



MAKE OR BREAK?

AN ANALYSIS OF THE IMPACT OF LIQUOR
LICENSING CHANGES ON EMPLOYMENT IN HOTELS.

SA HOTELS: TOO GOOD TO IGNORE, TOO VALUABLE TO LOSE



SA HOTELS HOST 82% OF ALL LIVE MUSIC GIGS

Music SA census (May 2016)

EXECUTIVE SUMMARY

The SA Centre for Economic Studies recently published its report which examined the statewide economic impact of the hotel industry to the SA economy (see details on back cover). Amongst other things the SACES report found that there were 26,250 people employed by the hotel industry - 3.2% of total employment in SA. Following that report Bentleys SA Pty Ltd was asked to consider the impact of changes in turnover to employment in that industry as a result of changes in liquor licensing regulation in South Australia. Using the SACES report along with industry data, and assumptions outlined, this report estimates the impacts on job levels of both a reduction and an increase in turnover, predominately in relation to changes in sales of food and beverage, including takeaway liquor at bottleshops.

Using the methodology set out in the report it is estimated that a reduction in revenue in the range of 5-40% would result in job losses as seen below.

The same methodology can be used to estimate the number of additional industry jobs created through an increase in turnover, for eg. a 15% increase in turnover would potentially lead to the creation of an additional 2,049 jobs (1,285 FTE) and create economic growth in SA across a number of sectors.

A reduction in jobs would also result in a reduction in payroll tax remitted to the SA government.

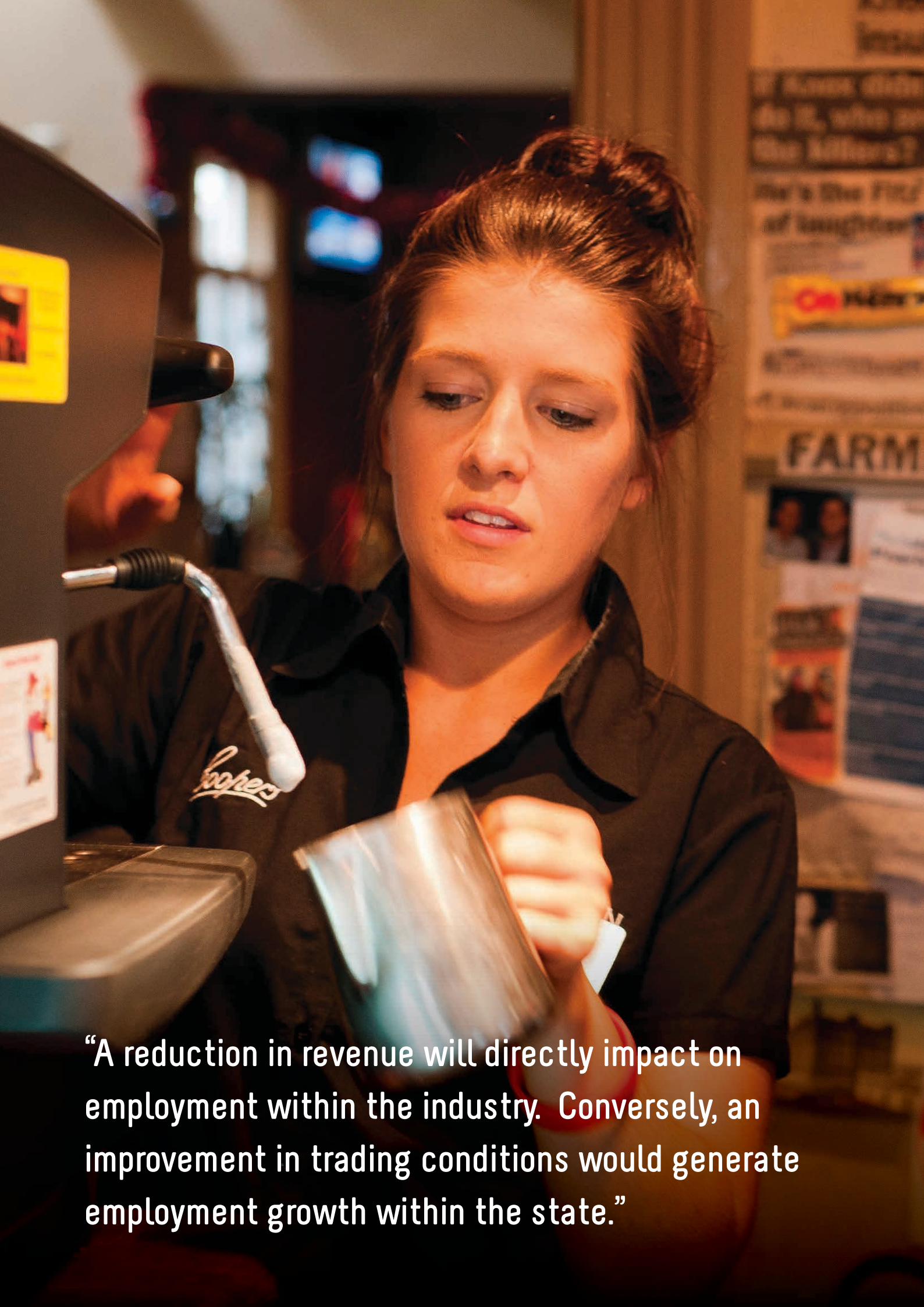
A reduction in turnover in the industry would in addition have a flow on effect in overall spending, particularly in related food and beverage industries and employment in SA generally.

A significant and sustained reduction in profitability is likely to also impact on the underlying value of the business itself which may have dire implications in relation to borrowings, hotel valuations and could lead to financial institutions calling up their loans.


REDUCTION IN REVENUE	5%	10%	15%	25%	30%	35%	40%
REDUCTION IN EMPLOYEES							
- FTE	428	857	1,285	2,143	2,571	2,999	3,427
- Actual	683	1,366	2,049	3,416	4,099	4,782	5,465



The SACES report found that there were 26,250 people employed by the hotel industry - 3.2% of total employment in SA.



“A reduction in revenue will directly impact on employment within the industry. Conversely, an improvement in trading conditions would generate employment growth within the state.”



The hotel industry is inherently labour intensive. Staffing requirements across hotel venues are closely linked to turnover levels.

BACKGROUND

In January 2016, the Australian Hotels Association (SA) (“AHAISA”) commissioned a report to be prepared by The South Australian Centre for Economic Studies (SACES) at the University of Adelaide.

That report considered the value of the hotel industry in all its forms in South Australia. Of particular relevance to this report are its findings in relation to employment and revenue.

We credit the data used in this report in relation to the above to the SACES report.

The hotel industry in South Australia faces various threats, including increased competition from new venues, lack of population growth and a relatively flat economy, along with political issues related to liquor licensing and gaming, all of which have the potential to impact upon industry revenue.

A reduction in revenue will directly impact on employment within the industry. Conversely, an improvement in trading conditions has the potential to generate employment growth within the state.

The SACES report found that there were 26, 250 people employed by

the hotel industry in South Australia. This equated to 16,465 full time equivalent (FTE) employees, and represented approximately 3.2% of South Australia’s total employment.¹

The report also found that South Australian hotels paid \$958m in wages during the financial year ended 30 June 2015.

The hotel industry in general is inherently labour intensive. Staffing requirements across hotel venues are closely linked to turnover levels. A material change in turnover (whether positive or negative) will impact on staffing levels at the particular hotel.

The extent of the link will differ between different revenue streams; eg food, beverage, bottle shop, gaming, accommodation. The ratios for these departments are commonly measured and used by venue management as an important Key Performance Indicator (KPI).

At a more micro level, ratios may vary between venues, depending on issues such as floor layout and ability of staff to multi-task.

This report uses these ratios to consider the potential impact of changes in turnover to venue staffing levels.

¹ Economic Contribution of the Hotel Industry in South Australia, The South Australian Centre for Economic Studies, University of Adelaide, January 2016

METHODOLOGY

As discussed, there is generally a measurable correlation between hotel turnover and staffing levels. Hotel management closely monitor these ratios and use them as KPIs in assessing performance of responsible managers.

Therefore, if turnover declines, it would be reasonable to predict that staffing numbers will also decline. The converse would also be expected to be true.

Whilst these KPIs will vary slightly between venues, depending on

	ESTIMATED RANGE	PERCENTAGE ADOPTED
Food	30% - 40%	35.0%
Beverage	20%-30%	20.0%
Retail	7% - 15%	12.5%

We note that the higher the percentage, the more acute the relationship between turnover and staffing numbers. We also point out that bottle shop (retail) wages can vary greatly across different venues. For example, a smaller, walk in bottle shop may typically be more labour intensive as against revenue than a large, drive through bottle shop and may in fact be higher than 15%.

	\$M
Beverage	686
Food	683
Retail	979
Accommodation	499
Net Gaming Revenue	633
Other	147
TOTAL	3,627

Source: Economic Contribution of the Hotel Industry in South Australia, The South Australian Centre for Economic Studies, University of Adelaide, January 2006

By applying the assumed wages percentages by department across the relevant income stream, an increase or decrease in payroll (as appropriate) can be estimated for a quantified increase or decrease in departmental turnover.

This result can be used to estimate the change in actual staffing numbers, by reference to the Hospitality Industry (General) Award 2010.

The Award stipulates a 38 hour week. Pay rates (per hour) will vary,

REDUCTION IN TURNOVER - FOOD	ESTIMATED REDUCTION IN PAYROLL	ESTIMATED REDUCTION IN FTE STAFF
10%	\$23.9m	411

This methodology has been rolled out across the three highlighted revenue streams, across a range of scenarios, to estimate the potential

size, layout and perhaps unique efficiencies, they can generally be expected to fall within a common range. The range will vary across different revenue streams. This report primarily focuses on:

- Food
- Beverage
- Retail (sale of take away liquor at a bottle shop or drive through)

Indicative ranges of wages to turnover percentages for these revenue streams may be:

The percentage adopted is therefore considered to be relatively conservative.

The SACES report also identified that revenue across the industry in South Australia during financial year 2015 was approximately \$3.6b.

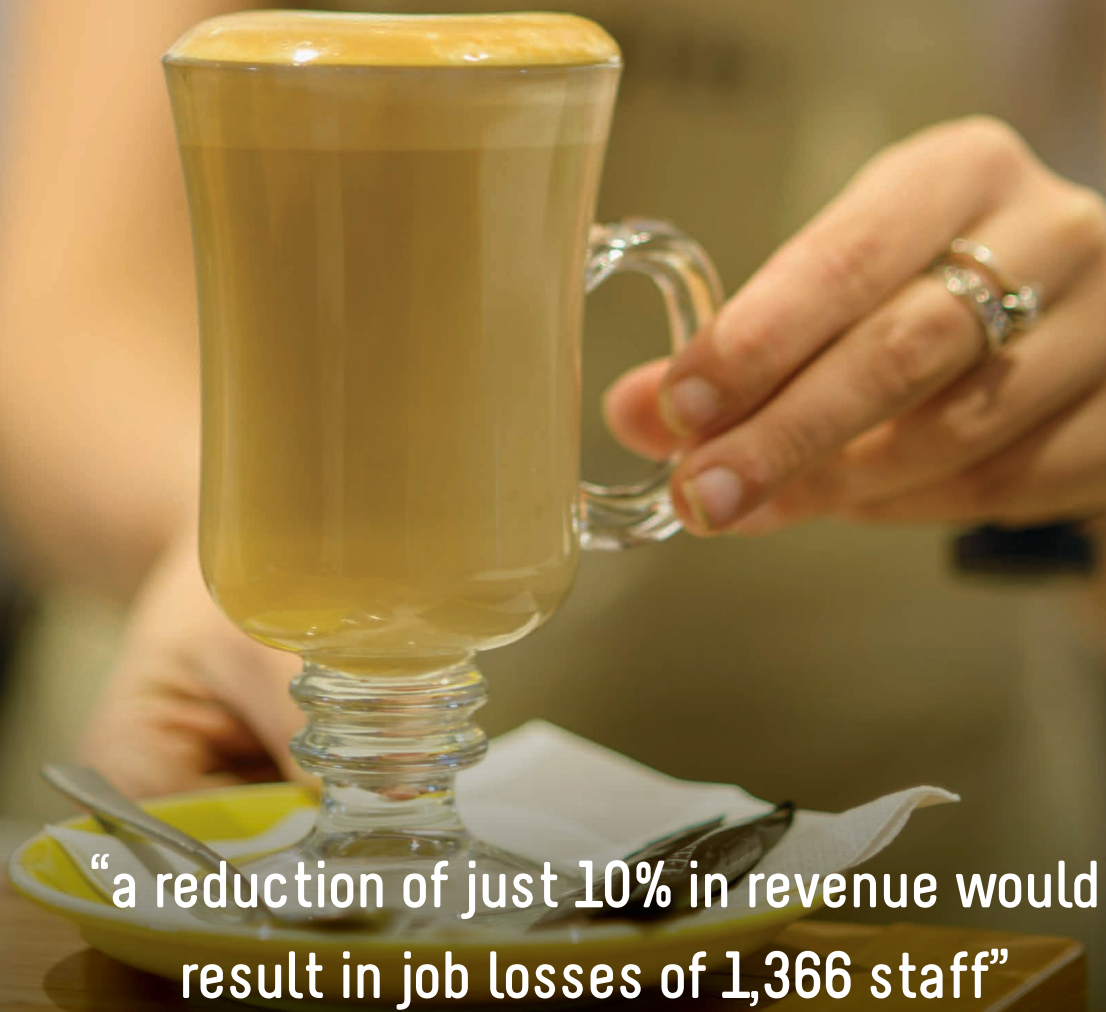
This was broken down as follows:

depending on numerous factors, including the employee's age and classification, while variations will also apply for work performed on weekends or public holidays or other penalty rate conditions.

An average industry rate of \$29.45 has been used for the purpose of these calculations.

Purely as an example, such assumptions would, using the above revenue table as a base, produce the following result:

impact on employment numbers in the industry throughout South Australia caused by an increase or decrease in industry turnover.



“a reduction of just 10% in revenue would result in job losses of 1,366 staff”



RESULTS

The methodology discussed can be applied against a range of revenue scenarios to consider the potential impact of changes on industry employment in South Australia.

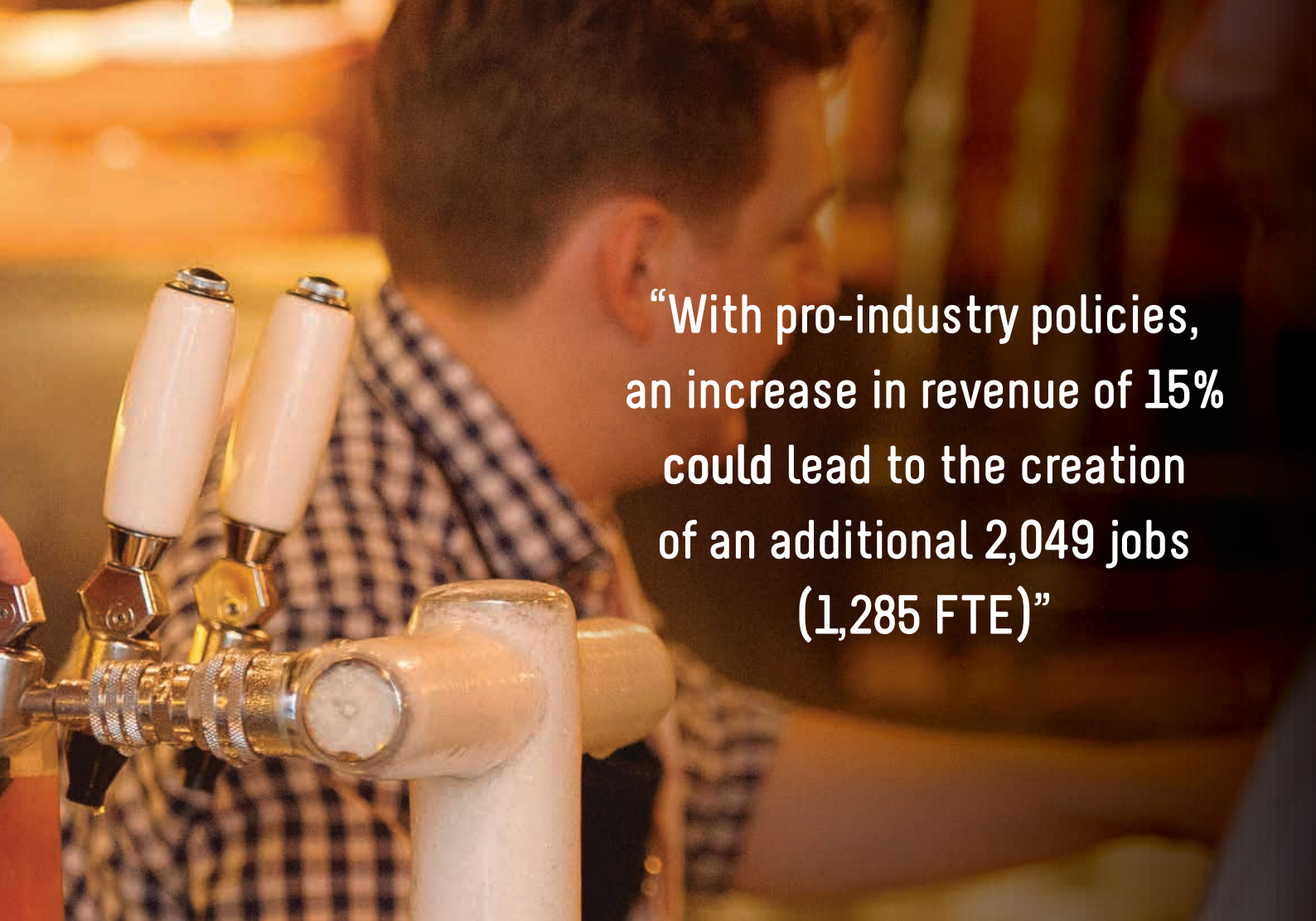
The analysis below uses this methodology and related assumptions to consider the impact of a reduction in revenue in the range of 5% - 40%. The assumed reduction in payroll (\$) would, using the assumed average pay rate, equate to person hours lost as shown below:

REDUCTION IN REVENUE	5%	10%	15%	20%	25%	30%	35%	40%
Reduction in payroll	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Liquor – on premise	6,860	13,720	20,580	27,440	34,300	41,160	48,020	54,880
Liquor - retail	6,119	12,238	18,356	24,475	30,593	36,712	42,831	48,950
Food	11,952	23,905	35,857	47,810	59,762	71,715	83,668	95,620
	24,931	49,863	74,793	99,725	124,655	149,587	174,519	199,450

The assumed reduction in payroll (\$) would, using the assumed average pay rate, equate to person hours lost as shown below:

REDUCTION IN REVENUE	5%	10%	15%	20%	25%	30%	35%	40%
Reduction in hours	'000	'000	'000	'000	'000	'000	'000	'000
Liquor – on premise	233	466	699	932	1,165	1,398	1,631	1,864
Liquor - retail	208	416	823	831	1,039	1,247	1,455	1,662
Food	406	812	1,218	1,624	2,030	2,436	2,841	3,247

This would in turn result in a loss of jobs throughout the industry in South Australia as shown over.



“With pro-industry policies, an increase in revenue of 15% could lead to the creation of an additional 2,049 jobs (1,285 FTE)”

REDUCTION IN REVENUE	5%	10%	15%	20%	25%	30%	35%	40%
Reduction FTE employees								
Liquor – on premise	118	236	354	472	590	707	825	943
Liquor - retail	105	210	315	421	526	631	736	841
Food	205	411	616	822	1,027	1,233	1,438	1,643
TOTAL FTE	428	857	1,285	1,715	2,143	2,571	2,999	3,427
ACTUAL EMPLOYEES	683	1,366	2,049	2,733	3,416	4,099	4,782	5,465

As it is common in the industry to employ a large number of casual and part time employees, the reduction in Full Time Equivalent (FTE) employees can be converted to an approximate number of actual persons by applying the same ratio as that determined by the SACES study.

Whilst the above scenarios consider the impact of a reduction in turnover, the same methodology can also be used to estimate the additional industry jobs created if turnover was to increase.

Therefore, applying the same assumptions regarding turnover and industry

wages percentages, an increase in revenue of, for example, 15% would potentially lead to the creation of an additional 2,049 jobs (1,285 FTE).

Any reduction in payroll resulting from reduced revenue would also result in a reduction in total payroll tax remitted to the South Australian government.

Assuming all employers were required to be registered for payroll tax, this reduction could be measured approximately as follows:

REDUCTION IN REVENUE	5%	10%	15%	20%	25%	30%	35%	40%
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Estimated reduction in payroll tax revenue	1,351	2,703	4,054	5,405	6,757	8,108	9,459	10,811

Again, the converse would equally apply, with an increase in industry revenue resulting in an increase in revenue collected by State Treasury.

GAMING

As noted in the Methodology, the above analysis has focused only on beverage, food and retail.

The impending introduction on 1 January 2017 in of \$5 maximum bets has the industry expecting a 7% drop in Net Gaming Revenue (NGR). We also note the post-election discussion at a Federal level raising the possibility of \$1 maximum bets. Presumably any such move would have a more extreme impact on revenue.

Again using the same methodology and assuming a wages to revenue percentage of 9%, an expected 7% drop in revenue would be expected to result in the loss of a further 69 FTE jobs, or 109 actual employees.

This would have a further payroll tax impact to treasury of (\$216,000). The above analysis ignores the flow on effect within the venue, whereby a reduction in gaming patrons would also be expected to result in a reduction in associated spending on food and beverage at the venue.

OTHER ECONOMIC FACTORS

Flow on impacts on the wider economy

The SACES report discusses what it describes as the second order flow on impacts that arise from the spending of wages and profits on local goods and services in South Australia.

In its report, SACES estimate the total impact of the hotel industry in South Australia, including the 26,000 people directly employed, to be 43,852 employed persons.

Whilst this report does not seek to measure the flow on impact, it would be reasonable to assume that a reduction in industry employment as discussed will have a proportionate flow on impact to the economy, resulting in a reduction in Gross State Product and total employment within the state beyond the immediate impact described earlier.

Conversely and as mentioned elsewhere in this report, the opposite would also be expected to occur, with an increase in revenue having a positive flow on impact in terms of spending and employment.

Viability issues

Whilst not the focus of this report, any reduction in revenue for a hotel venue has the potential to adversely impact on its economic viability.

This is clearly a question of degree and is subject to several economic factors, including those specific to the owner, however a reduction in revenue will negatively impact profitability, which, in turn, will negatively impact the value of the business.

When assessing finance for anything from a housing loan to a business loan, banks will typically consider their Loan to Value Ratio (LVR), with the bank's credit policy requiring that a loan should not exceed a certain percentage of the security offered.


This percentage will vary depending on the type of security offered and the risk profile of the borrower (and in this case, the business).

As a result, a reduction in profitability of a business is likely to result in greater scrutiny from its financier, as reducing profits, if expected to be sustained, will result in reduced asset valuations. In a more extreme

case, a bank's lending policy may become biased against an industry if it is perceived that the trend is permanent and likely to impact across a large section of the industry. This will impact on existing venues who may encounter tougher borrowing conditions. Potential purchasers may also find it more difficult to obtain finance, which will make it more difficult for any struggling owners to find a suitable buyer.

This also has the potential for a flow on impact on rental values of the leasehold premises which will, in turn, impact the value of the hotel freehold (landlord).

In a worst case scenario, a reduction in value (in the case of either the leasehold or freehold) could result in a bank acting on its security and repossessing or forcing a sale of the asset or possibly closure of a business.



A reduction in industry employment will have a proportionate flow on impact to the economy, resulting in a reduction in Gross State Product and total employment within the state.

A close-up photograph of a bartender with a beard and glasses, wearing a white shirt and a dark apron. He is pouring a light-colored wine from a bottle into a snifter glass. The background is a warm, rustic bar setting with wooden walls and a menu board. The lighting is soft and focused on the bartender and the glass.

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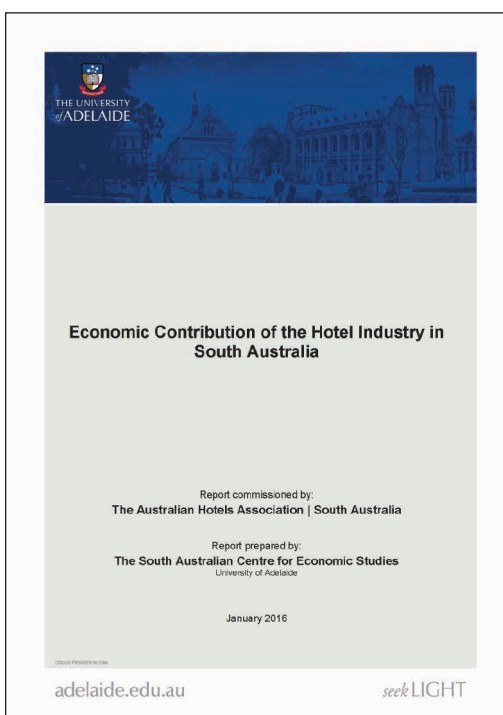
“In a more extreme case, a bank’s lending policy may become biased against the industry”



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Disclaimer

This report has been prepared exclusively for the AHA SA. We do not accept responsibility to any other person for the contents of this report. The estimates and resultant conclusions in this report are based on various assumptions and careful reference should be made to these assumptions. Actual results may vary significantly from the projections provided and forecasts should never be interpreted as a promise or warranty of the future. Actual future results may vary due to several reasons, including economic conditions, consumer behaviour, government legislation and management decisions. Whilst we have used industry benchmarks as part of our analysis, it should be noted that no two venues are alike and the results achieved by one venue should not be taken to be an assurance that similar results will be achieved at another venue.



Report commissioned by: The Australian Hotels Association | South Australia

Extracts from: Economic Contribution of the Hotel Industry in South Australia.

Report prepared by: The South Australian Centre for Economic Studies - University of Adelaide.

Cricos Provider: 00123M

Full report available at www.ahasa.asn.au

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This report was prepared by the University of Adelaide's South Australian Centre for Economic Studies. It was released in January 2016.

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- Mark Trevithick, Research Economist

Methodology

The South Australian Centre for Economic Studies has extensively reviewed publicly available data, conducted a population survey of over 600 hotels (assisted by the AHAISA), reviewed previous reports on the industry, reported on the survey results and conducted input-output analysis to report the broader economic impact of the hotel sector.

Available at www.ahasa.asn.au