Service Skills Victoria

Industry Change Drivers Report
(2005 Service Industry Qualitative Data)

PRODUCED BY
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Executive Summary

The Australian service industries covered in this report are tourism, hospitality, wholesale, retail and personal services. These industries were the major generators of jobs and job growth in the decade to 2004. This growth was mainly due to individual wealth doubling in the last two decades, resulting in greater demand for services and luxury commodities. These same areas are projected to be at the forefront of job growth for the next decade. As the economy grows, the standard of living rises; this in turn increases demand for services resulting in the service industries becoming an even more significant part of the economy.

Strong growth, together with increased global competition and demographic challenges, will compel industry and individual businesses to make skill development a high priority business strategy. The business imperative to achieve greater efficiency and innovation will result in demand for ongoing training and retraining with an expectation of high quality training outcomes.

A significant trend is the convergence of some sectors, with a continual blurring of the boundaries as the number of enterprises that cover two or more sectors steadily increase. A major contributor to this is the rise of “experience purchasing”, where customers are demanding increased integration of products and services. This is reflected in the growth of retail tourism and products such as spa resorts.

In the long term as the distinction between sectors and even industries break down and the connection between companies, suppliers and customers grow, future workforce arrangements will be completely transformed as temporary projects and work teams come together then disband when projects/tasks are complete.

The requirement of skills to be transient and transferable, and of training arrangements to be flexible will be essential. In addition, the frenetic pace of change may mean that some skills will not stay relevant for long, especially those which entail specific product knowledge and technology. Therefore training will need to be more dynamic and focus on the application of skills and knowledge.

Institute based training currently focuses on new entrants (18yrs to 24yrs+). With changing demographics, growth in non standard employment and strong growth of SMEs along the major growth corridors, training demand and markets will also change significantly.

In the service industries there are relatively low levels of post secondary education in many areas of the workforce. Although training in AQF levels II & III will remain fundamental in most sectors, changing requirements of the sectors mean that the breadth and depth of training will continue to expand and become more complex. This is driving the demand for workplace learning incorporating one on one mentoring as well as group learning in a workplace context.

The “staging post” syndrome has often been seen as the cause of a “skills leakage” from the service industries, with the accompanying analysis that resources allocated to service industries training are not optimised. As the employability skills debate gathers pace and industries recognise that “all businesses are service businesses” the transferability of service skills to other industries will be recognised as an investment in skills development across the economy.

Purpose of the report

The purpose of this report is to examine major change drivers shaping Victoria's service industries and the probable implications these drivers may have on skills and training required by industry over the next 10 years and beyond.

The report focuses on the following sectors:

- tourism and hospitality
- wholesale, retail and personal services

Information contained in the report will inform and assist individuals and organisations involved in workforce development and planning in the service industries. The report is also intended to assist the State Government Office of Training and Tertiary Education (OTTE) to anticipate future training needs in Victoria.

Service Skills Victoria, in writing the report, has undertaken consultations with industry associations, enterprise, unions and government agencies including:

Industry organisations:

- The Pharmacy Guild of Australia
- Australian Funeral Directors Association
- Australian Retailers Association
- Victorian Employers Chamber of Commerce and Industry
- Hairdressing & Beauty Industry Association (Vic)
- Australasian Spa Association
- Tourism Alliance Victoria
- Restaurant and Catering Victoria
- Hotel, Motel, Accommodation Association (Vic)
- Accommodation Getaways Victoria
- Australian Hotels Association
- Caravan Trade & Industries Assoc. of Vic.
- Shop, Distributive & Allied Employees' Assoc.
- Australian Workers Union
- Liquor Hospitality Miscellaneous Union

Professional associations

- Aboriginal Tourism Australia
- Professional Executive Housekeepers Network
- Professional Tour Guide Association of Australia
- Australian Travel and Tourism Review Panel
- Australia Culinary Federation

Enterprises:

- Mc Donald's Australia
- Coles Myer
- Le Beau Visage
- Kings Funeral Services
- Tobin Brothers Funeral Services
- Wine and Food Strategy Pty Ltd
- Compass Group Australia
- Accor
- HRM Sofitel Melbourne
- Crown Casino
- Peninsula Hot Springs
- Fleming Resources
- North Melbourne Florist

Government agencies:

- Tourism Victoria

Industry Profile

The Australian service industries sectors covered in this report are tourism, hospitality, wholesale, retail and personal services. The majority of employment in the service industries in Australia is in the retail and the hospitality sectors, which are also expected to lead employment growth over the next 10 years.

> Retail and Hospitality will lead employment growth in the next 10 years.

The wholesale, retail and personal services (WRAPS) sector comprises a diverse mix of businesses ranging from hairdressers and beauty salons, florists, community pharmacies and funeral directors to large national retailers and wholesalers. The WRAPS sector was the largest employer in Australia during 2001-02; its dominance is forecast to continue with approximately 1.8 million people employed in the sector by 2009-10. The retail sector is the largest employer of females, youth, part time and casual workers in Australia; a trend that has accelerated since 2001 (as indicated in the 2004 ABS Labour Force Survey data). Within the Australian retail sector, 59% of the total revenue in 2003 came from the food retailing and hospitality sectors[1].

In the period between August 2001 and August 2004, ABS Labour Force Survey data shows that employment in occupations specific to the WRAPS sector grew by 3.3% or 9,251 jobs. Retail trades generally account for 40% of household consumption (purchase of motor vehicles and services account for the remaining 60%) and household consumption accounts for 60% of real GDP.

The Victorian WRAPS sectors are predominately comprised of small to medium sized enterprises (SMEs), defined as businesses that employ less than 25 people. A substantial percentage (95%) of all Victorian retail businesses, are defined as, SMEs. The large retailers, who represent only 1% of all businesses, employ approximately half the workforce and generate 51.9% of sales revenue in the state[2].

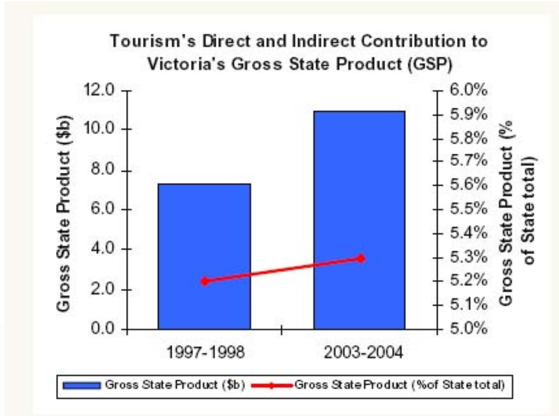
The tourism and hospitality sector includes accommodation, restaurants, cafes, bars, catering, gaming, meetings, events, conferences, attractions, tour operations, tourist information services, tour guiding, cultural tourism and caravan park operations. Like the WRAPS sector a substantial percentage (83%) of all Victorian tourism and hospitality businesses are defined as small to medium-sized enterprises[3]. In 2002-03, tourism was worth $10.6 billion to the Victorian economy, which is 5.5% of total GSP. This represents an increase of $1.1 billion from 2001–02. Tourism in Victoria “directly contributes more to the Victorian economy than many traditional industries”[4] as depicted in the following graph.

[1] *Australian Health and Beauty Report: ACRS Secondary Research Report August 2005, The Australian Centre for Retail Studies, 2005, p.3*

[2] *Retail enterprise structure source: National Industry Skills Initiative: A report on skills requirements in the Australian retail industry, 2002, p.16*

[3] *Victorian Tourism Employment Skills and Training Report: Employment Skills and Training Survey: Service Skills Victoria Report, 2003*

[4] *Economic Contribution of Tourism to Victoria 2002-2003: Tourism Victoria, 2004*



Source: Tourism Victoria, 2005

The Victorian tourism industry employed 156,000 people in 2002-03, which is 6.7% of total employment in the state. This represents a 16% increase from 134,000 jobs (6.2%) in 1997-98 as depicted in the graph below. The tourism industry workforce is characterised by significant levels of part - time/casual employees (54.6%), as indicated in the 2004 ABS Labour Force Survey data. This is particularly evident in the hospitality sector where 58.6% of the workforce is part-time and a high percentage of the workforce is female.

Source: Tourism Victoria, 2005

Note: The employment figures used in this document do not include a large volunteer workforce which constitutes approximately 1.5 million workers across the service industries in Australia (*inclusive of sport and recreation)[5]

[5] *Service Industry Skills Councils: Industry Skills Report 2004*

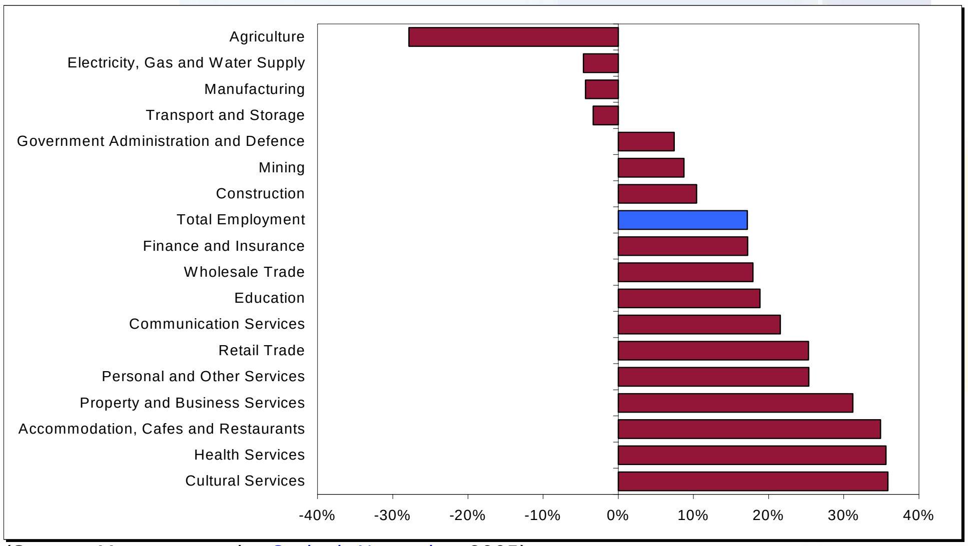
Q1. What are the major change drivers impacting the industry and its sectors currently and over the medium and long term future?

Economic drivers

> The major job growth, in Australia over the next decade will be in the service industries.

Tourism, accommodation, cafés and the retail and personal services sectors were the major generators of jobs and job growth in the decade to 2004. This growth was mainly due to individual wealth doubling in the last two decades, resulting in greater demand for services and luxury commodities. These same areas are projected to be at the forefront of job growth for the next decade. As the economy grows, the standard of living rises; this in turn increases demand for services resulting in the service industries becoming a huge part of the economy as indicated by the Access Economics chart below.

Victoria's job growth by sector (2004-2031)

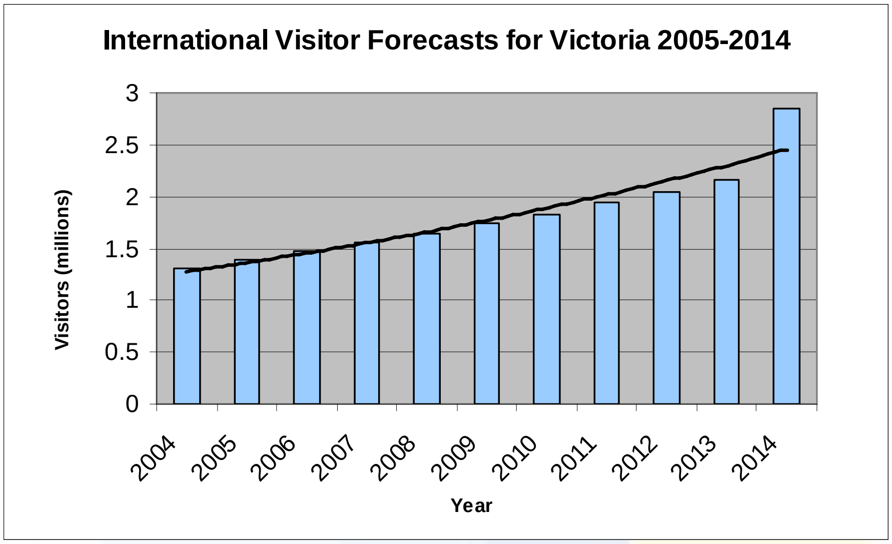


(Source: Macroeconomics Outlook:November 2005)

Access Economics projects broadly faster job growth in the service sectors than in the goods sectors (farming, manufacturing and mining). Within the service industries, the fastest growth is seen in 'luxuries' such as cafes and restaurants and cultural services, or in demographic driven areas such as health.

Growth in air travel is continuing to normalise, but a growth rate of 8.8% for 2005 still included a significant rebound factor. Smaller growth rates of 4.0 % and 2.5 % for 2005-06 and 2007-08 predicted by IBIS World Pty Ltd are more closely linked to the usual demand factors of business growth, household disposable income, exchange rates and tourism promotion. The emergence and popularity with consumers of Low Cost Carriers (LCCs) within the domestic and, increasingly, international market can be seen as a significant driver in market changes. LCCs in Australia have changed domestic tourism demand particularly where they have a regional presence such as Jetstar flying out of Avalon.

Additionally, the expansion of the outbound Chinese tourism market will continue to affect Victoria's tourism and retail sectors, which in turn will drive the demand for skilled labor in these sectors[6].



Source: Tourism Victoria, October 2005

The general driver of consumer and customer service demand is a key influence on the service industries as a whole. As consumer expectations rise, attitudes, tastes and demands change, and marketplaces become increasingly competitive. Industry must respond with a higher focus on innovation and service delivery, and this must be reflected in the skills of the services workforce. The overall drive for higher efficiency and productivity to meet consumer demands will also affect employment trends.

Sectors within the service industries are converging, with a continual blurring of the boundaries as the number of enterprises that cover two or more sectors steadily increase. A major contributor to this is the rise of "experience purchasing", where customers are demanding increased integration of products and services such as spa resorts.

Demographic drivers

Industry Risk Indicators state that the service industries, particularly the retail, hospitality and culinary sectors, are highly vulnerable to changing workforce demographics. Two key determinants of an industry's risk profile are relative levels of retention/turnover and reliance on a steady flow of 'young' labour (which is in decline).

Industry Risk Indicators state that the service industries, particularly the retail, hospitality and culinary sectors, are highly vulnerable to changing workforce demographics.

According to Access Economics (2005) from 2010 onwards the number of people entering the workforce will be considerably less than those (baby boomers) leaving, resulting in a shift toward a limited "young" labour supply. Access Economics figures indicate there will be 125,000 new entrants to the workforce in the decade starting in 2020, compared with an average of 170,000 during the 1980's and 1990's.

Australia's aging population will drive consumer spending.

[6] The average annual growth for the Chinese market from 2005-2014 is the highest for all Victorian inbound markets at 16.5%. As the Chinese are the highest spenders of all international visitors to the state, and 29% of tourism employment is in retail trade, the implications for growth in this sector are also significant.

More than 80% of projected growth in the labour force to 2016 will be in the 45+ age group. Additionally, Australia's aging population (people who are aged 60-64 will be the fastest growing age group from 2002-2012) will drive consumer spending and turn the baby boomers into the fastest growing, most powerful and highly lucrative, yet overlooked, group of consumers in the nation[7]. Greater demand by this segment will be placed on services such as community pharmacies, as the baby boomers age, and health and complementary medicines become a priority.

Increased community wealth will lead to a rise in leisure purchases, especially from the affluent, newly retired baby boomer lifecycle segment. This segment is the wealthiest, highest educated and healthiest segment to ever move through the Australian population. The product and service demands of this segment as they move from "do it yourself" (DIY) to "do it for me" is resulting in significant growth in the personal services sector, particularly areas such as beauty.

A significant trend is the integration of health and beauty retail. Health and beauty retailing encompasses a broad range of services and products such as natural medicines, nutritional products, cosmetics, perfumes, toiletries, and prescription and over-the-counter (OTC) medicines. The Baby Boomer segment, now entering middle age and beyond is the primary market for these products, particularly anti-ageing products. As one of the largest retail segments, health and beauty retailing in Australia amounted to $8.8 billion in 2004, up 13 percent on 2003 and representing 4.8 percent of total retail sales for the year. Technological innovations, new product developments, and healthy household consumption expenditure on cosmetics, perfumes, soap products, other toiletries, medicines, medical aids and therapeutic services also underpin this industry growth[8].

Social drivers (incl Values and Attitudes)

Community perception of the service industries is currently that many service jobs are "staging posts" prior to the determination of a career direction, creating the "transitional" component of the service industries workforce. This perception, when combined with the low wages and long, inconsistent hours attributed to the service industries, creates a barrier to entry as well as contributing to high staff turnover and increased training costs for employers.

> General lifestyle choices will drive the changing business environment.

Generational variation in attitude to employment and life work balance has a direct effect on the nature of the employment workforce in the service industries, in that baby boomers, Generations X and Y all view employment and their future working life very differently. The movement from the 'one job for a lifetime' attitude to the multi-faceted career across many sectors, industries and even countries adopted by Generations X and Y will lead to a shifting workforce.

General lifestyle choices will also drive the changing business environment; for example, the shift toward eating at home for a special occasion and eating out more regularly, and generation X and Y leading the charge toward the employer of choice concept. This will mean that workers will increasingly select employers on the basis of criteria such as flexible working hours, environmental sensitivity and policies that meet the employee's needs. This trend has already had an impact in the retail sector. For example some major retail and hospitality employers are introducing employer of choice programs which includes strategies to target and retain staff.

[7] *The Australian Centre for Retail Studies, 2005*
[8] *The Australian Centre for Retail Studies, 2005*

Technological drivers

The use of available technology within a business enhances the goals of the business through increased and improved efficiency, business partnerships and transactions. Technology will also allow a business to reduce costs, expand markets and will provide overall experience enhancing services to customers. The internet will continue to provide increased global marketing opportunities for business, irrelevant of their size, and will enhance the development of a global market place immensely.

> Technology is having a profound impact on the industry.

Increased use of technology has been evident in the retail sector, with higher uptake of consumer focussed e-business tools. Supermarkets in particular are using technology to assist in merchandising, distribution, sales (barcodes, self checkouts, Radio Frequency Identification Security (RFIS) and self scanning hand sets). However, consumers remain reluctant to purchase food items online so most online growth has been in non food items.

The service industries have been, and will continue to be highly influenced by increased consumer and business use of technology, in particular computerised business operations and the use of the internet, particularly for retail travel for researching, booking and paying for travel products and services. The increased use of the internet by consumers, and for general business use, has also been assisted by higher levels of Internet access, speed and security. Growth in confidence levels in the use of the internet as a business transaction tool and greater access to accurate information have also been contributed to increased use. It is seen as unlikely, however, that technology will ever completely replace the one on one service obtained in many areas of the service industries. Consumers will still want to purchase an experience from another person, which in many cases is viewed as an experience in itself, eg visiting a shopping centre. On the other hand, new advances in wearable technologies such as digital smell devices will provide future opportunities for new marketing channels and to enhance existing ones such as online shopping[9].

The traditionally slow uptake of technology within some sectors, such as hospitality, can be seen as a direct symptom of a conservative approach to new technology, often as a result of a lack of knowledge and understanding, and the high proportion of small businesses in the sector. Therefore, a requirement for increased awareness of innovations and new technologies within the service industries is apparent[10]. Those SMEs keen to remain competitive will need to adapt elements of e-commerce across their businesses.

Environmental drivers

Extreme environmental events, such as bushfire and drought, are common in Victoria and are often naturally occurring and uncontrollable. The consequences of these events to the service industries are substantial. Although often not preventable, the outcomes of an event such as the 2003 Alpine Region bushfires can devastate an entire community, its industry and therefore employment of locals.

Climate change is increasingly becoming a very real environmental issue globally. It is now widely accepted that the planet is becoming warmer through increased human activity, sea levels are rising and we are experiencing more volatile and unpredictable weather[11]. It will become necessary for business operators, employees and consumers, as well as the general community, to be environmentally aware and sensitive to issues such as water conservation, energy use and waste reduction.

> Increased awareness of environmental issues is integral to the success of the service industries.

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[9] *The Australian Financial Review, 13 Sept 2005*

[10] *The Business of Eating Out: An Action Agenda for Australia's Restaurant & Catering Industry, Department of Industry, Tourism and Resources, 2004*

[11] *Global Warming, Nuclear Issues Briefing Paper 24, January 2003*

Increased business and community awareness of environmental issues and sustainability is, in many regions, viewed as integral to the success of the service industries. This is manifested in, for example, the growth of nature-based/eco tourism operations and the adoption of environmentally friendly policies by supermarket chains. These developments, in turn, improve awareness in the community even further.

Workforce drivers

The trend toward a more globally mobile workforce is already, and will continue to have an impact on employment and skills needs in the service industries. The emergence of a more transient workforce that has transferable skills is imminent, brought on by the demographic and social changes within Australia, the region and the world. This will create an increased requirement for national workforce policies to accommodate these changes through flexibility in the migration of workers and the transferability of skills.

> Flexible casual or part time will be a major driver.

A major driver that will affect the service industries workforce composition is the move towards casual and part time work arrangements and away from permanent work. Examples of these shifts in employment arrangements can be seen in the tourism and hospitality sectors with major shifts in the composition of the workforce. In August 2003 the number of part time employees in the industry was almost 53%, up by 10% from 1987-88.

The trend toward improved work life balance is reflected in the increasing recognition that workers have families, responsibilities, interests and aspirations. For example a survey of members by the Shop, Distributive & Allied Employees' Association (SDA) in 1995 revealed that 9% of members wanted to work less hours, mainly for study and family reasons. It should also be noted that, in the same study, 32% of members indicated a preference to work more hours, largely in order to earn more money.

Other drivers that will increasingly influence the service industries employment, training and skills environment are the introduction of longer trading hours on a 24 hour 7 days a week basis, multiple job handling, the increasing availability of labour hire and the trend for people to remain in the workforce longer, but in varied roles, industries and locations.

Government intervention and development policy drivers

Statutory changes that affect the service industries such as IR legislation, new and/or changed licensing requirements, OH&S and duty of care obligations will continue to have significant impact on workforce arrangements and work practices and processes. The Victorian funeral sector for example is facing sweeping changes due to a recent parliamentary inquiry into the industry. The outcome of the inquiry may impact on the level and types of skills needed across the funeral sector, as well as addressing issues such as the take up of training.

Public infrastructure investment is a major driver of tourism and retail growth. Developments in Victoria such as the Geelong Bypass, Frankston freeway and the new convention centre in Melbourne will allow further growth in the Great Ocean Road, Mornington Peninsula and CBD areas for service sectors.

> Public infrastructure investment is a major driver.

Government and industry based strategies such as the “Moving Forward in Provincial Victoria” Ministerial Statement, Victoria’s Tourism and Events 10 year strategy, Victorian Tourism Industry Professionalism and Excellence Initiative and Melbourne 2030 Strategy are drivers for the service industries. In particular, these strategies help to drive the development of retail projects for designated growth corridors in Victoria. Major shopping centre operators are using this strategy as a blueprint for future planning and development within growth corridor areas.

There are divergent views on the Federal Government's "Work Choices" legislation amongst experts and commentators regarding the likely impact this legislation will have on the workforce and work practices. Until the impact is seen at an industry and enterprise level, it is difficult to make comment.

In November 2005, the Working Holiday Makers visa (WHM) criteria changed. WHM visa holders who have worked as seasonal workers in regional Australia, for a minimum of 3 months, will be eligible to apply for a second working holiday visa and stay for a further 12 months. With approximately 75% of WHM holders working in the service industries or labouring, this change may have a significant impact, accelerating the shift toward transient employment in these sectors.

Geographical and regional drivers

Increasing community wealth, particularly concentrated in the baby boomer cohorts, and consequential demand to visit/live in coastal areas is creating major growth corridors along the Surf Coast/Geelong and Bass Coast regions. This will lead to greater demand for services in these regional areas as local business and investment opportunities arise especially for retail. In turn labour demand will be concentrated within, and around, these areas creating increased employment opportunities and a need for skilled labour.

In 2002-03 tourism was worth $3.3 billion to regional Victoria's economy, employing 61,000 people, or 0.24% of the total Victorian workforce. This represents a 27% increase from 1997-98. The Great Ocean Road and Mornington Peninsula regions are experiencing the highest growth in employment, as shown from their share of direct tourism employment growing by 21.5% and 24.1% respectively from 1997-98 to 2002-03[7].

> The tourism and retail sectors are viewed as major contributing factors to the regeneration of regional areas.

The forecast for growth, not only in these two high performance regions, but state-wide is strong. The tourism and retail sectors are viewed as major contributing factors to the regeneration of regional areas through the creation of partnerships between other local businesses, organisations and people and, more directly, through the creation of jobs. Regional development and employment growth will encourage younger people to remain in regional areas and contribute to their local area with a consequent requirement for flexible training delivery to accommodate the demand for a skilled service industries labour force. This need formed a significant part of the SSV response to the Ministerial Inquiry in to VET in Victoria, whose recommendations are expected to be made public in the near future.

Q2. What are the industry and enterprise responses (now and in the future) to the impact of these change drivers?

Economic drivers such as globally competitive markets coupled with an aging population and fewer workers will create greater pressure for industries to increase productivity gains through innovation.

The underlying motivation directing enterprise strategies to respond to change drivers is essentially to maintain and improve the competitive position of the business within its domestic and/or international market. Sector strategies share a similar aim in that they are essentially directed to minimise the influence of domestic and/or international market distortions which threaten the continuing viability of sectors within the service industries.

The implementation of such strategies can vary somewhat in the response to particular change drivers by various sectors within the industry. The following points address current and future industry and enterprise responses to the impact of change drivers discussed in question 1 of the report.

Changes in business practices and investment

There is substantial growth in franchises and, according to a 2003 report by the University of Sydney, "The growth of the franchise looms as a possible major development over the next 10-15 years, spiking demand for non-owner managers and supervisors, and forcing owner/managers in family and partnership-run operations to improve cost efficiency and service". This has been driven, particularly in retail, by a competitive market place and the need to achieve ever greater business efficiencies.

> The service industries are made up of a mix of traditional and new business models.

Rationalisation in some sectors such as retail and hospitality will continue as competition increases in an already crowded market place. In addition to rationalisation some medium to large enterprises are focusing on niche products and services and seeking more cost-efficient management structures through expansion to multiple service outlets (under separate or common brands) eg Coles Myer/Woolworths. Major companies are also diversifying into other retail sectors outside of their traditional areas as a means to grow their business and compete eg Woolworths' expansion into pubs and liquor with it's acquisition of ALH (Australian Liquor and Hospitality)

A significant trend developing both globally and in the Australian health and beauty sectors is the steady growth in market share enjoyed by supermarkets. Stimulating this trend is supermarkets' increasing range of, and shelf space made available to, health and beauty products. Growth in supermarket market share has been assisted in recent years by a reduction in the legislative controls governing the sale of health and beauty products. The major supermarket chains are further pushing the Federal Government to reduce these controls to make pharmacies an integral part of their retail format[12], although recent decisions have prevented such a move, at least for the time being.

Environmental awareness and the adoption of sustainable business practices are becoming more apparent across the board, particularly in service sectors heavily reliant on environmental assets. This is in response to market demands and as a reaction to compliance requirements. Consumer demand and the public focus on the sustainability of environmental assets have resulted in drivers such as the extension of public land and establishment of marine parks (eg Otway region where new marine parks and state/national parks have been established).

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[12] *The Australian Centre for Retail Studies, 2005*

Sophisticated recruitment and retention strategies are becoming a major business priority mainly for large employers. These companies have recognised this as a key challenge for the service industries and are implementing learning and development, career planning, reward and recognition and vertical and lateral staff movement strategies to retain their staff.

The industry is a leader in customer service and other "employability" skills. It is beginning to utilise these high standards as a competitive advantage against other industries when competing for its share of the young, diverse and increasingly transitional workforce of the future. An example of a sector strategy that aims to harness this advantage is the "Professionalism & Excellence Initiative[13]" currently being developed in the tourism sector.

Service/production methods

Enterprises, particularly in retail, are embracing technology as there is a growing recognition that technology can lead to greater efficiencies in work practices and enhanced customer service experience.

Technology will continue to have a profound impact on the service industries resulting in changed work processes and practices, for example, within the gaming sector, there is an increase in hybrid games through technological innovation i.e. a blend of gaming machines with table games, leading to a reduced need for staff and increased productivity for gaming venues. Technological developments will also have implications on the labour market and training, especially in the area of skills related to the application of new technology in the work place. Additionally, the ability of workplaces to train staff and undertake human resource functions online eg annual leave and pay slips will have subsequent effects on staff training and business operations. Another example is in the community pharmacy sector, where pharmacists have expressed an interest in vending machines that would allow consumers to pick up prescription medicines outside normal operating hours[14].

The impact of innovation and technology in logistics is, in turn, having an impact on the retail and hospitality sectors. Major retailers and hospitality operators are outsourcing to specialist logistic companies and therefore reducing stocks throughout the value chain. This is creating a 'just-in-time' focus where easily transportable items such as groceries/fresh goods, textiles, clothing and footwear are being delivered directly to the shop floor, when required, and not stored in intermediate warehouses. These new supply chain initiatives will mean a greater focus on skill development in areas such as relationship and contract management for those working within these businesses.

New supply chain initiatives will mean a greater focus on skill development.

Retail travel is also undergoing changes in the structure of existing distribution services. The recent Qantas announcement to reduce travel agent commissions will lead to further rationalisation. Another noteworthy issue is the announcement that Jetstar is currently working on a plan to sell airfares through Australia Post, as well as through agents, as a way of reducing costs. Some travel agents are responding to this challenging environment by focusing on niche markets such as the packaging of specialised tours and having a greater role in the provision of the product. This new role will demand a broader coverage of specialist skills in managing destination marketing, mainly through web networks, customer service and business management.

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[13] *Tourism Victoria,: Professional and Excellence Strategy for Victoria's Tourism Industry", 2005*
[14] *The Australian Centre for Retail Studies, 2005*

Workforce organisation

There has been a major shift in labour workforce arrangements away from full-time, standard hours and permanent work to part-time, casual, contract, temporary and other working arrangements. These arrangements allow some businesses, most notably SMEs, to have greater flexibility in staffing and to enable better yield management to hedge against unforseen downturns in the market.

The service industries are well positioned to attract the youth cohort due to their ability to provide flexible work arrangements. Some businesses and industry associations recognise this opportunity and are developing workforce strategies based on an "employer of choice" concept targeting Generation X, there are however some exceptions, e.g. the funeral industry sector, which because of its operational nature seeks to primarily attract mature-aged people into its workforce.

Some businesses are looking overseas for employees to overcome skills shortages and to fill seasonal jobs. An example of this was highlighted in a recent report[15] regarding a predicted influx of British retail workers during the next few years. This is attributed to low unemployment levels and a lack of suitably qualified local candidates which is driving Australian retail employers to look overseas to fill vacancies in growth areas such as merchandise planning and buying.

> Businesses are increasingly looking overseas to overcome skill shortages.

Trends toward home based employment are also emerging within some service sectors. This is particularly evident in hairdressing and the retail travel sectors. A major travel company, Harvey World Travel recently announced it was actively looking to employ home-based consultants in order to increase its network sales volume. This 'in-house workforce' concept is becoming a more realistic option, with advances in technology helping to make this work mode a cost effective solution to increasing market pressures.

In the long term as the distinction between sectors and even industries break down and the connection between companies, suppliers and customers grow, future workforce arrangements will be completely transformed as temporary projects and work teams come together then disband when projects/tasks are complete.

> Future workforce arrangements will be completely transformed.

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15 *The Age, Article: "British retail push looms", Jan 15 2005*

Q3. What are the implications of the industry's responses for skills needs in the industry (now and in the future)?

The need for efficiency and innovation will drive industry demand for a highly skilled workforce which will in turn drive demand for ongoing training and retraining with high quality outcomes. The strongest drivers for skill development will continue to be innovation, product and service quality and ensuring service conforms to enterprise standards and provides a competitive advantage.

Strong growth of the service industries together with increased global competition and demographic challenges will compel industry and individual businesses to make skill development a high priority business strategy and to engage in training to increase productivity and retain staff. There is weight of evidence to support the notion that when employers invest in developing the skills and knowledge of their employees, attrition rates decline. There is a particular opportunity for training to play a greater role in assisting industry to address retention issues for example in Human Resource (HR) training for small business.

> Skill development will become a high priority business strategy.

An aging workforce and increased competition between young entrants into the workforce in other industries will result in businesses promoting the fact they are flexible employers as "employers of choice" to the youth cohort. Equally, there will be widespread focus on the recruitment of mature age workers. Skills recognition for these older workers will become a common requirement and recognition services will be in high demand by industry.

The frenetic pace of change may mean that some skills will not stay relevant for long, especially those which entail specific product knowledge and technology. Therefore training will need to be more dynamic and focus on the application of skills and knowledge.

Enterprise demands for higher level skills will grow in the areas of change management, project and contract management, marketing, relationship management and innovation. Employer expectations of entry level training and skill requirements will rise, due to the services industries requiring multiple skills and higher customer service focus, to gain competitive advantage.

> Service sector demands for higher level skills will grow.

Rapidly changing services and production methods are creating a trend toward a "decreased skill shelf life" leading enterprises to place less emphasis on recruiting people with existing technical skills and/or specific product knowledge. Essentially businesses are focusing on labour, capable of being deployed across multiple job roles with underlying technology, project management and customer service skills. The recruitment focus will be on generic skills applicable across sectors; these include "employability" or "soft" skills (communication, teamwork, problem solving, relationship management, initiative and enterprise, planning and organising, self management, capacity for continuos learning and application of technology).

Legislation and regulatory requirements will continue to significantly drive skill demand, particularly in community pharmacy, tourism, hospitality, retail, beauty and funerals, due to increased or high levels of regulation. In a study, conducted by The Allen Consulting Group, on skill development in large enterprises, business compliance remained a key business driver and priority.

> Legislation and regulatory requirements will continue to significantly drive skill demand.

Currently in the service industries, the main shortages are in the areas of traditional trades i.e. hairdressing and commercial cookery, although there are also shortages in other occupational areas including food and beverage service and beauty. Shortages in all these areas are partly due to these sectors' rapid growth and, in the case of cookery and hairdressing, a move away from the traditional trades as a career option. This is reflected in the growth of traineeships (generally non-trade areas) as opposed to "traditional trade apprenticeships" which have remained relatively static, particularly in the last 4 years.

Skill shortages in tourism are substantially affected by geographic location and there are shortages of skilled personnel in particular regions including the Gippsland, Central Highlands and Great Ocean Road regions. It needs to be remembered that these shortages occur across the spectrum of employment in the industry and include entry level skills such as housekeeping.

Skills gaps are also emerging within certain sectors. Skills gaps refer to deficiencies in an existing workforce, whereas the term "skills shortage" relates to the inability to recruit staff with necessary skills. The service industries are particularly vulnerable to both. A major skills gap facing the industry is e-business and this gap is primarily concentrated across the small business sector. For small business operators to be competitive, government must provide incentives to drive e-business training.

Q4. What is the relative importance of changing skills sets for training provision (now and in the future)?

The "staging post" syndrome mentioned as a social driver has often been seen as the cause of a "skills leakage" from the service industries, with the accompanying analysis that resources allocated to service industries training are not optimised. As the employability skills debate gathers pace and industries recognise that "all businesses are service businesses", the transferability of service skills to other industries will be recognised as an investment in skills development across the economy.

> Transferability of service skills to other industries is an investment in skill development across the economy.

Increased demand for work based learning

In the service industries there are relatively low levels of post secondary education in many areas of the workforce. Although training in AQF levels II & III will remain fundamental, changing requirements of the sectors mean that the breadth and depth of the training will continue to expand and become more complex. This is driving the demand for workplace learning incorporating one on one mentoring as well as group learning in a workplace context.

Growth in the small business sector, non standard employment and increased transient labour may lead to more targeted training approaches. This will have implications for flexibility in training delivery. Therefore the requirement of skills to be transient and transferable, and of training arrangements to be flexible will be essential. Programs to assist Registered Training Organisations in the application of flexible delivery will also be required.

Shift toward emphasis on on-going training and retraining

Institute based training currently focuses on new entrants (18yrs to 24yrs+). With changing demographics and strong growth of SME along the major growth corridors training demand and markets will change significantly. Adapting to these markets will mean a shift toward on-going training and retraining. Recognition of Prior Learning (RPL) processes for assessing the skills of mature age workers will become vital.

Industry and VET partnerships

Access to industry standard equipment will be imperative for learners to maintain currency in technical skills. Partnerships between industry and Vocational Education and Training (VET) providers will be a critical resource solution providing VET practitioners with increased understanding of new and emerging products and technologies. In addition, access to current industry equipment and practices will assist in meeting, increased demand for VET to provide specialised training facilitated in the workplace.

Up-skilling SMEs

Training for micro to medium sized businesses will become critical to remain sustainable and competitive, particularly in regional Victoria. A major source of recruits for this industry is owner/manager roles. Major training needs will be in customer service and best practice, IT, compliance, risk and human resource management.

Greater portability of skills and qualifications

Industry will place pressure on the VET system to respond to an increasingly global labour market and subsequent labour mobility; greater emphasis will be placed on portability of skills and qualifications. Skills and qualification recognition systems will be critical to support mobility, innovation and the building of learning networks (informal and formal). An example of this is the European Union model, "The Europass" which is designed to support mobility of skills and qualifications across the Union.

Broader definitions of RPL required

Recognition of Prior Learning (RPL) will need to integrate the outcomes of non-formal learning into the formal Vocational and Education Training (VET) systems. For example there will be an increase in vendor training (i.e. producer of equipment provides training for use of that equipment) as new technologies enter the workplace.

Growing importance of pre-apprenticeship programs, VET VCE in schools and VCAL due to demographic change

VET in Schools programs will be increasingly important pathways to alleviate regional skill shortages over the next decade. This approach will enable young people, particularly in regional areas, to experience job opportunities at a local level to make an informed career choice. These programs will also provide local enterprise with the opportunity to promote their industry.

Reduced barriers to training for businesses that operate nationally

The array of training jurisdictions and differing state and territory training implementation requirements faced by national companies is impeding take up of VET training. Future consideration will need to be given to reduce training implementation barriers for companies that operate nationally and to facilitate recognition of skills for those companies's mobile workforce.

Training priority for the services industries (current - 5yrs)

Retail (particularly food retailing) and hospitality will continue to lead the services with strong projected growth securing these sectors as the major employers in Victoria, therefore training demand at Certificate II (entry) level, and Certificate III and IV (supervisory/management) levels will remain high.

Burgeoning growth in the beauty sector will see a moderate increase in training in Certificate V and above over the next 5 years. The Beauty sector will see an increase in practitioners becoming specialists following the beauty diploma qualification.

Hairdressing will continue to be a high training priority at Certificate III and IV, driven by the skill shortages in this field.

The funeral sector may see a marked increase in demand for training (again as this sector is coming off a very low base) driven primarily by a possible increase in legislative and regulatory requirements.

Tourism will experience a moderate increase in training demand at Certificate V and above in marketing/sales and events streams. Demand will be led by small to medium sized enterprises, who make up 83% of this sector in Victoria, requiring "just enough" skills acquisition to address immediate needs. Demand for training in retail travel at Certificate III level may slightly decrease as new reduced licensing requirements are introduced in Victoria for Travel Agents.

Some enterprises within the service industries regard Vet in Schools as a priority training area and most agree that a greater priority needs to be placed on achieving consistent quality outcomes for these programs. On the other hand, the funeral, beauty and tourism sectors view VET in Schools as low priority as there are limited employment outcomes in those sectors.