

**RSM** Tenon

# Reasons to be positive



The outlook for London's hospitality and  
leisure sector: Q1, 2012  
A quarterly benchmark from RSM Tenon

## Foreword

I am delighted to share with you the insights from a new survey which aims to provide a regular snapshot of business confidence in London's hospitality and leisure sector. Each edition will include a quarterly focus on a specific issue; in this first edition we take a look at human resources and employee remuneration.

At a time when the economic environment remains highly uncertain and we are facing a European debt crisis, rising unemployment, high inflation rates and falling consumer confidence, there are reasons to be optimistic in the hospitality and leisure sector.

Interest rates remain low, banks are making money, the Olympics is coming to town, 20,000 more hotel rooms are expected to open across the UK this year, plans for evening and Sunday parking charges postponed. Over half of London hospitality and leisure businesses surveyed believe performance is better than a year ago.

I know you are acutely aware of the importance of people, more so than any other industry. Good quality staff are vital to the reputation of your business. They can be your greatest strength, your competitive advantage and the reason for repeat business. Within the report we take a look at the human resource challenges you face and why the role of human resource management is so crucial.

We hope you find this report insightful and thought provoking and we would welcome your feedback and comments.



### **Jonathan Perrin**

Head of Hospitality and Leisure, London

**M:** +44 (0)7867 978 089

**T:** +44 (0)20 3075 2604

**E:** [jonathan.perrin@rsmtenton.com](mailto:jonathan.perrin@rsmtenton.com)

## Contents

- 03 Part 1 - The business outlook
- 05 Part 2 - Quarterly focus - Human resources and employee remuneration
- 07 About this report

# PART 1:

## The business outlook

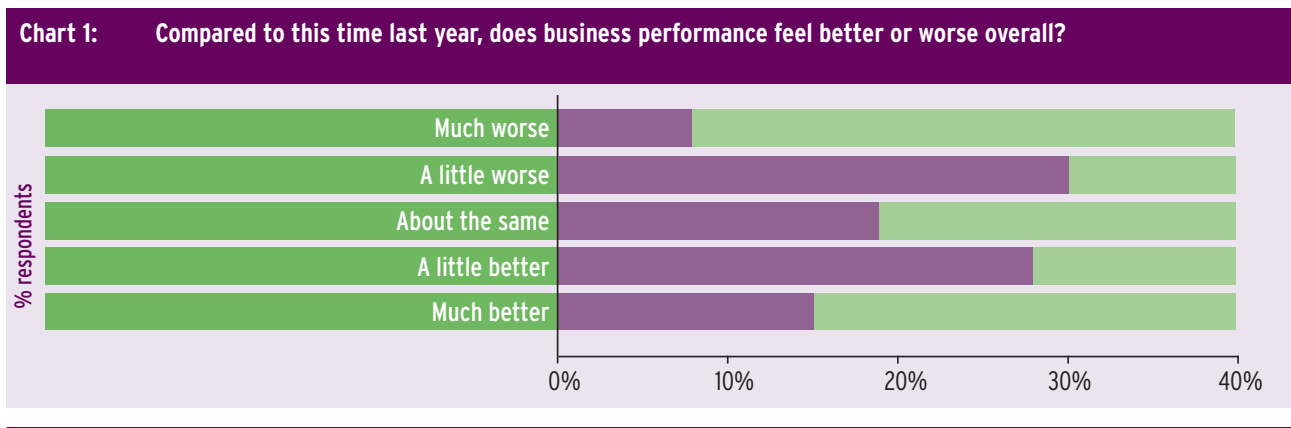
**Sentiment over business performance for London's hospitality and leisure sector is sharply divided, as a two-speed market emerges.**

The past year has been a modest one for London's hospitality and leisure sector, at least when reviewing the macro figures. According to Oxford Economics, for example, London's hotel and restaurant sector swung from a contraction of 1.6% in 2010 to growth of some 9.7% in 2011, making it the best-performing industry sector in the city overall<sup>1</sup>. But on the ground, at the dawn of 2012, business owners across the capital are sharply divided on their views over current performance. Only a few more (44%) think that performance is better than a year earlier, compared with those (38%) who think it is worse.

Given this, few feel overly bullish about the outlook for the first quarter of 2012, not least given the wide-ranging uncertainties over the Eurozone and what this will imply for the British economy. "I think it's going to be pretty static," says Michael Gottlieb, restaurateur and chairman emeritus of the British Restaurant Association. "I've only budgeted 1% growth for the year, and I don't even feel optimistic

about achieving that." Ufi Ibrahim, the CEO of the British Hospitality Association, does expect a major shift from Q1 of 2012, with January quiet and February and March picking up, but acknowledges the downside risks to this. "If unemployment continues to rise, then demand will clearly weaken," she says.

The reality is that of a two-speed market emerging: parts of the hospitality and leisure market have been choppy, while other businesses have delivered strong results. For example, expected growth in both leisure and business travellers to London has allowed hotels along the Thames to increase prices some 11% from a year earlier<sup>2</sup>. And at the high end, London's fine dining scene has seen strong expansion too: Mayfair alone has recently seen several new premium restaurants open, such as The Delaunay and 34, as many Londoners embrace some escapism from the otherwise downbeat economic news. Ms Ibrahim notes that some 20,000 more hotel rooms are expected to open across the UK next year, across all grades. "Restaurants, too, have expanded and London is regarded as one of the eating out capitals of the world. This investment is continuing into the future," she argues.



### Christmas 2011: London's two-speed economy delivers mixed blessings

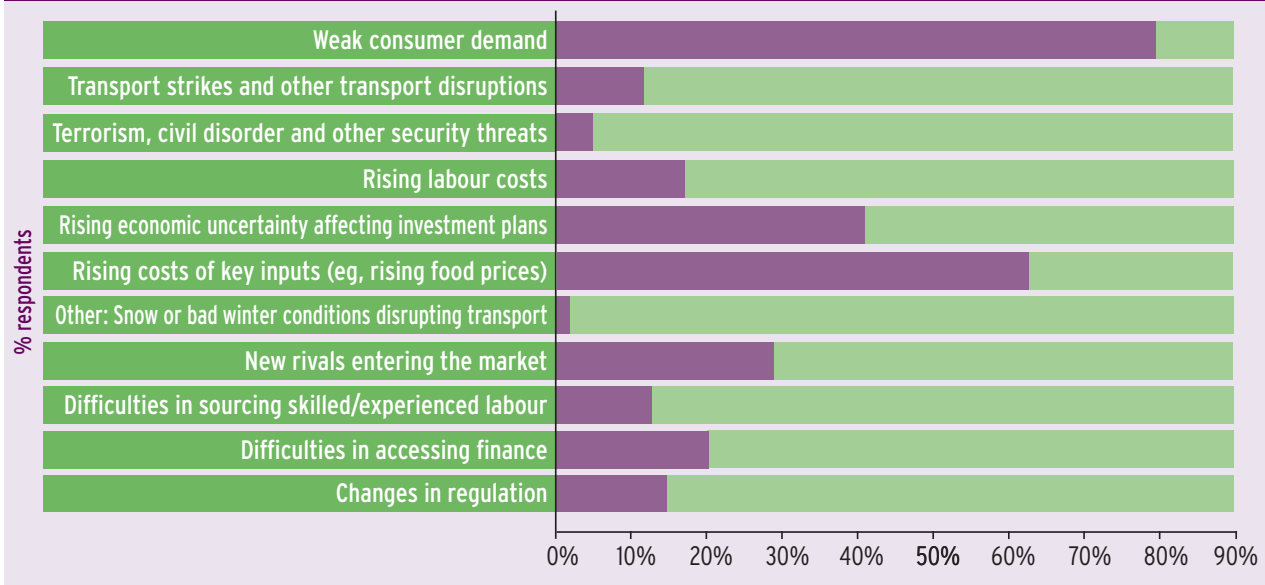
London's hospitality and leisure business owners were clearly divided on their fortunes for trading during the peak season. Nevertheless, the optimists narrowly outweighed the pessimists; although more respondents (26%) were somewhat pessimistic than those (22%) somewhat optimistic, more than twice as many were feeling strongly bullish (21%) than those that were especially gloomy (8%).

All this reflects the reality of London's two-speed economy, with bookings in some sectors holding up strongly, just as others struggle to keep afloat. Ufi Ibrahim, the CEO of the British Hospitality Association, says anecdotal evidence suggested slow restaurant bookings, but this is counterbalanced by a trend towards last-minute bookings. "I've no doubt that those restaurants that provide quality and value will [have been] as busy as ever. It's the same with hotels, which is traditionally a very busy time for them," she says.

<sup>1</sup> The Economic Outlook for London, Oxford Economics, 20 October 2011

<sup>2</sup> European hotel rooms see price increase, Travel Agent Central, 2 December 2011

**Chart 2: Which of the following challenges is your business most concerned about for the next quarter?**



\* May not total 100%, as respondents could select more than one option

**Weak consumer demand and rising costs are the two biggest concerns for London’s hospitality and leisure business owners.**

At the outset of 2012, there are a range of pressures facing London’s hospitality and leisure businesses. At the top is weak consumer demand: 80% of those polled cite as the issue concerning them most for the coming quarter. Backing this up is worries over rising input costs (63%), with inflation expected to remain at 3% during 2012, even if this is down from 4% in 2011. “Businesses are faced with rising costs in almost every area of their operation,” notes Ms Ibrahim. These twin pressures will put an especially difficult squeeze on London’s business owners trying to defend margins during the fragile first quarter of 2012; weak demand limits their ability to raise prices, while rising costs hits margins. The higher VAT rate is another challenge, notes Ms Ibrahim. “VAT makes our hotels, restaurants and attractions uncompetitive with all but two other EU member states. Remains a major barrier to growth,” she says.

Sergio Mottola, the founder and owner of Food Secret, a central London business that offers healthy and high quality fast food, says his firm was forced to pass on an increase in prices in October 2011, prompted by increased costs on both food and transport. “It’s very difficult to reflect our cost increase into the selling price, because people don’t like that,” he says. “We’ve been incorporating most of it into our margin, so we’re hopefully not going to need to do it for another couple of years. It’s a very difficult market to increase your prices.” Others, such as Mr Gottlieb, have decided to absorb rising costs to avoid potentially scaring off customers. He passed over a usual November 2011 price increase, despite rising cost pressures. “Customers are very cost sensitive right now, so I will review again in about five months time and see. We will see a significant loss of profit as a result,” he says.

**The spread of value deals is helping maintain revenues, but is further pressuring profitability.**

As interviewees for this report note, times would have to be exceedingly tough before Londoners gave up on entertainment and eating out altogether. However, the restaurant trade in particular is grappling with a clear and ongoing trend in the market of a strong shift towards value deals, which in turn puts pressure on profit margins. This has not let up: Mr Mottola has seen a sharp rise in price sensitivity among customers in recent months. “People are more conscious about how much they’re spending and more conscious about the value of the product. They are demanding more,” he says.

Various drivers lie behind this. The most obvious is the ongoing pressure on household income, with little in the way of pay increases and above-average inflation, meaning many Londoners feel out of pocket. But beyond this, the difficult economic environment has led to a surge in value-oriented marketing and deals by hospitality and leisure firms. This has been bolstered by popular daily deal providers, such as Groupon, which have grown sharply in the capital during the past year. By March 2011, for example, when it last disclosed figures, Groupon had accrued some 1.6m subscribers in London, up from less than 1m just three months earlier<sup>3</sup>. “There’s a whole sector of the market that won’t eat without discounts,” says Mr Gottlieb. The partial upside to this is that a rise in value-oriented offerings has also enabled some lower-income households to enter the market, treating themselves to a new experience, which has helped firms maintain cash volumes.

**London’s hospitality and leisure sector is pinning its hopes on sales and marketing, ahead of either cost control or new expansion.**

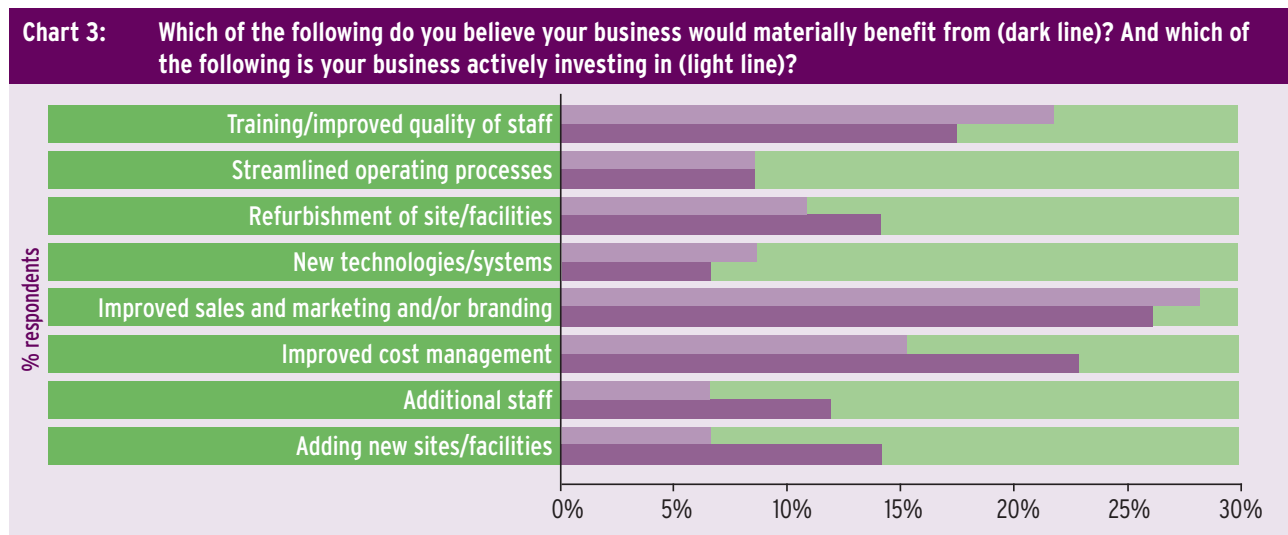
Any business facing a difficult trading environment has to make tough decisions about what to invest in. Business owners across London continue to believe in the value of marketing to materially benefit

<sup>3</sup> Analysis of the key operating metrics published in the Groupon S-1 filing, Martin New, 19 September 2011

their business, ahead of all other options, and are largely backing this belief in their spending. 28% are actively investing in marketing in line with the proportion that think it will benefit their business most. This is wise, argues Mr Gottlieb: "The less shrewd ones will cut back on marketing costs, and that may be a mistake. The clever ones will invest more in marketing, which usually pays off."

But there are other investment pressures too. Training is an ongoing priority, not least given relatively high staff turnover rates in the sector. Here, actual investment is running slightly ahead of what

most see as an optimal level. But where a gap can be seen is in the rival pressures of both cost management and new sites or facilities, or additional staff. Both areas are widely seen as being materially beneficial to firms, but actual investment is lagging here. This can quickly catch up on businesses, notes Mr Gottlieb, who is currently developing two new restaurants: "I never scrimp on investments in our properties when needed, or better equipment to do the job and keep our chefs happy." Given shrinking margins, this will clearly be a tough call for businesses in the coming quarter.



## PART 2:

### Quarterly focus - Human resources and employee remuneration

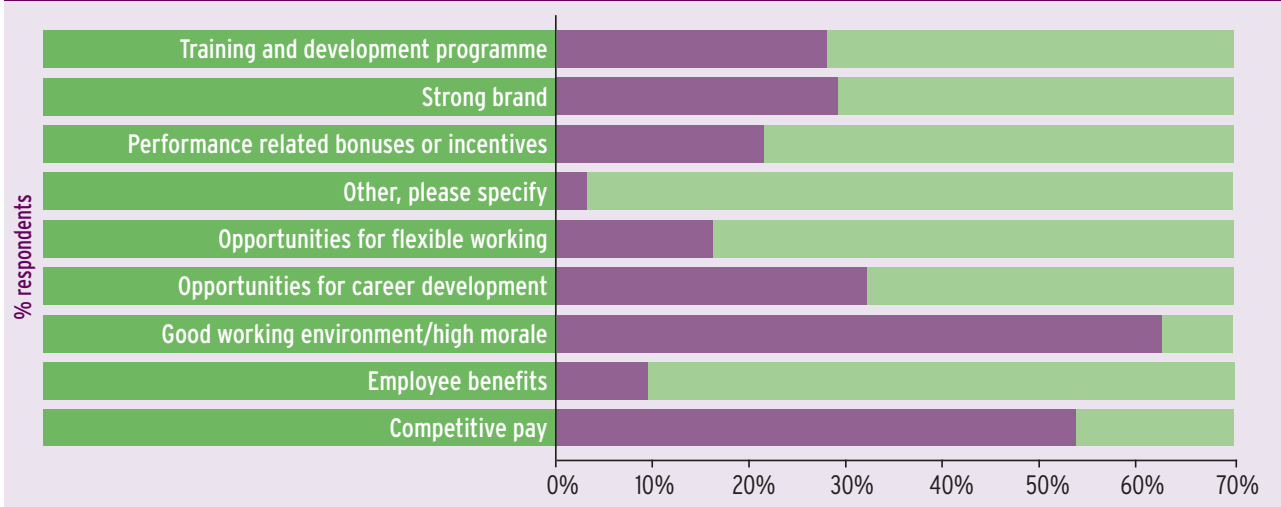
- Working environment, pay, brand and training are seen as the key factors in attracting and retaining staff
- Nearly two-thirds (65%) of firms plan to give a pay increase, largely in line with inflation, but over one-third (35%) won't, or will even cut wages
- Less than half of London's hospitality and leisure businesses have a HR manager to deal with employee issues despite a strong need within the sector
- 60% of business owners say that labour legislation and red tape is a burden, in terms of scaling their business

More so than nearly any other industry, people in the hospitality and leisure industry matter. A hotel may pride itself on its new room features, while a restaurant will market its new menu offerings, but many customers value the overall service and personal experience they receive the most. Given the sector's tough outlook right now, this leads to some thorny human resource challenges: What are the optimal staffing levels; how do you maintain employee motivation during a period of flat or even declining pay in real terms; and what else can be done to provide incentives for staff.

For smaller businesses especially, determining the optimal levels of resourcing to reflect current trading volumes can be the most difficult issue. "For some there might be an increase in staff, but for a lot it will be about down-sizing, or right-sizing while retaining the best people," says Jenny Chandler, the human resources director of the Business Growth Fund, which was created in May 2011 with £2.5bn in funding to identify, fund and help grow small and midsize businesses into large ones. Here, legislation and red tape can be a challenge: 60% of those polled say that this is a burden for them, in terms of their ability to scale the business either up or down.

Even for those firms fortunate enough to be hiring, maintaining motivation levels of existing staff is a huge challenge. Indeed, of the companies polled for this report, a good working environment and high morale is rated as the single most important factor in being able to attract and retain staff, even ahead of competitive pay. Nearly two-thirds (63%) rate environment as the top factor, ahead of just over half (54%) for pay. A strong brand (29%) and a competitive training programme (28%) languish some way behind (see chart 4). "Among the key elements in a package are the work environment, the motivation of staff to work in the business and the satisfaction they gain from doing their job," agrees Ufi Ibrahim, the CEO of the British Hospitality Association.

**Chart 4: Which of the following are most important in terms of your ability to attract and retain staff?**



\* May not total 100%, as respondents could select more than one option

**Maintaining morale amidst austerity**

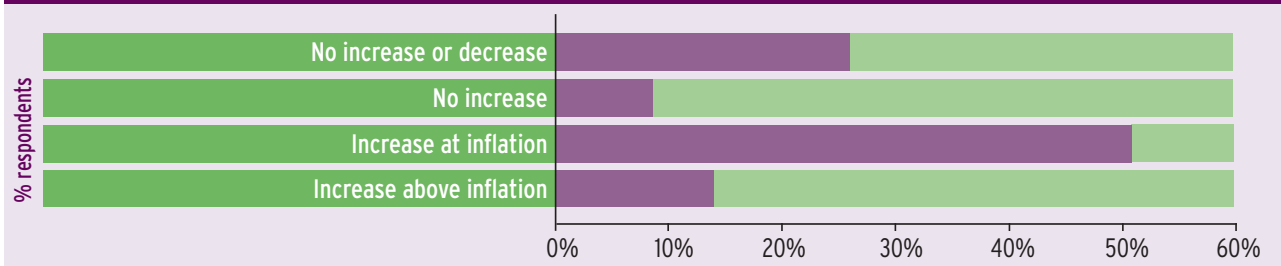
Maintaining this top factor - a good working environment - is especially important once the touchy subject of remuneration comes up. For owners of any hospitality and leisure business, whether a high-end spa or corporate catering business, friendly and motivated staff are a fundamental part of their firm’s long-term appeal. More than one-third of companies polled for this report will pass on no pay rise, or even try to cut wages (see chart 5), keeping up morale will be a huge challenge in 2012. “You don’t want a bunch of hang-dog managers and servers in your restaurants,” notes Michael Gottlieb, restaurateur and chairman emeritus of the British Restaurant Association. “In fact, you need to put more emphasis on service right now, to give customers a reason to come back. Even one small mistake can give customers a reason to go elsewhere.”

All this makes human resource management more crucial than ever. But relatively few business owners in the sector seem well prepared for this; less than half (47%) have a dedicated HR manager to deal with such issues, for example. Quite often, it’s simply the CEO or managing director who handles this as part of their overall responsibilities (25%), or else the chief operating officer (9%) or finance director (9%) will weigh in.

Not having a more professional approach to HR right now can lead to some crucial missteps that can quickly degrade the working environment, not least when passing on news about the outlook for the coming year. Ms Chandler notes that this is an especially important time to focus on things that don’t necessarily cost a lot: “Listening to employees, getting feedback, engaging with them and giving them a voice, making them feel involved,” are all points that she highlights.

For Sergio Mottola, the founder and owner of Food Secret, such an approach is a crucial aspect of how he deals with his core team, whom he gives full license to weigh in with their ideas, with a view to overcoming any challenges as a team. “The psychological side of the situation is important. It’s not really the salary, it’s being part of the project, and the feeling that the project isn’t going to move without them. I think that’s the key,” he says. Nevertheless, he also maintains performance-oriented pay, with bonuses set against specific performance targets, which is reviewed twice per year. This fits with his key strategy of developing Food Secret into a chain. He is acutely conscious that it is his core team that will deliver on that, setting back progress if any of them leaves over a minor pay dispute, so is willing to invest in this aspect despite challenging conditions.

**Chart 5: How do you expect overall pay (including bonuses and/or benefits) for your staff to change in 2012?**



## RSM Tenon opinion

In the hospitality and leisure sector, good quality staff are vital to the reputation of any business. It's the staff who are the front line representatives and where providing an enhanced customer experience is key. Therefore, the challenge for any employer in this sector, is how well it can attract and keep exceptional people.

This survey clearly suggests how businesses can position themselves as an employer of choice. Much of this can be done with a relatively low cost. For instance, enhancing the communication of the total reward package to increase the perceived value of pay and benefits by employees, or provision of a more focused training and career structure which enables staff to increase their skills, increase their level of responsibility and see the opportunity for career advancement. It is key to make the offering competitive whilst balancing the need for employee value and cost efficiency.

The responsibilities as an employer has become ever more complex in terms of employee expectations, coupled with constant changes in regulation. As businesses grow the HR strategy requires regular reviews to provide the flexible and efficient workforce required in this sector, reflecting the value of your brand whilst also managing the requirements of regulation.

It might be time to re-examine your employee reward offerings.

**Kiki Stannard**, Head of Employee Solutions, London

## Making the most of benefits

One crucial error that some firms make at this time is in cutting back on the few benefits that staff may have, or not thinking more creatively about how even small benefits can help maintain overall motivation. Ms Chandler highlights one business that is cutting benefits for all staff as a cost-cutting measure. "But it makes no sense, as it doesn't save very much money, but has a huge demotivating effect on people," she says. One example of such a perk is an annual 'personal needs' day - a free extra day off, to be used at people's discretion for something like dealing with a plumber coming in. This can be a motivating additional benefit, with relatively limited cost impact on the company, but the loss of such a perk can lead to staff dissatisfaction and resentment. "The present economic situation makes significant salary increases difficult to implement, so this makes every other aspect of the benefit package that much more important," notes Ms Ibrahim.

At a more basic level, London's hospitality and leisure firms could do much more about simply informing staff about the link between their performance and potential pay and incentives. Just 49% of those polled think that their staff understand this well, while one in five admit that this is poorly understood, or not even tracked at all. "Highlighting benefits is important, as it reminds people of what they have," notes Ms Chandler. Indeed, introducing additional flexibility here can also allow firms to create a more upbeat dialogue, for example by allowing staff to get involved in the discussion on what benefits would suit them best, even if from a very limited list, or else allowing them to trade one benefit for another at a similar value, to give more flexibility.

Of course, compared with the traditional benefits of other industry sectors, perks such as pension or healthcare are relatively rare across the hotel and restaurant sector. Even so, firms such as Mr Gottlieb's still run a range of small initiatives aimed at recognising and rewarding strong performance from staff. One example from his business is restaurant vouchers for a free meal somewhere for high performance on the job. There is also a quarterly lottery for staff, in which all individuals who hit certain performance criteria on things such as not being late for work get a cash bonus. "We give recognition to all good people every quarter, especially for lower level staff. They're little things to help maintain morale," he says.

All this is valuable, notes Ms Chandler. "There are three important things that matter to people: the job they do, the people they work with, and what they get rewarded. You can get one out of three wrong and people may well stay, but if you get two out of three wrong, they likely won't."

---

## About this report

At the end of 2011, in partnership with Longitude Research, RSM Tenon surveyed 92 London-based businesses in the hospitality and leisure sector. Respondents represented all sectors, but with over half representing hotels, spas and other lodgings, and restaurants, bars, pubs and clubs. All respondents were from management: founders, owners, CEOs and managing directors accounted for 39% of the sample; other directors, CFOs, and board members accounted for a further 40%. Two-thirds (64%) of all firms polled had annual turnovers of up to £10m, while just 9% had turnover of £50m or more. Businesses were based across all parts of London, with half of respondents in Central London.

**We are very grateful to all participants who gave their time to provide us with their valuable insight into their strategies, ambitions and fears.**

**To complement these survey results, we also conducted in-depth interviews with several experts and business owners, as well as additional desk research. Our thanks are due in particular to:**

- **Michael Gottlieb, restaurateur and chairman emeritus of the British Restaurant Association**
- **Jenny Chandler, human resources director of the Business Growth Fund**
- **Ufi Ibrahim, CEO, British Hospitality Association**
- **Sergio Mottola, founder and owner, Food Secrets**

[www.rsmtenon.com](http://www.rsmtenon.com)

RSM Tenon Group PLC is an independent member of the RSM International network.

The RSM International network is a network of independent accounting and consulting firms each of which practices in its own right. RSM International is the brand used by the network which is not itself a separate legal entity in any jurisdiction. RSM Tenon Group PLC (No 3931297) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB, England.

32790301(12) MWF24051211



RSM Tenon is committed to the efficient use of natural resources.