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Forces Affecting Growth and Change in the Hospitality Industry

FORCES AFFECTING GROWTH AND CHANGE

- The changes that are occurring now in the business environment are tremendous
- Managers must understand the various forces that are driving these changes and affecting their businesses in order to be effective
- A few of the changes that have impacted the industry just in recent years include terrorist attacks, problems with the supply chain, recession, and disease
- On the whole, the hospitality industry has responded effectively but some segments, companies and destinations have suffered

FORCES AFFECTING GROWTH AND CHANGE — DEMAND

- Many of the changes that are occurring are affecting demand for hospitality services
- One of the major factors that is affecting demand is the changing population
- To understand these changes, it is important to understand the concept of demographics
- Demographics is the study of objectively measurable characteristics of the population
- Examples include age, income, level of education, and sex, etc.

FORCES AFFECTING GROWTH AND CHANGE – AGE

- We often hear that “The population is aging” but what does this mean?
- While it certainly means that each of us is getting older, it also suggests that the oldest segments of the population, as a percentage, are increasing in size



FORCES AFFECTING GROWTH AND CHANGE – AGE

- One way that we can better understand demographics is by segmenting the population – in this case by age
- Baby Boomers were born between 1946 and 1964
- Boomers represent 26 % of the population and are in their “high income” years, driving much of the economy
- Boomers represent a large share of overall spending on foodservice, lodging travel, and recreation

FORCES AFFECTING GROWTH AND CHANGE – AGE

- Generation X (or GenXers) were born between 1965 and 1975
- Even though they have received a lot of attention of late, they only represent about 14% of the population
- They are different than Boomers and, perhaps, the first generation to have technological savvy – also the most educated

FORCES AFFECTING GROWTH AND CHANGE – AGE



- Generation Y (or Echo Boomers) represents the children of the Boomers – those born between 1976–1994.
- The teenage segment of GenY alone represents 21% of overall spending in the US
- The cohort is characterized by its diversity in makeup and behavior – as a result, psychographics (preferences and beliefs) are commonly used to segment this cohort

FORCES AFFECTING GROWTH AND CHANGE – AGE

- The hospitality industry is trying to adjust to these shifts in the population by creating niche markets for younger customers (who have greater discretionary spending than previous generations), young families, and aging customers at the other end
- As a result, new concepts are being offered such as “fast casual’ dining and all inclusive packages more geared to families

FORCES AFFECTING GROWTH AND CHANGE – RACIAL AND ETHNIC DIVERSITY

- Both the African-American and Hispanic segments of the population are expected to grow into the future (2050)
- The Asian-American market is also expected to grow (an increase of 100% in a 20 year period)
- These changes will have an effect on consumer markets and labor markets

FORCES AFFECTING GROWTH AND CHANGE – WORKING WOMEN

- This is not new any longer but it is important to note how quickly things have changed in just a short amount of time
- Up until about 1940, fewer than 25% of women worked outside of the home
- In 1980, the rate increased to 50% and is over 60% today
- Women represented 47.8% of food service managers and 44.1% of lodging managers
- This also has implications on both the consumer and labor markets

FORCES AFFECTING GROWTH AND CHANGE – INCOME DISTRIBUTION

- The Middle Class (size and range) is often viewed as a proxy of the range of income distribution in society
- The Middle Class includes all families (based on household income) ranging from \$25,000 to \$50,000 per year
- Most reports indicate that the gap between rich and poor is increasing, that is that the middle class is shrinking and the number of wealthy (as a percentage) is increasing

SUPPLY

- The notion of supply is important because without access to supply, the hospitality industry as we know it would cease to exist
- There are several key factors that concern us including land, food and labor
- All of these factors affect how, where, and how effectively the industry can service its customers

SUPPLY — LAND

- Land is an important consideration for several reasons: its availability, its cost, and what it produces (food)
- The availability of “good” locations is decreasing
- “Good” locations are considered those to be near high traffic areas, near destinations, etc.

SUPPLY — LAND

- In general, land is becoming scarcer because (1) the prime spots have already been developed and (2) environmental pressures have resulted in certain zoning restrictions that prohibit restaurants in some cases
- All of this is subject to change as new areas develop (examples include Las Vegas and other expanding cities) and as companies look for nontraditional sites; companies have become much more astute at site development

SUPPLY — FOOD

- Food supply concerns have always been present but they are of a different sort now and, more severe in some cases. Operators must consider:
 - Seasonality
 - Effect of weather
 - Overfishing
 - Other effects such as bird flu

SUPPLY — LABOR

- The Bureau of Labor Statistics (BLS) continues to predict increases in demand for labor, particularly for management positions, over the next 10 year period
- Lodging positions are predicted to grow at a slightly lesser rate
- Certain factors complicate the labor picture, however , such as increasing need for a more educated management staff and the complexity of managing businesses with high turnover

SUPPLY — LABOR

- Managers must also consider:
 - Overall employment rate
 - Immigration rates and restrictions
 - Competition for workers among industry sectors
 - Employee turnover – can exceed 100% in some sectors
 - Part time versus full time workers
 - In short, the outlook is good but there will be challenges filling entry-level jobs