

# Hospitality

## International Business Report 2008 – Industry focus

The Grant Thornton Business Report (IBR) 2008 reveals that privately held businesses (PHBs) in the hospitality sector remain equally as optimistic about economic prospects for the year ahead as they were in 2007 (+57 per cent)<sup>1</sup>. Globally businesses are slightly less optimistic in 2008 (+40 per cent) than they were in 2007 (+45 per cent).

Of the eight industry sectors considered in the 2008 series of focuses, the hospitality sector is the most buoyant (+57 per cent); ahead of technology (+49 per cent), construction and real estate (+47 per cent), retail (+44 per cent), manufacturing (+40 per cent) financial services (+31 per cent), transport (+24 per cent) and health and education (+13 per cent).

### The hospitality sector

The hospitality industry has experienced strong growth in recent years, benefiting from rising affluence and the upsurge in cheap travel. Increasing leisure and wealth encouraged people to eat out more frequently and the continuing trend towards faster and cheaper travel boosted domestic and international leisure trips. The development of tourism in mainland China and India also provided a strong impetus to the industry, along with rising middle class wealth adding substantially to tourist numbers. This has helped growth in international tourist arrivals exceed 6 per cent in 2007.

Corporate hospitality was similarly boosted by cheaper and faster travel at a time when corporate finances were exceptionally strong on the back of sustained and robust global economic expansion. The popularity of conferences, meetings and business entertainment became a major source of revenue for the industry.

While favourable trends in consumer spending in both the mature and emerging markets have boosted the sector in recent years, problems constraining growth have been absent except at a local level - such as SARS, foot and mouth disease and the Bali bombings. But this benign background is changing. As much of the global economy slides into recession, tourist and business spending will contract and the industry is having to prepare for increasingly difficult times.

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<sup>1</sup> the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.



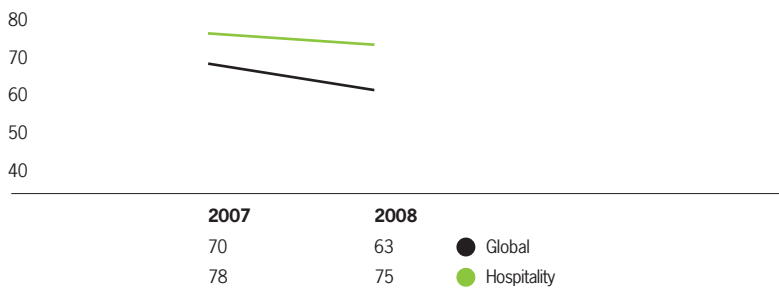
### Business expectations/revenue

- PHBs in the hospitality sector are less optimistic about turnover (revenue) prospects (+75 per cent) compared to 2007 (+78 per cent).
- Levels of optimism regarding revenue in the sector have fallen at a similar rate to businesses globally.
- Levels of optimism regarding profitability are much higher in the hospitality sector (+74 per cent) than is the case globally (+41 per cent).

### Employment

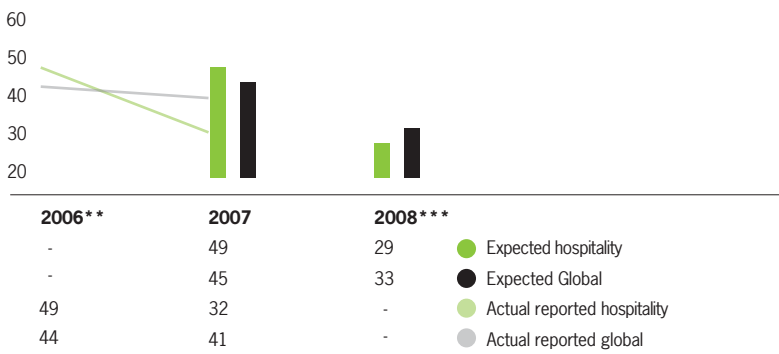
- Similarly to businesses globally, PHBs in the hospitality sector expect employment growth to be slower than that expected in 2007.
- In 2007, actual employment growth in the hospitality sector was much lower than expected – a balance of +49 per cent expected employment to increase, whereas a balance of just +32 per cent actually increased employment in this period.

**Figure 1: Turnover expectations globally and for the hospitality sector 2007-2008**  
Percentage balance of businesses indicating optimism against those indicating pessimism\*

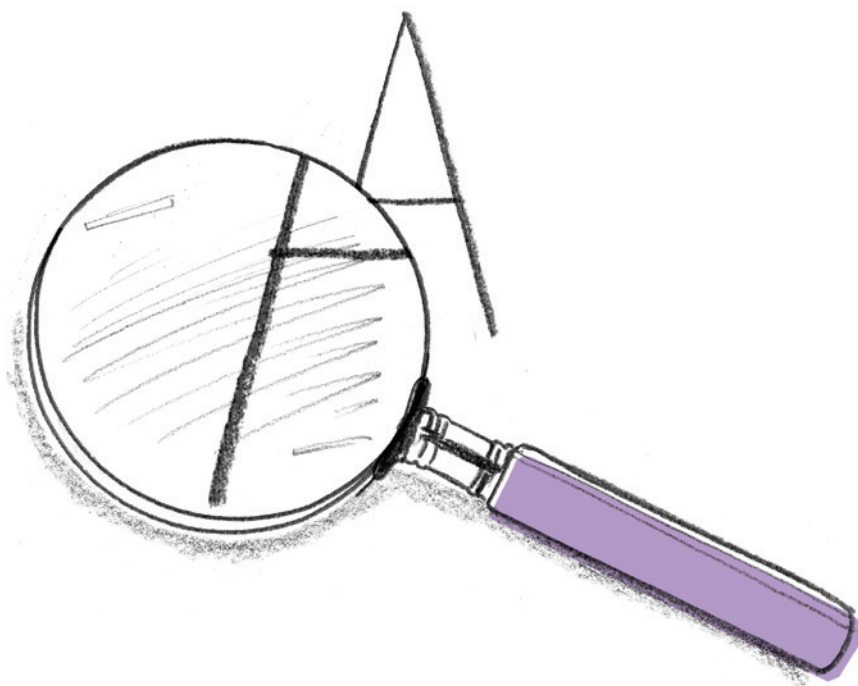


\*balance is the proportion of companies reporting that they are optimistic less those reporting they are pessimistic  
Source: Grant Thornton IBR 2008

**Figure 2: Employment history globally and for the hospitality sector 2006-2008**  
Percentage balance of businesses indicating optimism against those indicating pessimism\*



\*balance is the difference between the proportion of businesses indicating an increase less those indicating a decrease  
\*\*no data available for 2006  
\*\*\*2007 data will be documented in IBR 2009  
Source: Grant Thornton IBR 2008



### Constraints

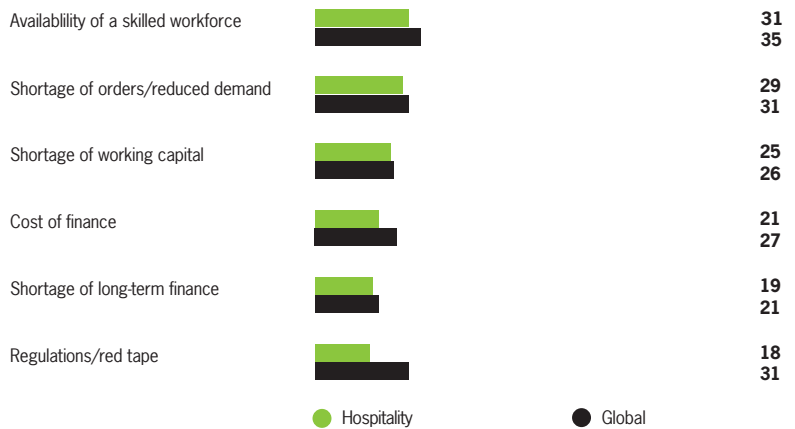
- A lack of availability of skilled workforce (31 per cent) and shortage of orders/reduced demand (29 per cent) are the major constraints on expansion for PHBs in the hospitality sector.
- Regulations/red tape are far more of an issue for businesses globally (31 per cent) than is the case in the hospitality industry (16 per cent).
- Shortage of both working capital and long-term finance are cited by very similar proportions of PHBs in the hospitality industry as by businesses globally.

### Emerging markets

- The most important factor to PHBs in the hospitality sector (as well as to businesses globally) when determining whether to invest internationally is market size and growth potential.
- Political and economic stability and the market's regulatory environment are far less important to businesses in the hospitality sector than is the case globally.
- Just 13 per cent of PHBs in the hospitality sector export, whilst 25 per cent import.
- Only 9 per cent see their main source of competition coming internationally compared to 22 per cent globally.

**Figure 3: Largest constraint on growth for businesses in the hospitality sector compared and the global average**

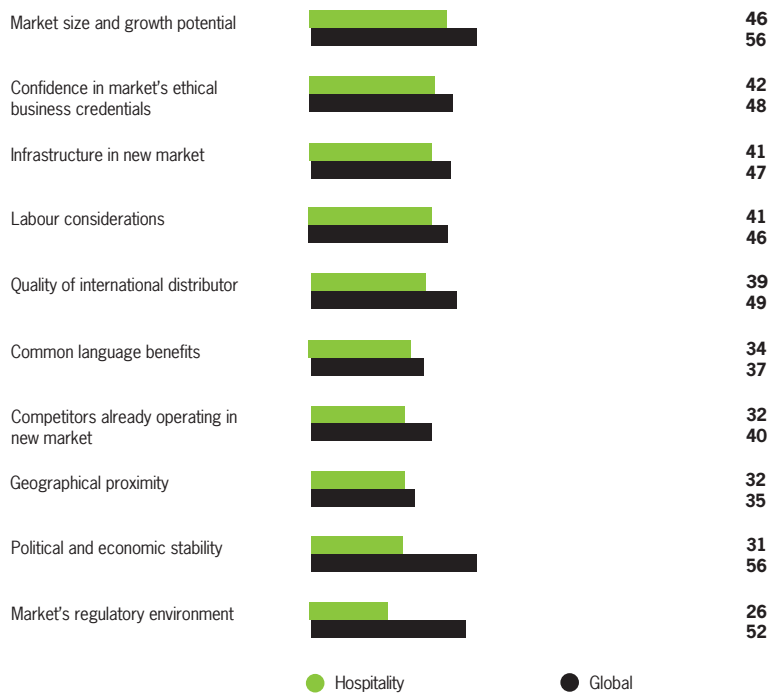
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2008

**Figure 4: Importance of factors determining foreign investment in the hospitality sector compared to the global average**

Percentage of businesses rating factor 4 or 5 on a scale of 1 to 5 where 1 is not important and 5 is very important



Source: Grant Thornton IBR 2008

## Competitiveness

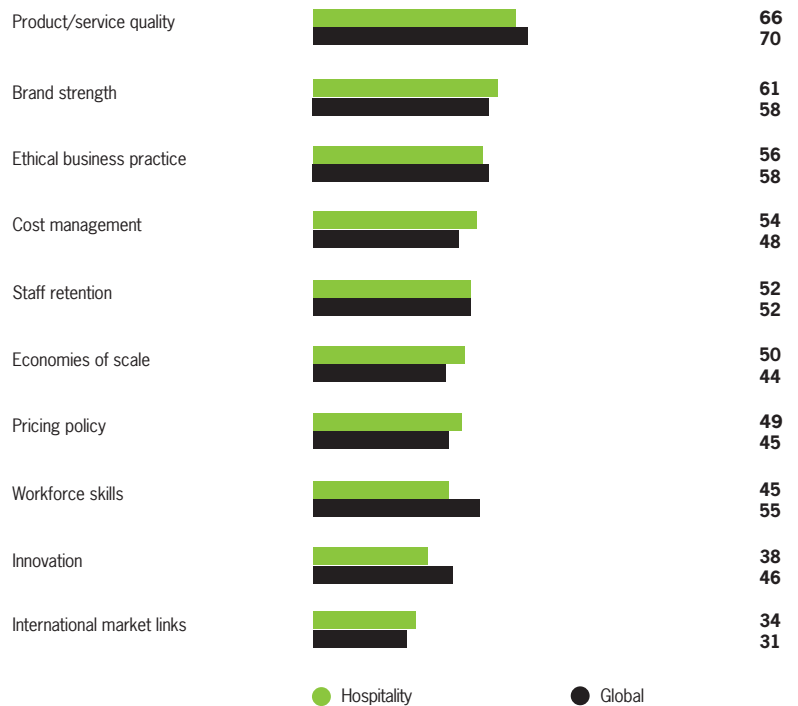
- PHBs in the hospitality sector see their greatest source of competitive advantage as product/service quality (66 per cent), as is true for businesses globally (70 per cent).
- Similar to global businesses (58 per cent) the second most important source of competitive advantage for businesses in the hospitality sector is brand strength (61 per cent).
- Workforce skills is cited by 55 per cent of businesses globally but only by 45 per cent of businesses in the hospitality sector.

## Corporate social responsibility (CSR)

- Cost management is viewed as the biggest driver towards more ethical practices by PHBs within the hospitality sector, although all drivers are seen as less important by the sector than by businesses globally.
- A similar proportion of PHBs in the hospitality sector (70 per cent) have actively promoted workforce health and wellbeing as those globally (71 per cent).
- 67 per cent of businesses in the hospitality sector have incorporated their policies in to a written CSR document, compared to 56 per cent of businesses globally.

**Figure 5: Main sources of competitive advantage for hospitality sector compared to the global average**

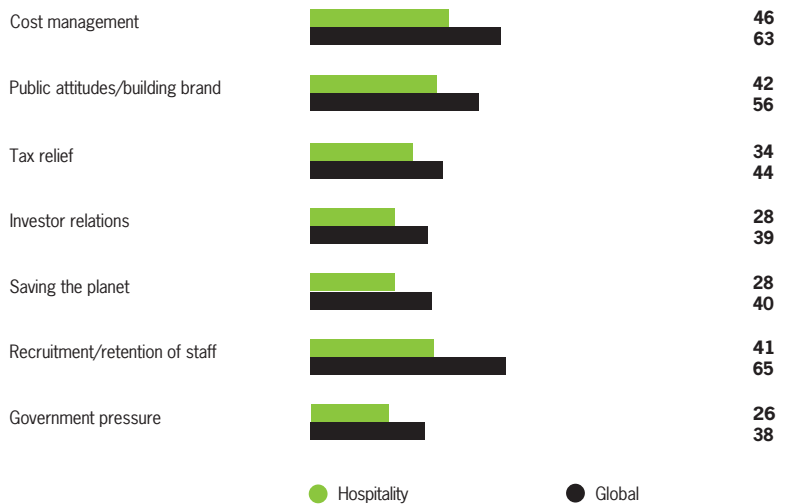
Percentage of businesses rating source 4 or 5 on a scale of 1 to 5 where 1 is not strong and 5 is very strong



Source: Grant Thornton IBR 2008

**Figure 6: Importance of drivers to more ethical practices in the hospitality sector compared to the global average**

Percentage of businesses rating driver 4 or 5 on a scale of 1 to 5 where 1 is not important and 5 is very important



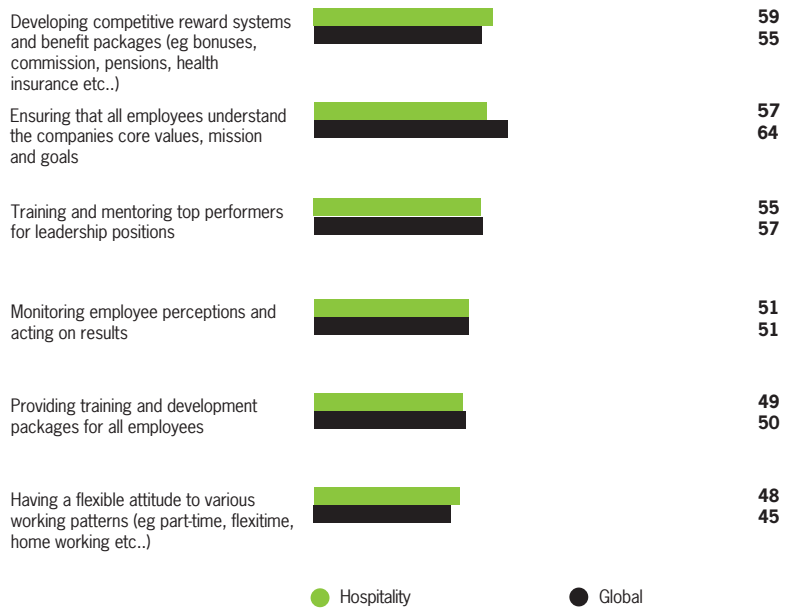
Source: Grant Thornton IBR 2008

## Recruitment and retention

- The balance of businesses in the hospitality sector more focused on retention than they were one year ago is 62 slightly higher than the global business average (59 per cent).
- 59 per cent of businesses in the hospitality sector develop competitive reward systems and benefit packages as a recruitment tool, slightly higher than the and global average (55 per cent).
- Increased workload for remaining staff and operating costs are viewed as the major problems staff retention issues have caused businesses in the hospitality sector.
- It is costing 77 per cent of PHBs in the hospitality sector significantly more to pay their staff than it was 12 months ago; above the global average (63 per cent).

**Figure 7: Usage of recruitment and retention tools in the hospitality sector compared to the global average**

Percentage of businesses rating tool 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

# Outlook

The current economic crisis is very worrying for the industry. Hospitality is seen as discretionary and luxury spending and the sector will suffer more than most from the retrenchment that is inevitable in the face of pressure on personal incomes and increasing corporate financial concerns.

In past recessions, only casinos have been immune to the malaise affecting households and businesses. After months of increasingly gloomy news, including a number of airline failures amid growing over-capacity, the industry is bracing itself for further and deeper cuts in discretionary spending. Eating out will become less frequent as unemployment takes its toll and consumers become more defensive. Even if conferences take place, they will be on more restricted budgets. Hotels that are seeing lower occupancy rates will renegotiate corporate deals, but again the industry's revenue will suffer. Geographically, mature economies are likely to suffer more than emerging markets, where growth is still firmly positive and the sector has a greater chance of riding out the downturn.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com).

Focus reports are also available for each of the 34 participating economies, as well as regional, industrial and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

**Participating economies**

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



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