

Assessing 2024 hospitality trends can focus concerns, tactics

Transcript

NARRATOR: Welcome to the Industry Podcast Series, where Grant Thornton shares information through an industry-specific lens about the most important business issues of the day.

ALEX RHODES: In the hospitality industry, 2024 is projected to be a year of change—from potential regulatory changes to the impacts of AI, the interest rate environment, and more. I'm Alex Rhodes, Hospitality industry leader for Grant Thornton, and here are the topics that should be top of mind among leaders in the industry in 2024.

Like most industries, Hospitality has been impacted by inflationary pressures, including the prices of goods and commodities, increasing interest rates, and the cost of labor. In addition, these pressures have been complicated by geopolitical events and instability, including the conflicts in Ukraine and Israel, as well as economic uncertainty in China. Big questions surround how these pressures will influence demand from the hospitality customer in an industry that can be significantly impacted by changes in consumer behavior. When feeling uncomfortable, hospitality industry spend is an easy area for consumers to pull back on.

2023 saw resilience in customer spending in the hospitality industry. STR and tourism economics recently lifted year-over-year growth projections for average daily rate and revenue per available room, also known as "RevPAR," in their final U.S. hotel forecast revision of 2023, where they projected year-over-year increase in occupancy of 0.6% for 2023 and are projecting a 1% increase for 2024. They also projected ADR growth of 4.2% for 2023 and 3% for 2024.

The report cited continued buoyancy of travelers with strong traveler fundamentals, including low unemployment among college-educated individuals, an increased volume of households above \$100,00 in income, a rise in real personal disposable income, and a somewhat stable corporate environment.

On the restaurant side, the restaurant industry has been focused on passing along increased commodity costs to consumers, but it remains to be seen whether that can continue with

inflationary pressures and potential softness in the economy. The industry may see consumers pulling back or opting for lower-cost menu items or outlets.

Overall, consumers seem to be focused on experiences versus goods which has benefited the hospitality industry at large.

Workforce pressures continue to be a focus in the industry. However, there seem to be signs of the labor market rebalancing. In their *Restaurant Industry Trends and Outlook for 2024*, Bank of America noted that they see the labor shortage showing signs of easing, citing data from the Bureau of Labor statistics, with restaurant and accommodation job openings declining from 8.2% in 2022 to 6.7% in August of 2023.

An article from Reuters in October 2023 announced that U.S. restaurant employment had recovered to pre-pandemic levels based on data from the Bureau of Labor statistics. However, that same article noted that hotel accommodations and the amusement and gambling services industries remain below their February 2020 employment levels, with hotel employment still 10% below where they were at the beginning of the health crisis.

Since the pandemic, the industry has been focused on automation and streamlining processes in both the back and front of the house to address labor shortages. At hospitality industry conferences, there continue to be discussions around standardizing roles and processes to make it easier for new employees to get up to speed and to make jobs in the back of the house interchangeable so that businesses don't find themselves stuck if they lose an employee or someone isn't able to make their shift.

There are many ways to substitute an online interaction for an employee interaction. Guests can order food online by aiming their phone at a QR code rather than calling a person for room service or interacting with an employee. In lodging, contactless check-in using an app or kiosk can ease pressure on overworked front-desk staff. This is low-hanging, labor-saving fruit.

I was recently at a luncheon at a hospitality conference where there was discussion at the table around the automation of the housekeeping function. Can you imagine a robot cleaning your room?

AI continues to be a buzzword and trend across many industries and hospitality is no exception, as lodging restaurant and gaming operators look to find new ways to leverage the technology. Recently at the Global Gaming Expo in Las Vegas, there were discussions around the applications of AI in the casino industry. Applications included responsible gaming, where predictive algorithms can be used to identify problematic play by individuals, and content generation, of course, which has received a lot of attention with the explosion of ChatGPT into the marketplace, which is really demonstrating the power of AI to create.

Fraud detection and using the power of technology to identify cyber threats and fraud is another application. And personalization, using insights from data to personalize the customer experience and market more effectively to industry buyers, was also a focus and a topic of conversation. Obviously, one needs to consider the implications around consumer privacy, as well, when exploring personalization.

Other applications, you can imagine, are revenue management and pricing—using data to set rates to optimize revenue and setting pricing. We have spoken with innovative providers in the restaurant industry as well as operators and see continued experimentation with variable pricing, using data to set menu prices based on peak periods and around events. You can imagine the price of a pizza increasing during a big sporting event or on peak days of the week.

Industry participants need to remain cautious with technology, however, as the industry continues to be vulnerable to cybersecurity issues as demonstrated by the high-profile breaches this year. The most well-known is the MGM Resorts breach back in September 2023, which has been estimated to have cost the company over \$100 million and resulted in the complete shutdown of the casino and hotels systems for four to five days. Caesars was also impacted by a breach and took a different approach when their systems were compromised by a cyber attack, where they paid a \$15 million ransom.

The cyber threat is not just a theory anymore, as the sophistication of attacks continues to ramp up and do real damage to industry participants. Companies need to ensure that their systems are up-to-date, controls are in place, and employees are trained, as social engineering continues to be a popular method to execute cyberattacks.

There is no shortage of public policy items impacting the hospitality industry going into 2024. President Joe Biden announced in his State of the Union Address that his administration would target junk fees in many industries, including hospitality. Since then, there have been multiple efforts to increase transparency at the federal and state levels on resort fees. For example, this summer, U.S. Sens. Amy Klobuchar (D-Minn.) and Jerry Moran (R-Kan.), co-chairs of the Senate Travel and Tourism Caucus and members of the Senate Commerce Committee, introduced the bipartisan *Hotel Fees Transparency Act*. This legislation seeks to improve transparency for consumers by requiring anyone advertising a hotel room or short-term rental to clearly show up front the final price a consumer will pay to book lodging. Minimum wage laws also continue to be a focus across the country, where increased labor costs for the hospitality industry is going to have a big impact, as the industry relies on so many lower-wage workers.

We also continue to see an uptick in union activity. While there were headlines last year about unionization efforts, including those at Starbucks, the percentage of leisure and hospitality employees who were members of unions increased from 2.2% in 2021 to 2.8% in 2022, according to Bureau of Labor statistics. There was also discussion of a big strike in Las Vegas this year in

November as well with the Culinary Workers and Bartenders unions leading up to the city's Formula 1 race. MGM Resorts International, Wynn and Caesars Entertainment reached a tentative five-year contract with the Culinary Workers Union covering more than 25,400 non-gaming workers at eight Strip properties. This contract also includes members of Bartenders Union local, a Culinary affiliate. In a joint statement from the union and MGM, the agreement reportedly includes "the largest wage increases ever negotiated in Culinary Union's 88-year history," along with workload reductions for guest room attendants, mandated daily room cleaning, increased safety protections for workers on the job and expanded technology contract language.

With a pro-union administration, one might expect union activity to continue to increase in 2024. In that context, the National Labor Relations Board issued a final labor rule that broadens the joint employer rule to make franchisees jointly liable with their franchisors for labor policies. Trade organizations and business groups have pushed back against the ruling, which could upend the business franchise model.

That's how the hospitality industry is shaping up for 2024, with plenty of opportunities to make real business progress.

NARRATOR: Thanks for listening. Find out how Grant Thornton goes beyond expectations at [gt.com](https://www.gt.com).