Hospitality Industry in Review; What Have We Learned?

As we gear up for industry reopening we should ask ourselves; What really happened in the industry in 2020, and what can we learn?

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Introduction

In February 2020, a selection of the industry's leading figures joined for the launch of CGA's annual Business Leaders Survey. At the time, workforce planning was listed as one of the major challenges our industry was facing.

The rising cost of labour, driven by the government's legislative increases to NLW and competition for the best workers, a shortage of skilled back-of-house team members, the churn of labour, and a shrinking pool of talent driven by Brexit - all presented a sizeable challenge for the year ahead. Little did we know, these pain points would be eclipsed in a matter of days by the Covid-19 pandemic, a situation that has fundamentally changed the hospitality landscape and the way we operate.

In this white paper we shed light on exactly what happened to the hospitality sector during this time. We've collated detailed datasets highlighting the challenges faced by the industry, and how operators have dealt with the situation at hand. We'll show you what's changed, and what aspects we predict will stay long into the industry's recovery and may even change the way the sector does business in the years to come.

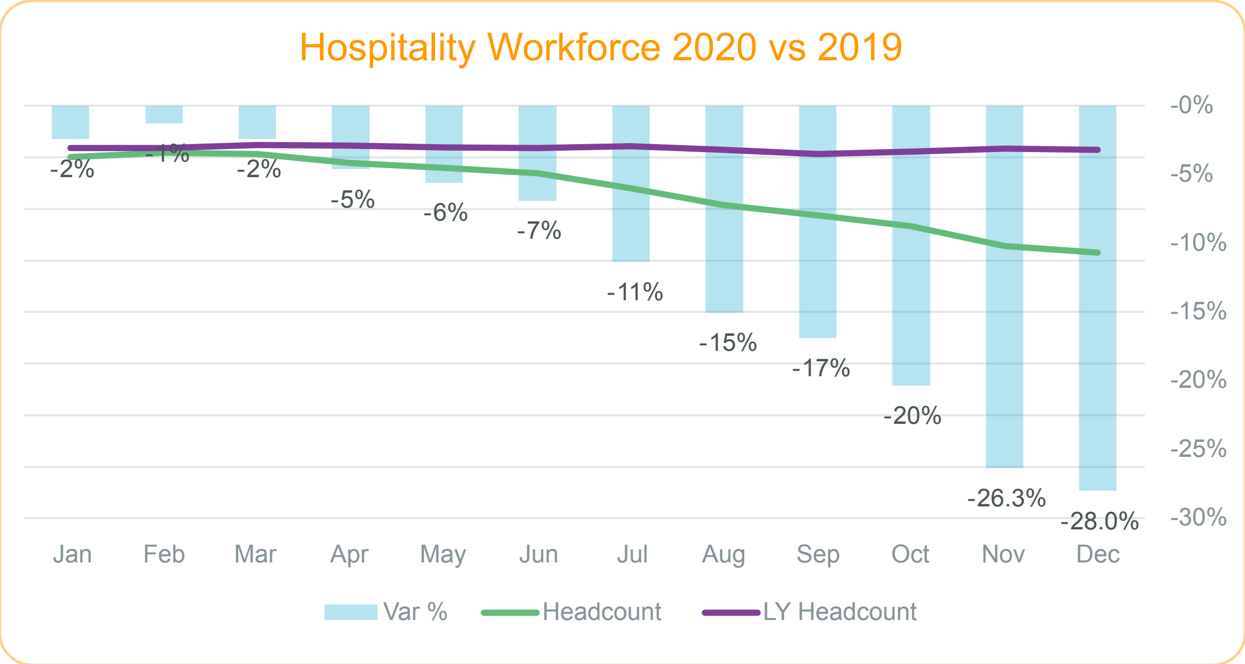
From increased food wastage to an over-reliance on key team members, the pandemic has generated a number of negative knock-on consequences for operators. Against a backdrop of fluctuating demand and ever-changing rules and regulations, there has been a requirement for operators to streamline teams and reduce menus in order to drive efficiencies. From increased cross-training and upskilling requirements for staff members, to the mass-acceptance of technology-led operations to provide significant margin-safeguarding effects, there are positive key-learnings to take forward as hospitality looks ahead to a post-pandemic world.

What happened during 2020?

Workforce

The UK hospitality industry has been one of the worst hit by the global Covid-19 pandemic, in terms of number of job losses and business closures.

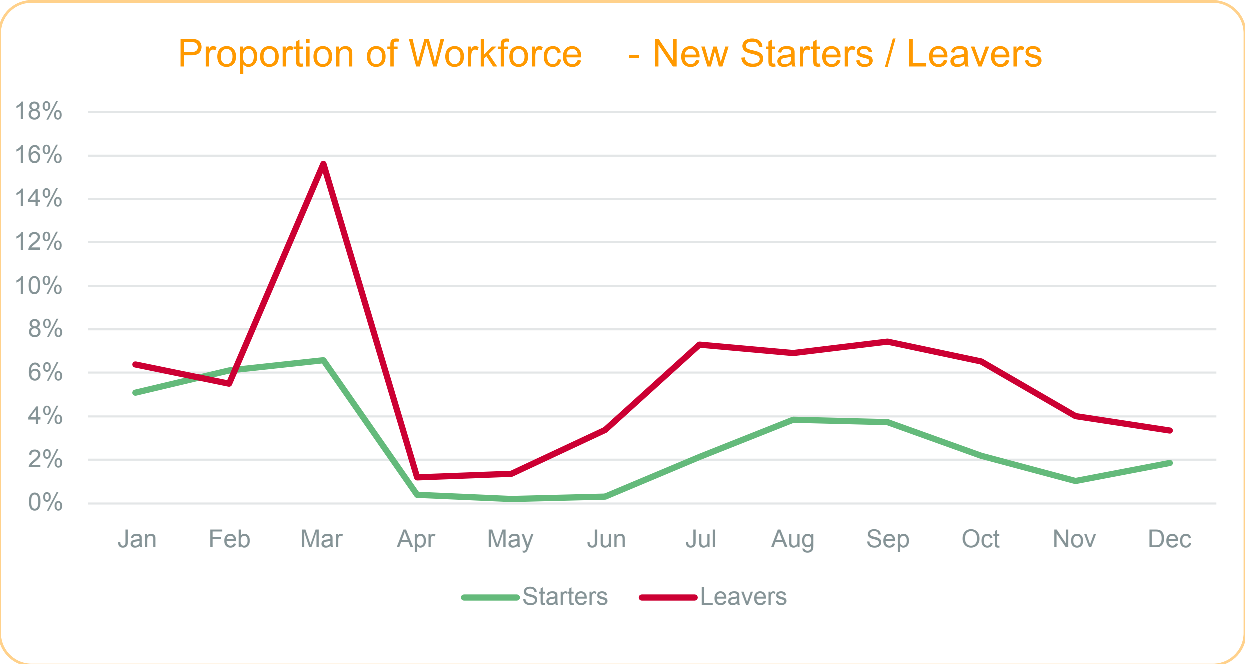
For the ten months from March 2020 to January 2021 the number of people employed in the industry contracted by 28%. This equates to around 700,000 jobs lost across the sector.



First lockdown

The impact on businesses and jobs was immediate, with 16% of employees losing their jobs by the end of March 2020 – the start of the first UK lockdown. This is in contrast with the typical leavers levels in the sector, where in a typical month around 5% of the workforce “leave” their current employer.

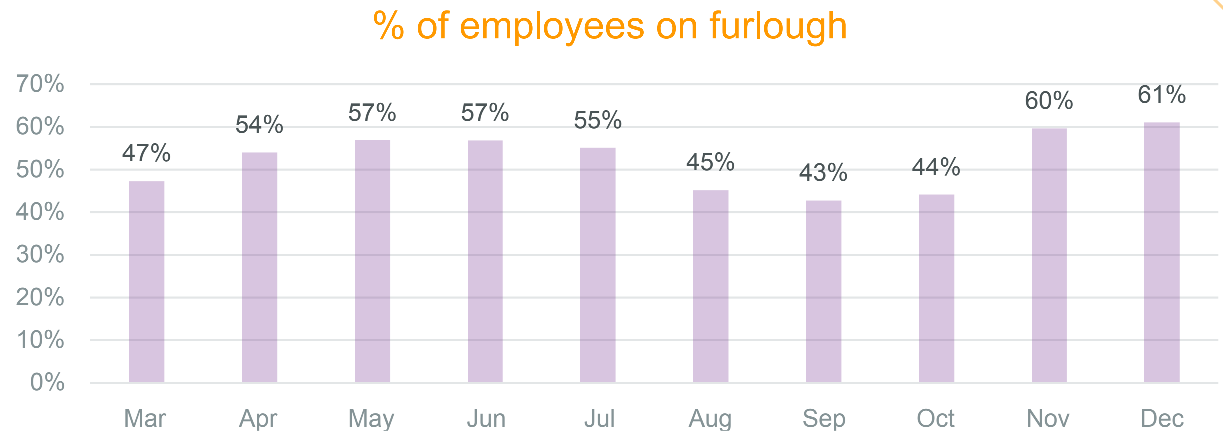
The hospitality industry is unique in the sense that the workforce does tend to be more transient than in other industries, moving between working opportunities at a higher frequency. Even so, the percentage of employees leaving the industry in March was three times higher than normal. A figure which only takes into account seven days of the mandated initial lockdown.



As the number of people losing their jobs increased, recruitment inevitably fell dramatically. The number of new starters from the month of March to April fell by 95% as employers ceased recruitment, shut up shop and focused on preserving cashflow.

The introduction of the furlough job retention scheme in April, which allowed employers to claim up to 80% of an employee's usual salary for hours not worked, was a lifeline for the sector and helped businesses retain more cash as the government paid at least one million hospitality workers who were entered onto the scheme.

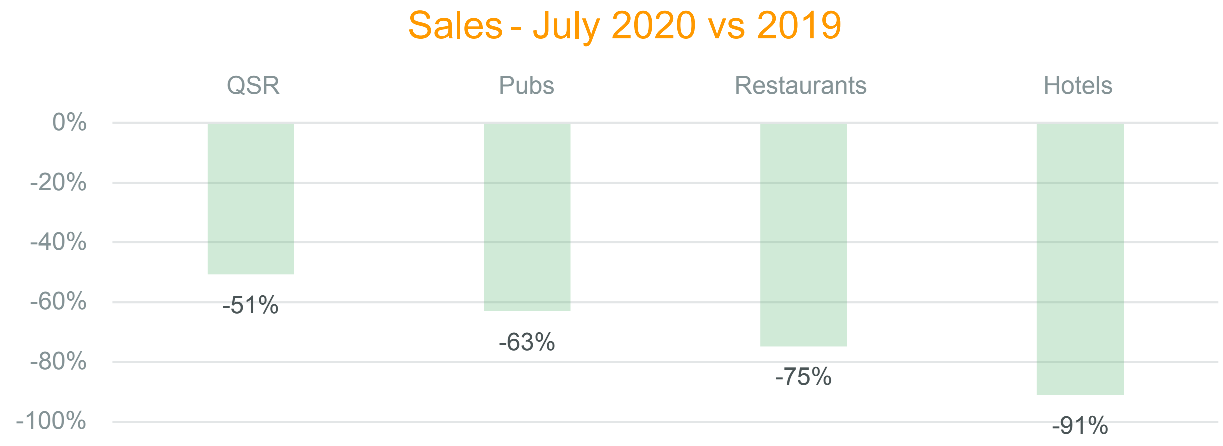
The Coronavirus Job Retention Scheme (CJRS)



The CJRS certainly saved many jobs in the sector. As lockdown continued from April and May into June, news across the sector of businesses fighting to meet fixed costs and overheads further impacted cashflows and financial stability, evident in the growing number of businesses entering administration, estate reduction and CVAs. When combined with larger redundancy programmes, typically taking around three months to complete, a second peak of employees lost their jobs at the end of June and July, although this figure was much lower than the previous loss experienced at the start of the first lockdown.

Sales

During the first lockdown, sales across the industry fell dramatically, as most operators closed, and those who remained open only provided delivery and click & collect services. Total sales in April, the first full month of lockdown, were 95% lower than the year before. With the exception of Quick Service Restaurants (QSR), which saw sales fall to a lesser extent, most of the industry's recovery didn't start until July 2020, when restrictions were relaxed and sites were allowed to reopen, provided that strict and safe guidelines were adhered to. In the month of July, sales were down 75% for the sector, with Hotels almost taking no revenue (91%), followed by Restaurants (75%), Pubs (63%) and QSR (50%).



July reopening

The industry needed a shot in the arm of its own, which came in the form of the government backed discount scheme, Eat Out to Help Out (EOHO), the first of its kind. The scheme focused on persuading the general public to go out and support their favourite pubs and restaurants, while enjoying a 50% discount on food and soft drinks purchased from Monday to Wednesday.

The EOHO scheme was widely praised across the industry and was successful; sales increased from Monday to Wednesday while, crucially, not cannibalising peak weekend trade, therefore boosting sales across the entire weeks through August. Sales increased week-on-week throughout the month, cumulating on the August bank holiday weekend when, accompanied with sunny weather, there was anecdotal evidence to suggest that some pub operators surpassed their prior year sales for the week.

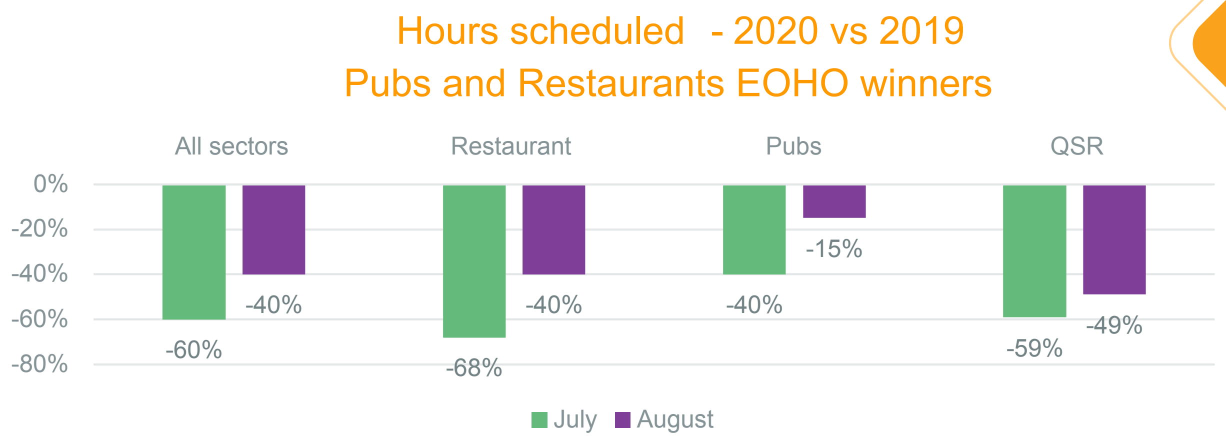
As a result of the increase in footfall and sales, scheduling increased in the month of August, as well as a resurgence in recruitment, where starters were double the amount in July; new starters made up 4% of the workforce in August versus 2% in July.

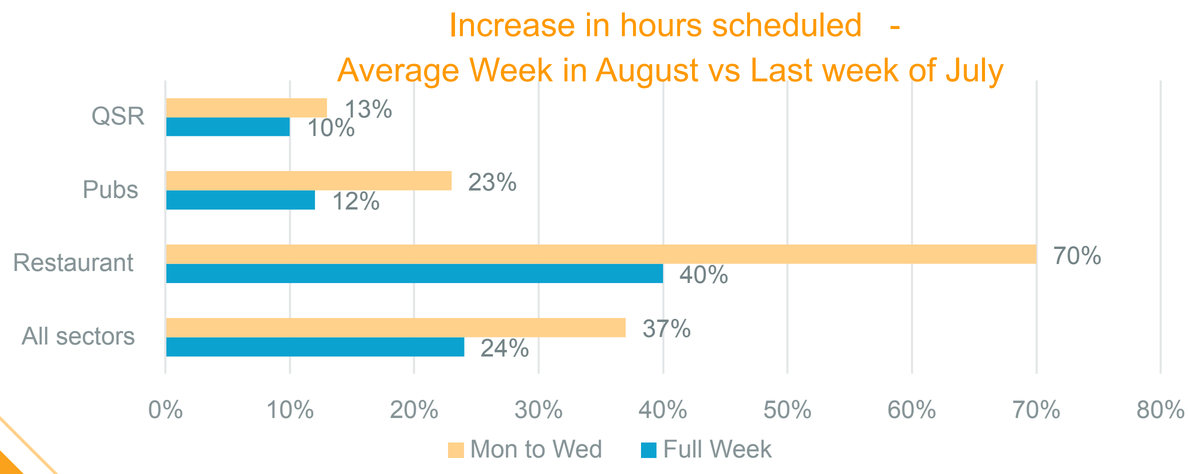
Employee Scheduling (hours worked):

The cost reduction requirement for many businesses meant that after the March lockdown, and prior to EOHO, the hospitality sector saw scheduled employee hours around 60% less compared with the same time a year before.

As the EOHO scheme took hold, and demand across the sector increased, there was a mild increase in scheduled hours, increasing by an average of 50% across August. This was still significantly behind normal activity, continuing to schedule 40% less working hours than the prior year. The evidence still showed that the increased demand for eating out enabled more people to return to work and gave renewed customer confidence and appreciation for the hospitality industry.

Pubs enjoyed a strong summer in comparison to their sector counterparts, with only 15% lower scheduled hours than the prior year, as they benefited from the mid-week discount on non-alcoholic beverages and food. Restaurant hours almost doubled from July to August, only 40% down in August versus the prior year, compared with 68% down in July. QSR businesses bucked this trend however, seeing only a modest increase in scheduled hours. Although the overall impact on QSR businesses was less negative than other sector segments.





Second lockdown

At the end of the summer and the end of the EOHO scheme, the industry looked on nervously at the Autumn months ahead. As children returned to schools and the weather started to turn cooler, the industry knew sales would begin to fall, but not by how much.

Remarkably, customers continued to eat out despite the removal of the 50% discount, with sales in the month of September 44% down versus the prior year – a figure nearly double two months prior, when the industry reopened. The number of hours worked in September were 67% higher than in July and marginally higher than in August, indicating that operators adjusted to the new trading conditions.

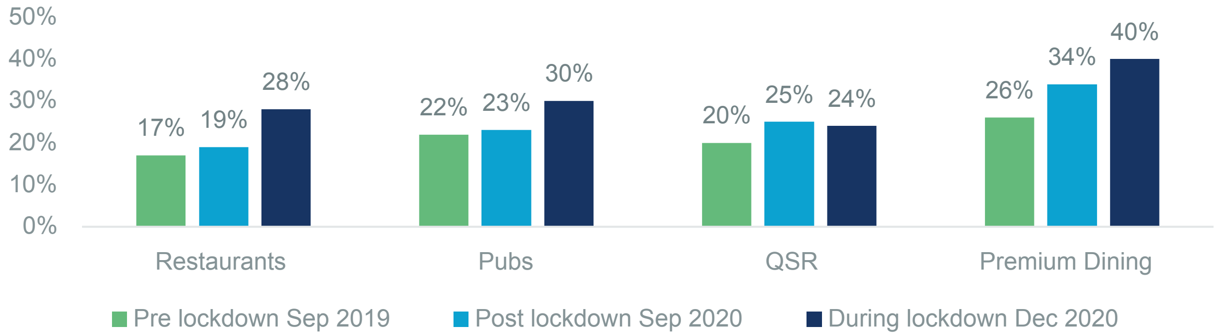
As the CJRS scheme started to wind down, employers had to put more in. The government wage contribution went from 80% in August, to 70% from 1 September, then 60% from 1 October, with the scheme finally ending on the 31 October. With 44% of the workforce still on furlough, there was increasing fear that a second spike of job losses and redundancies was imminent. This fear was laid to rest when the government announced an extension of the JRS, with 80% of wages being paid out until the end of April; however, this earmarked the beginning of further actions by the government to tackle increases in Covid-19 cases, in the form of regionally tiered restrictions which would cause further pressure on the sector.

The Prime Minister announced a four-week period of lockdown from the 5 November, where pubs and restaurants would have to close, but takeaway and click & collect would still be possible. As a result, total sales in November fell to 30% of the sales taken in October and scheduling dropped by around 50%, which meant that operators were taking less sales per hour worked.

As a result of the second lockdown restrictions, the number of people on furlough increased by a third from October to November, with 60% of employees on furlough status. The rules meant that employees could work and furlough flexibly, however an analysis of hours worked suggested that average hours remained the same pre- and post-Covid, of eight hours per shift, and only a slight reduction during lockdown trading allowed in December. This suggests that team sizes were reduced, just as supply is balanced to meet demand, but the number of hours worked on average per employee remained similar.

However, deeper analysis of the split between salaried and hourly paid employees shows that it was the hourly employees who were most likely to return to furlough, despite the operational cost being more flexible than fixed salaried staff. Comparing the proportion of hours worked by salaried employees during September 2019, September 2020 and December 2020 (pre, post and during lockdown) the data shows an increase in proportion of hours worked by salaried employees.

Salaried hours as a % total hours worked



Scheduling

One positive outcome from the past year, has been the widespread adoption and acceptance of labour optimisation, with many businesses utilising lockdown and post-trading periods to undertake periods of discovery and enlightenment, testing and trialing the team levels required to operate and deliver their offer at levels lower than previously understood.

Partial realisation of efficiency savings have also emerged through the upskilling and cross training of current workforces. Due to social distancing restrictions, reduced sales and offers, as well as a desire from team members to make themselves more valuable to employers, we have seen duties redistributed to fewer roles, often in order to minimise head count and curb labour spend. This has meant training and investment in a small number of hourly paid and likely salaried workers, to ensure skill sets expand to enable completion of tasks with fewer roles or 'task experts'.

On average, when analysing more than 25 businesses, across the casual dining, pub, QSR, premium full service restaurants and limited service restaurant sectors, the data revealed that hourly paid hours in September 2020 were 50.5% of those in the same month a year previously. This is compared to salaried hours being 70% of those scheduled last year in the same period. Overall, this demonstrates a 5% swing in weighting towards salaried team as a result of lockdown 1.0. Results of the impact of lockdown 2.0 are distorted by reduced opening hours, heightened restrictions and the impact of local lockdown on a grander scale, but the behaviour remains reasonably static, with a further overall swing of 3% towards salaried worker hours being scheduled.

When looking at the data, the proportion of salaried workers' hours being scheduled, versus hourly paid workers, increased significantly during December 2020. We believe this is driven by two factors: the first being part-time furlough, where the option to schedule partially to contract or regular working hours was utilised; the second factor appears to be maximising the output of the salaried worker with a view to optimising, or rather controlling, labour spend by reducing hourly paid hours from schedules.

The average length of salaried shift team members remained stable through and post lockdowns one and two, indicating an increased expectation on their workload. The reduced opening hour restrictions impacted most of the industry, with many businesses opting to condense their opening hours due to lower footfall, and for cost control purposes. However, when analysing the average shift length from Sept 19, Sept 20 and Dec 20 the data shows us that the figures remained relatively consistent, despite the reduced hours, suggesting that management are tasked with more non- revenue generating tasks which are likely outside of opening hours.

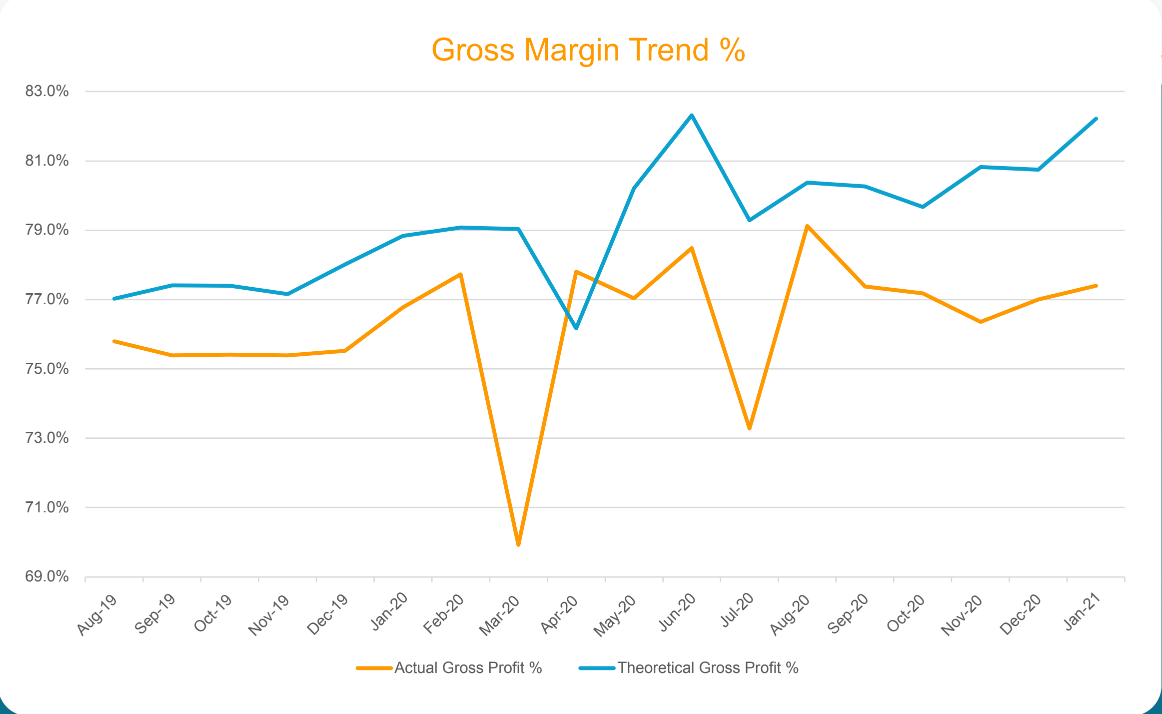
As the industry looks ahead to reopening, it will need to embrace the flexibility of more hourly paid staff as it looks to optimise its labour spend, and build on the progressive trials made during the pandemic. Whether this translates into leaner run businesses through 2021 remains to be seen, but the pressures of operating within the pandemic will likely have led to key learnings and trials about staffing requirements that otherwise wouldn't have occurred.

Profitability

Before the pandemic, operators were delivering on average gross profit margin on sales of around 75% and targeting around 0.5-1.5% higher depending on tightness of controls on over portioning, wastage and shrinkage.

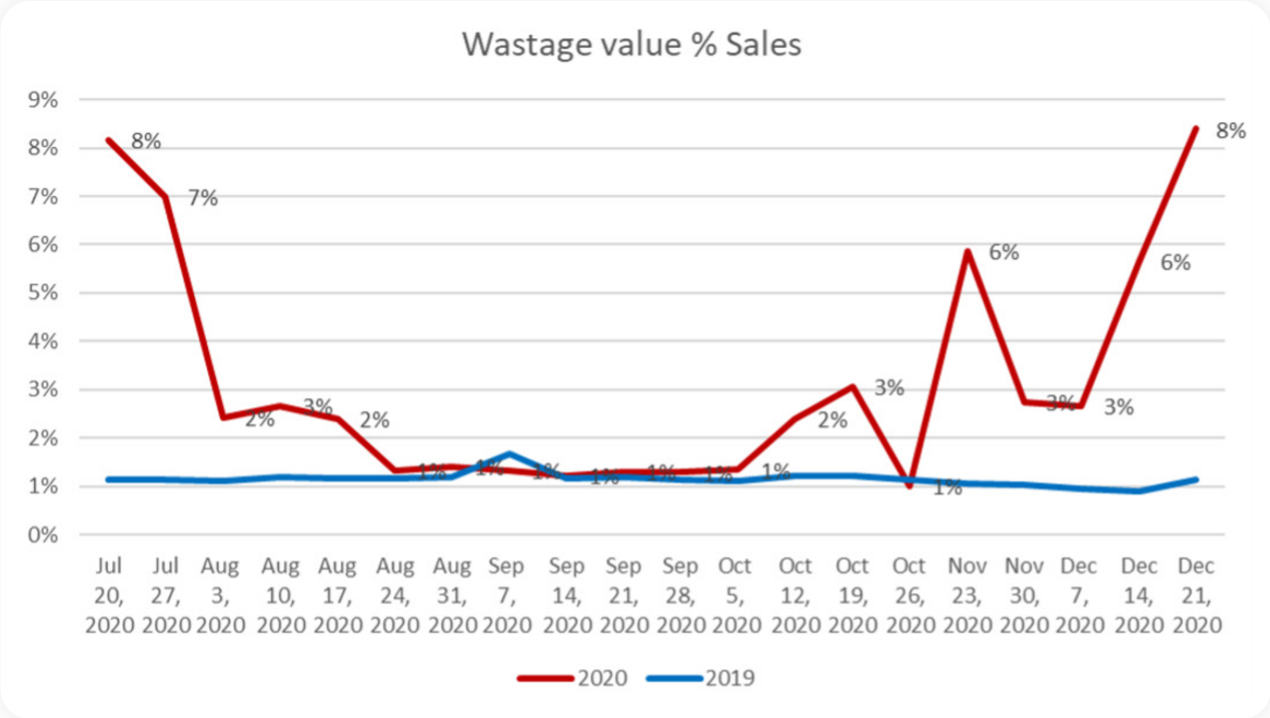
During lockdown, many operators took the opportunity to analyse menus, shake up and remove old favourites, drive efficiencies and higher theoretical margin mix, knowing that every penny in the pound was going to count in future. As a result, gross profit margin for the six months after July 2020 increased to 77%, with a target margin of 80%. However, the gap between actual and theoretical margin has increased from 0.5-1.5% to around 3%, a key contributing factor in a time of unpredictable trading patterns being attributable to wastage. Uncertainty over tighter restrictions and lockdowns in the period between July and December 2020 is evident as a cause of increased wastage (see below), but also wastage has a direct correlation to sales and, with sales being so unpredictable, to forecast it is inevitable that some sites will order surplus stock that ultimately has a finite shelf life.

The ability to be able to forecast demand is essential to controlling cash, in terms of how much stock should be ordered, understanding the channel split between on premise, delivery and C&C sales, and how this impacts the sales mix will help construct the appropriate menu mix and, as a result, lead to a smaller variance between actual and target margin.



Wastage

The chart shows weeks from July (reopening) through to December.



The large amounts of wastage in July, November and December vary between 3-8% which is pretty high. Working on 50% sales versus the prior year, we estimate the average location takings were around £15,000 per week, which suggests up to £1,200 (8%) wastage for some locations, with others likely higher than this average. This demonstrates the impact that uncertainty around opening and lockdowns caused the sector, as they were, and continue to be, particularly challenging to prepare for.

What is positive however, is how quickly those operators manage to bring their wastage ratio back to a "norm", as indicated by the 2019 line, where wastage floats at around 1% of sales.

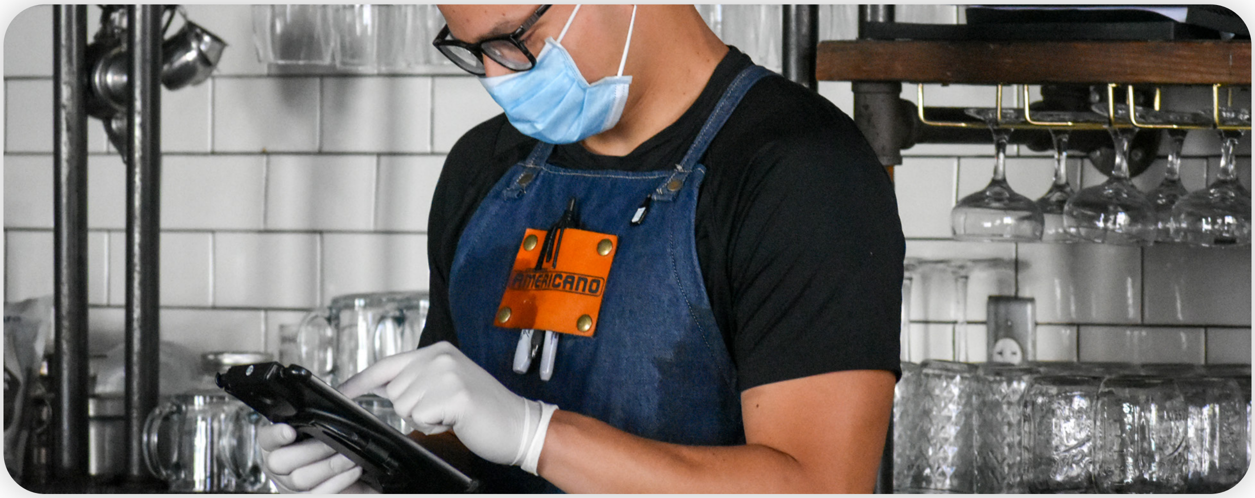
What will 2021 have in store?

As restrictions are lifted, and the industry begins to reopen, there will be a number of challenges for operators to face. Negotiating the fine balance between maintaining margins and providing a quality service that capitalises on the pent-up demand from consumers, will be imperative for operators when opening. Those who adopt a flexible approach to managing their two main costs of labour and product, while retaining an engaged and motivated workforce, will be the ones who succeed best as we look ahead to a post pandemic world.

Scheduling

With the need to control costs as much as possible during a time of economic uncertainty it's easy to reduce staffing as much as possible to safeguard your business' cashflow. This, however, does have some unseen consequences to the wider guest experience, something which will not be noticeable in the immediate financial metrics, but later down the line.

By running at skeleton staffing levels, the risk of hampering your recovery is greater, as reduced staffing impacts the ability to maximise sales and deliver a great guest experience. In a highly competitive market, where consumer expectations and demands have been exacerbated by lockdown, ensuring the optimum number of team members are on per shift to deliver the desired guest experience is crucial to bouncing back better and managing costs, something which can only be achieved with detailed analysis and continual learning.



As operators battled against challenging headwinds, we have seen the use of scheduling deployment tools increase as the industry emerged from lockdowns and operators race to understand where they are over or under-staffed in relation to demand. Any business that learns to adopt a process of 'plan, do, review', regarding scheduling and forecasting now, will optimise their ability to react, refocus and reshape, and capitalise upon reopening trading.

In the midst of the pandemic, many operators turned to their trusted salaried workers and senior team members to undertake more junior tasks. As we look ahead to reopening, it's important this trend is reversed, as this is not best practice for optimising labour spend. We're starting to see this already, as operators reassess their labour spend for the medium term, where workforce flexibility is essential. We expect this trend to continue, with hourly worker utilisation continuing to increase as operators look to streamline and maximise their labour spend through labour optimisation tools, as part of their WFM solution. Hourly worker flexibility will be essential to many businesses' survival and, therefore, it remains a logical option where salaried employees will be identified as excessive for revised sales expectations.

As businesses reopen, and demand returns, greater investment in staff to bring customer experience back to the fore, will separate the successful operators from the pack as consumers will see eating and drinking out of the home as more of an experience than before.

Your Scheduling Checklist

Plan

- Allocate your labour relative to the tasks and duties that require completion by job role. This is especially important when gearing up for reopening.
- Review your staffing start and finish times in line with revised or static opening hours.
- Schedule your peak trading days and sessions first to make sure you have ample coverage at the most crucial trading times.
- Communicate your schedule to your teams at least a week in advance were possible.

Do

- Establish tasks and allocate time for completion. Irrelevant of opening hours, the open and close tasks need to happen.
- Establish any complexities and impact factors. What could 'justifiably' change your agreed plan?
- Communication is key – if teams don't know what we are planning or doing, we cannot expect them to like, understand or support the change when the time comes.
- Constantly look at bookings and pre-booking confirmation to understand demand.

Review

- Be ready and prepared to recruit. Should sales exceed forecast/expectation and stretch team too often, it's important you are ready to start the process swiftly, to ensure delay and impact on sales is minimized.

React

- Consider upskilling your current capable team to undertake additional duties. This short-term outlay should deliver a medium and long-term benefit in efficiency savings, particularly on quieter days and weeks.

Refocus

- Identify what you may need in the near future. Be this skills, behaviours, or availability. Have template adverts ready to go, as prolonged periods of strain on teams can have a direct, negative influence on team turnover, productivity, morale and guest experience.

Reshape

- Are your revised opening hours still applicable and relevant? Reduced operating hours have been necessary recently, but they could be capping sales and driving guests to competitors after reopening.
- Make time to talk to your guests and team. 'what could we have done better for you today?' or pro-actively 'how would you like us to look after you?' as guests take their seat or check in.

Wastage

Wastage increased during 2020, as restrictions wreaked havoc with supply chains, giving operators little time to shift stock. We've seen creative ways for operators to sell stock and recoup some of their initial outlay, with varying degrees of success. 'Cook at home' being one of the success stories, initially aimed at reducing waste and recouping losses, a new revenue stream has blossomed during lockdown measures, as consumers are desperate for premium dining experiences.

As restrictions ease into 2021, we expect to see wastage levels increase in line with a phased reopening, as operators try to predict demand without the previous certainties they once had. We may see some operators reducing menu offerings as a result, focusing on their high-margin and historically most popular dishes in the short term.

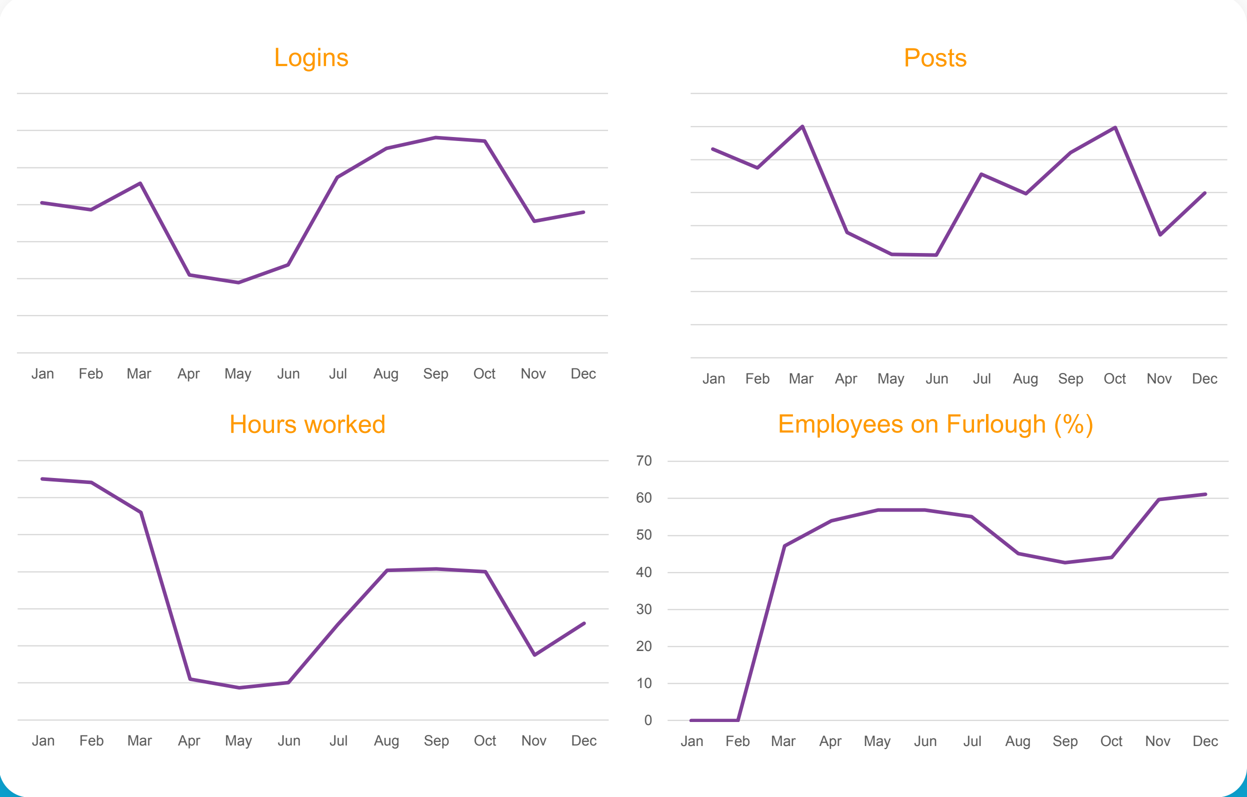
This trend may be exacerbated by Brexit rules beginning to take hold as the demand for fresh produce from overseas increases in line with reopening. But even with these import headwinds, consumer demand will continue to influence menu items for the foreseeable future. It is important, therefore, to double down on an effective feedback loop between your customers' demands and your supplier network, as being able to update your menu quickly, to eliminate food waste and safeguard your sales, will be key to sustainable success.

Employee Engagement

As a result of the lockdown, company culture has been challenged, with employees being driven to new mediums to communicate with each other. But collaboration between employees has continued to thrive with digital collaboration between employees at its highest level after the industry opened following the first lockdown, even compared with pre-pandemic figures.

During the second lockdown, collaboration was at the same level as pre-Covid, despite 60% of the workforce being on furlough, showing that furloughed staff continued to engage with the business even when away. In December 2020, the number of hours worked was 60% lower than January 2020 whereas, by comparison, login activity was only 6% lower. This reduction is most likely due to the increase in the proportion of employees returning to furlough status in November and December.

The benefits that digital engagement platforms provide, for both mass communication and driving positive culture, have been clearly evident during lockdown. As we look ahead to reopening, and businesses turn their attentions to fostering and maintaining a positive culture over the busy months ahead, these channels will play a pivotal role, not just in these coming months, but over the years to come.



Drive efficiencies with technology

The landscape of the hospitality market has fundamentally changed over the past 12 months. The primary challenge of driving efficiencies in the management of operators' two major costs – labour and product – remain as pressing as ever, but the margin for error has eroded exponentially and the stakes and competition are higher than ever. The limited wriggle room there was for error or false starts no longer exists and businesses will need to hit the ground running to rebuild and recuperate losses from the past year.

Smart technology, coupled with savvy decision making on the ground will be both absolutely critical for operators surviving and thriving as the industry reopens and returns to profit.

In this climate, operators will need to do everything in their power to drive efficiencies across all areas of their business, to negotiate the first few months – a time which sees yet more labour cost inflation with a legislative increase to the National Living Wage. At Fourth we determined to stand side by side with the industry, providing our expertise, insight and solutions to successfully navigate the reopening and maximise on the anticipated bounce back of the industry.

Value of data

Operators returning to the sector will face new challenges but also plenty of opportunities to gain a competitive advantage. It is therefore critical that sound decision making based on evidence, can be acted on as quickly as when using intuition based on experience. The current position for every business has changed by a more or less extent, and the number of environmental factors which for the most part are outside of the operators control have increased. Businesses' need to use quality, dynamic technological solutions to sift through a large array of data points that for the foreseeable future will be in a state of flux. Demand as demonstrated in July 2020 will return, but no one can accurately predict at what velocity and how the trading patterns will change, for example which day of the week will be the busiest, at what time and importantly what are your customers saying about your products and service. Understanding consumer demand is vital to modelling labour management, just as knowing what consumers are saying about your brand is essential to getting the offer and service right, quickly, to build loyalty and success.

About Fourth

Fourth is the leading digital workforce management, payroll and HR solution for the global hospitality, retail and leisure industries. Fourth's various solutions give businesses oversight of how they can control costs, scale profitability, improve employee engagement and maintain compliance through its leading data and analytics suite. It serves more than 7,000 customers across 120,000 sites globally.

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