

The Hospitality Industry



(Courtesy of National Park Service.)



Forces Affecting Growth and Change in the Hospitality Industry

The Purpose of this Chapter

The hospitality industry, as it is today and will be tomorrow, is the result of the interaction of basic market forces. In this chapter, we will look at two of the most basic of these forces. The first is the demand for hospitality services from consumers. The second is the supply of those things required to provide service, such as land and its produce, food, and labor. We begin by considering demand; it is the most fundamental factor that gives rise to business activity. We will then consider the supply of the factors of production used by hospitality service companies.

THIS CHAPTER SHOULD HELP YOU

1. Explain how the changing demographics of the North American population impact the demand for hospitality services, and give examples of demographics that affect both food service and lodging operations.
2. Describe the current and expected future impact of baby boomers on the demand for hospitality services.
3. Give examples of the opportunities and challenges inherent in the North American population's increasing diversity.
4. Explain how changes in the female workforce and alterations in family structure affect consumer behavior and the markets for hospitality services.
5. Identify and describe the key supply factors that are important to hospitality organizations.
6. Identify and describe the trends that are changing the relative cost of supplies.
7. Give examples of ways in which hospitality service companies are responding to changes in the labor force.

Managing Change

At the outset of this chapter, it is important to place the topic of forces (market, environmental, societal, etc.) into its proper context. Managers in any line of business must understand the external forces that are at work if they are going to be effective managers. This is especially true of managers in the hospitality industry. There are forces that impact hospitality businesses on a daily basis, or on some other cyclical basis, and there are singular events that have an immediate and ongoing effect. Some forces may invoke gradual changes; others may come suddenly. Such factors as demographic changes, fluctuating food costs, resource scarcity, and workforce diversity are ever present and are all important to understand as a manager. We have continued to discuss these topics in this as well as in previous editions of this book, because of their ongoing importance. And then there are “one-time” events, such as the September 11th attacks that occurred in the United States. Following the attacks, it was oft repeated that the industry most affected was the hospitality and tourism industry. Since that time the industry has also coped with recession, war, mad cow disease, terrorism attacks in various parts of the world, and Severe Acute Respiratory Syndrome (SARS). SARS, for instance, threw entire segments of the industry (primarily in North America and Asia) into a tailspin during the latter part of 2003. Managers must now be more aware than ever—indeed, it has been said that there may never be a return to “normalcy.” This chapter sheds light on some of the changes that continue to shape the industry and the ways in which managers behave and react to events. We will begin with the effects of demand.

Demand

Ultimately, **demand** translates into customers. We will look at customers from three different perspectives. First, we need to understand what the population’s changing age patterns are; second, we will explore how they affect the demand for hospitality products. Finally, we will look at other patterns of change, such as the continued increase in the number of working women, the transformation of family structure, and changes in income and spending patterns. Finally, we will consider the effect that the September 11th events had on demand.

One way to better understand these changes is by looking at changes in demographics. **Demographics** is the study of objectively measurable characteristics of our population such as age and income. As we review demographic data, however, it is important to keep in mind the human face behind the numbers. To do that, we will

Life events such as marriage, birth, and death affect demographic changes. (Courtesy of Treasure Island, Mirage Resorts.)



want to consider what the facts mean in terms of our customer base. The material in this section is vital to understanding the most basic force driving the hospitality industry's development, which is demand—that is, customers.

THE CHANGING AGE COMPOSITION OF OUR POPULATION

It should be clear to students of the industry that the population of North America is changing in many ways. This, in turn, is setting off an entire chain reaction of events and associated challenges. To understand the scope of the changing population, one must first understand one of the driving forces behind this change—the baby boom generation. “Baby boomer” is the term applied to a person born between 1946 and 1964. To properly understand the boomer phenomenon, a little history is in order.

Beginning with the Great Depression, the birthrate fell dramatically and remained low throughout the 1930s (a “baby bust”). Then came World War II, which also pro-

duced a low birthrate. After the war, however, servicemen came home and began to get married in very large numbers. Not surprisingly, between 1946 and 1964 the number of births rose as well. The boom in births was far out of proportion to anything North America had experienced before. As one could imagine, the resulting **baby boomers** have, as a generation, had an unprecedented impact on all facets of North American life, ranging from economics to politics to social change.

In 2003 there were just over 77 million baby boomers ranging in age from 39 to 57, constituting more than one-fourth of the U.S. population. Although the number of native-born baby boomers was at its highest in 1964 at the end of the baby boom, immigration has increased the size of the boomer cohort by significantly more than deaths have decreased it since that time.

By the mid-1960s, most of the boomers' parents had passed the age when people have children. Furthermore, just at that point, the smaller generation born during the Depression and war years reached the age of marrying—and childbearing. Because there were fewer people in their childbearing years, fewer children were born. The result was the “birth dearth” generation, those born between 1965 and 1975.

Labeled **Generation X** (or GenXers), this group ranged in age from 28 to 38 and numbered about 42 million in 2003 (note that despite all of the attention this group gets in the press, they are still far outnumbered by the baby boomers). This generation was born into a difficult period in the 1970s and began to come of age as the growth of the 1980s flattened into the recession of the early 1990s. The GenXers “. . . reveal the sensibilities of a generation shaped by economic uncertainty.”¹ Not surprisingly, they are quite different from their boomer counterparts in a variety of ways. Among other things, they have a reputation for being worldly wise, independent, pragmatic, and intelligent consumers. Further, they tend to be technologically savvy, having grown up during the computer age (which earlier generations, believe it or not, didn't). Factors with a direct bearing on the hospitality industry are that they spend a large proportion of their income eating out, have a predisposition to fast food, and look for value in their purchases. Finally, they too are becoming parents and passing along many of these same characteristics to their children.

As we saw in our brief view of GenXers, food service makes a perfect case history for assessing the impact of generational change on the hospitality industry. Quick-service restaurants (QSRs) grew up along with the boomers when they were children and when their parents, still young, had limited incomes and needed to economize. Then, starting in the late 1950s, the boomers, as young people, began to have money to spend of their own. McDonald's, Burger King, and other quick-service operations suited their tastes and their pocketbooks. In the late 1960s and early 1970s, however, the boomers were becoming young adults—and Wendy's, among others, developed more upscale fast-food operations to meet their moderately higher incomes and more

Demographics in Practice

“Gourmet” hamburger companies such as Fuddruckers are aggressively targeting baby boomers and their offspring. As part of the relatively new restaurant classification known as “fast-casual,” Fuddruckers, and other companies within the segment, attempt to offer an alternative to quick service to the aging baby boomers. Fuddruckers, which was started in 1980 in San Antonio and now has 200 stores across the United States, seems to be in the right place at the right time. The company represents many of the changes that are taking place in the restaurant industry and particularly in this growing segment. They offer a product that has the feel of a cross between quick service and casual, thus the fast-casual moniker. Fast-casual restaurants, as a group, are tending to put a lot of emphasis on food quality, in an effort to attract the baby boomers and the like. With an emphasis on food, there is also a spillover effect that helps to bring in other demographic groups.

Fuddruckers prides itself on its food quality—the freshness of its product, their toppings bar, big servings, and the ability to appeal to a variety of demographic groups in addition to baby boomers. They are able to identify and target the different groups by a variety of methods. First, they have created three different types of restaurant facilities (prototypes) for use in three different types of locations (freestanding, urban, and mall). Second, they offer a variety of foods and flavors for different palates—including items such as ostrich burgers for the more adventurous. Finally, their hours and their average check (about \$8.00) make their restaurants very accessible. They feel that they have found the right mix in their strategy to target a range of customers through different menu offerings and locations. The company plans to continue to open approximately 12 restaurants per year for the foreseeable future, maintaining the majority as company owned and operated.

sophisticated tastes. Similarly, in the early 1980s, as a significant number of boomers passed the age of 30, the “gourmet hamburger” restaurant appeared (such as the Fuddruckers and the Red Robin chains), which accommodated boomers’ increasing incomes and aspirations. Industry Practice Note 2.1 gives another example of how changing demographics are influencing operations and company marketing strategies.

The baby boomers have also had a significant impact on lodging. Kemmons Wilson’s first Holiday Inn was built when the oldest boomers were six years old. Holiday Inns began as a roadside chain serving business travelers, but the big profits came in the summer days of 100 percent occupancy, with the surge in family travel that accompanied the growing up of the boomers. Later in the 1980s, about the time boomers began to move into their middle years, all-suite properties began to multiply to meet a surging demand for more-spacious accommodations. Boomers on a short holiday make up a significant portion of the all-suite weekend occupancy, and much of the all-suite weekday trade is boomers on business. Moreover, it seems reasonable to as-



Children will continue to drive the popularity and success of attractions such as the Serengeti Plain at Busch Gardens. (Courtesy of Busch Gardens Tampa Bay; Copyright ©2004 Busch Entertainment Corp. All rights reserved.)

sume that the growth of midscale limited-service properties is related, at least to some degree, to the boomers' taste for informality and their desire for value.

In the mid-1970s, we saw the boomers themselves come into the family formation age. The increase in the number of children born beginning in the late 1970s has been referred to as the “echo” of the baby boom (resulting in the **echo boomers**, or **Generation Y**). As the huge generation of boomers entered their childbearing years, births rose simply because there were more potential parents. The echo boom, however, was somewhat smaller because the boomers chose to have smaller families than their parents had had.

Getting back to the baby boomers, the baby boom is a tide that is bound to recede as boomers age and death takes its toll. In fact, 1997 was the first year in which the number of boomers—including immigrants—actually declined. By 2010, the U.S. Census Bureau projects, the size of the baby boom will have fallen to just under 70 million, and by 2020 even lower.² Boomers will continue to be important not only because they are numerous but because they are in their middle years, a time normally associated with high average earnings. Older boomers outspend other demographic groups in several areas, including health care, transportation, and entertainment.³ Significantly, the total amount as well as the proportion of the food budget spent on food away from home rises as household income rises, as does the propensity to travel. Households headed by people age 45 to 54 spend more total dollars on dining out than younger patrons.⁴ Because of their higher average incomes, though, they spend a lower proportion of their income on restaurant purchases.

Even while the boomers occupy center stage, we have noted that another generation has begun to edge toward the limelight. Generation Y, born between 1976 and 1994, were age 9 to 27 in 2003. By 2010, this generation will have overtaken the boomer generation in size, numbering 73 million compared to the boomers' reduced numbers (see Table 2.1).

Table 2.1 highlights the relative change of each age group resulting from births, deaths, and immigration. There will be a modest growth in the number of children, supporting a continuing emphasis on services aimed at families with young children such as special rates, accommodations, and services for families in lodging and child-friendly services such as playgrounds, games, and children's menus in restaurants. One food service chain that puts real emphasis on targeting children is Friendly's. Its children's menu, one part of their kid's program, won *Restaurant Hospitality* magazine's 2002 award for children's menus in the Family Restaurant category. Other companies that have received recognition for their children's menus have been Big Bowl (a Brinker concept), Denny's, and Taco Bell.

The number of young adults will be expanding over the period to 2010, which is good news for the purveyors of inexpensive, no-frills food service such as QSRs and

TABLE 2.1**U.S. Population 2003 to 2010^a**

	2001	% OF POP. ^b	2010	% OF POP. ^b	% CHANGE 2001–2010
All ages	282,798		299,862		7.9%
Under age 5	19,012	6.7%	20,099	6.7%	6.3%
5 to 9	19,220	6.8%	19,438	6.5%	(0.6)%
10 to 14	20,774	7.4%	19,908	6.7%	(1.8)%
15 to 19	20,312	7.2%	21,668	7.2%	8.0%
20 to 29	37,389	13.2%	41,000	13.7%	12.5%
30 to 39	40,000	14.1%	38,041	12.7%	(8.2)%
40 to 49	44,502	15.7%	42,631	14.2%	(1.7)%
50 to 59	33,983	12.0%	41,111	13.7%	29.4%
60 to 64	11,972	4.2%	16,252	5.4%	48.4%
65 and older	35,634	12.6%	39,715	13.2%	13.3%
85 and older	4,684	1.7%	5,786	1.9%	30.4%

^aProjected U.S. population by age, 1999–2100, and percentage change, 2003–2010, number in thousands.

^bTotals do not add to 100 percent due to rounding.

Source: U.S. Census Bureau.

certain casual dining concepts. There is mixed news when it comes to the teenage group—the number of those between 10 and 14 is expected to decrease, while there is expected to be a significant increase in the 15-to-19 age group. Teenagers spend an average of \$104 a week, amounting to a staggering \$172 billion a year as a group.⁵ Their impact, however, is even greater than this because of the substantial influence they have over family buying decisions—including where to dine, where to go on vacations, and what lodging to use on family trips.

The number of people age 30 to 49 in North America will decline between now and 2010. This has implications for labor supply, which are discussed in a later section. The baby boomers' move into their middle years marks a major shift in the population, as those in the 50-to-59 age group increase significantly over the next decade, as will those of preretirement age. As we have noted, these age groups are normally associated with relatively high incomes (peak earning years). Growth of this population segment is likely to support a continuing increase in demand for upscale food service and other hospitality products such as lodging and travel.

The slow but steady growth in the over-65 age group will be a preview of the trend toward growing demand for services of all kinds for retirees, which will explode after 2010 as the baby boomers move into retirement (the first boomers begin to turn 65 in 2010). To summarize, the age composition of the U.S. population continues to shift, having significant implications for the hospitality services. The changes that are taking place in North America, though, do not accurately reflect the changes that are taking place elsewhere in the world. Global Hospitality Note 2.1 discusses demographic changes in other areas of the world.

DIVERSITY AND CULTURAL CHANGE

We need to consider four other basic structural changes that will shape the demand for hospitality services in the twenty-first century: an increasingly diverse population, the proportion of women working, changing family composition, and a changing income distribution.

A moment's reflection suggests what the relationship of these factors to the hospitality industry might be. One of the factors accounting for the success of ethnic restaurants, for instance, is America's already great **diversity** (the number and scope of ethnic dining options has increased dramatically in recent years, especially in smaller markets). In addition to ethnic diversity, the composition of the workforce is also changing. For instance, during the recent past, women have moved from being competitors of the restaurant business to being its customers. A family with two working partners simply approaches life differently. For instance, such families usually find it easier to schedule shorter, more frequent vacations. Further, more children (or fewer, for that

As North America Ages, Some Parts of the World Are Getting Younger

It should be clear from our discussion so far that the population of North America is rapidly aging. We can take this one step further and say that, in general, the population worldwide is aging and, more specifically, the population of the developed world is aging faster than the rest of the world. Europe, for instance, is experiencing much the same effects as the United States—Germany perhaps to the greatest extent. According to the *The Economist*, by 2030, almost one-half of the population in Germany will be over 65.¹ Other European countries, such as Italy and France, are experiencing similar shifts. In Asia, Japan is also getting older. The aging of the Japanese population is exacerbated by the country's strict immigration policies. Japan has the oldest population in the world with a median age of just over 41 (compare this to the median age of the United States, which is just over 35, and to Iraq's, which is 17).²

Perhaps the greatest changes taking place in the world are in the Middle East. *American Demographics* magazine reports that there are nearly 380 million residents living in 20 Middle Eastern countries and that the demographic makeup of the region is changing drastically. A number of factors, including lower infant mortality rates, immigration, and an increase in the size of families, have all contributed to the region's population growth rate being the highest anywhere. The region is experiencing a baby boom similar to what occurred in the United States in the 1960s. The total population in the 20 Middle Eastern countries has almost quadrupled since 1950. The median ages in many of the countries, including Iraq, are much lower than most of the world's. These trends are expected to increase throughout the next two decades. In Saudi Arabia, the number of persons under 25 is expected to double between 2000 and 2025.³ Such changes in the average age will result in shifting demand for jobs, consumer goods, education, and hospitality services, just as it has in the United States. Together, it is important to understand that demographic changes affect different parts of the world in different ways and at different rates.

1. *The Economist*, "A Tale of Two Bellies," August 24, 2002.

2. United Nations Department of Economic and Social Affairs (unstats.un.org/unsd/).

3. *American Demographics*, "The Middle East Baby Boom," September 2002.

matter) means a difference in the kind of hospitality service concepts that will succeed—and much the same can be said for more (or less) income. These issues are discussed further in the following sections.

Diversity of the U.S. Population. According to Census Bureau projections, African Americans, Asians, Native Americans, and Hispanics together will constitute a majority of the U.S. population shortly after 2050. In less than one life span, non-Hispanic whites will go from being the dominant majority to a minority. This shift in the balance of North America's ethnic makeup has already taken place in entire states



Women are playing an increasingly prominent role in the hospitality industry. (Courtesy of Las Vegas Convention and Visitors Authority.)

such as New Mexico and Hawaii, and in many large cities across the United States. Major states such as California and Texas are expected to reach the point where minorities achieve a collective majority within the first decade of the twenty-first century.

The U.S. population of Hispanics and African Americans is about equal, with both groups representing just less than 13 percent of the population, respectively. The Hispanic population is expected to increase to 14.6 percent in 2010.⁶ The Hispanic population is increasing rapidly because of a higher birthrate and also because of immigration, both legal and illegal.

The term *Hispanics*, we should note, is convenient, but it masks substantial differences that exist among subgroups. Most U.S. Hispanics are of Mexican origin (almost 60 percent), but two-thirds of these were born in the United States. The Census Bureau says that approximately 10 percent of Hispanics are of Puerto Rican origin. Most Puerto Ricans on the U.S. mainland were born in the United States. All Puerto Ricans are U.S. citizens. Less than 5 percent of Hispanics are of Cuban origin. Hispanic Americans also include a significant number of people from other Latin American countries.⁷

During the years from 2003 to 2010, the U.S. population of African American extraction is projected to increase from 36.7 million to 40 million. African Americans continue to represent the largest minority group in the U.S., but just barely. As a group, they

have experienced increases in education and income. Finally, the majority of African Americans live in the South.⁸

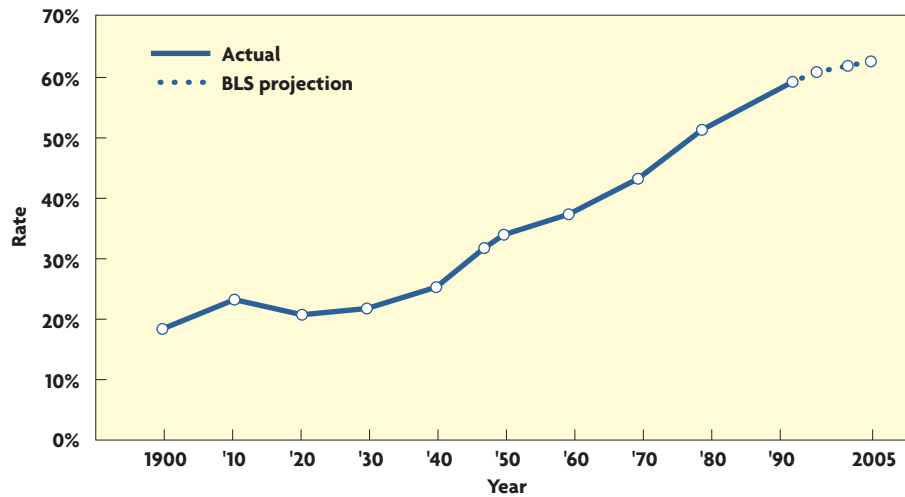
Asian Americans will number 15.3 million in 2010, up over 100 percent from the 1990 level of 7.3 million. Their median household income, at \$48,614 in 2000, was substantially higher than the non-Hispanic white household average of \$39,657 for the overall population.⁹

We will be discussing the topic of diversity again in a later section on the hospitality workforce. At this point, we can note that the shift toward the popularity of ethnic foods almost certainly reflects a change in demand resulting from the increase in America's present diversity (most polls reflect that Americans' favorite cuisines are Chinese, Italian, and Mexican, in no particular order). Another example of diversity's present impact is the number of convention and visitor bureaus all over North America that are targeting African-American groups. Note the increase in African-American-sponsored events (The music festival in New Orleans sponsored by *Essence* magazine is one such example). This trend is likely to continue as our population continues to diversify, and firms will have a heightened need to adapt their products and services to the tastes of different groups.

We have been discussing ethnic diversity, but this is by no means the only way in which the population mix is changing or diversity is expressed in the general population. The gradual aging of the boomers means that our population will soon have a much larger senior population. Students of demographics speak of a "dependency ratio" to express the relationship between people in certain age groups who are, for the most part, working and people in other age groups who have not yet begun to work or have retired. In short, it is expected that as the age of the general population increases, so too will the age of the workforce.

Another form of diversity has developed in the last two generations as women's presence and roles in the workforce have changed, a topic to which we now turn.

Working Women. The changes in our views of women and the family have had an enormous impact on the hospitality industry over the last 100 years. Figure 2.1 shows the change in women's employment over the past century—and the Bureau of Labor Statistics (BLS) projection of that employment to the year 2005. In the early part of this century, women working outside the home were the exception. Until the start of World War II, less than a quarter of women were in the workforce—that is, they either had a job or were looking for one. World War II saw that rate increase to nearly one-third of women. Over the next five years, the rate rose until, in 1980, over 50 percent of women were at work away from home, resulting in a large percentage of **two-income families**. The participation rates of women in the workforce is expected to continue to increase in the short term and long term. Further, the share of women in the workforce continues to increase as well.



*Female workforce participation rates prior to 1947 are estimates by the U.S. Census Bureau. From 1947 to 1994 the rates are those published by the U.S. Bureau of Labor Statistics, and the rates from 1995 to 2005 are estimated by that agency.

Figure 2.1

Female workforce participation rate, 1900–2005.

This is a change of major proportions in a relatively short period of time. It has resulted in significant changes in many aspects of our society—including, of course, the hospitality industry. Moreover, we have moved from a time when it was unusual for mothers to work outside the home to a world in which the unusual mother is the one who is not also a wage earner. More women are moving into the managerial ranks as well. Women represented almost 46 percent of all managers in the food service and lodging segments in 1999.¹⁰ Estimates indicate that the percentage of women in management roles will also continue to increase.

It seems likely that the statistics we have cited actually understate women's work roles. Women enter and exit the workforce more frequently than men to accommodate life changes such as marriage and childbirth. Counted as nonparticipants are many women who are not working at the moment but who expect to return to work shortly.

While the roles of women are changing and improving, they continue to experience challenges in some areas of the hospitality industry, as illustrated in Industry Practice Note 2.2.

Family Composition. **Family composition** is also fast changing. Just a few short years ago, the largest segment of households in the United States were those with children under age 18. Now, however (as of 2001, which are the latest figures available), it is the 36 million households with just two people. The U.S. Census Bureau in-

Advocacy for the Advancement of Women in Food Service¹

One of the signs that things are changing for women who are employed in the hospitality industry is the formation of groups that support the well-being and advancement of women in industry. One such group is the Women's Foodservice Forum (WFF). The WFF was formed in 1989 to "promote leadership development and career advancement of executive women for the benefit of the foodservice industry." WFF membership comprises food service executives, managers, operators, suppliers, and representatives from allied organizations. Such highly visible companies as Darden, Luby's, McDonald's, and Pizza Hut are represented on the WFF board of directors.

The group helps to build leadership abilities in women through a variety of activities. Among other things, the WFF sponsors a mentor program, hosts an annual conference, publishes a newsletter, provides scholarships, and commissions research studies on issues affecting women. For instance, a recent study commissioned by the WFF group (conducted by Catalyst) found that a higher percentage of executives in leading food service firms are women as compared with Fortune 500 companies. However, the same study found that fewer women hold seats on boards and that the pay of female executives in food service is not comparable to that of women executives employed by Fortune 500 companies.

Women continue to lag behind their male counterparts with respect to pay and position within organizations, including hospitality organizations. Some barriers that women encounter, as identified by Catalyst, include the failure of senior management to assume accountability for helping to advance women and continuing stereotyping of women with organizations. Within the food service industry, though, some progress is being made, in some part because of the efforts of such groups as the Women's Foodservice Forum.

1. Information for this Industry Practice Note was gathered from the Web site of the Women's Foodservice Forum (www.womensfoodserviceforum.com) and a seminar sponsored by the group at the National Restaurant Association show in 2000.

dicates that the number of family households, as a percentage of total households, has decreased dramatically since 1970. Also, family households are simply getting smaller. Married couples with children under 18 are expected to continue to decrease as the baby boomers' children continue to grow up and leave home.¹¹ One significance of these population changes is that couples without children to support—**empty nesters** and those who chose not to have children—spend more than any other household. They spend more on take-out food, for instance, than they do on groceries. They are also avid travelers.

Another change in family structure is illustrated by the growth in **single-person** (or nonfamily) **households**. People are putting off marriage until much later in life—single-family households have increased as a percentage of total households from 17.1

percent in 1970 to 25.5 percent in 2000. This group of households is expected to continue growing through the year 2010.¹²

Such changes are affecting major life decisions as well as spending habits. Male singles are younger, whereas women living alone tend to be older widows, reflecting the tendency for wives to outlive their husbands. Males have higher incomes, and their per capita spending is larger than women's. Men spend twice as much of their annual food budgets on food away from home, as do women. Although they exhibit different trends, both types of single-person household are good potential customers, and as women's incomes continue to rise, the two types of household are likely to resemble one another more.

Single parents, on the other hand, are a group who have relatively lower incomes. They eat out less often than the average North American, for instance. They are less likely to be hotel customers because their budgets do not permit them to travel as freely as other groups.

Changing Income Distribution. In the 1980s, the **middle class** decreased in size, with more people leaving it than entering it. In general, the "winners" were university-educated people, retirees with investment income, and women with full-time jobs. Women's average income, adjusted for inflation, has increased (but is still just 73 percent of that of men's, and some estimates indicate that it is even lower than this). This has resulted in a changing **income distribution**.

In the 1990s, the middle class took a further jolt from restructuring. White-collar workers and middle managers were hardest hit by the efforts to increase efficiency in many large firms. Most reports indicate that there is a widening gap between the rich and the poor, with the rich getting richer, although this has been tempered somewhat in recent years. Industry Practice Note 2.3 discusses the issue of the size of the middle class further.

Figure 2.2 shows that the higher a household's income, the more frequently its members dine out. But because a significant proportion of guests who eat out do so out of necessity, many who have moved down the economic ladder have not been lost entirely to food service. In lodging and travel, however, this is much less true, because these are almost entirely discretionary expenditures. Although the large numerical growth in lower-income families discussed in Industry Practice Note 2.3 probably indicates a growing number of customers for lower-check-



Couples without children are a growing segment of the population. (Courtesy of Las Vegas Convention and Visitors Authority.)

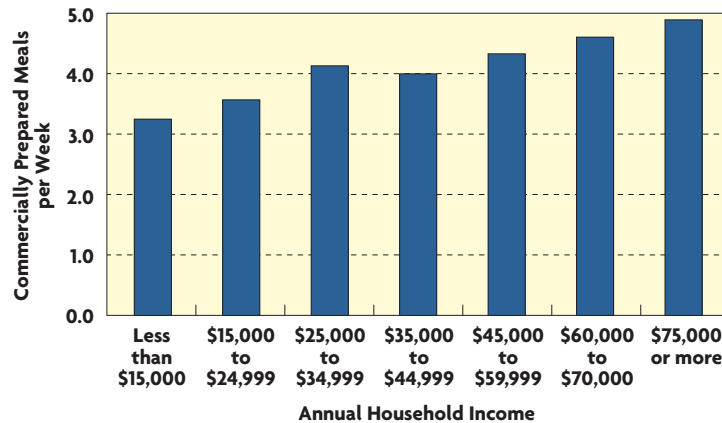


Figure 2.2

Higher income equals more dining-out occasions, 2000. (Source: Meal Consumption Behavior, National Restaurant Association.)

average restaurants, it almost certainly denotes a group that is effectively less able to participate in the high-end travel market. It is important to recognize that not all factors affecting demand can be as numerically specific as the demographic data that we have been reviewing. People's different patterns of **activities, interests, and opinions**, sometimes called **psychographics**, also affect the demand for food service.

Also remember that households in the upper-income groups frequently represent dual-income families where both spouses are working. These families experience great time pressure, which undoubtedly explains the rapid growth in sales in both take-out and the upscale casual category, a haven offering a quick moment of fun and relaxation to these busy people.

Supply

The key factors of supply that concern us are land and its produce, food, and labor. Capital is a third factor of production, but we will reserve discussion of it until the lodging chapters. The patterns of access to public markets discussed there can, however, be applied to the hospitality industry in general.

LAND AND ITS PRODUCE

Land and the things that come from the land are classically one of the major factors of production in economics. In hospitality, we are concerned with land itself, as well as with a major product of the land, food.

Is the Middle Class Shrinking?

Most North Americans think of themselves as middle class, whatever their actual income is. In the short term, people's incomes are growing and will continue to grow. After years of salary stagnation in the early 1990s, the typical U.S. household's income rose by 3.5 percent to \$38,885 in 1998. Over a longer time period, from 1990 to 1998, the average household's income increased 4.1 percent. These averages, however, conceal certain trends. In 1998, the average income of the poorest fifth increased by only 2.4 percent, about the same amount that the top fifth increased. These changes are not as drastic as they have been in previous years, where increases in the upper quintile were much higher.

Defining Middle Class

American Demographics (www.demographics.com/Publications/AD) proposes three definitions of middle class: (1) those with incomes ranging around the national average (\$25,000 to \$50,000), (2) a broader group with incomes of \$15,000 to \$75,000, and (3) households with incomes between 75 percent and 125 percent of the median. Although the numbers that emerge from these three categories differ, they all point to a similar conclusion: The proportion of the population that is middle class is decreasing, but with a growing total population, the absolute number of middle-class households is increasing.

The following table shows changes in the number of U.S. households with incomes in the middle range of \$25,000 to \$75,000 throughout the last three decades. The size of the middle class, in relative terms, decreased from the 1970s into the 1980s but has since shown moderate decreases. The real dynamics seem to be in the two far right-hand columns. Here, we see the number of households increasing significantly during the same period and the proportion tripling. This suggests a growing number of people are stretching the definition of "middle class" by becoming wealthier. To balance that view, however, it is

Land. Because hospitality firms need land for their locations, certain kinds of land are critical to the industry. Good locations, such as high-traffic areas, locations near major destinations, or locations associated with scenic beauty, fall into this category.¹³ Furthermore, they are becoming scarcer with every passing day for at least two reasons: the existence of established operations and **environmental pressures**.

To deal with the first of these, the simple fact is that most of the best high-traffic locations are already occupied. What creates good locations are changes in the transportation system and changes in population concentrations. The building of new highways has slowed greatly compared to the time when the interstate highway system was under construction. As a result, fewer new locations are being created in this way.

In recent years, we have seen restaurant chains acquired by other restaurant chains principally in order to obtain their locations for expansion. One of the factors that led QSR chains to seek locations in malls some years ago was the very shortage of free-standing locations we are discussing.



worth remembering that the number in the lower-income category (far left-hand column) increased by 8.1 million people just since 1994, while at the same time the proportion has decreased somewhat. Finally, the poverty rate in the United States did decline somewhat between 1997 and 1998, from 13.3 percent of the population to 12.7 percent.

The Middle Class Is Changing¹

INCOME YEAR	LESS THAN \$25,000		\$25,000 TO \$74,999		\$75,000 OR MORE	
	(000,000)	NO. %	(000,000)	NO. %	(000,000)	NO. %
1980	32.5	39.4	42.1	51.1	7.8	9.5
1985	34.4	38.9	43.9	49.6	10.2	11.5
1990	35.3	37.4	46.5	49.3	12.5	13.3
1992	37.2	35.9	50.3	48.5	16.3	15.7
1994	39.0	39.4	46.5	47.0	13.5	13.6
1996	35.0	34.6	48.2	47.7	17.9	17.7
1998	33.4	32.1	49.7	47.8	20.9	20.1
2000	31.3	29.4	49.9	46.9	25.3	23.8

¹Household income in constant 2000 dollars.
Source: U.S. Census Bureau, "Money Income in the United States," 2001.

A second reason for the growing scarcity of locations is environmental pressure. Location scarcity is especially severe in locations such as seashores or wetlands, which are often zoned to prevent building—especially commercial building—in scenic or environmentally sensitive locations. Environmental pressures do, however, go beyond scenic locations. Restaurants, particularly QSRs, are meeting more resistance because of the noise, traffic, odor, roadside litter, and crowding that can accompany such operations. Restaurants have been “zoned out” of many communities or parts of communities.

On balance, the greater pressure comes from the impact of present locations being occupied, but, for both reasons discussed previously, land in the form of good locations is a scarce commodity.

Food. Although the cost of food may vary from season to season, for the most part these variations affect all food service competitors in roughly the same way. Food service price changes would have to reflect any change in raw food cost. **Food supply**



As land and resources become scarcer, companies such as Piccadilly are making greater use of the space available. (Courtesy of Piccadilly Cafeterias, Inc.)

conditions do not suggest any major price changes in North America in the foreseeable future, although weather conditions or temporary shortages of certain foods can always drive up some prices in the short term. We should note, however, that major climatic changes, such as those that could be brought on by the greenhouse effect and the Earth's warming, do pose a longer-term threat to world food supplies.

LABOR

CAREERS IN HOSPITALITY



The Bureau of Labor Statistics (BLS) has developed a long-term forecast of the demand for labor extending over a ten-year period.¹⁴ For the years 2000 through 2010, the forecast predicts a growth in the U.S. workforce of 15.2 percent overall. This represents a slight decrease (down from 17.1 percent) from the previous ten-year forecast (1990 to 2000). The same study predicts that the greatest growth will be in jobs requiring advanced education, which bodes well for new college and university graduates. Management jobs, across occupations, will grow by 12 percent over the period, a little less than the overall growth. People interested in careers in food service management, though, can take encouragement from the fact that demand for managers is expected to grow by 15 percent. BLS predicts that new management positions in lodging will

TABLE 2.2**Employee Turnover in Food Service**

RESTAURANT TYPE	ALL EMPLOYEES	SALARIED EMPLOYEES	HOURLY EMPLOYEES
Full service			
Average check under \$15	63%	33%	67%
Full service			
Average check \$15 to \$24.99	57%	37%	63%
Limited service			
Fast food	80%	50%	96%

Source: National Restaurant Association, "Restaurant Industry Operations Report," 2000.

grow by 9.3 percent and new chef and head cook positions will increase by 9.0 percent.

Employment prospects appear to be about average (or a little less) for some of the primary hospitality management occupations. What makes that outlook somewhat more difficult, however, is the relatively high turnover in the industry, highlighted in Table 2.2. High turnover magnifies the demand for labor because it takes a relatively larger number of people to keep positions filled, as indicated in Table 2.3.

Cooking and food preparation jobs will increase—again, a little less than the overall average—by 12.3 percent. Food and beverage server positions, on the other hand, will grow by over 20 percent (22.7 percent). Gaming service workers represent another growth area.¹⁵

It is more difficult for us to make projections for the lodging workforce, because in the BLS categories, lodging workers are often merged into other, larger categories—as, for instance, with “baggage porters and bellhops,” where bell staff are considered along with a number of other, somewhat sim-

TABLE 2.3**Top Seven Reasons for Industry Exit by Former Food Service Employees**

- 1 More money
- 2 Better work schedule
- 3 More-enjoyable work
- 4 Pursue current occupation
- 5 Advancement opportunity
- 6 Better employee benefits
- 7 To go to school

Source: Restaurants and Institutions, May 1, 1997, p. 108, based on the Industry of Choice study of the NRA Educational Foundation.

ilar jobs in transportation. Similarly, people working in housekeeping are included in the category of “janitors and cleaners, including maids and housekeeping cleaners.”¹⁶

Two categories related to the travel industry are travel agents, slated to grow 3.2 percent (a direct result of changes taking place in the travel industry), and flight attendants, a group projected to increase by 18.4 percent.¹⁷

The growth that is expected to occur in these various segments of the hospitality industry means that there will be continued opportunities for hospitality graduates. However, this takes on a different meaning when one adopts a management perspective. Wherever you observe a growth figure higher than the average of 15 percent for the workforce as a whole, you may wonder how the industry will go about attracting more than its proportionate share of workforce growth to that category of worker. Of course, it is the managers who will have the job of finding people to fill these fast-growing needs. This is of particular concern during periods of low unemployment. Moreover, competitive industries, such as retailing and health care, are growing right along with the hospitality industry. For instance, retail sales positions will continue to grow at about the same rate as the total workforce, and health care support occupations (those that are most directly competitive with hourly hospitality jobs) will grow at over twice the average rate, at 33.4 percent.¹⁸ As an industry, then, we can expect to face stiff competition for workers.

What means is the industry likely to use to fill these positions? Already in many markets, starting food service workers are receiving well above minimum wage. In some markets, employers are offering increased benefits, bonuses, transportation, and an assortment of offerings designed to encourage hourly employees to stay with their company.

Further, companies are target-marketing segments of potential employees such as seniors and other groups. Some operations, for instance, have held free breakfasts for seniors to get them interested in jobs. Marriott aggressively targets potential female employees. A Marriott representative stated that “One of the most difficult challenges in the 21st century is the scarcity of talent. . . . That makes female leadership a do or die business . . . you need to recruit and retain female talent as though your future depends on it—because it does.”¹⁹ Many other companies have also realized that it is prudent to take more of a marketing-oriented approach to attracting employees.

Another source of labor will be **immigrants**, both legal and illegal. The non-Hispanic white labor force will grow by 12 percent between 2000 and 2010, but the number of Hispanic workers will increase about three times as fast, at 36.3 percent. The number of Asian workers will grow 44.1 percent in the same period.²⁰

Illegal immigration is like floodwater around a dike—always there and always seeking entry through any hole in the structure. Repeated crackdowns, like temporary repairs to a dike, stanch the flow for a time. However, as long as the employment out-

TABLE 2.4**Staffing Requirements—Chain Restaurants**

CHAIN RESTAURANT STAFFING REQUIREMENTS								
	NO. OF UNITS BEGINNING OF YEAR	UNITS ADDED	PERCENT CHANGE	NEW MANAGERS NEEDED (1)	HOURLY EMPLOYEES PROMOTED TO ASST. MANAGERS (2)	DEPARTING TRAINEES	MANAGERS HIRED FROM OUTSIDE	EXISTING MANAGERS MOVED TO NEW UNITS (2)
Year 1	20	8	40%	60	20	8	48	20
Year 2	28	11	40	83	28	11	66	28
Year 3	39	16	40	119	39	16	96	39
Year 4	55	22	40	165	55	22	132	55
Year 5	77	31	40	233	77	31	187	77
Year 6	108	43	40	323	108	43	258	108

(1) Assumes 1 general manager and 4 associate managers per unit, and assumes 20% annual turnover at existing units; (2) assumes one per existing unit.

Source: Thomas Weisel Partners, San Francisco.

look in the United States is better and wages several times higher than in Latin America, it is likely that immigrants will continue to be an important source of labor in certain parts of North America.

Finally, **part-time workers**, who have always played a major role in food service, will continue to be important. Interestingly, approximately one-half of all food service employees work part-time. This is a far higher percentage of the working population than in the workforce, overall, which is 20 percent.²¹ The part-time labor pool is made of many people who have other claims on their time and need to supplement their income. This can make them an attractive source of labor.

Table 2.4 provides a visual description of the net impact that employment fluctuations can have on staffing requirements.

Workforce Diversity

The components of diversity include ethnic background and place of birth, education and skill level, income level, gender, age, differing abilities, and sexual orientation. Organizations have generally tolerated diversity and tried to regulate it. With growing diversity, however, students of organizational dynamics call for an approach that goes beyond tolerating diversity to valuing it, seeing people for the contribution

they can make rather than their surface differences. Increased organizational diversity necessarily benefits organizations by expanding its ability to meet the new challenges of the market.

Why is this important? Historically, the main component of the workforce has been the white male. Even with the increasing female workforce participation rate, in 1991 almost 50 percent of those entering the workforce were white males. African Americans in the labor force, however, are increasing nearly twice as fast as the white male workforce, and the Hispanic workforce is growing four times as fast. Because female employment is also growing faster than male employment, we can forecast a dramatic change in the type of people entering the workforce. Compared with 50 percent in the early 1990s, white males will account for less than 10 percent of new entrants to the workforce by the year 2008.²² **Workforce diversity** has become a permanent fact of life in North America. Because a large part of the growth will occur among minorities, who historically have had lower incomes than average, an even larger component of workers will probably come from disadvantaged backgrounds with poorer educational preparation.

The Impact of Labor Scarcity

The evidence we have suggests it is food service that will experience the tightest pressure in the hospitality industry from trying to keep up with the demand for workers because of the projected growth for new jobs. It is important, however, to keep in mind that a significant number of U.S. hotels are full-service operations and so have a commitment to food service, with some of them—resorts, luxury operations, and convention hotels—having a very extensive commitment. Accordingly, the hotel industry will not escape unscathed by a shortage of labor.

Both segments face high levels of employee turnover and increasing competition from other industries. The interaction of those forces in good times, when competition from other employers is sharp, almost certainly spells higher prices. Even in slower times, it suggests that hiring and retaining workers, especially in the skilled and supervisory categories, will be difficult. The food service and lodging industries have recognized the labor crisis for some time, however. In addition to raising wages, many operators have enhanced benefit programs and instituted support services such as generous family leave policies. On-the-job efforts to recognize supervisor performance and to provide career ladders for successful people are becoming a more conscious and purposive force. Attracting good people and keeping them once they are in place is simply cost-effective management of human resources.

Labor shortages have made it even more critical for operators to retain qualified workers. (Courtesy of Mimi's Café.)



Summary

Demand, ultimately, means customers. We looked at how one customer group, the baby boomers, has changed the hospitality industry. Our customers' average age is increasing as the boomers move into their middle years. We also looked at two other cohorts, the GenXers and the echo boomers. Family travel continues to create demand for child-friendly hospitality. The slow but steady growth in the over-65 population fore-shadows the explosion in that age group in 2010, when boomers start to turn 65. We discussed four other demographic changes: diversity, working women, changing families, and changing incomes.

Working women are an established workforce fact. Seventy-five percent of women in their childbearing years work, and as many as 90 percent work sometime during the

year. Two-income families mean more demand for food service and for travel but more pressure on time, making shorter vacations popular.

Families without children—empty nesters and those who chose not to have children—have higher disposable incomes and make up a fast-growing group. Families with children, however, are still the largest segment. The growth in single-person households is partly the result of a later marriage age because of longer times spent in education. Another single-person household group is widows, as wives tend to outlive husbands.

In the changing income trends, we find the winners are college-educated people, affluent retirees, and women in full-time work. The number of middle-class households is increasing, but their proportion is declining as upper- and lower-income groups increase more rapidly.

The factors of production we considered are land and its produce and labor. Available locations are a category of land that is important to all segments of hospitality, as they continue to become scarcer. Environmental pressures add to the difficulty of finding new locations. Although food supply is expected to be adequate, short-term weather problems or a major change in the climate could lead to scarcity and higher-cost food.

The other factor of production we considered, labor, offers good news and bad news. There will be plenty of jobs for people who seek hospitality management careers—but they will face a difficult challenge of keeping the operation staffed. The industry's growth and high turnover continue to require a greater share of a slow-growing workforce. Moreover, there will be stiff competition from other industries for the workers we seek.

To fill the demand for workers, wages are rising at many hospitality firms, as are fringe benefits and bonuses. Sources of labor supply are being targeted, such as “restless retirees.” Immigrants and part-timers will continue to be an important part of the hospitality workforce.

Key Words and Concepts

Demand

Demographics

Baby boomers

Generation X

Echo boomers

Generation Y

Diversity

Two-income families

Family composition

Empty nesters

Single-person households

Middle class

Income distribution

Activities, interests, opinions

Psychographics

Environmental pressures

Food supply

Immigrants

Part-time workers

Workforce diversity

Review Questions

1. How would you define demand? What critical changes in demand do you foresee in the future? Why?
2. Why are the baby boomers so important? What impact do you see them having on the hospitality industry in the next few years? In the longer-term future?
3. Besides the baby boomers, what other significant age groups were discussed in the chapter?
4. Trace the impact of the boomers on the hospitality industry. What impact do you think your age group will have on food service? On lodging?
5. What are the main elements of diversity discussed in this chapter? What are the major trends related to diversity? What are their likely effects?
6. Discuss the growth in the proportion of women working. What changes have working women caused as they relate to the hospitality industry? What does the future appear to hold regarding women in the workforce?
7. What is the largest household type? What are some rapidly growing household types? What kind of customer for hospitality is each of these groups?
8. Is the middle class shrinking? Which income groups are growing in absolute numbers? In proportionate share of population?
9. What categories of land as a factor of production are important to the hospitality industry? What is likely to affect the cost and availability of those factors?
10. The food service workforce is expected to grow at about the pace of the total workforce. In spite of this, what factors make the need for food service workers problematic? How does this affect the hotel business? What are some sources of supply that can be tapped?

Internet Exercises

1. **Site name:** FedStats
URL: www.fedstats.gov
Background information: More than 100 federal agencies produce statistics of interest to the public. The Federal Interagency Council on Statistical Policy maintains this site to provide easy access to the full range of statistics and information produced by these agencies for public use.

Exercises:

- a. List at least five federal agencies that might produce statistics or demographic data of interest to the hospitality industry. Describe the data that each agency provides and why it might be important to the hospitality industry.
- b. Do a search of “MapStats” for the state or city in which you live (or where your college/university is located). Identify important demographic information such as age, race, education, and income that would be of interest to a hospitality manager. Describe why this information would be of interest to a hospitality manager.
- c. Do a search for “women and employment” and/or “minorities and employment.” What information is available that may be of interest to the restaurant manager?

2. Site name: U.S. Department of Labor, Bureau of Labor Statistics

URL: www.bls.gov

Background information: The Bureau of Labor Statistics is the principal fact-finding agency for the federal government in the broad field of labor economics and statistics.

Exercises:

- a. Describe the information that can be obtained from the BLS Web site and how this information could be helpful to a hospitality management student.
- b. Under “Wages, Earnings, & Benefits” determine the average annual salary for both Food Service Managers and Lodging Managers. How does the state you live in compare to the national average for these occupations?
- c. Click on the “Occupational Outlook Handbook” link. Search for either lodging managers or food service managers. Describe the information that is available from BLS regarding these two occupations. What is the employment outlook for these two occupations?

3. Site name: U.S. Census Bureau

URL: www.census.gov

Background information: The U.S. Census Bureau is the federal government’s leading source of data about the United States’ people and its economy.

Exercises: Search the latest “Data Profiles–ACS” for a state/region/city selected by the instructor or choose your own. Scan both the “Tabular Profile” and “Narrative Profile” for the state/region/city that was selected.

- a. Describe the type of demographic data that is available from the U.S. Census Bureau for the state/region/city you selected.

- b. How diverse is the geographical area you selected in terms of ethnic makeup? What ethnic groups are the largest and which are the smallest?
- c. What is the mean household income for the area selected?
- d. What percentage of the population has an associate degree or higher?
- e. What percentage of the population works in the leisure and hospitality industry? How does it compare with other occupations in the same area?
- f. Discuss why you think demographic data might be useful to a manager in the hospitality industry.

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