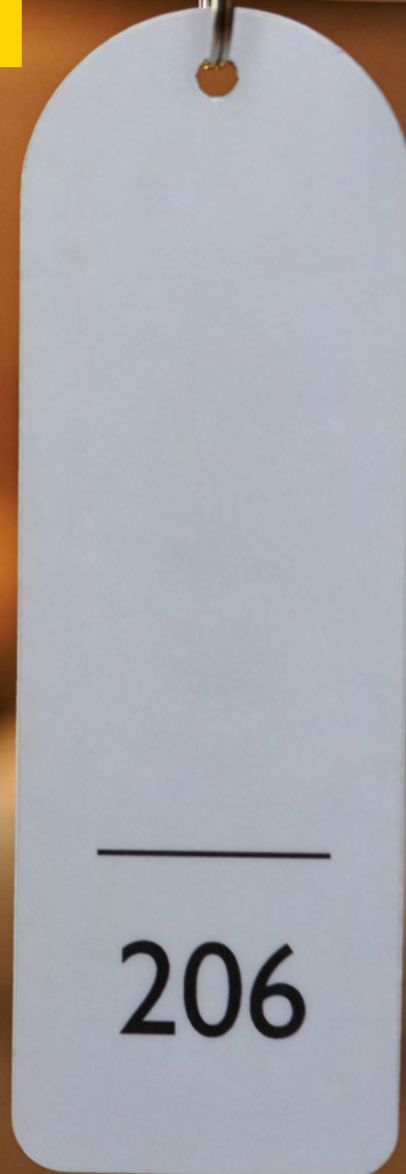


COVID-19: what hotel companies should do now and beyond

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The industry faces a massive task, but operators can take steps to mitigate the impact and position themselves for a strong comeback.

COVID-19 is having an unprecedented impact on the US hotel industry. The full fallout is unknown, as the ultimate scale of the outbreak is yet to be determined. However, travel restrictions and social distancing policies have had a dramatic effect on the industry. Hotel occupancy in the US has dropped to 53% and revenue per available room has declined by 32.5% for the week ending March 14, according to Smith Travel Research (STR). The World Travel and Tourism Council (WTTC) estimates that more than 50 million jobs in the travel and tourism sector could be at risk globally.

Given the uncertainty, hotel companies have started taking action, with furloughs, hotel closures and staff reductions already in motion or planned. At the same time, they are implementing flexible cancellation/rebooking policies, changing loyalty program requirements and instituting other measures to help them be more responsive to customer needs.

However, the industry has a massive task ahead. Government assistance is needed and will help. Current forecasts project a deep economic contraction in the first half of the year, followed by a bounce-back in the latter half. However, there is concern that there could be prolonged economic uncertainty that would prevent a sharp bounce-back. As hotels respond to this economic reality, they will need to think through key issues both for the short and long terms. EY has developed a resiliency framework (see below) that addresses major concerns that companies have during these turbulent times.

The EY Enterprise Resiliency Framework



Maintaining the safety and security of employees and guests is clearly the highest priority. That includes setting up a secure remote working environment. While there will inevitably be some loss of productivity as employees work away from the office, companies need to ensure that employees are engaged and productive in the new operating environment.

Key aspects of the resiliency framework that hotel companies will need to address include:

- ▶ **Availability of cash:** keeping cash on hand via liquidity management strategies, such as maximizing one-time revenue opportunities, realigning and reducing costs, employing working capital crisis management techniques and deferring capital expenditures.
- ▶ **Short-term, non-traditional sources of revenue:** from serving as temporary hospital facilities to providing “work from home” environments, hotels should evaluate opportunities where they can.
- ▶ **Brand protection:** how companies respond to this crisis will have long-term implications for how their brand is perceived both by customers and by employees.
- ▶ **Cyber threats:** rogue forces could take advantage of the situation with the potentially increased vulnerability from the use of personal computing devices. Companies will also need to protect against the spread of malware and misinformation.
- ▶ **Supply chain issues:** these have become increasingly complex; the materials needed to develop and operate hotels are sourced globally. Hotels need to evaluate and mitigate the risks posed by their current supply chain.
- ▶ **Business continuity:** planning and executing a business continuity program will enable resumption of critical business functions and a swift return to business as usual once the outbreak is under control.

In addition, hotel companies need to have plans in place to quickly recover once the worst of the pandemic has passed. In the face of potential hotel closures, companies will have to assess their employee retention and operational policies.

Historical analysis indicates that leisure travel comes back quickly based on rate discounting. Group travel takes longer to rebound.

But rate discounting could lead to longer-term issues with average daily rates. Therefore, it is critical for companies to carefully think through their revenue management and channel strategies.

Economic scenarios range from a short, sharp, V-shaped recovery - with impacts only in Q1 and Q2 - to a more sustained lapse in growth over multiple quarters that could trigger a recession. Companies need to be prepared for all of these scenarios and take the following steps:

- ▶ Build swift and responsive communications with investors and develop trusted assessments of short-term consequences
- ▶ Be positioned to optimally capture and leverage government incentives
- ▶ Model the impact and timing of the different economic scenarios on property and portfolio performance; the financial hit will vary with segment, location and type of property
- ▶ Reallocate capital to affected parts of the business and secure short-term credit
- ▶ Develop weekly cash forecasts to verify enough working capital for business expenses and continuity
- ▶ Maintain liquidity inflows to the most affected operations by region or function
- ▶ Create contingencies for defaults across owners and operators
- ▶ Monitor capital markets for stabilization before raising fresh capital for acquisitions or refinancing

Once hotel companies react and recover from this pandemic, attention will turn to how to grow. Strategic options will exist that were not available before, and companies should start thinking about:

- ▶ Are there any permanent changes to hotel operations that need to be taken into consideration? Is hygiene and sanitization a key priority, and how do you plan for that?
- ▶ What will the hospitality environment look like post-pandemic? What demand patterns will or could change?
- ▶ Where will opportunities arise as a result of the changing environment?
- ▶ How can you prepare yourself to take advantage of any opportunities that arise?
- ▶ How can you build resiliency into your operations to protect against similar future shocks and the resulting disruption?

It is clear that COVID-19 poses key short-term and long-term issues for the industry. But every indication is that the industry will rebound quickly once the worst of the pandemic is over. The rebound might be tempered by prolonged economic performance, so hotel companies have to be prepared for multiple scenarios that might unfold. The key will be to react to the short-term issues that arise but then quickly pivot to long-term planning and identification of opportunities.

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