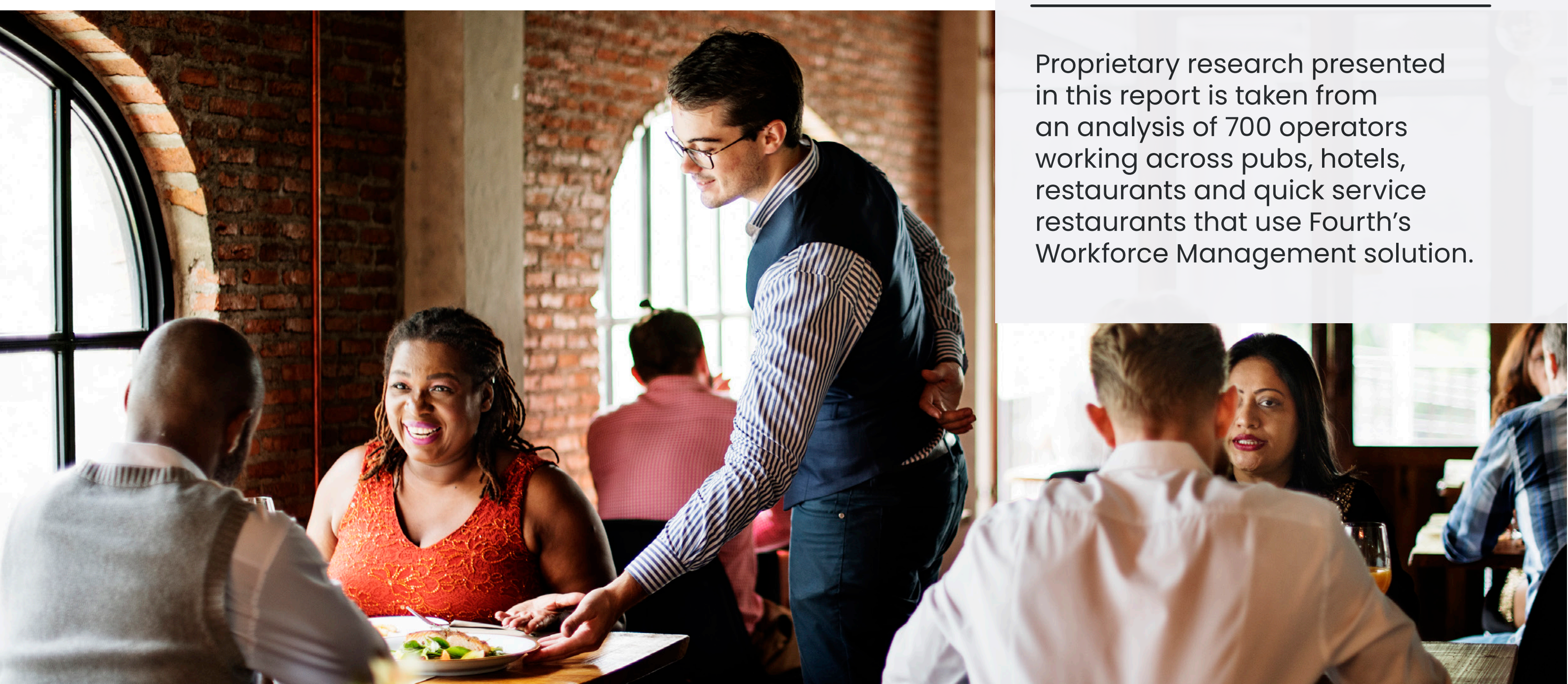
Proprietary research presented in this report is taken from an analysis of 700 operators working across pubs, hotels, restaurants and quick service restaurants that use Fourth's Workforce Management solution.



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