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. 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.

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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1 ABS 3401
2 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

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<tbody>
<tr>
<td>Pubs, bars &amp; nightclubs</td>
<td>$17,301.5m</td>
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<td>0.7%</td>
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<tr>
<td>Restaurants</td>
<td>$20,080.5m</td>
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<td>$20,080.5m</td>
<td>1.7%</td>
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<tr>
<td>Cafes &amp; coffee shops</td>
<td>$9,647.5m</td>
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<td>$9,647.5m</td>
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<td>$9,647.5m</td>
<td>$9,647.5m</td>
<td>2.0%</td>
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<tr>
<td>Hotels &amp; resorts</td>
<td>$8,237.8m</td>
<td>$8,237.8m</td>
<td>$8,237.8m</td>
<td>$8,237.8m</td>
<td>$8,237.8m</td>
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<tr>
<td>Hospitality industry</td>
<td>$103,943.5m</td>
<td>$103,943.5m</td>
<td>$103,943.5m</td>
<td>$103,943.5m</td>
<td>$103,943.5m</td>
<td>$103,943.5m</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Source: IBIS 2018

National snapshot

133,601 businesses
946,772 employees

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) 4.1%
- Chinese visitor numbers in year to June 2018 17.2%
- Interstate visitors in year to June 2018 11.3%

Source:
3IBIS 2018
4IBIS 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.\(^8\)

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\(^9\)

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.

\(^8\)IBIS 2018
\(^9\)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. Domestically, despite sustained low real wage growth and tighter lending policies, Australians are favouring little luxuries such as food delivery and streaming services.

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.

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

Source: Roy Morgan Research 2018

Source: IBIS 2018

10ABS 3401
11Deloitte Australia 2018
12Morgan Stanley 2018
**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.\(^{13}\)

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**Accommodation**

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

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

- **Visitors**: 955,000 (\(\%\)\), spend: $2.2 billion (\(\%\))
- **Visitors**: 3,000,000 (\(\%\)), spend: $8.3 billion (\(\%\))
- **Visitors**: 2,890,000 (\(\%\)), spend: $4.14 billion (\(\%\))
- **Visitors**: 461,000 (\(\%\)), spend: $1.1 billion (\(\%\))
- **Visitors**: 249,000 (\(\%\)), spend: $0.645 billion (\(\%\))
- **Visitors**: 2,800,000 (\(\%\)), spend: $5.9 billion (\(\%\))
- **Visitors**: 4,300,000 (\(\%\)), spend: $10.6 billion (\(\%\))

Source: Tourism Research Australia\(^{15}\)

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14Deloitte 2018
15Tourism Australia 2018
13ABS 5204
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.16

Inter and intra state travel numbers are also rising.

Visitors to WA, Year ending September 2018

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
<th>Change</th>
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<tbody>
<tr>
<td>Interstate</td>
<td>1.5 million</td>
<td>8.8%</td>
</tr>
<tr>
<td>Intrastate</td>
<td>9.1 million</td>
<td>10.1%</td>
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</tbody>
</table>

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  

<table>
<thead>
<tr>
<th>Type</th>
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<tbody>
<tr>
<td>Increase in food and beverage businesses in year to June 2017</td>
<td>3.4%</td>
</tr>
<tr>
<td>Decline in real wages in year to September 2018</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

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%.

16Tourism Australia 2018  
17Tourism 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 does the future hold?

The Australian dollar is expected to remain subdued in 2019\(^\text{20}\), 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.\(^\text{21}\)

### Australian visitor arrivals, 2013–2018, Seasonally adjusted

![Australian visitor arrivals, 2013–2018, Seasonally adjusted](chart.png)

Source: ABS 3401

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\(^{18}\)AISC 2018  
\(^{19}\)ShineWing 2015  
\(^{20}\)Trading Economics 2018  
\(^{21}\)Deloitte Tourism Outlook 2018
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.22

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

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22Bright Local 2018
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

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.
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. The accommodation sector is forecast to grow by more than the food and beverages sector during the period (10.7% vs 3.4%).

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

Projected annual revenue growth 2018 - 2023

- 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

IBIS 2018

IBIS 2018
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