Impacts of Brexit on the Hospitality Industry

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes.

With dedicated teams in key political and commercial capitals, FTI Consulting is well placed to help you navigate your Brexit challenges and manage commercial risk.

The Hospitality industry covers a broad range of businesses that straddle the service and tourism industries, including hotels, restaurants, travel and events.

WORKFORCE PRESSURES
- Substantial number of European staff employed in hospitality industry (particularly in large cities like London)
- Heavily dependent on immigrant labour
- Recruitment of skilled labour has been an issue
- Reported slowdown in staff recruitment since Brexit vote

EXTERNAL BUSINESS PRESSURES
- Increasing rents, business rates, inflationary pressures on disposable incomes a growing threat to hospitality industry

INNOVATION CHALLENGE
- Industry must evolve to maintain market share and meet changing customer demands
- Industry must innovate rapidly to keep up with technological advancements

REGULATORY BURDEN
- Following Brexit, UK will operate under different principles of EU contract law, requiring:
  - Amendment of clauses relating to restriction-free trade across a single market
  - Review of commercial contracts with suppliers

Brexit further adds to the complexity and may have long reaching impacts on both ease to do business and profitability

**Economy**
- Following Brexit vote, economic growth for hotels and restaurants up 1% in Q1 and up by 2% in Q2 (Office for National Statistics)
- Long term outlook for UK less clear, requiring hospitality sector to plan for numerous macroeconomic scenarios

**Finance/Tax**
- According to British Hospitality Association, UK's industry could benefit if government lowered tourism VAT rate to 5%
- Reduction would entice foreign travellers to visit the UK, contributing to industry growth

**Direct impact**
- Uncertainty may dampen consumer confidence and affect domestic demand for hospitality industry
- London's businesses in the sector employ between 25.7% and 38% of EU nationals - Brexit could have significant implications
- Britain may be perceived as unwelcoming to EU27 visitors, negatively impacting demand

**Access to labour**
- Brexit could create additional administrative burdens for immigration compliance (e.g. additional work permits) resulting in costlier, more complicated and time consuming processes
- EU workers could be incentivised to seek work in EU27
- Lack of availability of workers may lead to poorer hospitality services

**Legal/Compliance**
- Changes to UK’s access to Single Market, may mean contracts have to be restructured
- Changes to compliance responsibilities
- Foreign franchises operating in UK may have to revise legal agreements
- Changes to terms in employee contracts may be required to reflect changes in law in different jurisdictions

**Exchange rate**
- Sterling already fallen by 20%. Currency volatility affects profitability and cash flow assumptions
- Significant drop in sterling would make the UK an attractive retail destination for Eurozone and global tourists
- But will also make importing goods and services more costly (e.g. food & drink)
- Increase in food and drink prices due to sterling depreciation will have knock on effects on hospitality industry
Brexit checklist: **What should you be thinking about?**

- Obtain political and regulatory insight and intelligence to create clarity
- Address any potential commercial and operational requirements
- Ensure you have the right financial and investment strategies in place
- Monitor and influence legislative programmes to protect commercial interests
- Consider any corporate restructure, valuation or business modelling needs
- Mitigate any tax risks
- Undertake market analysis and economic scenario modelling to inform your business decisions
- Understand the implications for your governance, trade and investor protection rules
- Engage all your internal and external stakeholders effectively across all platforms

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