

# Hotel Revenue Management Post COVID-19: The Road to Recovery

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## Abstract

The earliest case of novel SARS-CoV-2 corona virus, routinely referred as COVID-19, was reported in the city of Wuhan, China in December, 2019. The virus continues to spread across the globe even though the cases seem to have diminished in China. Today, while writing this article, the global cases near 10 million. Countries have imposed lockdowns, travel restrictions (particularly international), shut down schools, colleges and universities; banned large public gatherings of any sort and have established quarantine & social distancing norms. Tourism has been hit hard, with millions of jobs at risk in one of the most labour intensive sectors of the economy. The aim of this paper is to observe the impact of COVID-19 on the global hospitality industry; Second, to understand how bad the situation is with Indian hotels and; Third, to suggest a recovery path, way forward strategies that may be adopted by hotel practitioners to stabilize and improve their revenues in the “new normal” and post COVID-19 era.

**Keywords:** Pandemic, COVID-19; Tourism & Hospitality; Recovery Strategy

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## INTRODUCTION

The earliest case of novel SARS-CoV-2 coronavirus, routinely referred as COVID-

19, was reported in the city of Wuhan, China in December, 2019 (Stefan, Scott & Hall, 2020). Wuhan was put under a complete lockdown thereafter with strict

restrictions and quarantine measures, until the cases stabilized by mid-February (ECDC, 2020). Unfortunately, the virus had already spread to other countries through air travel and by mid-April the confirmed cases reached 2 million in over 200 countries (ECDC, 2020). The virus has mostly spread through person-to-person contact. Coronaviruses are a group of viruses that can cause disease in both animals and humans.(Nandal et al,2020)

The virus continues to spread across the globe even though the cases seem to have diminished in China. Today, while writing this article, the global cases near 10 million. These are only the estimated figures and we may never know the real figures as there is limited testing in many countries. There is still no vaccine available to treat the virus and caution is the only cure available right now. Countries have imposed lockdowns, travel restrictions (particularly international), shut down schools, colleges and universities; banned large public gatherings of any sort and have established quarantine & social distancing norms.

The fear of contagion has disrupted economies and even though comparisons are being made to historical tragedies of similar nature, there is evidence that nothing compares to the current crisis (Fernandes, 2020). All this has avalanched into loss of employment for millions of people around the globe, disruption of revenues, accumulation of huge losses and debts to cite a few examples. Although the current crude mortality rate i.e. number of reported deaths divided by number of reported cases, is fairly low (3-4% as per WHO, 2020), the number of foreign tourist arrivals (FTAs) have fallen 22 percent in

the first quarter and is expected to fall 60-80 percent overall in 2020 (UNWTO,2020) (Nandal, 2010).

Tourism and hospitality industry is jolted whenever there is a worldly crisis. Whether it is War (like the WWII), terrorists' attacks, deadly virus spread (SARS outbreak) or financial fallout of the economies, the industry always bears the brunt. COVID-19 pandemic has reverberated this notion only to have a larger repercussions. "Tourism has been hit hard, with millions of jobs at risk in one of the most labour intensive sectors of the economy." (UNWTO, 2020)

This unprecedented situation has caused a paradigm shift. From the times of munificence in global tourism even over-tourism as some would declare (Dodds & Butler, 2019) to practically zero tourism in just a few months. The difference was clearly visible in the *Before & After* photographs released by Conde Nast Traveller (Conde Nast Traveller, 2020).

Against this background, the aim of this paper is to observe the impact of COVID-19 on the global hospitality industry; Second, to understand how bad the situation is with Indian hotels and; Third, to suggest a recovery path, way forward strategies that may be adopted by hotel practitioners to stabilize and improve their revenues in the "new normal" and post COVID-19 era.

## **MATERIALS & METHOD**

This paper observes the current literature available and explores the various dimensions of the COVID-19 pandemic with respect to hotel industry. Thus, a

secondary research methodology is adopted to draw interpretations from the literature. The researchers have conducted secondary research by studying and reviewing the literature through journals, articles, books and web pages. Keyword and Boolean Operator search techniques were adopted to collect secondary data. Keywords used were part of the objectives of this paper along with their synonyms.

## PANDEMIC AND THE HOSPITALITY INDUSTRY – CURRENT SCENARIO

Although there is no industry left that has not been affected by the pandemic, tourism and hospitality remains among the most hit. Figure 1 highlights the year to date stock returns. It shows how different industries have been affected by the pandemic. The oil/gas/coal sector has the highest negative returns (-50%) followed by Travel & Leisure (- 40%).

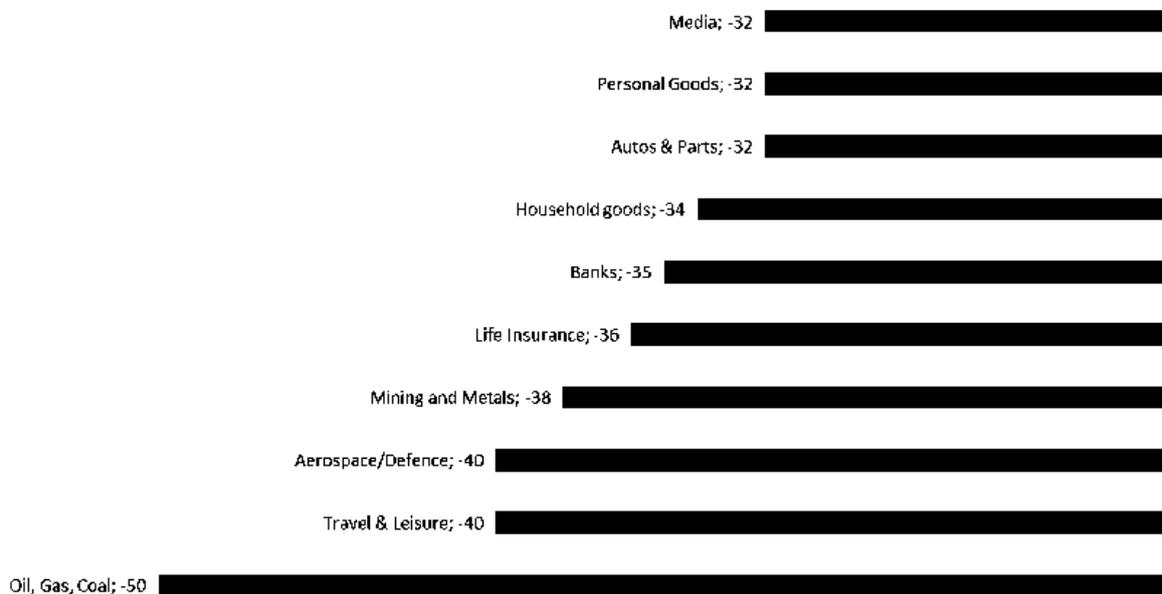


FIGURE 1.

*Adapted from: Fernandes, Nuno; (2020): Economic effects of coronavirus outbreak (COVID-19) on the world economy; Reuters Eikon.*

According to the latest WTTC, the COVID-19 pandemic will cost the travel and tourism sector around 57 million jobs (this is a minimum figure based on best case assumptions). This reflects a reduction of 12-14 percent.

Asia-Pacific region is the most impacted area. As per UNWTO, the region saw a 35

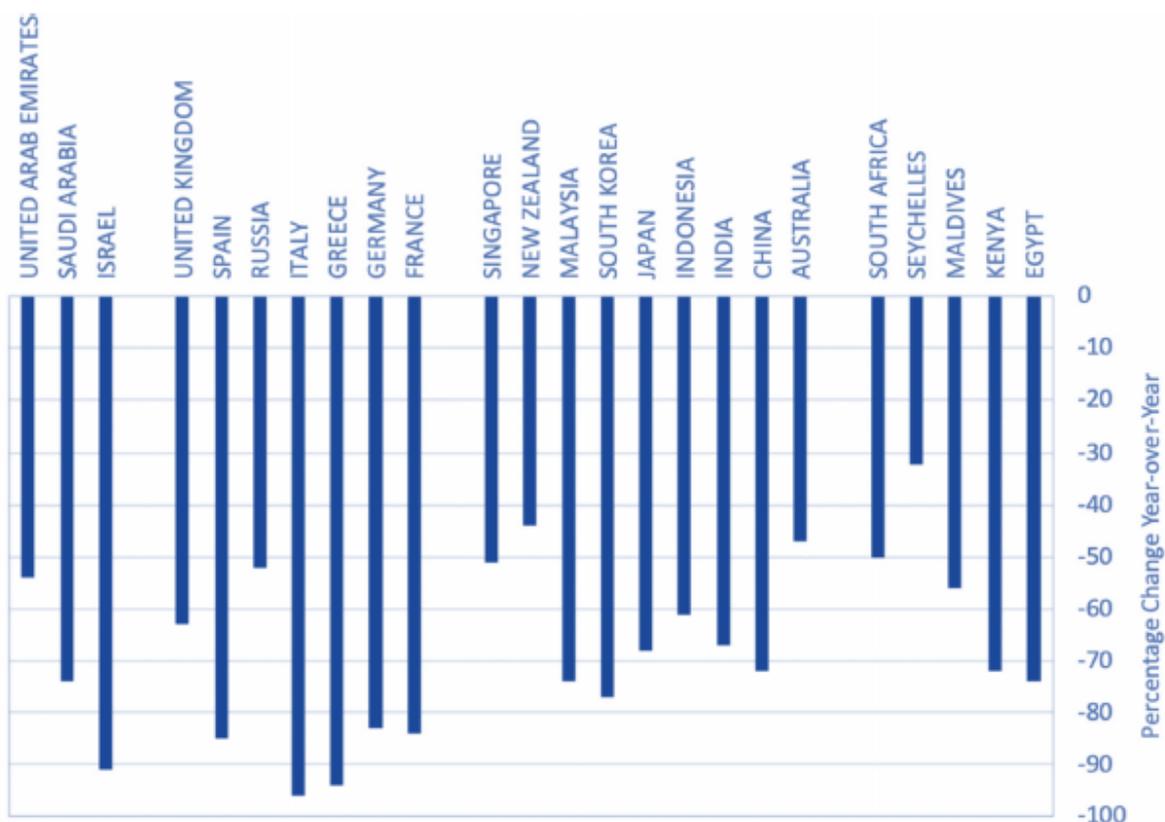
percent decline in the FTAs for the first quarter of 2020 followed by Europe (- 19 %) and Americas (- 15 %). This is directly reflected in the hotel performance. For Asia-Pacific region, hotel occupancy had decreased 27 percent by March 2020. The crucial metrics, Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) both saw a decline of 10 % and

55 % respectively for the same period (Chee, Xin & Lee 2020)

These are indicators of huge losses suffered by the global hospitality operators and is bound to bring immediate and tough decisions. Marriott International, one of the giants of the hotel industry, recently announced furlough for tens of thousands of its employees. Another global chain, Hilton Worldwide, has sought a loan of

\$1.75 billion from its borrowers due to the uncertainty in the market (Nandal et al., 2020).

Figure 2 represents the occupancy rate change in comparison to last year. Accommodation sector in all countries had already suffered 30% - 90% losses in occupancy levels this year by the week ending 21<sup>st</sup> March, 2020.



**Figure 2. Year-over-Year Occupancy rate Comparison (For the week of 21<sup>st</sup> March, 2020)Adapted From: Gossling, Scott & Hall (2020); STR (2020a)**

Even the airlines are reeling under the pandemic. Some reports, with their preliminary calculations, claim that the global airline industry will lose around US\$ 113 Billion in sales. (Riley, 2020). IATA claims the industry requires an immediate emergency fund of around US\$ 200 billion in their fight for survival.It also

estimates that there will be a deficit in revenue passenger kilometres by – 38 % this year in comparison to 2019 resulting in a revenue loss amounting to about US\$252 billion (IATA 2020).

Figure 3 depicts the extent of travel restrictions imposed by various countries as of 31<sup>st</sup> March, 2020. It shows how this

has had a direct impact on the global airline industry as borders were closed by most nations grounding the airlines. Likewise, Figure 4 illustrates how the

number of international flights came down as the number COVID-19 cases increased.

*Figure 3. Travel Restrictions imposed due to COVID-19 pandemic (As of 31<sup>st</sup> March)*

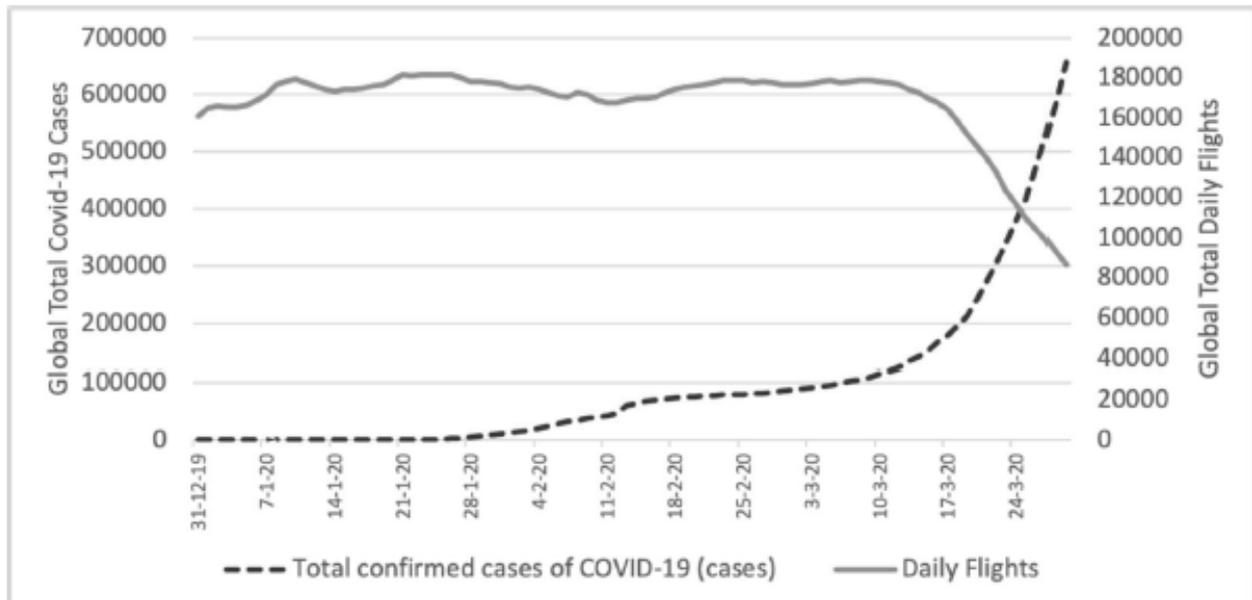
*Adapted from: Gossling, Scott & Hall (2020); IATA (2020)*

delivery system, others faced a total



Restaurants, which are also a crucial part of the service sector, also face a challenging period. While certain restaurant establishments were able to have limited operations and provide a

closure. The closure were either due to lockdowns or simply no business. The Job Quality Index estimates about 10.8 million employees working in restaurants and bars will lose their jobs (JQI, 2020).



**Figure 4. Daily COVID-19 cases vs Daily Global Flights (As of 31<sup>st</sup> March, 2020)**

*Adapted From: Gossling et al., (2020); ECDC (2020); FlightRadar24 (2020)*

### IMPACT ON THE INDIAN TOURISM & HOSPITALITY INDUSTRY

The significance of Tourism in India is immense. The industry generated US\$ 240 billion (Rs. 16.91 lakh crore), equivalent to about 9.2 % of India's GDP, and supported around 42.64 million jobs in the year 2018 (WTTC 2019) (Amrinder & Sharma, 2016). Ministry of Tourism (MoT) in its annual report for the year 2019-20 estimates about 87 million jobs were employed by the tourism sector for the year 2018. Simply put, 1 in every 5 new jobs were created by the Travel & Tourism in the last 5 years (WTTC 2019). Not to mention the indirect or related industries that earn a living catering to the demand of the industry. Another key thing here is that the industry not only employs urban population but also facilitates rural earnings.

Now the COVID-19 pandemic has reversed the staggering growth

experienced by the industry in the last few years. Indian hospitality industry is among the major casualties of the pandemic as demand fell flat (Nandal et al., 2020). The industry is facing the unprecedented ramifications of the lockdown. Reduced room revenue, coupled with loss in both Food & Beverage/Restaurant sales and MICE business - are bound to have a cascading effect on non-room revenue for hotels across India. Hotel occupancy in key cities declined by up to 45 percent in the first quarter in comparison to the previous year (Lamba, Datta & Mohan, 2020). The HVS report estimates that, for organized/branded hotels, the overall occupancy for the year 2020 is projected to decline by 16 – 20 percentage over 2019, while ADRs are expected to decline by 7% - 8% for the year. Consequently, RevPAR will face a steep decline of 31% to 36%. The report further estimates an erosion of about 40 percent of revenues this year amount to US\$ 8-10 billion. All the

estimates are considering that normalcy will resume much sooner than later.

Another report by hospitality consultancy firm, Hotelivate, asserts an overall loss between US\$ 1.3 – 1.55 billion for the 1,40,000 branded hotel rooms across the country. However, branded hotels form just 5 % of the lodging sector (Unbranded, unorganized supply, B&Bs, Guest houses etc. form the other 95 %). Additionally, the report estimates losses of US\$ 4.2 – US\$4.7 billion considering the unorganized sector.

It is interesting to point out that even though the industry faces staggering losses, they have come together and supported societies in fighting the virus. Numerous hotels volunteered to become quarantine centres, convert their venues in makeshift hospitals, offered accommodation for doctors and hospital staff and so on.

Although the Government announced a 3-month EMI Holiday and later extended it for another 3 months until August 2020, there is still no direct relief package announced. Various hospitality organizations like FAITH, TAAI have expressed concerns and suggested proposals and remedial packages. So far, there is no update on any such stimulus being offered.

## **THE ROAD TO RECOVERY: WAY FORWARD STRATEGIES**

While the Governments will do all it can to bail out the industry that has been contributing consistently for over a decade, the real challenge is for the practitioners to slog it out and survive the crisis. We all know the industry has huge potential to bounce back, it is only a matter of time.

There is no doubt that adversity provides an opportunity to fine tune things and set precedence for future. Optimistic outlook is key to handling the current crisis. There are numerous reports that suggest that demand will be back and people will again start traveling. The hotel industry just needs to be ready whenever the demand re-surges (Lamba, Datta & Mohan, 2020).

The following strategies may be adopted to tackle the current times and safeguarding the future:

### **1. The Reopening Plan:**

- 1.1. Open with bare minimum operations to minimize costs yet being ready for business opportunities (Lamba, Datta & Mohan, 2020).
- 1.2. Make zero budgets for every operation, similar to hotel pre-opening phase
- 1.3. The reopening plan should be implemented in the shortest time available as when demand will return, customer will become a bigger and more demanding “KING”.
- 1.4. Arrange for employee refresher training programs that assist them in regaining work specific skills and regain confidence.

### **2. Highest Safety Procedures:**

- 2.1. Hotels need to adopt better, more visible sanitization practices.
- 2.2. Guests will need to declare their medical history during reservations and check-ins, go through medical

examinations/screening at the hotel and be offered contact-less services.

2.3. Routine cleaning activities will now include sanitization of all public and guest areas.

2.4. The sanitization practices will need to be implemented at individual departmental levels and not just left for the housekeeping department to pursue.

2.5. Hotels will need to set norms to maintain social distancing during morning breakfasts, check-ins, check-outs and point of contacts (Tuli, 2020).

2.6. There will be addition of masks, gloves, face shields and other protective gear in the hotel staff uniform (Mehtani & Mohan, 2020).

2.7. Training employees on sensitization and upgraded hygiene standards

2.8. Employees must be well-informed about all COVID related operating SOPs (Mehtani & Mohan, 2020)

### 3. Revenue Management Strategies:

3.1. Holistic long term pricing decisions needs to be made rather than short term, knee-jerk reactions. Simply dropping rates will have long term negative implications (Tuli, 2020)

3.2. Bundle pricing will be crucial in the new normal,

maybe with inclusion of health amenities and facilities. Offering packages that demonstrate a better value proposition for the customers will certainly create and attract demand (Tuli, 2020; Lamba et al., 2020).

3.3. Focus has to be on long stay promotions. Example, offering 15 % discount on Best Available Rate for guests staying 3 nights, 25 % for 5 nights; offering either a complimentary third night or a free spa treatment during the stay and so on.

3.4. Targeting more revenue per guest (in house). Since the new guest is expected to spend more time inside the hotel, non-room revenues need to be rammed up in order to increase sales. Hotel also need to explore delivery options to improve their ancillary revenues. (Lamba et al., 2020).

3.5. Flexible cancellation and refund policy also needs to be in place. These policies should act as reassurance systems for the guests before they book a trip. Non-refundable promotions may be paused or removed until the onset of a stable demand (Lee, 2020). Remember, the new customer will need much more convincing to book hotels and a strict

cancellation policy may mar the chances of attracting customers.

#### **4. Adopting Digital & Social Media Marketing:**

4.1. Businesses are adopting digital work-cultures more rapidly than ever (Pimentel, 2020). It is imperative hotel start adopting digital marketing strategies to target the right set of customers.

4.2. Hotel can no longer rely on third party channels to fill their rooms. They need to aggressively focus on direct sales by online marketing and diverting traffic to their website (Huang, 2020).

4.3. Hotels will need digital marketing professionals who can explore plethora of online marketing tools and options.

#### **5. Focus on Domestic/Local Clients:**

5.1. Demand from outstation travellers is expected to be low in 2020, thus, the focus has to be on domestic/local customers. (Lamba et al., 2020)

5.2. Special promotions targeting the locals need to be introduced.

#### **6. Target Meetings and Events**

6.1. It is reported that around 2 billion minutes are being spend in online meeting everyday (Online-Video

conferencing) (Hardy,2020)

6.2. This presents prospects to target local companies that are looking for venues on their doorstep (Lee,2020)

6.3. Special packages and promotions supporting such online meetings and event planners will find multiple takers in these challenging times.

6.4. Packages may assist in travel plans, facilitate risk assessments, and cater to technological needs of the businesses, for example, live video streaming and video conferencing software (Lee, 2020).

#### **7. Adherence to compliances:**

7.1. Hotels need to stay abreast with the latest safety standards and ensure they follow all the norms set by the local governments

7.2. Crucial for hotels to not have any negative publicity due to health hazards during this period

7.3. Update and reassure hotel clients and employees through intensive routine maintenance and increased deep cleaning measures (Lamba et al.,2020)

### **CONCLUSION**

The COVID-19 pandemic has completely changed dynamics of “business as usual” for all industries. Unfortunately, Tourism and Hospitality industry is one of the major casualties of this global crisis. With recovery nowhere in near sight, the

industry is in need of immediate relief funds for its survival. However, even with all the atrocities, the industry came together to support the society in the fight against the pandemic. In this paper, we observed the impact of COVID-19 on the global tourism & hospitality sector. The paper proposes some recovery strategies that may assist the industry practitioners in mitigating the current crisis. These are challenging times and only future research shall be able to accurately measure the extent of COVID-19 impact on the tourism and hospitality industry. We encourage various Governments to come up with emergency relief funds for the industry.

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