



CORPORATE TRANSFORMATION SERVICES

Navigating the Future of the Hospitality Industry: Overcoming Challenges for Sustainable Growth

The hospitality industry is undergoing rapid transformation, shaped by technological advancements, evolving consumer preferences and heightened competition. As the industry recovers from the economic downturn of recent years, the focus has shifted from immediate rebound and now to sustainable growth — a careful balancing act of economic viability, environmental responsibility and social equity. However, achieving this balance presents significant challenges for hotel owners, operators and other stakeholders across the sector.

In this first article of a series, we explore the major challenges and opportunities facing the hospitality industry. Findings from Alvarez & Marsal's Hospitality Health Study indicate that hospitality sector is facing financial, labor, competitor and consumer challenges.¹ By delving into areas such as financial management, employment dynamics and the complexities of franchising, we aim to provide actionable insights and practical solutions that can help the industry navigate its path to sustainable growth.

Key Challenges to Sustainable Growth

Sustainable growth in hospitality hinges on coping with financial constraints, employment trends and the rigid demands of franchising agreements. Hotel owners and managers are faced with the task of navigating these issues while simultaneously meeting rising consumer expectations and keeping pace with a rapidly changing technological landscape. Understanding these challenges is essential for devising strategies that foster long-term success.

Financial Challenges and Opportunities

1. Budgetary Constraints and Investment Prioritization

A significant portion of hotel owners (53 percent) report that they lack sufficient budgets to meet operational and capital expenditure requirements. This financial strain is further exacerbated by the need to invest in new technologies, employee training and property upgrades to stay competitive. One hotel owner captured the dilemma: "There's too much to spend money on; I don't know how to prioritize. The level of change our industry has gone through — and needs to go through — is immense."

This sentiment highlights the difficulty many hotel owners face in prioritizing their financial investments.

With a myriad of potential improvements and innovations to consider, the unclear value proposition of certain investments makes it challenging for owners to decide where to allocate limited resources.

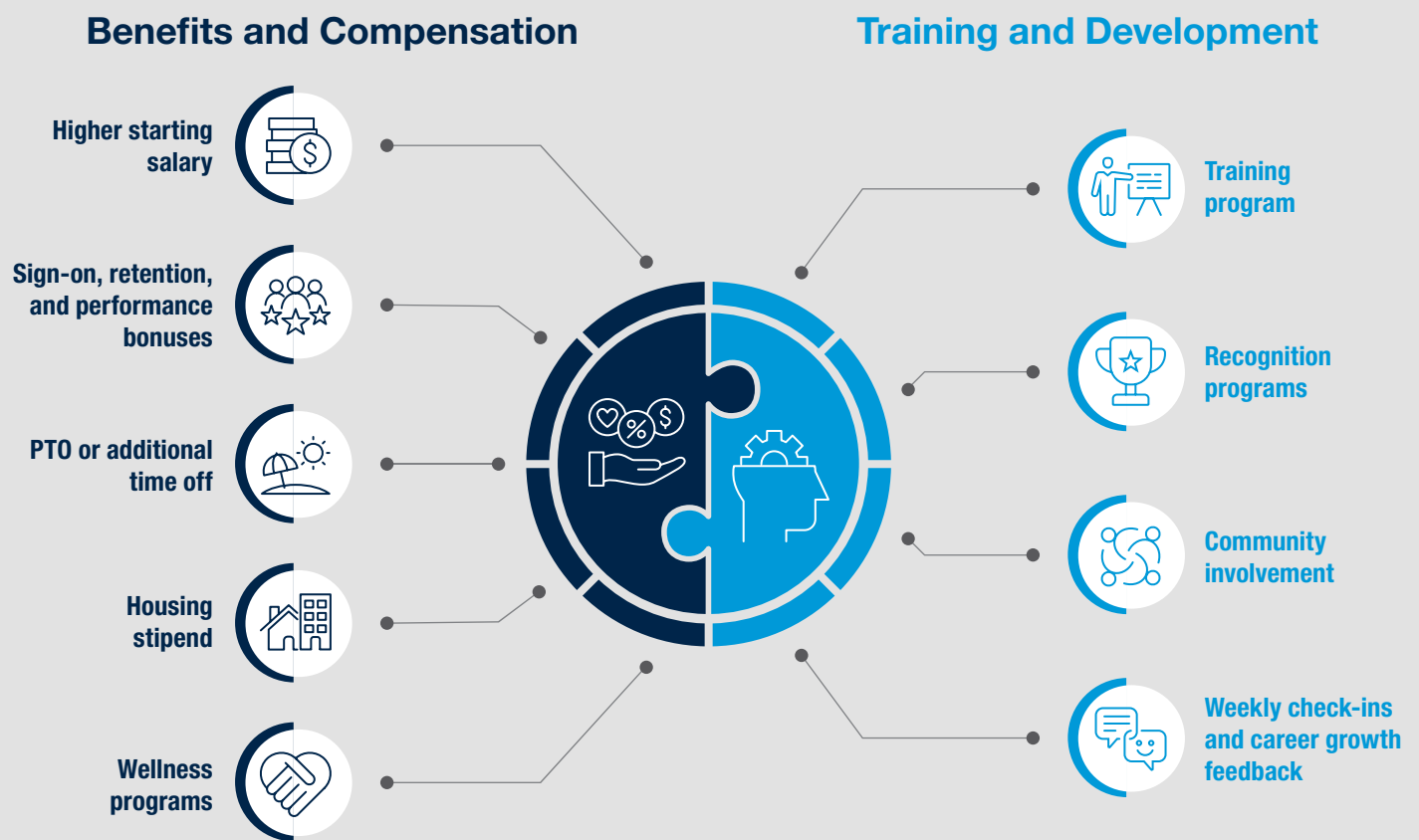
2. Difficulty Securing Additional Funding

Compounding budgetary constraints is the persistent challenge of securing additional funding. Technological upgrades and workforce training account for 54 percent of funding needs, yet the ability to secure necessary capital remains limited. Many hotel owners struggle with financial inflexibility due to ownership decisions that restrict spending. Private investors and lenders have also become more reticent to deploy capital, particularly outside of distressed situations, leaving many operators unable to access the resources they need to remain competitive and grow their portfolios.

Employment Challenges and Workforce Dynamics

1. Recruitment and Retention Struggles

The hospitality sector has long been plagued by high turnover rates, but today, recruitment and retention challenges are exacerbated by shifting workforce dynamics. A shrinking labor pool of experienced workers combined with a strong labor market makes it more costly to compete for and retain skilled workers. According to AHLA, current total hotel employment is around 196,000 fewer workers in the industry than before the pandemic.² Thirty-four percent of A&M's survey respondents say that finding new employees is a top challenge, and 27 percent say that about retaining current employees. Housekeeping is the department with the biggest staffing challenges as it is one of the most difficult yet lower-paying jobs. However, more than 80 percent of hotel owner respondents have not addressed recruiting and retention issues beyond increasing salaries, indicating a need for innovative solutions beyond increasing salaries must address workforce shrinkage and recruiting and retention challenges.



Schedule predictability and flexibility are emerging as critical factors in retaining employees. Workforce expectations have changed partly due to employees observing the flexibility and additional benefits surrounding other industries. To many, hospitality is incapable of providing the same flexibility and benefits, resulting in the industry's being less appealing. Workers today expect greater control over their schedules, and hotels that can offer this flexibility are more likely to attract and retain top talent. Beyond flexibility, initiatives such as enhanced training programs and improved working conditions are being explored to better align job roles with worker expectations. Some smaller operators are even leveraging visa programs to meet their staffing needs, though these longer-term solutions often come at a higher cost.

Franchising Complexities and Operational Flexibility

1. Brand Restrictions and Limited Operational Flexibility

Franchising can offer significant benefits, but it also imposes notable constraints on hotel owners. Strict brand standards, particularly in areas such as technology and marketing, often dictate spending, leaving little room for owners to adapt their operations to local market conditions. As one franchisee noted, *“You would think we’d be better off financially being affiliated with a major chain. But the fact is, they dictate so much of what we have to spend on, it doesn’t allow for flexible spending on things the market is telling us we need.”*

This lack of flexibility is driving the popularity of “soft-branded” hotels, which offer the backing of a major chain but with fewer brand standards, are giving franchise owners more flexibility.

However, such options are currently limited, particularly outside of the upscale market.

2. Independent Hotels: Balancing Visibility and Control

Independent hotels face a different set of challenges. While they have more operational flexibility than their chain-affiliated counterparts, they struggle with market visibility, distribution and guest loyalty. Additionally, independent operators often face structurally-higher operating costs, particularly for consumables and fixtures, making it more difficult for them to achieve economies of scale and leaving them more exposed to inflationary concerns.



How A&M Can Help

To address these deep-rooted challenges, A&M offers a range of capabilities designed to help hotel owners and operators navigate the complexities of today's market. Our services include financial restructuring, strategic investment planning and innovative employment solutions tailored to the specific needs of the hospitality sector. Additionally, we provide flexible franchising strategies that enable hotel owners to strike the right balance between brand affiliation and operational independence.

Call to Action: Addressing Industry Challenges for Sustainable Growth

Achieving sustainable growth in the hospitality industry requires a proactive, adaptable approach. Stakeholders must remain flexible in addressing financial challenges, adopt innovative solutions to attract and retain a dynamic workforce, and find the right balance between franchising constraints and operational flexibility. By leveraging expert insights and collaborating with industry leaders, hotel owners and operators can overcome these challenges and ensure long-term success.

Conclusion: The Path to Sustained Success

The hospitality industry is at a critical juncture, facing a host of challenges that must be addressed to achieve sustainable growth. From financial constraints and employment issues to franchising complexities, the road ahead is fraught with obstacles. Stakeholders must be flexible in addressing financial challenges, adopt innovative solutions to attract and retain a dynamic workforce, and find the right balance between franchising constraints and operational flexibility.

In the next article of this series, we will continue our deep dive into these critical areas, offering detailed insights and practical solutions to help the hospitality industry not only survive but flourish in the years to come.

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1. This article was crafted based on Alvarez & Marsal's Hospitality Health Study to understand business challenges of the hotel industry. The study surveyed 308 hotel owners, managers and employees and dove deep into challenges in the hotel business. The survey was conducted in May and June of 2024.
 2. "American Hotel & Lodging Association Workforce Report," AHLA, July 5, 2024, <https://www.ahla.com/news/ahla-workforce-report-hotels-add-700-jobs-june>.

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