

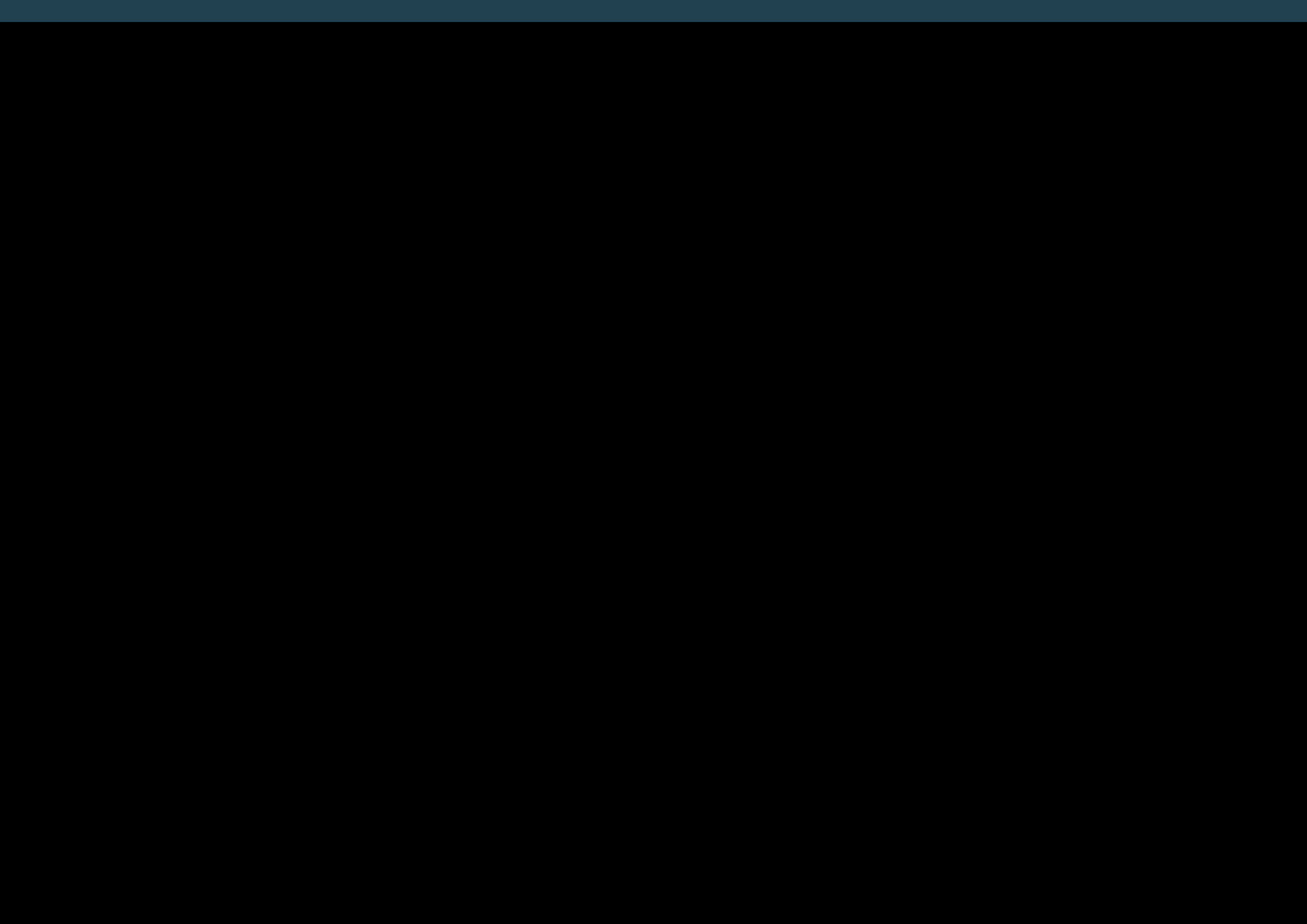
# Bankwest Future of Business: Focus on Hospitality

2019 release



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FOR BUSINESS





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# Key insights

## Foreword

Understanding factors impacting your industry, and how other businesses in your industry are performing, can be a great gauge for how your business is tracking.

The Bankwest Future of Business: Focus on Hospitality Report is designed to give you a snapshot of the current and expected future state of your industry, which could help you plan and spark ideas. The report covers Australia's hospitality sector as it provides insight on accommodation (hotels), pubs, cafes, bars and restaurants. The report also summarises trends based on statistics from IBIS World, the Australian Bureau of Statistics and other reputable sources.

The hospitality sector is performing well. This year's report found revenue is expected to grow throughout the industry in the next five years. By the year 2023, revenue in the hospitality industry is expected to exceed \$108 billion. Growth is strong in Western Australia's pubs and bars market, with the number of establishments growing by 4.1% in the year to June 2017, more than twice the national average of 1.6%.

A weak Australian dollar is helping to attract international visitors to Australia by improving affordability, and increasing overall out-of-pocket spend. The accommodation and food services industry was buoyed by international visitor numbers to Australia rising by 5.9% in the year to June 2018, an increase of 503,500 visitors compared to the previous year.<sup>1</sup> Western Australia benefited from a 17.2% increase in Chinese visitor numbers in 2018 and an 11.3% increase in interstate visitors compared to the previous year.<sup>2</sup>

Technology is increasingly disrupting the hospitality industry as food delivery services continue to grow. Restaurants are having to work harder to get foot traffic through the door, with some responding by developing restaurants that explicitly cater to food delivery services. Changes in consumer tastes and preferences are also disrupting the industry. This encourages pubs to differentiate via high quality food and beverages by offering an alternative experience to formal dining.

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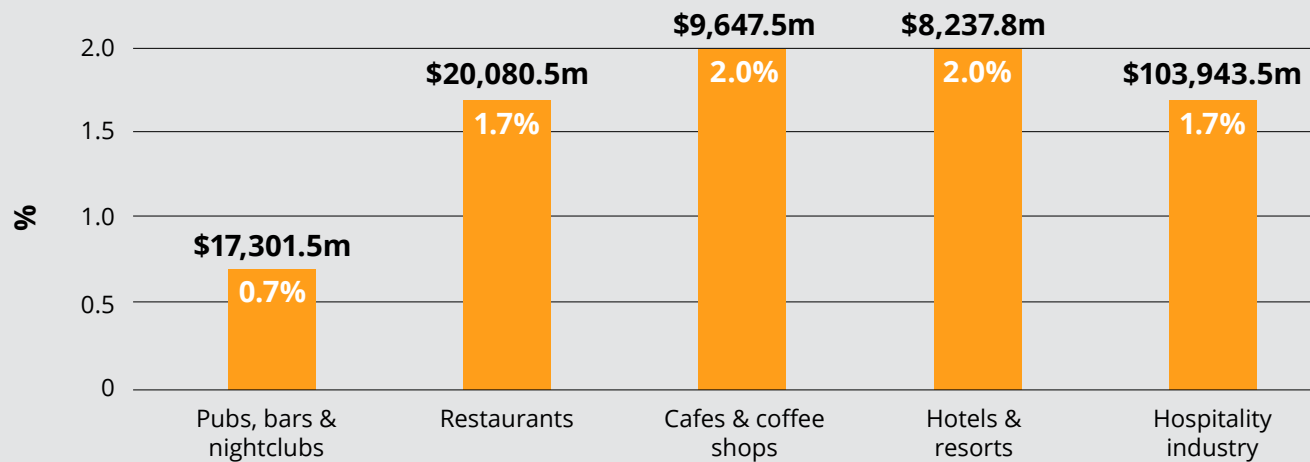
<sup>1</sup>ABS 3401

<sup>2</sup>Tourism WA 2018

# Focus on hospitality

The hospitality industry is experiencing growth across all sectors. In the five years to June 2018, the sector grew by 1.7% annually. Cafés and hotels experienced the strongest revenue growth, growing by an annualised 2.0% respectively during the period.

## Sector compound annual revenue growth, 2013-2018<sup>3</sup>



Source: IBIS 2018

## National snapshot<sup>4</sup>

**133,601**

businesses

**946,772**

employees

<sup>3</sup>IBIS 2018

<sup>4</sup>IBIS 2018

## WA 2018 industry performance

Cafes & restaurants (accounts for **8.3%** of national establishments) **↑ 5.5%**

Pubs, taverns & bars (accounts for **8.5%** of national establishments)<sup>5</sup> **↑ 4.1%**

Chinese visitor numbers in year to June 2018<sup>6</sup> **↑ 17.2%**

Interstate visitors in year to June 2018<sup>7</sup> **↑ 11.3%**

<sup>5</sup>ABS 8165

<sup>6</sup>Tourism WA 2018

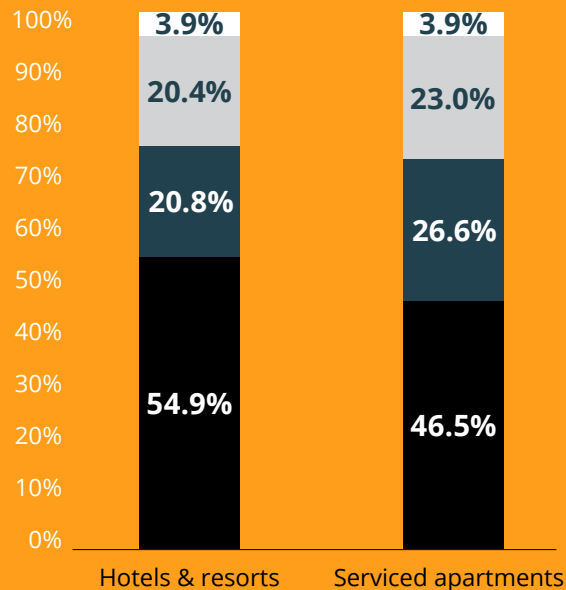
<sup>7</sup>Tourism WA 2018



## Domestic tourism driving accommodation sector

More than half of revenue from Australian hotels and resorts (54.9%) comes from domestic travellers, higher than the 46.5% generated from serviced apartments.

Hotel and resorts revenue by visitor type, Year ending June 2018



- Domestic leisure tourists
- International leisure tourists
- Domestic & international business travellers
- Other visitors

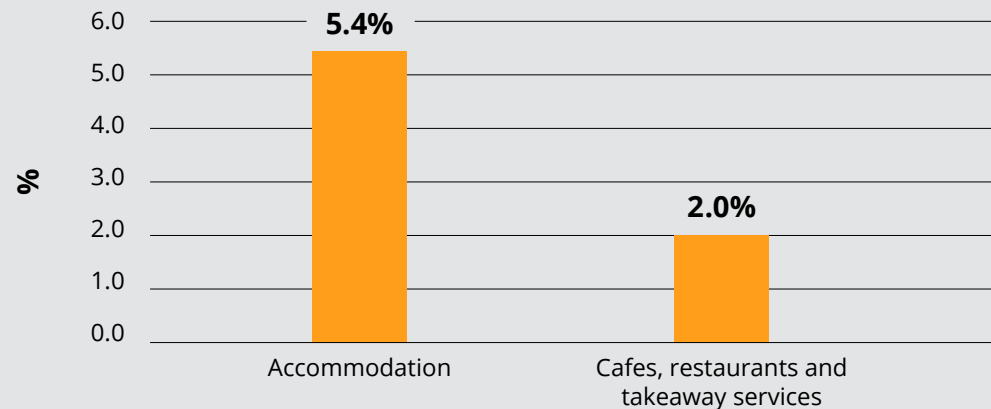
Source: IBIS 2018

## Industry overview

A weaker Australian dollar has driven international tourism to Australia, benefiting the entire hospitality sector in 2018. However, while hotel and resort profit margins remained strong at 11.8% in the year to June 2018, competition in the pubs, taverns and bars sector eroded profit margins to 5.8% from 7.5% the previous year.<sup>8</sup>

Costs are rising in the hospitality sector. As the number of businesses grows, the market is becoming more competitive and establishments are competing for staff, equipment and other inputs, inflating the cost of doing business.

### Producer Price Index, Year ending Sept 2018<sup>9</sup>



Source: ABS 6427

Australians between the ages of 45 and 64 are the largest demographic by both patronage and spend. Establishments should focus on attracting younger customers to ensure long term viability.

<sup>8</sup>IBIS 2018

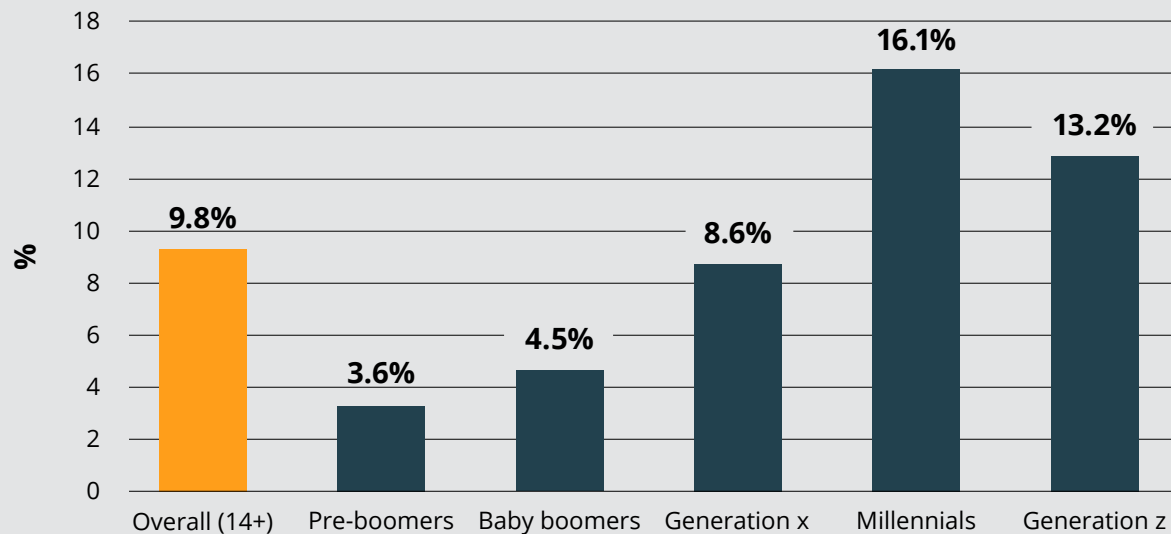
<sup>9</sup>ABS 6427

# What's driving industry growth?

International visitor numbers to Australia are on the rise, with the exchange rate making travel to Australia more affordable and increasing overall out-of-pocket spend. The accommodation and food services industry was buoyed by international visitor numbers to Australia rising by 5.9% in year to June 2018, an increase of 503,500 visitors compared to the previous year.<sup>10</sup> Domestically, despite sustained low real wage growth and tighter lending policies, Australians are favouring little luxuries such as food delivery and streaming services.<sup>11</sup>

Millennials are driving growth in food delivery services, with close to one in five (16.1%) using a food delivery service in the 12 months to March 2018. Revenue from online delivery platforms is expected to quadruple by 2026 to reach \$2.4 billion.<sup>12</sup>

Proportion of Australians that used a food delivery service by generation, Year to March 2018



Source: Roy Morgan Research 2018

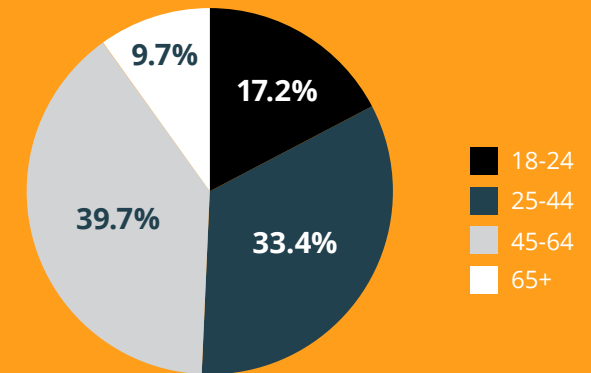
<sup>10</sup>ABS 3401

<sup>11</sup>Deloitte Australia 2018

<sup>12</sup>Morgan Stanley 2018

## Sector breakdown

Pubs, bars, nightclub consumers, Year to June 2018



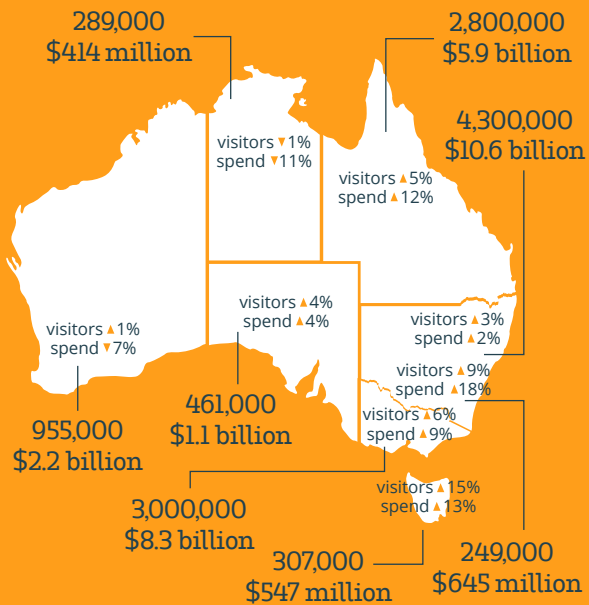
Source: IBIS 2018

*Food delivery services are increasingly connecting businesses to customers but take a substantial margin of revenue (up to 30%). Some businesses are redeveloping their kitchens and establishments to fully capture the opportunity presented by food delivery services. For example, Made Establishment Group in Melbourne has begun developing restaurants that explicitly cater to food delivery services. The food produced in these restaurants is created with travel to the delivery location in mind, and the restaurant layout is optimised for delivery drivers.*

## Accommodation

Despite increased competition from marketplaces such as Airbnb, occupancy in hotels and resorts rose by 1 percentage point to 68.5% in 2017.<sup>14</sup> Visitors who may not have come otherwise are attracted by lower prices and a wide variety of accommodation options, lifting occupancy rates.

### International visitor numbers and spend by state, year to September 2018

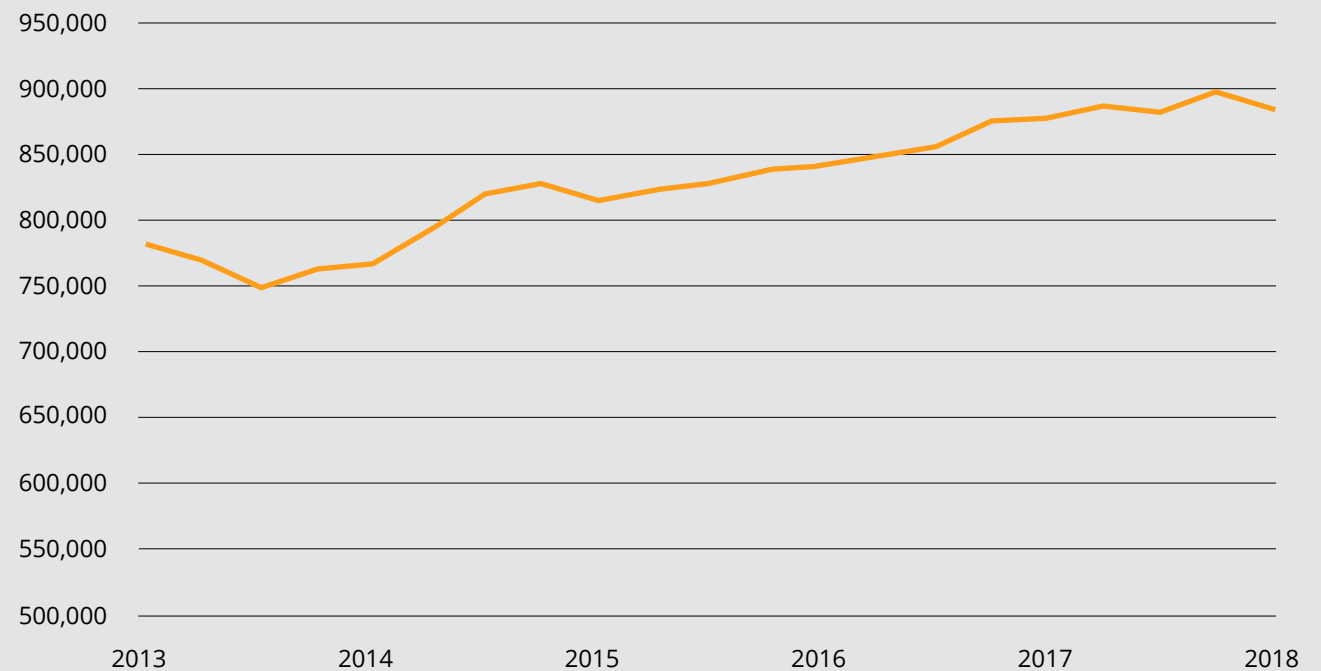


Source: Tourism Research Australia<sup>15</sup>

## Spotlight on Australia

The number of people employed in the hospitality industry rose by 1.5% in the year to November 2018. The gross value added by the hospitality industry increased by 4.1% in the year to June 2018, highlighting the industry's productivity in an increasingly competitive environment.<sup>13</sup>

### Australian hospitality employment, seasonally adjusted, 2013-2018



Source: ABS 6291

<sup>13</sup>ABS 5204

<sup>14</sup>Deloitte 2018

<sup>15</sup>Tourism Australia 2018



# Spotlight on Western Australia

In the year to September 2018, there were 955,000 international visitors to Western Australia, an increase of 0.6%. While more foreign tourists visiting the state is good for the economy, international visitor spend in WA was down 6.9% year on year, compared against an increase of 5.2% nationally.<sup>16</sup>

Inter and intra state travel numbers are also rising.

## Visitors to WA, Year ending September 2018

Interstate: 1.5 million

↑ 8.8%

Intrastate: 9.1 million

↑ 10.1%<sup>17</sup>

Increased local competition in the food and beverage industry and stagnant real wages have subdued growth in the sector.

Increase in food and beverage businesses in year to June 2017

↑ 3.4%

Decline in real wages in year to September 2018

↓ 0.3%

Growth is strong in Western Australia's pubs and bars market, with the number of establishments growing by 4.1% in the year to June 2017, more than twice the national average of 1.6%.

<sup>16</sup>Tourism Australia 2018

<sup>17</sup>Tourism WA 2018



*To attract customers, businesses are focusing on creating unique and memorable experiences. The QT, which opened in Perth's CBD in 2018, aims to appeal to customers with quirky and playful touches including a 'Director of Chaos', who meets and greets guests as they arrive wearing costume to prompt interest and conversations. The opening of new hotels in the city has seen a resurgence of signature restaurants in sophisticated establishments such as Santini at QT, Garum at The Westin and Grand Orient at The Melbourne Hotel.*

## What are successful restaurants, bars and pubs doing better?

The sector has grown steadily over the last five years, owing to a growing 'foodie' culture.<sup>18</sup> As customers increasingly seek quality and convenience, new establishments are offering different menus and new food delivery services.

What's most important to patrons?<sup>19</sup>

- ✓ Staff and service quality
- ✓ Dining experiences
- ✓ Security and safety

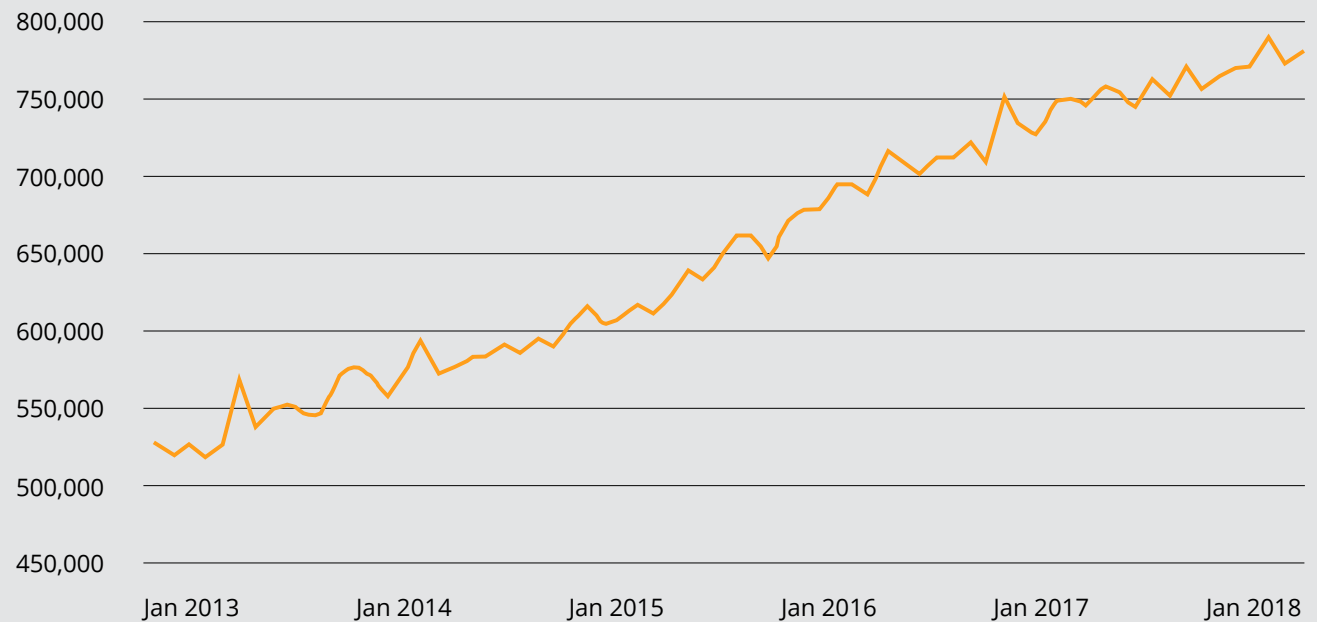
Repeat patrons are drawn by:

- ✓ Proximity to home
- ✓ Atmosphere
- ✓ Food
- ✓ Customer service

## What does the future hold?

The Australian dollar is expected to remain subdued in 2019<sup>20</sup>, which will likely continue to drive international visits to Australia and encourage greater spend per visit. Strong growth in international visits are forecast to continue increasing by 6.9% annually over the next three years, with a corresponding 6.4% increase in international visitor nights.<sup>21</sup>

Australian visitor arrivals, 2013-2018, Seasonally adjusted



Source: ABS 3401

<sup>20</sup>Trading Economics 2018

<sup>21</sup>Deloitte Tourism Outlook 2018

<sup>18</sup>AISC 2018

<sup>19</sup>ShineWing 2015

# What challenges does the industry face?



Low real wage growth - potential to reduce demand for luxury items.



Technology disruptions - online food delivery services and Airbnb challenging traditional business models.



Demand for excellence - online review sites will continue to place pressure on businesses to ensure they are providing quality services to more discerning customers. A survey of consumers found that 86% read reviews for local businesses.<sup>22</sup>

<sup>22</sup>Bright Local 2018

## Drivers of success

Successful hospitality businesses will continue to evolve their service offerings to cater to evolving consumer trends including:



Expected growth in online delivery applications



Increased health consciousness driving demand for premium and organic products



Increased competition for skilled staff to increase



Greater need to drive marketing initiatives to get in consumers' consideration set

## Chinese tourism boom

Increased tourism numbers from Asia, as well as larger student numbers, present accommodation and food businesses with an opportunity to diversify their offerings and cater to the tastes and preferences of emerging markets such as India, China and Indonesia.

In the year to June 2018...

Visitor arrivals to WA from China  **17.2%**

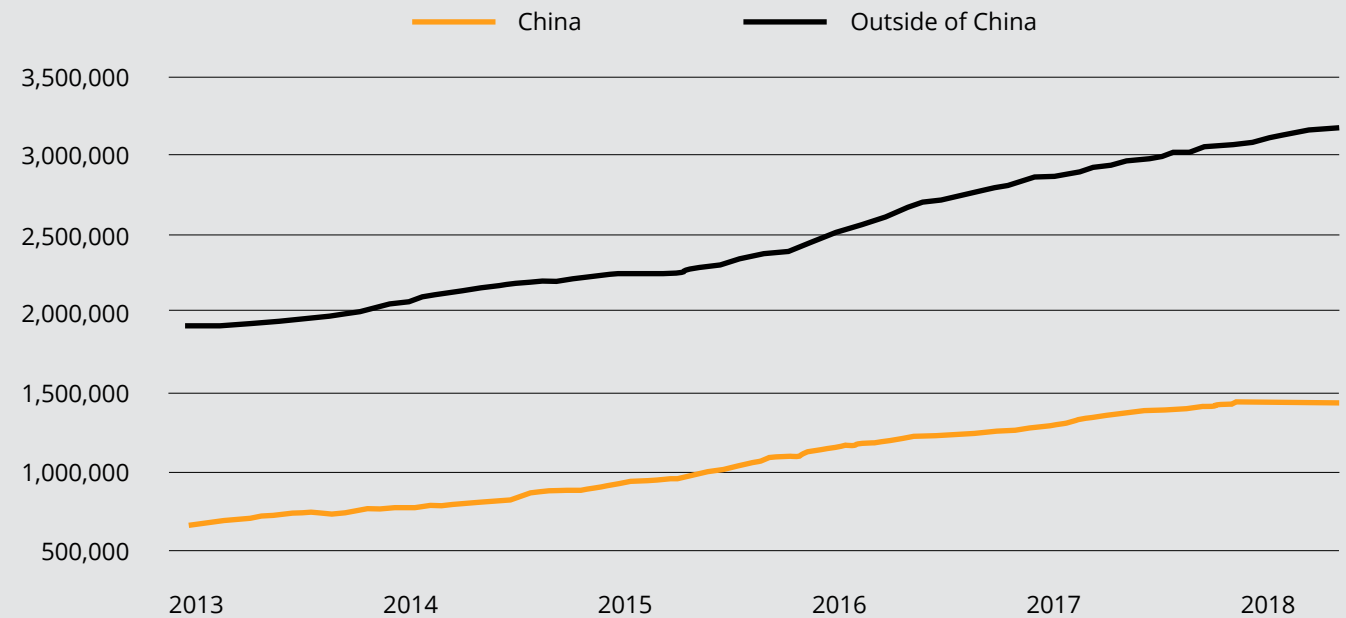
Chinese visitor spend<sup>24</sup>  **13.7%**

Australia had 4.5 million tourists from Asia in the year to September 2018, the largest of any continent.<sup>25</sup>

# Where do the opportunities lie?

In the year to June 2018, Chinese visitor numbers to Australia grew by 11.6%, lower than WA. Looking over the past five years, Chinese visitor numbers have doubled (increased by 104.2%) to more than 1.4 million. In context, visitors from other Asian countries have increased by 59.6% over the same five-year period, highlighting just how big an opportunity the Chinese market provides the hospitality sector.

Visitor arrivals to Australia from Asia, China vs Rest of Asia, 2013 - 2018<sup>23</sup>



Source: ABS 3401

Food delivery services have substantial growth potential. Restaurants can improve their margins and capture a greater segment of the market by focusing their production around food delivery, and can employ delivery services to facilitate turnover in off peak times.

<sup>23</sup>ABS 3401

<sup>24</sup>Tourism WA 2018

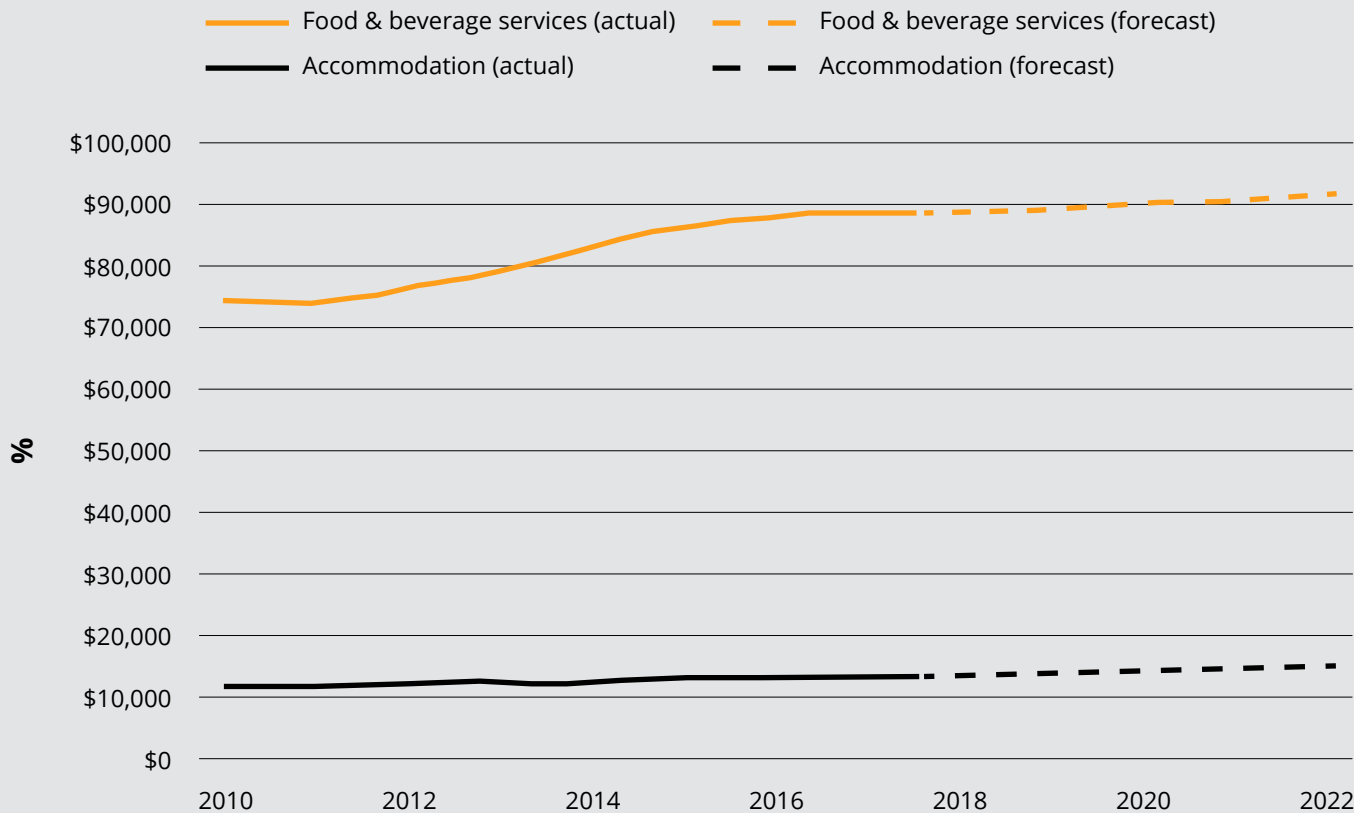
<sup>25</sup>ABS 3401



# Forecasted industry growth

Revenue in the hospitality sector is expected to grow by 4.6% over the next five years, with total industry revenue expected to exceed \$108 billion by 2023.<sup>26</sup> The accommodation sector is forecast to grow by more than the food and beverages sector during the period (10.7% vs 3.4%).<sup>27</sup>

Forecasted industry growth, food & beverage vs accommodation, 2010 - 2022



Source: IBIS 2018

<sup>26</sup>IBIS 2018

<sup>27</sup>IBIS 2018

## Projected annual revenue growth 2018 - 2023<sup>28</sup>

Hotels and resorts  **2.7%**

Serviced apartments  **2.5%**

Restaurants  **0.5%**

Pubs, bars and nightclubs  **0.6%**

Cafes and coffee shops  **1.7%**

Source: IBIS 2018

<sup>28</sup>IBIS 2018

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