

# UK Hospitality Industry 2024: A Financial Guide

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The hospitality industry is central to the UK economy. Across the food and beverage, accommodation, travel and tourism, and entertainment and recreation sectors, the industry is the UK's third biggest employer, providing livelihoods to some 3.5 million workers.

It directly contributes £93bn to the economy annually, adding billions to the public purse in tax receipts, and attracting billions more in inward business investment.

And yet the past few years have been tumultuous at best for such a keystone industry. Pummelled by the COVID-19 pandemic, hospitality businesses have had to deal with soaring costs, falling customer numbers, labour shortages and rapid changes in consumer habits in the aftermath.

The purpose of this guide is to take a snapshot of where the industry is right now in 2024, and offer some insights into the path forward. As a financially focused guide, we're interested in the core financial indicators - revenue, profits, margins, employment, growth. To that end, we've based our commentary on figures from IBISWorld's annual industry report, broken down into three core sub-sectors - Hotels, Pubs & Bars, Dine-in Restaurants. Unless otherwise stated, all figures referenced are from IBISWorld.



## The post-Covid context

No discussion about the current state of the hospitality industry can ignore the ongoing fallout of the COVID-19 pandemic. With the possible exception of retail, no industry was hit harder by lockdowns and social distancing measures. In 2019, the food & accommodation sector contributed 3% of the UK's GDP. By the end of 2021, that figure was down to 2%. Output fell by 42% in 2020, and was still 21% down on pre-pandemic levels in 2021, despite the easing of restrictions and the government's now infamous 'Eat Out to Help Out' scheme that summer.

There were exceptions, as the UK's accommodation and tourism industries benefitted from the 'staycation' boom while international travel was restricted. But overall, the story of the past four years has been one of the hospitality sector struggling to make up lost ground amidst depleted revenues, squeezed margins and significant labour shortages.

## Hotels

While certain sub-sectors of the accommodation industry such as campsites and holiday rentals reaped the rewards of tightened travel and social distancing rules during the pandemic, the hotel industry wasn't so fortunate. Forced closures followed by a dramatic drop in demand from international tourism, plus strict limits on occupancy levels, all hit bottom lines hard.

The effects are still being felt. Five-year forecasts from IBISWorld predict that, in the five year period from the start of 2020, UK hotel revenues have declined at an annual CAGR of 1.2%. Profits have taken an even harder hit, down 3.1% per year in the same period, equating to a contraction in profit margins of 1.9 percentage points per year.

Furlough was also a contributing factor to falling employment levels in the industry. When hotels temporarily shuttered their doors in 2020, many staff simply didn't return. With stricter post-Brexit immigration rules also taking effect in 2021, many foreign workers were also lost to the industry.





## Pubs & Bars

Like the hotel sector, pubs and bars were dealt a hammer blow by the initial lockdown orders that forced establishments to close in the spring of 2020. Revenues in the pub and bar industry fell by 60% in March 2020 alone, even though lockdown wasn't announced until the end of that month.

But unlike hotels, and similar to retail, many pubs and bar operators were able to pivot quickly to off-trade and takeaway food services, meaning the precipitous drop in revenues didn't last nearly as long. As a result, the sector has been able to show greater resilience, with five-year revenue forecasts showing an annual increase 2.2% CAGR.

However, a combination of economic pressures, including the high rates of inflation in goods and utilities in the immediate post-pandemic period, have squeezed margins hard, falling at a five-year CAGR of 1.1 percentage points up to 2025.

Another pressure is rising wage costs, again a symptom of chronic labour shortages. According to IBISWorld, there were 107,000 vacancies in early 2024, a 15% increase from pre-pandemic levels.

## Dine-in restaurants



As with bars and pubs, dine-in restaurants were forced to quickly pivot to alternative operating models when the pandemic hit, or face not being able to open for business at all. Despite the well-publicised efforts to bolster the sector from 2021 onwards, a combination of social distancing measures restricting customer throughput and intense competition in the takeout market made it difficult to bolster revenue. Overall, earnings in the sector are expected to have contracted at a compound rate of 1.5% in the five years to 2025.

Even before COVID-19, many restaurant businesses were being driven out of the market by factors including high rents. High post-pandemic inflation, especially for many stock food items as the war in Ukraine disrupted commodity markets, put restauranteurs in the difficult position of having to pass on price increases to customers who were already cutting back on non-essential spending as the cost of living crisis took hold.



## Current state of play

As we've seen, revenue and profitability recovery has happened at different rates across different hospitality sub-sectors in the post-COVID period, as businesses have battled to come to terms not only with the severe disruption caused by the pandemic itself, but the impact on consumer spending, inflation and employment in the immediate aftermath.

But as we approach five years since the pandemic, the industry is starting to look forward again, with some cause for optimism, but also some cause for concern as well. Before we look at the industry outlook for the next five years, let's take a snapshot of some of the challenges and opportunities businesses are faced with right now.

## Hotels

Recovery in the UK hotel sector has been something of a bumpy road. While hotels didn't get the full benefit of the initial staycation boom because of occupancy restrictions, the post-Brexit decline in the value of the pound in 2022, coupled with major disruptions in the air travel sector, did temporarily lead to a mini-boom in domestic bookings. However, the benefits of that were tempered by soaring inflation, before competition from foreign travel picked up again in 2023.

Competition is perhaps the key word describing the sector at present. Online travel agents (OTAs) and price comparison sites have become even more influential in the post-COVID era, intensifying competition as travellers seek out the best deals possible amidst rising costs. In response, many hotel chains have started to employ dynamic pricing strategies in order to maximise occupancy rates. It works for securing bookings, but often at the expense of margins when the biggest discounts are offered.



In the face of intense competition, many hoteliers are investing more and more in the guest experience as a key point of differentiation. Technologies like self-check-in kiosks, digital room keys and 'smart room' automation aim to make a premium experience as convenient and accessible as possible, putting guests in control. Again, with OTAs and price comparison sites putting nearly endless choice at people's fingertips, the maxim "give customers what they want" has never been so relevant.



## Pubs & bars

Despite revenues in the pub and bar industry increasing over the past five years and profits remaining more stable than in the hotel and restaurant sectors, operators still face significant challenges. Nothing sums this up better than the rate at which pubs are closing. According to CGA, two pubs out of every 100 in the UK were forced to shut in the year to March 2024.

As well as the labour shortages, wage and cost increases already mentioned, significant shifts in consumption habits are driving this shrinkage in the sector.

On the one hand, alcohol consumption is falling, with a steady decline over the past decade in both the frequency of drinking and the number of adults who drink every week. Part of this is down to rising health awareness, as typified by initiatives like Dry January. 62% of Brits took part in the scheme in 2023.

Another significant factor is increased competition from the off-trade, and how that is intersecting with rising alcohol prices and squeezed household budgets. While on-trade overheads increase, supermarkets are happy to use alcohol in 'loss leading' pricing strategies, triggering intense price wars. That is having a significant impact on drinking habits among price-conscious consumers who are opting to drink at home more frequently than ever.

Quite simply, pubs and bars can no longer rely on alcohol sales alone to remain viable. They must diversify their offerings, whether it's through food, entertainment or providing new products and services, if they are to bolster customer numbers and secure sufficient revenues to grow again.





## Dine-in restaurants

As in the pub and bar trade, dine-in restaurants face some significant shifts in consumer habits. Technology and changing attitudes to health, nutrition and sustainability are to the fore. The latter is perhaps best encapsulated by the spike in demand for vegan/plant-based options, although the cost of living crisis has slowed what was a booming market.

Other examples include the growing expectation for restaurants to provide sufficient 'free from' options to accommodate allergy sufferers, combined with being able to provide accurate and detailed allergen information. Another is increased consumer awareness about food provenance. Combined, these shifts put restaurant operators under more pressure than ever to be discerning about what they put on the menu, and also to prioritise communication with customers.

On this last point, technology offers a helping hand. The COVID pandemic helped to turn delivery apps like Just Eat, Deliveroo and Uber Eats into mass-market phenomena as takeout and home delivery became the default 'eat out' option. While presenting another competitive challenge to the dine-in sector, it has created opportunities as well.

Just as they have become used to ordering takeout through delivery apps, diners are increasingly turning to platforms like OpenTable to make dine-in reservations, creating new opportunities for restaurants to reach new customers. User reviews are of critical importance in this digitised dining economy. Not only do restaurants have to double down on getting the dining experience right in order to grow the right reputation, operators also have to be savvy in how they utilise the digital channels available, including social media. Social media is a crucial route to communicating credentials to a modern dining audience, including sharing menu details and listening to customer feedback.



The signs are positive that, after a turbulent few years, the restaurant sector is embracing these opportunities to show positive signs of growth again. In 2024-25, revenue is anticipated to increase by 7.8%.





# The future outlook

There's no doubt it's been a long and rocky road for the UK hospitality sector over the past five years. But what about the future? Have things stabilised sufficiently that operators can start to look forward with optimism? Will the 'green shoot' blossom into sustained growth?

## Hotels

No seasoned hotel industry professional expects the bumps in the road the sector has faced to smooth out completely. Volatility comes with the territory. The hotel industry is susceptible to a cocktail of changeable factors such as domestic and international tourism trends, economic conditions, disposable income levels, consumer confidence and more. The pandemic highlighted just how vulnerable revenue can be to such factors to an extreme extent. But pandemic or not, they're always there.

The positives are that hoteliers are used to operating in a volatile market. And after several difficult years, the sector is forecast to return to growth again. IBISWorld anticipates revenues increasing by a CAGR of 2.3% between 2025 and 2030, by which point they will be back above pre-pandemic levels.

Competition from short-term rentals like Airbnb will continue to challenge hotels, making it imperative to keep prices competitive and offer value-added services. However, restrictions being imposed on short-term rentals in cities ranging from New York to Paris, and Barcelona to Berlin, hint that a new regulatory landscape could favour the hotel trade.

That's not to say that hotel operators can afford to rest on their laurels. To stay ahead, they will need to stay focused on developing a loyal customer base, securing a flexible workforce, managing seasonal demand fluctuations, and catering to a diverse clientele. Embracing sustainability practices and catering to growing trends like wellness tourism will help in this regard.





## Pubs & Bars

Unlike the hotel industry, the pub and bar sector looks to the future from a position of already enjoying higher revenues than pre-COVID. IBISWorld predicts this trend will continue, with revenue growth doubling to a CAGR of 4.4% by 2030.

There are some caveats to this, however. Much of this revenue growth is founded on passing on cost increases, which for both drinks and food has been a matter of necessity for most operators. But as we've seen, that doesn't necessarily align with growth in profitability. Especially while consumer budgets are squeezed and confidence remains low, pubs and bars will have to work hard to ensure they have a value proposition customers buy into for the higher prices.

Again, diversification in the sector will be key to this. Trends like gastropubs, craft beer, novel entertainments and a doubling down on creating aesthetically pleasing environments are all proven ways of attracting customers who prioritize quality - and are prepared to pay for it. According to research by CGA, 53% of customers say they are happy to pay more for premium food, drink and service.



Talking of service, another key factor is making sure establishments have access to a flexible, skilled workforce. Good service depends on getting your staffing levels right, especially to cope with demand at peak times. The good news is that IBISWorld forecasts that employment levels in the sector will return to modest growth in the next five years (0.5% CAGR). But crucially, revenue per employee is forecast to grow by 3.8% a year.

## Dine-in restaurants

The dine-in restaurant sector is forecast to see revenues grow at a compound annual rate of 5.5% up to 2030. That's a cause for real optimism, especially if inflation continues to fall. But it will be dependent on restaurateurs recognising and responding to shifts in consumer habits and expectations.

Innovation and agility will be the watchwords in the sector going forward, whether it is responding to growing health and environmental consciousness in dining habits, interest in new cuisines, preference for premium experiences, or popular emerging formats like fast-casual.



Underpinning it all, however, operators cannot afford to lose focus on delivering value for money. [BidFood's 2024 Food Market Report](#) found 77% of consumers identify themselves as 'value-driven' when it comes to eating out, with 44% saying promotions play an important role in where they choose to dine. That doesn't mean the sector has to embroil itself in a race to the bottom on price, but it does mean the value proposition should be absolutely clear in pricing strategies.



## Your next steps

Hospitality is a vibrant, rich and dynamic industry. As a cornerstone of the service economy, it taps directly into what is arguably the most rewarding objective any business venture can have - making people happy.

At the same time, it is also an industry that is intrinsically complex, volatile, and at times precarious. The simple truth is that what hospitality businesses sell is a luxury. That makes the industry acutely vulnerable to wider economic turbulence, whatever form it may take. When times get harder and people start tightening their belts, luxuries are the first things to go.

Tight margins, volatile costs, intense competition and rapidly changing consumer trends are just some of the factors that make steering a course to stability and growth in the industry so challenging. But you don't have to go it alone.

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