Aims and Objectives

The Raffingers Hospitality Benchmarking Report was launched in 2016 with the aim of obtaining an in-depth understanding of the hospitality and food services sector and how the market stands today.

The survey was sent out to:

- Identify and monitor the present trends in the hospitality sector;
- Identify the future prospects of the hospitality sector;
- Identify the key obstacles faced in the hospitality sector;

We hope that with the results, hospitality businesses can benchmark themselves against their competitors and make informed decisions on the future of their business.
Key Findings

- 71% have experienced an increase in turnover in the last 12 months
- 78% foresee an increase in turnover in the next 12 months
- Marketing and new technology are the biggest areas of investment for businesses in the last 12 months
- 50% believe Brexit will have a negative effect on their business whereas 29% believe it will have no impact

Top three obstacles hindering growth are;
- Hiring new qualified staff
- Increased competition
- Threat of Brexit

Recruiting and Hiring Quality and Skilled Staff, are of the biggest concerns for the sector

Flexible working and bonuses are the most common employee incentives for the sector
- 31% of all respondents have poor cash flow or problems with cash flow
- 57% of businesses have a financial adviser
- Only 14% use cloud accounting software to manage their bookkeeping

Tourism VAT is significantly hindering the industry, with over 90% of respondents believing that a reduction would make a positive impact on their business

90% of respondents believe that a reduction in Tourism VAT would have a positive impact on their business.
Hotel and Food Services

Your Hotel

The hotel industry in the UK is booming with approximately 45,000 hotels accommodating nearly 750,000 rooms.

According to STR Global, in November 2016, London hotels benefited from increased demand and growth, with occupancy and average room rates at the highest level since 1994 and growth at its highest since July 2013. Moreover, the rest of the UK is enjoying a profitable year as the industry continues to grow.

However, staffing still poses a big problem. Recruiting Staff has always been an area of concern, even more so because the hospitality sector accounts for over 30% of all UK employees, yet has the highest rates of employee turnover and absenteeism.

Main areas of concern

- “Recruiting the right people”
- “Creating loyalty to ensure return”
- “Keeping control of costs”
- “Uncertain market conditions”

Your Food Service

In the last few years we have seen restaurants and food-based businesses virtually transform. The ‘eating-out’ industry is worth approximately £40billion and has grown by 39% since 2015, with pub restaurants seeing the largest growth in the last year.

Undercutting competition and high expenditure are the biggest concerns for the sector. Yet, similarly to the hotels, recruitment of quality and skilled staff are affecting the efficiency in this market.

Main areas of concern

- “Extremely high business rates”
- “Competition undercutting”
- “Managing the balance of increased costs”
- “HR... it’s very difficult to find qualified and loyal team members”
The biggest obstacle for food services is “staff retention and increasing costs”.

The Responses

40% of all respondents are C-level executives or hold a senior position.

Walk-ins are the most popular trade for restaurant based businesses.

57% of all respondents offer a mid-range service. 29% offer a 5* fine dining experience.

The majority are registered as a Limited Company. 53% are either a Partnership, Sole Trader or Franchise.

The biggest obstacle for hotel owners is “recruiting qualified and committed staff”.

The Responses

43% of all respondents are C-level executives or hold a senior position within a hotel.

83% of respondents offer a mid-range service to their customers.

Most respondents classify themselves as leisure or business hotels.

The majority, 67%, have less than 200 rooms per hotel per outlet.
Your Business
Your Business

Introduction

Section one of the benchmarking report focusses on the operations, turnover and the investments of hospitality businesses in the last 12 months.

Operations and Turnover

Unsurprisingly, a significant number of hospitality businesses - 79% - operate solely in the UK. However, the results show that Europe seems to be the next space for growth with 14% of all respondents expanding trade into Europe and a further 7% operating overseas.

Where does your company operate?

Annual Turnover

The results indicate that 80% of respondents witnessed an annual turnover of over £1 million in the last 12 months. With a large proportion of the sample trading as independent businesses, this reflects positively on the growth of the hospitality sector.

What is your company's annual turnover?

Investment

When posed with the question, “What percentage of your annual turnover have you invested in your company in the last 12 months?”, nearly three quarters of the sample stated that they had invested less than 19% of the previous year’s turnover into the company.

The rest of the respondents spent between 20% and 59% of their annual turnover on reinvestment. This is a fairly good indication of the growth and willingness to adapt and adopt new processes.

What percentage of your annual turnover have you invested in your company in the last 12 months?
Your Business

Investment

The survey takes a closer look into what areas businesses invest their money into. The results show that the majority of respondents have predominantly invested into two areas: Marketing Practices and Implementing New Technology.

Businesses are slowly introducing new forms of Technology to help grow and make their business run more efficiently. This is reflected through the respondents as more than half of hospitality businesses have reinvested into this area.

Brexit

Undeniably, the announcement of Brexit has caused uncertainty for the sector. When surveyed:

• 50% felt it had a negative impact on their business
• 23% believed the change would be positive, and
• 27% felt it would have no effect

What is more, 36% of respondents stated that they are currently experiencing and dealing with the effects of the Brexit. The results show a general consensus that the cost of expenditure is increasing due to a shortfall in the Pound and there is increased uncertainty of their workforce, particularly for those who are skilled, EU nationals.

<table>
<thead>
<tr>
<th>What have you invested this money in?</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Marketing</td>
<td>86%</td>
</tr>
<tr>
<td>Expanding to new locations</td>
<td>21%</td>
</tr>
<tr>
<td>Increased headcount</td>
<td>21%</td>
</tr>
<tr>
<td>Employee perks - bonuses, discounts... etc</td>
<td>21%</td>
</tr>
<tr>
<td>New technology - CRMs, accountancy software, etc</td>
<td>64%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>
50% of respondents believe Brexit will negatively impact their business.

Obstacles to Growth

The sample was asked to select three factors they believe are most likely to affect their business in the next 12 months.

Hiring Staff seems to be the biggest concern for the sector, yet Managing Staff was the least of their issues. This could imply that the biggest concern for the sector is either the recruitment process or the quality of the staff and their skills available to the business.

Although, more emphasis should be placed on managing staff correctly, this may reduce staff turnover and inadvertently mean less time is spent hiring staff.

We have received a notice from wine and food suppliers of a potential increase due to value loss in the Sterling.

A lot of uncertainty and drop in demand from the corporate sector.

Unpredictable pricing from suppliers, and exchange rates.
Tipping Practices

In May 2016, the government proposed changes to tipping practices due to unfair practices common in hospitality and food based businesses. The aim is to create a new process which will make it fairer for employees to receive a just amount of tips on top of their salaried pay. When pitched to the sample, just over a third (36%) felt that it could negatively impact their business.

Tourism VAT

Tourism VAT has been a heavily discussed provision within the sector. Several industry bodies and groups are currently campaigning for the revision of the current VAT rate, which, evidence shows, is affecting growth, trade, the attractiveness of the UK and possible investments into smaller businesses.

Only 7% believe that a drop in VAT will have no impact. Subsequently, more than 90% of respondents believe that a reduction in VAT will have more impact than less.

More than 90% of respondents believe that a reduction in Tourism VAT will have more impact than less.
Your Employees
Your Employees

Introduction

Section two of the benchmarking report focusses on employment practices and the trends of recruitment in the hospitality sector.

Workforce

The results show that the majority of businesses surveyed are small to medium sized organisations. Only 21% employ 500 or more individuals.

National Minimum Wage

Discussions on how much the National Minimum Wage (NMW) will affect the sector was heavily propagated by the media. Although concerns were voiced, the results seem to show a fairly even split: many believe that the increase to NMW will have no or very minimal impact. Just over a third believe that the impact will be more significant than less.

Over 30% of respondents believe the National Minimum Wage will have more impact than less.
Recruitment and Benefits

Over the past year, the hospitality sector has seen increased media coverage on the ineffectiveness of internal recruitment processes. The results showed a fairly varied response; no company felt they had a very effective recruitment process; worryingly many agree their recruitment process is satisfactory or less than satisfactory. This could also account for why recruiting and hiring quality skilled staff is one of the biggest concerns for the sector.

On a scale of 1-10, how effective is your recruitment process?

![Bar chart showing distribution of responses](chart)

Workforce Growth

The results show a positive outlook when looking at the workforce. Despite legislative changes, the majority of businesses predict that they will see an increase in workforce in the next 12 months. Moreover, 72% of employers have pro-actively started acting on their auto enrolment responsibilities and have an employee benefit structure in place.

![Pie charts showing distribution of responses](chart)
Your Employees

Investment

When taking a closer look at the details of the employer benefit structure, offering flexible working hours and bonuses were the most popular options with 71% and 64% of all respondents offering these perks, respectively.

However, for the hospitality sector, healthcare and above average annual leave were the least offered perks.

Training

Training and providing staff with increased guidance has been improving for the sector. 43% of all employers regularly train their employers in intervals whilst just over a third train their employees often or very often.

Conversely, the hospitality sector still employs more unskilled workers than skilled, which could be an outcome of the ineffective recruitment process many businesses admitted to.

How regularly do you train your employees?

How many of your employees were skilled prior to you employing them?

50% of all employers have more unskilled workers on their force than skilled.
Your Key Financials
Key Financials

Introduction

Section three of the benchmarking report focuses on the key financials, finance practices and expenditure in the last 12 months.

Cash Flow

Cash flow is undoubtedly one of the biggest setbacks for businesses, especially for small to medium sized companies or for those that grow too quickly.

From our sample, the majority of businesses asked, stated that they do not experience problems with cash flow, just shy of a third of the sample saw it to be impacting their business.

![Pie chart showing cash flow responses](chart1.png)

Do you experience problems with cash flow?

Closer Look

Most of the respondents stated that they paid clients ‘fairly quickly’. None of the respondents indicated that they paid suppliers slowly. 28% believed they paid within reasonable time.

![Bar chart showing payment speed](chart2.png)

On a scale of 1-5, how quickly do you pay suppliers?

Payments

The report asked the sample how the majority of sales are paid. It is good to see that nobody was still using out dated forms of payments, such as cheques. Only 7% run their business on cash alone whilst the rest of the sample use short payment options such as credit and BACS/CHAPS.

![Pie chart showing payment methods](chart3.png)

How are the majority of your sales paid?
For many hospitality businesses, Alternative Finance is a growing facility which is being made more accessible. Traditional sources of finance, such as bank loans are not always easy to obtain, however, newer funding alternatives are making it easier for businesses, especially those in the hospitality sector, to be accepted for funding.

Despite this, Bank Loans are still the most popular form of funding for the sector. However, it is interesting to see that grants and crowdfunding are helping those in the sector compete and grow. 7% stated that they had opted for a specialist loan for their business whilst none of the sample had successfully used invoice factoring. There are now hundreds of different funding options on the market, which suit different business types. For further information on these, contact Roy Butcher at roy@raffingers.co.uk.

Expenses

When asking businesses about the largest expenses that they incur, Wages seems to be the highest on the list. However, hospitality businesses seemed to have the highest rates of Unplanned Expenditure, which is the third most common expense. This could potentially rationalise the number of people who have problems budgeting and forecasting their expenses. (To be discussed further in the next section).

<table>
<thead>
<tr>
<th>Expenses</th>
<th>What are the largest expenses you incur</th>
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<tbody>
<tr>
<td>Wages</td>
<td>1(^{st})</td>
</tr>
<tr>
<td>Utilities</td>
<td>2(^{nd})</td>
</tr>
<tr>
<td>Unplanned Expenditure</td>
<td>3(^{rd})</td>
</tr>
<tr>
<td>Misc. Costs</td>
<td>4(^{th})</td>
</tr>
<tr>
<td>Wasted stock</td>
<td>5(^{th})</td>
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</tbody>
</table>

Bank Loans are the most popular form of alternative finance with 43% applying for this source of funding.
Your Accounts and Bookkeeping
Introduction

Section four of the benchmarking report focuses on the key financials and accountancy processes of the surveyed hospitality businesses in the last 12 months.

Bookkeeping

Understanding the accounting fundamentals allows a better understanding of a business's organisational responsibilities, especially when it comes to managing and handling finances. 57% of all businesses contract an in-house financial director to manage the preparation of their accounts, however, of those that outsourced their accounts, less than 30% were in regular contact with their accountants.

57%

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Bookkeeping

If no, do you think by having an internal finance function you would be able to manage your finances more effectively?

Yes

No

If yes, do you use any of the following bookkeeping packages?

None

Quickbooks

Kashflow

Xero

Sage

In-house Financial Director

Outsourced Accountants

Do you have an internal finance director or do you outsource the preparation of your annual accounts?

No

Yes

How regularly do you meet/speak with your accountant/financial advisor?

We are in constant contact

Every so often

When necessary

Rarely

Do you carry out your bookkeeping process in-house?

No

Yes

Closer Look

With 85% of businesses carrying out bookkeeping in-house, the sample showed that:

- 50% used Sage
- 14% used Xero
- 7% use Kashflow

However, over 15% of the respondents do not use bookkeeping software to manage their records. When taking a closer look, 21% of employers believe that having an internal financial function and/or software would allow them to manage their finances more effectively.
Your Accounts and Bookkeeping

Technology and Accounting

Using technology to facilitate the management of your accounts and financial books has become increasingly popular for businesses operating in the hospitality space.

With financial technology becoming more popular, this is also being reflected in the way hospitality businesses run. Impressively, 79% of respondents stated that they use point of sale software to manage their sales, 78% use software to regularly produce budgets and forecasts to help manage their business and 51% use stock management software to manage inventory.

Only 14% of all respondents use Xero to manage their accounts.
Trade Memberships
A growing area of interest for businesses to help grow and gain knowledge and expertise, as well as build a network to enhance or explore new opportunities, is through joining a trade membership. The UK boasts several networks and associations, which help aid the growth of the industry. The results indicate that 71% of all respondents are part of an industry body.

BHA and Institute of Hospitality have the largest number of respondents with a 64% and 46% membership rate respectively.
Conclusion

The majority of hospitality businesses surveyed (81%) reported an annual turnover of £1 million or more. This is a strong indication that the sector is performing well overall especially as the majority of respondents are SMEs or sole-traders.

Impressively, the majority of businesses are investing finances to better improve their business. The results indicate that 86% support marketing investments with 64% investing in new technology, such as CRMs and accountancy software; a positive stance for the hospitality sector.

Yet, with new legislations and changes set to take place, media has exposed several concerns and the impact these could potentially have on the sector. Over 50% believe that Brexit will adversely impact the sector. This could be due to concerns that Brexit will reduce tourism in the UK. Surprisingly, 21% believe it will have a positive effect. This could be due to an increase in domestic travel, meaning rural based businesses could benefit from more exposure.

Overall, the sector is performing well, yet a major concern for the industry is employment and recruitment. The recruitment process seems to be a fairly mixed bag. Most respondents believe that the recruitment process or the growth of their business was not their biggest issue. However, major concerns fell when discussing the skill-set of the workforce. Nearly 80% had a significant number of unskilled employees in their workforce and 57% admitted to having a lack of quality candidates. Businesses need to step up how regularly they train their employees as a significant number are lagging behind, which impacts staff turnover and ultimately customer satisfaction.

In regards to the Key Financials, it is of concern that around 30% are dealing with significant cash flow problems and unplanned expenditure is the third largest expenditure that they incur. Ensuring your business has a cohesive financial plan and forecast in place is important for businesses that look to excel and survive in such a competitive industry. If you would like help creating financial forecasts, contact adam@raffingers.co.uk.

Finally, in respect of ‘Your Accounts and Bookkeeping’ 21% of respondents do not use accounting software to manage their finances. Moreover, nearly 60% are still using traditional bookkeeping software over cloud based packages such as Xero. With the introduction of Making Tax Digital, this will have to change as all businesses will be obligated to keep accounts digitally. However, this efficiency should be backed up by regular meetings with your accountant and the fact that only 58% of hospitality businesses regularly meet their accountant is worrying, to say the least. We find these meetings are a great way to discuss how far the firm is progressing against its KPIs and to see if anything else can be done to help the business achieve its goals. For further information on our services and the support we provide, contact or hospitality expert Adam Moody at adam@raffingers.co.uk.