

Working Paper

Reimagining the Workforce: The Future of Work in Hospitality

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This is the first in a series of articles on labor challenges facing the hospitality industry. This article will focus on the shifting worker preferences and pandemic-related trends that challenge the industry's position as an employer of choice. The next article in the series will expand upon potential solutions to enhance the industry as an employer of choice while alleviating labor shortages.

The hospitality industry has long celebrated examples of employees who progressed from the front lines to the board room. Recent or current CEOs of four of the world's largest hotel chains began their long successful careers in kitchens or maintenance departments.

But how can the industry continue to attract, develop, and retain a high-quality workforce and maintain those upward career paths, when it currently faces a perfect storm of labor challenges that no single company can overcome on its own?

These challenges can serve as a catalyst for innovation in technology, working models, and talent management, in order to position lodging once again as an "industry of choice" for future workers. We feel that organizations can still provide the career aspiration and support necessary to groom a new, more diverse generation of future leaders. But the solutions will be neither simple nor "more of the same," given the magnitude of the current challenges. The most impactful solutions will likely require collaboration between hotel brands, owners, and managers.

This paper will suggest some quick-win actions for the industry to consider. However, we believe that the challenges will require long-term transformative solutions. Our path forward is to launch an "industry think tank" initiative, facilitated by New York University (NYU) and Boston Consulting Group (BCG), to collaborate with industry leaders to identify, define, and coordinate the right strategic solutions to the current labor challenges. That process begins with understanding the current situation, its root causes and implications, and what employees are expecting.

The state of labor in the hospitality industry

In the decade prior to the Covid-19 pandemic, the travel and lodging industry underwent a major evolution that set the stage for the current labor challenges. Large mergers reshaped the industry landscape and dozens of new brands entered the market. New technology on- and above-property transformed how guests book and experience their trips.

At the same time, higher wages put significant pressure on hotels' financial performance. Average labor costs at full-service hotels in New York increased from 47% of revenue to 51% of revenue across all departments between 2016 and 2019 according to HOST Reports from STR. Specifically for the rooms department, average labor costs increased from 25% of rooms revenue to 29.5% of rooms revenue in the same period.

The shock of the pandemic thrust the labor issues to the forefront. Historically low occupancy, which dipped to roughly 20% in the US in the second quarter of 2020, led nearly every major company to close hotels temporarily and to furlough corporate or hotel staff.

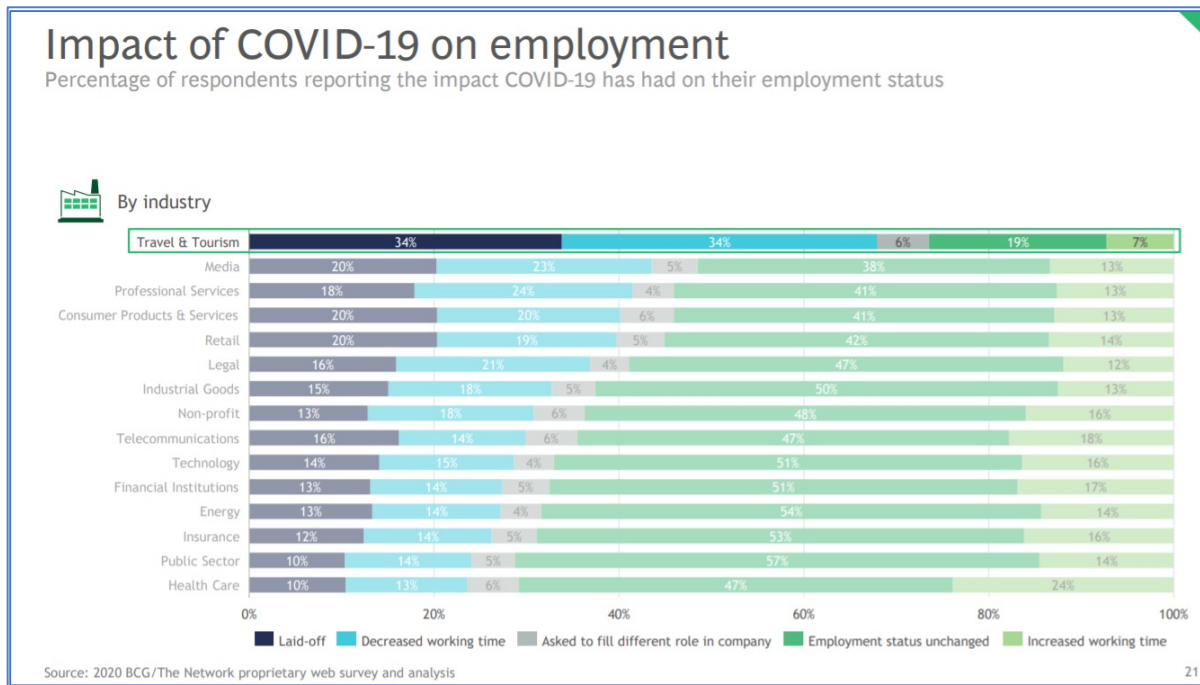


Exhibit 1: How Covid-19 affected employment, by sector

Nearly 70% of global travel and tourism workers were either laid off or were subject to decreased working time during the pandemic, according to the 2021 BCG/The Network

“Decoding Global Talent” study, which had over 200,000 total participants and 7,600 from the hospitality sector (see Exhibit 1.) The next closest industry in terms of layoffs or shortened working time was media at 43% of the workforce.

What happened when conditions for travel and tourism improved? Two simple sentences summarize the outcome.

Most of the guests returned. A lot of the employees didn’t.

By early October 2021, occupancy was down by only 9.6% compared to the same period in 2019, according to U.S weekly hotel results from STR. Offsetting this good news, however, was a labor shortage stemming from two self-reinforcing issues that could spiral if the industry does not address them simultaneously:

- **Shifting labor demographics and labor-force participation:** The Accommodation and Food Service sector had nearly 1.6 million job openings in July 2021, according to the US Bureau of Labor Statistics. That is roughly twice as many openings as in December 2019. But the labor force in Leisure and Hospitality declined by approximately 10% over roughly the same period (January 2020 to August 2021).
- **Changes in employee preferences after the pandemic:** Short-term factors such as flexible work time, financial security, and good relationships with co-workers and superiors became more important, especially in the US. Longer-term factors such as skills training and career advancement became less important.

The number of employees in the sector who have quit their job also continues to rise steadily. In the BCG/The Network study, the retail, food, and travel workers who voluntarily changed jobs since March 2020 cited better pay as the primary reason far more often than health concerns, other job impacts due to COVID-19, and many other factors. Reduced supply in the hospitality labor market means that employers must pay a premium to attract talent. Average hourly earnings in Leisure and Hospitality rose by 11% year-on-year as of August 2021, compared to roughly 5% growth in hourly earnings across the broader private sector.

The rapid increase in hospitality wage rates is a factor in a recent spike in the quits rate, which is the share of workers leaving their jobs voluntarily. It spiked in mid-2021 to roughly

6.5% as compared to the typical pre-pandemic rate of less than 4.5%. At the same time, the US Census Bureau's "Small Business Pulse Survey" recently found that small businesses in Accommodation and Food Service (which includes many hotels) are nearly twice as likely to have had difficulties hiring paid employees as the national average for all US small businesses in August and September 2021.

What are the implications?

The implications of these labor challenges are enormous, both for hotel companies' economics and for their ability to reopen, remain open, and deliver the desired guest experience.

When labor costs rise, companies in the hospitality sector often try to reduce costs elsewhere. Some luxury hoteliers have eliminated the evening turn-down service due to staff shortages and due to concerns that guests would object to additional staff in rooms during the pandemic. Others eliminated the concierge department and now ask phone operators to execute concierge requests from guests. Many hoteliers have reduced or shifted to "only upon request" for stay-over room cleaning service. Others have reduced the scope of food and beverage outlets, while some that managed their own F&B before the pandemic have now outsourced it to third-party operators. Some hotels have reduced or discontinued their airport or other shuttles.

These service cuts not only have the potential to erode the guest experience. They may also slow the recovery of the average daily rate (ADR), because guests see a diminished value proposition due to cuts in amenities and services. Exacerbating this is the negative impact of the service cuts on the employee experience, which is driving even more people away from the industry. Hotels thus risk a downward spiral that leaves profit squeezed between the rising labor costs and the declining ADR.

Finally, larger shifts in the industry have reduced the perceived stability and long-term prospects for a career in lodging. The lengthy furloughs during the pandemic left many workers wondering if it could happen again. Meanwhile, other external factors have made many lodging jobs more difficult. Labor challenges for airlines, such as challenges in hiring

enough pilots, contribute to flights cancellations that in turn lead to cancelled hotel reservations. This effect further complicates the hotels' perennial challenge of forecasting demand and scheduling the right number of staff to serve guests.

Altogether, these changes have tarnished people's perceptions of a job in hospitality, never mind a career. For many employees in the lodging industry, service-oriented culture was historically a source of pride that drove inherent motivation and purpose to the job. Purpose-driven organizations have had lower employee turnover over the past 15 years, according to BCG research. Data on the post-graduation career choices for NYU Tisch Center of Hospitality graduates also validates this change in perception. Between 2016 and 2019, there was a meaningful shift toward hospitality real estate and away from other jobs, suggesting a gradual erosion in the appeal of hospitality operations and management jobs.

What do employees want?

The answer to that question is evolving for workers in the travel and tourism industry. In this section, we will look at three aspects: what matters at work, where and when employees want to work, and the importance of social values.

What matters at work

The BCG/The Network "Decoding Global Talent" study asked workers to rank the importance of 29 factors in their job preferences. Longer-term factors such as career development opportunities and skills training fell in importance for travel and tourism workers from 2018 to 2021 [see Exhibit 2]. Meanwhile, shorter-term factors – such as relationships with colleagues and superiors – rose in importance, as did factors related to job security and financial stability.

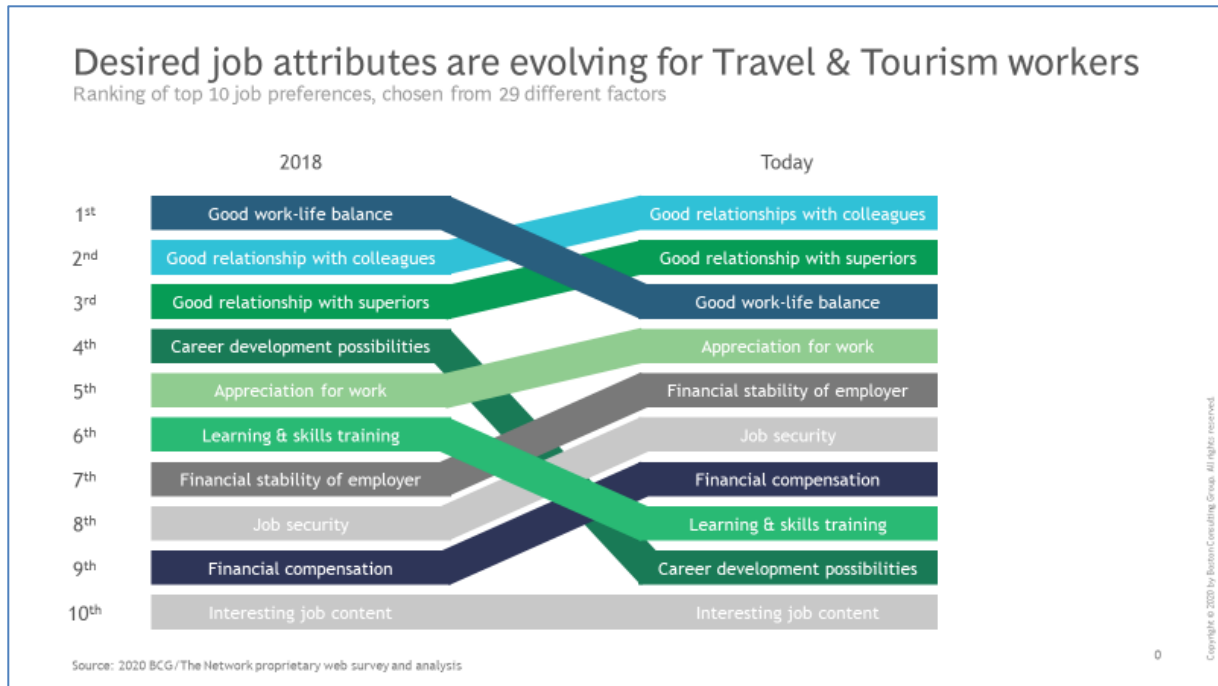


Exhibit 2: Changes in desired job attributes for travel and tourism workers, 2018 to 2021

But the BCG/The Network study revealed significant differences across geographies. US and European workers in travel and tourism ranked work-life balance similarly, but US workers now assign far less importance than their European counterparts to longer-term factors, such as learning and skills training or career development possibilities. On the other hand, US workers assign significantly more value to family-friendly working models than Europeans.

Where and when employees want to work

Flexibility is an important decision criterion for employees when they choose a job, and the hotel industry has felt the impact. Some 36% of those who have switched away from the industry now work in a job with a self-directed schedule, such as Uber/Lyft drivers or on-demand grocery shoppers. Another 17% have switched to a job with weekly variable schedules, as opposed to fixed-schedule part-time jobs.

In general, workers have increasing employment opportunities in “gig economy” and other jobs that offer greater flexibility. Research shows that 67% of workers now prefer jobs with

flexible working shifts, which raises the appeal of these jobs that compete with the lodging industry to hire and retain labor. The situation is even more dramatic in the travel and tourism industry, as implied by Exhibit 3, which shows where employees would prefer to work.

Prior to the pandemic, only 7% of employees worked completely remotely, while 71% of employees worked completely on-site. But today, if given the choice, 89% of employees now say they would prefer to work either entirely or partially remotely. The BCG/The Network study also found that men are slightly more likely than women to prefer either completely-remote or completely-onsite working models, while more women prefer some form of hybrid working model. The study showed that a similar number of US and European workers (roughly 12%) would want to work entirely on-site if given the choice, but nearly twice as many US workers (roughly 40%) as European workers (roughly 20%) say they want to work entirely remotely.

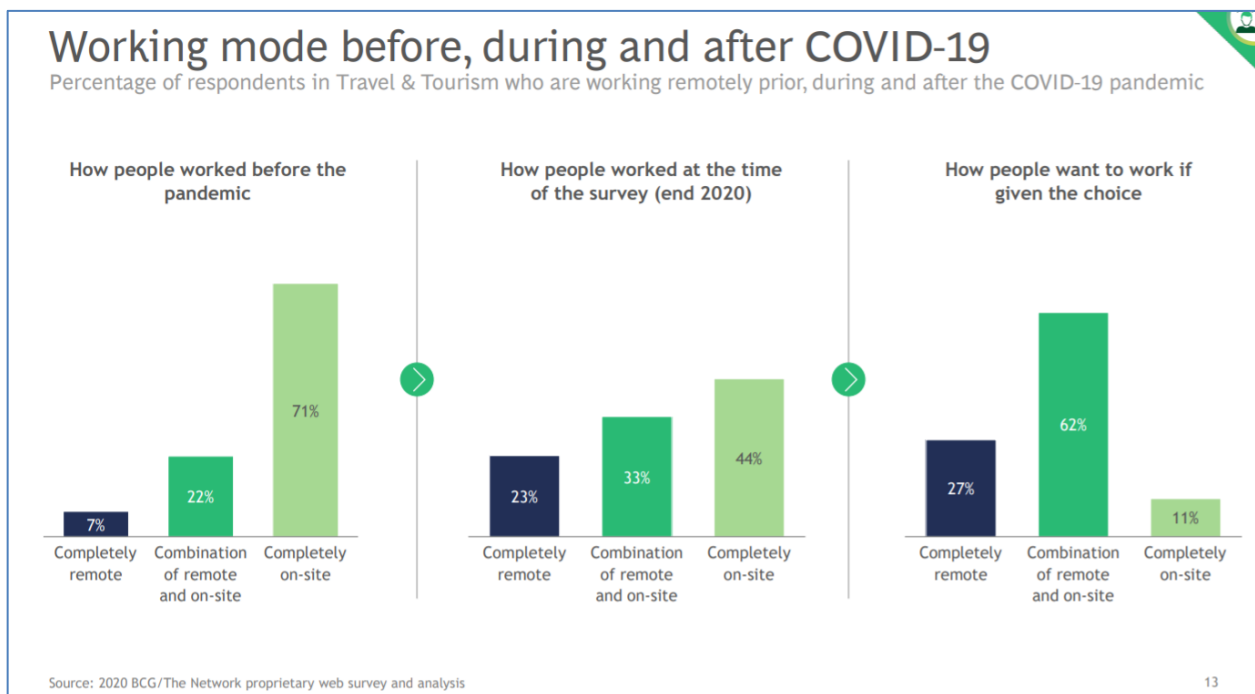


Exhibit 3: Employees preferences for remote and hybrid models have shifted dramatically since the pandemic.

Importance of social values

Based on the 2021 BCG/The Network study, diversity and inclusion is also significant issue for employees in the travel and tourism industry. Some 75% of participants indicated that the issue of diversity and inclusion has become more important to them over the past year, with higher agreement towards this sentiment for respondents under 40 years old. Additionally, 53% of employees indicated they would rule out companies that don't match their beliefs in diversity and inclusion.

These findings underscore the importance of appealing to and creating a diverse workforce. However, across many industries in the US, companies struggle to promote diversity in leadership and career advancement, despite a variety of efforts toward more diversity in recruiting and hiring.

Racial diversity in US business leadership across sectors was stagnant over the decade prior to the pandemic. The share of Black members of middle management only changed from 7.3% to 7.5% from 2007 to 2018, while in senior management it had declined from 3.6% to 3.3%, according to the US Equal Employment Opportunity Commission.

One third of employees who are from diverse backgrounds report seeing significant barriers for advancement. Hospitality higher education sees similar dynamics. The NYU Tisch Center of Hospitality has had a significant increase in enrollment of women and Hispanic students over the past 10 years, but the share of Black students has been flat over that period.

What are the solutions?

We recently gathered "Voice of the Industry" viewpoints from a group of senior industry leaders on these labor challenges. This exercise uncovered many ideas and experiments already underway to address the challenges in the short-term. It also revealed that senior industry leaders are very divided about how the labor challenges will evolve in 2022. More than two thirds of our advisory group foresee very similar challenges in 2022, while less than one third expect that the labor situation will improve next year.

Nonetheless, we see three broad areas – across all worker categories – where the industry can act to better identify, attract, and retain the next generation of talent and to position lodging as the industry of choice:

- **Enhance the nature of the work:** These measures include greater flexibility and additional non-financial benefits for on-property and corporate staff in response to changes in employee preferences.
- **Improve talent acquisition and talent management processes:** Some of these measures may require industry-wide collaboration, rather than isolated initiatives by individual industry players
- **Increase equity and diversity:** This applies to all levels of the organization and all stages of an employee’s career path

The “Voice of the Industry” exercise also made it clear that while some quick changes are possible, most solutions will be cross-industry and complex. This complex effort will not yield a “one-size-fits-all” solution, because each role requires its own measures. What works best for front-line staff may not work for skilled workers on-property, whose best solutions in turn may not work for managers on-property, entry-level corporate roles, or more experienced corporate roles.

We’ll now take a closer look at each of the three areas.

Enhance the nature of the work

Greater flexibility could make jobs in the industry more attractive, as lodging competes with other service industries for the same pool of workers. The industry could borrow elements of “gig economy” jobs and adapt them to the unique nature of lodging. Some examples include:

- **Flexible schedules:** Some hoteliers in our advisory panel have introduced new shifts such as afternoon-only room attendant shifts, or 9am-3pm front desk shifts that appeal to child caregivers

- **Shared labor:** Multiple operators in a market could establish partnerships with each other or with established gig economy players (e.g., Uber’s work hub), to share labor flexibly
- **Staffing platforms:** Hoteliers could use new or existing technology platforms to match qualified front-line workers with variable labor demand in the front office, food and beverage, or housekeeping on a daily or weekly basis.

Non-financial benefits could also make lodging a more attractive industry for workers. Some of these benefits could create high value for workers, even at lower cost to the hotelier. Examples include:

- **Loyalty benefits:** Some associates may receive points or discounted stays at other hotels. Such benefits could be analogous to what airlines offer, as airline employees often place a high perceived value on flight benefits
- **Shorter pay periods:** Hotels could offer daily access to wages earned in a given day, instead of traditional pay periods that are weekly or longer.

Finally, hotels could create more challenging and rewarding positions by upskilling employees while phasing out or automating certain tasks through technological innovations. The pandemic has accelerated the adoption of many of these technologies. Members of our advisory panel mentioned increased usage of mobile check-in, digital keys, mobile ordering for F&B, and expanded pre-arrival texts to guests to improve check-in efficiency. Many technology companies are working on new solutions that would allow automation and robotics to reduce the labor needs for some guest service tasks. We will discuss upskilling in more detail in the next section.

Improve talent acquisition and talent management processes

Talent acquisition and talent management provide another set of opportunities to increase both the size of the lodging workforce and the appeal of the industry to potential candidates.

- **New pathways into and upward within organizations:** Airlines have faced similar challenges in the competition for increasingly scarce labor. Some of the initiatives they deployed may be adaptable and useful for the lodging industry.

For example, hotels could identify job candidates earlier and provide them financial sponsorship or loan programs to finish their education in relevant skills for the industry. This could include partnering with high-school and college guidance counselors to increase awareness and promote the industry and career path. They could expand partnerships with technical colleges, community colleges, and historically Black colleges, including some that may not offer a specialized hospitality curriculum.

Finally, they could establish entry-level training academies to provide additional opportunities for entry-level candidates to gain skills. Similar academies exist in the airline industry, such as for the training of maintenance technicians at some regional carriers that fly small aircraft for United, Delta, and American.

- **Upskilling portions of the workforce:** Large-scale upskilling initiatives could cross-train the workforce to handle multiple roles, as automation or technology reduce the need for some tasks. The initiatives could also prepare workers to step up to managerial or specialist roles (e.g., sales and marketing) on-property or in corporate offices.

Based on BCG's experience in working with companies, educational institutions, and governments on large upskilling programs, we know that such efforts create clear benefits for a company or industry, including higher motivation of the current workforce, a stronger "employer value proposition" to attract future workers, and improved public image for Corporate Social Responsibility.

Following best practices is critical, because upskilling initiatives are very complex and require careful design and planning. Best practices include orienting the curriculum and training methods around real-world application; providing the training in numerous

languages so employees can learn in their native languages; and measuring outcomes rigorously, including measures of skills and employability.

Increase equity and diversity

Previous BCG research identified two root causes that are unique to ethnically diverse groups and that disproportionately reduce the career advancement of ethnically diverse employees. First are challenges establishing professional networks. A wide range of research shows that employees from underrepresented racial and ethnic groups find it challenging to create the kinds of networks required for professional success. Second are disadvantages in navigating the “unwritten rules” of an industry. A higher share of diverse professionals has backgrounds that provide less exposure to the unwritten rules that influence a career, such as how to promote oneself, one’s achievements, and one’s capabilities in the best way.

Several actions can help to address these root causes and support the potential of diverse employees:

- **Networking opportunities:** The partnership between the NYU Tisch Center of Hospitality and Howard University is one example of how cooperation can create more opportunities for diverse employees to build strong professional support networks.
- **Training and coaching for managers:** This would help them understand the unique experience of workers from diverse backgrounds, and provide best practices for constructive feedback to help diverse workers develop
- **Rewards:** The industry can find ways to highlight and reward managers who excel at developing diverse talent within their teams

Exhibit 4 summarizes this section’s recommendations, but also emphasizes that many of them are short-term measures. The industry must still address the long-term transformation necessary to secure lodging’s future as an industry of choice.

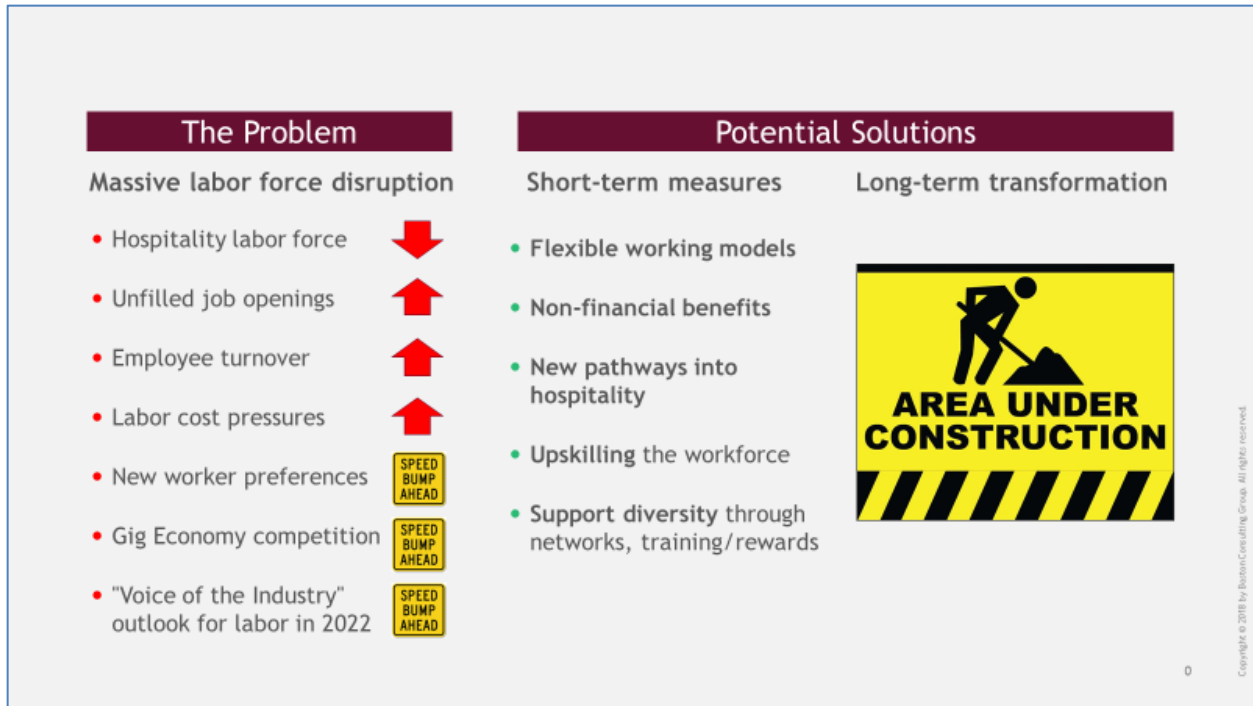


Exhibit 4: The industry can deploy many short-term measures to address the massive labor force disruption, but preparing the long-term transformation will require dedicated effort and broader thinking.

What happens next?

As we said at the beginning of this paper, our path forward is to launch an industry “think tank” initiative, facilitated by NYU and BCG, to collaborate with industry leaders to identify, define, and coordinate the right strategic solutions to the current labor challenges.

During major disruptions, companies in the hospitality sector often respond quickly by reducing customer services, without restoring them later when the disruption subsides. But in the current environment, the hospitality industry can make a different choice. It can use these labor challenges to catalyze innovations in technology, working models, and talent management, so that lodging becomes an “industry of choice” for workers for the future.

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