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Travel Will Not Unravel: Looking At and Beyond the COVID-19 Crisis

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Special Edition: COVID-19 Crisis



While the world, and the travel industry, has dealt with and survived a number of major crises such as the 9/11 attacks in the US and an unfortunate number of terrorist attacks in numerous other countries, the global financial crisis, and SARS, the ongoing COVID-19 pandemic that has ravaged people, societies, companies and economies across the world is a crisis of a scale and speed that the world has not witnessed before. The travel industry fulfills that most basic need of human beings to connect with other human beings, be it for business or leisure, be it across the world or at the local restaurant down the street. Our industry thrives in a connected world and unfortunately, in our new reality today where more and more cities and countries are going into lock down around the globe, we are seeing a financial impact like never before.

Hotel owners, brands and operators are taking a number of different steps to survive the turbulent times ahead, such as furloughing and laying off employees, shutting down hotels, redirecting sales and marketing budgets to essential functions, and reducing corporate overheads. With hotel revenues plummeting significantly while fixed costs remain relatively static in the near term, owners across the world are struggling to meet their debt service obligations, especially in high-cost markets such as India and Indonesia, where interest rates hover in the double digits and the loans are usually repayable in 10-15 years. While individual hotel owners have already started negotiating payment moratoriums with their banks, a more centralized approach by each government providing a relief package to the travel industry will be critical to ensuring

these businesses can continue to survive and provide employment for hundreds of millions of people around the world. Being able to retain employees on payroll will not only prevent hardship to trained loyal team members and their families, it will reduce the negative impact of high unemployment on the economy during the crisis and further enable both the industry and the economy to bounce back faster once the pandemic comes to an end.

In the meanwhile, there are very few tools available to owners and operators to stem losses through active asset management. At the current time, dropping room rates will not help attract additional demand to the hotel, limiting the role revenue management can play in the short term. If anything, dropping rates significantly will make re-positioning the hotel at the right level so much more difficult post COVID-19. Owners in multiple affected countries are converting their hotels into temporary hospitals or quarantine facilities to try and at least cover their fixed costs and remain solvent, and more will follow suit. Hotels that cannot be used for alternate facilities will see high closure rates in the short and medium term unless government support is available.

In earlier crises, even if demand dropped steeply in one market or part of the world, others were still unaffected or there was at least some level of visibility on the way ahead. Today, we have a severe downturn that spans the globe and there is very little clarity on when and how the pandemic will be defeated. Thus, the hard-earned lessons from having handled and lived through other crises in the past don't necessarily apply and companies will need to adapt and improvise as the crisis evolves.

While it is currently impossible to predict how long the pandemic will last and what its cumulative impact will turn out to be, this article attempts to lay out what we do know today and what the path to a recovery might look like.

1. As we all know, demand has dropped faster and steeper across all segments than ever before around the world. When hotel markets start recovering, it will be overwhelmingly because of domestic demand in their respective countries. Demand from international source markets will lag domestic demand by a quarter or two.
2. In past crises, corporate transient demand has typically recovered faster than leisure or meeting and group demand. While this trend will hold true this time around too, given the restrictive travel policies across companies, the recovery will be at a slower pace than in the past. Leisure demand will follow next, followed finally by meeting and group demand.
3. Leisure destinations such as Bali, Phuket, Maldives, Venice and the Caribbean that depend primarily on foreign demand will therefore take longer to bounce back than major cities such as New York, Shanghai, Singapore, or London.
4. Intra-regional demand, such as within Asia or within the EU, will start recovering first, until travelers feel more comfortable traveling further away from home.
5. An analysis of the markets indicates there will be a reduction in the amount of proposed room supply over the next few years, which combined with previously closed hotels either being converted to other uses or only reopening in phases,

will help market-wide occupancy rates recover faster than what might be currently anticipated based on existing levels.

In the face of all the uncertainty today, leaders everywhere are faced with the enormous challenge of preparing their companies, big or small, for the battle ahead without knowing how long it will last and risk either being blamed for overreacting to the crisis or underestimating it and doing too little. While it is critical to look at the challenges today and react to them, it is also important to keep the bigger picture in mind.

We may not know as much about how matters will evolve over the next few weeks or months but what we do know is that this crisis too shall pass, that people will dine out and fly on planes and stay in hotel rooms again, and that we will go back to living our lives and exploring this planet of ours again. Our industry has survived challenges earlier that seemed insurmountable at that time, learnt from the crises, and come out stronger on the other side. And we will do so yet again!



Kaushik Vardharajan has almost two decades of global hotel consulting and development experience. Kaushik started his consulting career with HVS and spent 15 years there, starting in New York, and then lead the firm's operations as Managing Director - South Asia in Delhi and as Partner Managing Director - Asia Pacific in Singapore. Kaushik worked on and oversaw over 1,500 valuations, feasibility studies, management contract negotiations and strategic consulting assignments while at HVS. Kaushik then spent almost four years at Hilton as Vice President Development - South Asia and led Hilton's growth and expansion across India, Bangladesh, Bhutan and Nepal through management and franchise agreements. Kaushik has lectured on global hotel markets and hospitality real estate at Boston University's School of Hospitality Administration.