

## THE IMPACTS OF COVID-19 ON HOSPITALITY INDUSTRY AND SUGGESTIVE MEASURES FOR ITS POST-COVID RECOVERY

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## Abstract

**Purpose-** *The Coronavirus pandemic in early 2020 has had a disastrous effect on global economies. The pandemic has resulted in the loss of all businesses, especially the tourism and hospitality industry all over the world. The pandemic has resulted in a sudden halt to airline services, closure of major tourist attractions, and cancellation of bookings and projects in the hospitality sector resulting in an employment crisis for millions associated directly or indirectly with the industry. Tourism and hospitality contribute to the GDP of various economies and provides employment opportunities.*

**Design/methodology/approach-** *The paper aims to study the present scenario of the tourism and hospitality industry all over the world, including Small Island Developing States (SIDS) and Least Developed Countries (LDCs). The paper is based on secondary data obtained through an extensive literature review. The statistical data is obtained from renowned and authentic data sources to get a better understanding of the impacts of Covid-19 on tourism and hospitality as well as the aviation industry.*

**Findings-** *The paper highlights the impact of Covid-19 on the Indian hospitality industry. The paper provides statistical data related to GDP, employment, occupancy rates, and average daily rates in India. The paper concludes with the suggestive measures for the hospitality sector for post-Covid recovery.*

**Originality/value-** *The covid-19 pandemic has resulted in several studies on various sectors. This study analyses the impact of covid-19 and the various measures necessary for its recovery in Indian context.*

**Keywords:** *Covid-19, Coronavirus, Tourism, Travel, Hospitality, Aviation, Indian Tourism, Indian Hospitality, India*

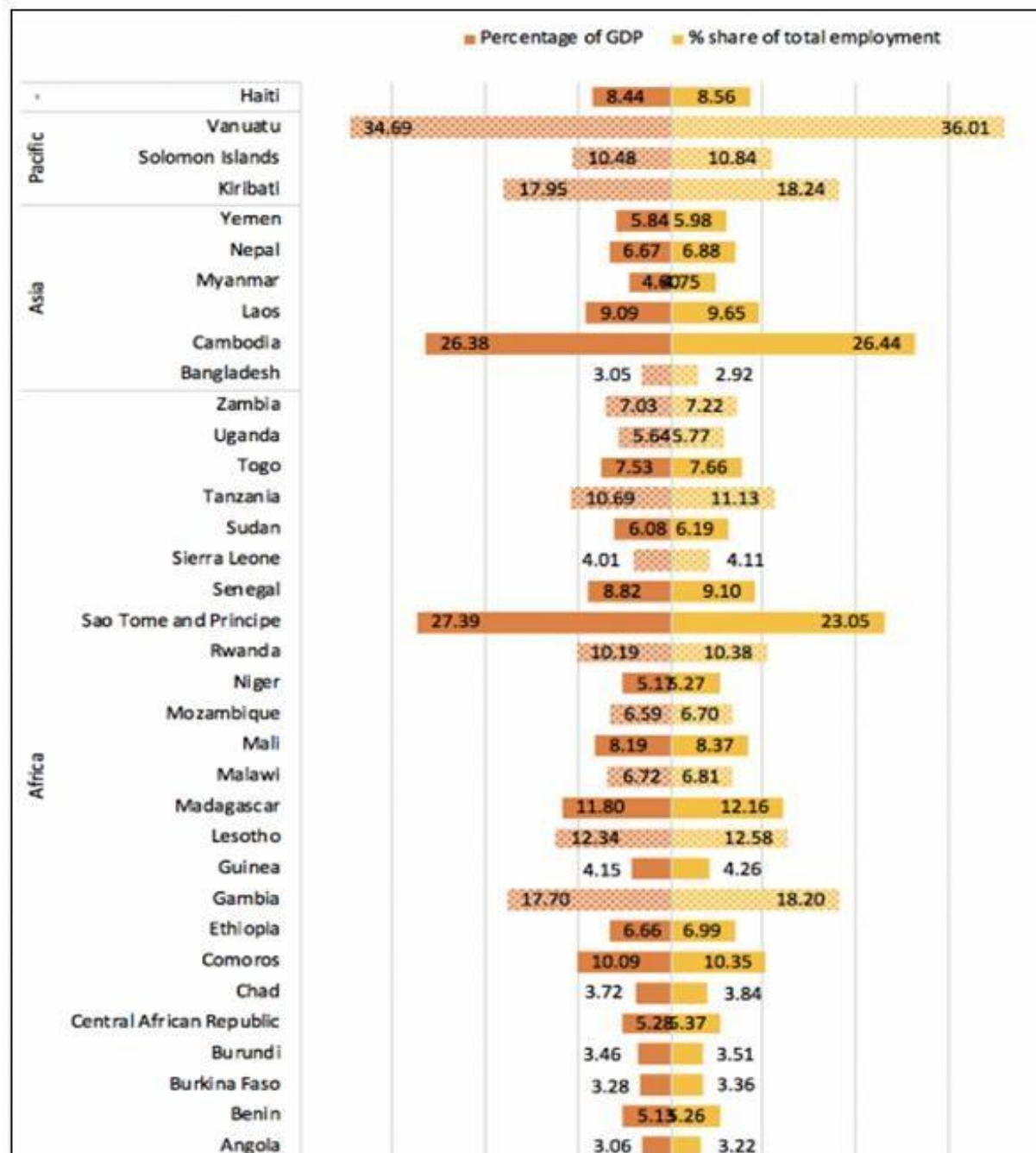
## **Introduction**

The Coronavirus, formally known as Covid 19, originating in the Wuhan, Hubei province, in China, was reported on 31<sup>st</sup> December 2019 as a case of viral pneumonia of unknown cause. Due to the surging number of reported cases in Italy, Iran, Japan, and South Korea, it is the sixth PHEIC (Public health emergency of international concern) declared by the WHO on January 30, 2020 (Chakraborty & Maity, 2020). Covid-19 was declared as a pandemic by the WHO, by the start of April, when the number of deaths reached 36,571 with 754,948 confirmed cases (WHO, 2020). In late May 2020, the death toll increased to 342,029 with the confirmed global cases of 5,304,772, which attributed to 30% of reported cases from the United States alone (WHO, 2020). Over 37 million cases of Covid-19 and 1 million deaths have been reported from December 30 through October 11 all over the world. According to the Weekly Epidemiological Update by the WHO, 48% of these cases and 55% of deaths were reported from the Americas.

In addition to the loss of lives, the pandemic has had an acute impact on the global economy as the low productivity and excessive expenditure for treatment and recovery of the covid-19 victims has resulted in high inflation and increased unemployment in many powerful global economies (Chakraborty & Maity, 2020). In the global economy, the tourism industry holds third place in the largest export sector. The whole world has been brought to a standstill and the tourism industry has been hit the worst due to the outbreak of Covid-19 (UNWTO, 2020a). Due to its reliance on human mobility, the tourism industry is imperiled by the outbreak of infectious diseases, including Coronavirus (Yang et al., 2020). Millions of people depend on the tourism industry for their livelihood. For some countries tourism industry represents over 20 % of their GDP (UNWTO, 2020).

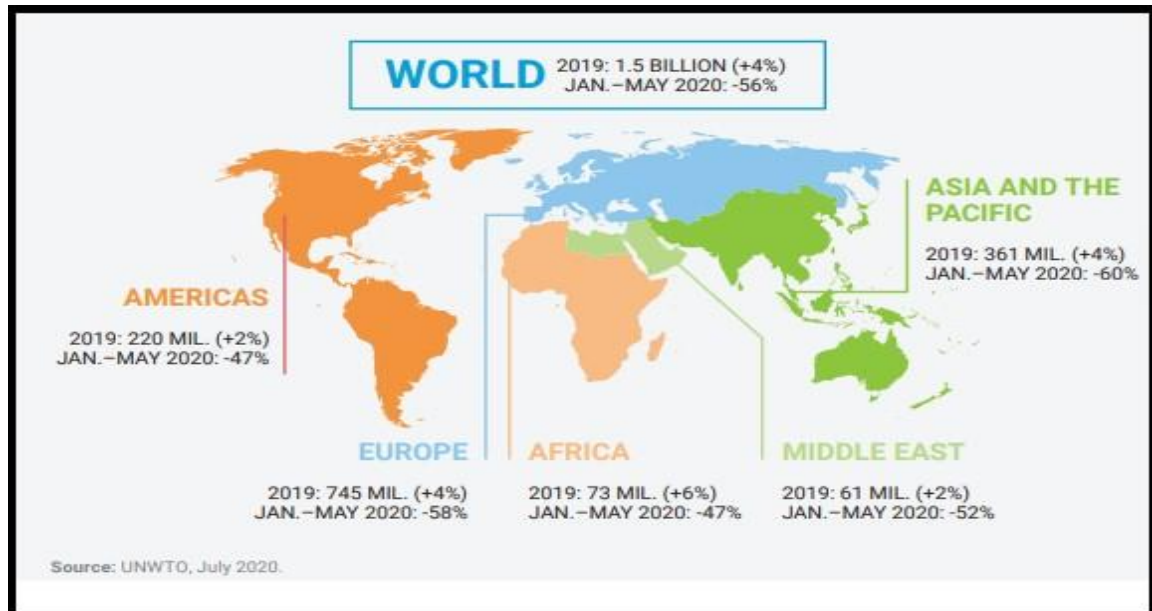
The impact of Covid-19 on the economies of Small Island Developing States (SIDS) and Least Developed Countries (LDCs) is devastating. The impact on many African nations, where tourism contributed to 10% of all exports in 2019, is also of concern (UN, 2020). About 30% of total exports in the majority of SIDS come from tourism, while it reaches up to 80% in some SIDS and the pandemic has resulted in the loss of half of the international tourist arrivals during January-April 2020 (Carmona, 2020). In the case of LDCs, the tourism industry contributes to the 9.5% GDP and employment respectively, acting as an important source of income (Vickers et al., 2020). The contribution of tourism to employment and GDP in LDCs (available on WTTC) is shown in Figure 1.

**Figure 1: Contribution of tourism to employment and GDP, by region (Source: Commonwealth Secretariat, calculated from the WTTC)**

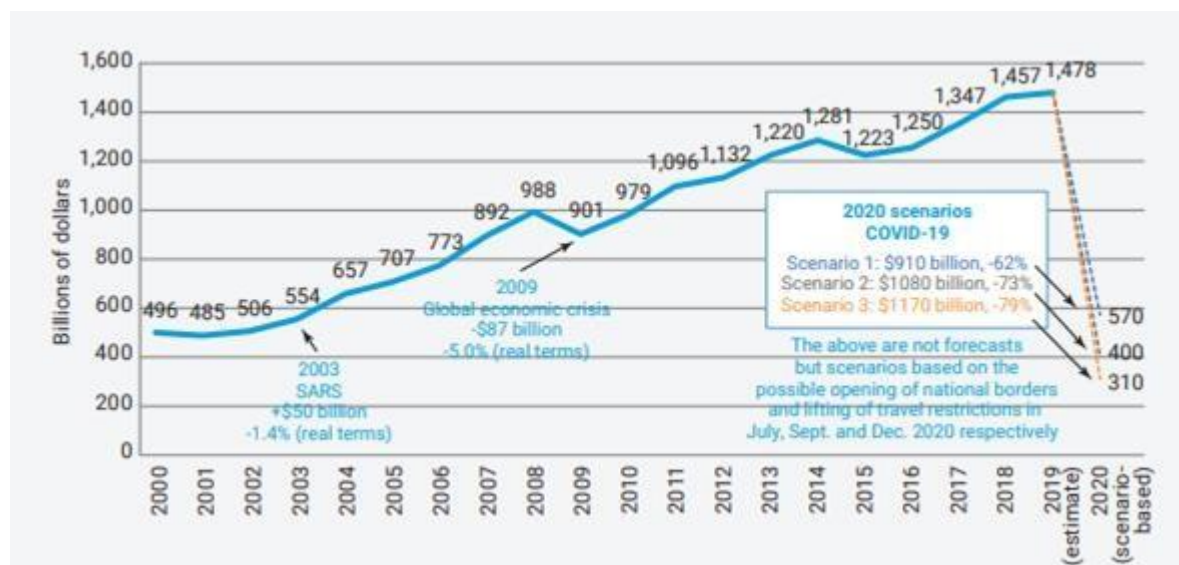


In the first five months of 2020, a drop of 56% in international tourist arrivals and \$320 billion in exports from tourism were experienced and this drop could lead to the loss of over 100 million direct tourism jobs (UNWTO, 2020). The percentage change in international tourist arrivals during January-March 2020 and the exports scenario is shown in Figure 2 and Figure 3 respectively.

**Figure 2: International tourist arrivals, January –May 2020 (Percentage change)**



**Figure 2: International tourist arrivals, January –May 2020 (Percentage change)(Source: UNWTO)**



**Figure 3: International tourism receipts (Exports), 2000-2019 and 2020 scenarios(Source: UNWTO)**

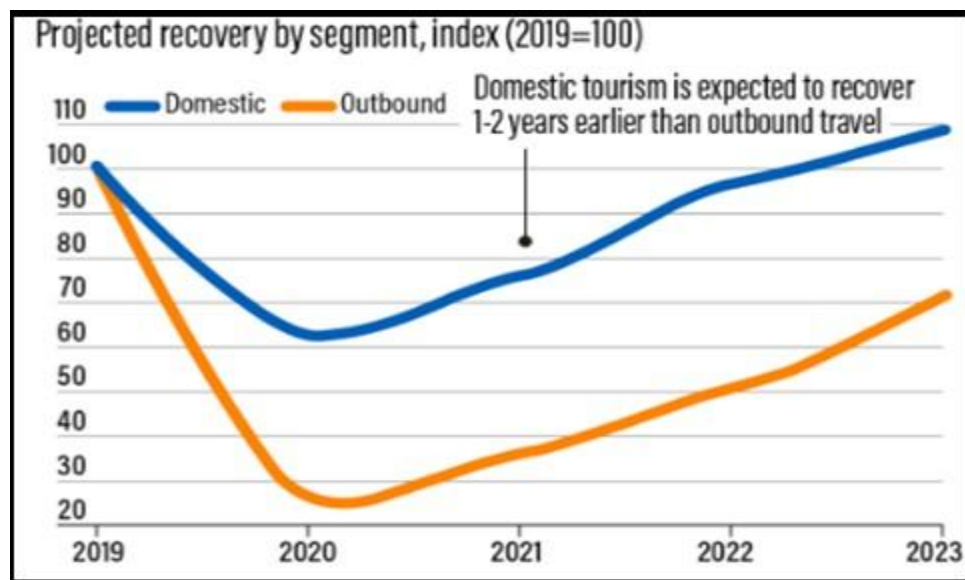
As per a report by United Nations Conference on Trade and Development (UNCTAD), a loss of \$1.2 trillion or a drop of 1.5% of global gross domestic product (GDP) could be experienced from the global tourism sector due to Covid-19 (UNCTAD, 2020). The restrictions on travel started with China issuing a travel ban to mitigate the spread of the virus in the country which resulted in the cancellation of 200,000 flights from and to China



(Josephs, 2020).The unprecedented crisis, resulting from covid-19, in the global tourism industry, has had a massive and immediate shock to the sector. The sudden halt in aviation services and the closure of tourist attractions and sites like Royal Opera House in Muscat, Oman, Teatro Alla Scala in Milan, Italy, and the cancellation of major festivals and events like the St. Patrick’s Day parades in New York City, Chicago, and Boston, USA and across Ireland, Tomorrowland Winter in France, Ultra Music Festival in Miami, Florida, USA, Korea Times Music Festival in Los Angeles, California, USA, and so on has resulted in the loss to the sector (The National, 2020). Besides, all types of religious, cultural, sport, political, and social gatherings are postponed by the governments of various countries (Chakraborty & Maity, 2020).

According to the report published by the global consultancy McKinsey, a drop of \$8.1 trillion in spending, might be faced by the global tourism industry before the expenditure returns to pre covid-19 levels. The report further determines that choice of destination could get influenced by

factors like health standards, supply reduction in air travel and appeal of domestic destinations. Domestic travel is expected to recover faster, as shown in Figure 4, than hotels as a substitution toward vacation rentals, and friends and family are experienced in certain markets.



**Figure 4: Tourism Industry Recovery from Covid-19, Domestic vs. Outbound**  
(Source; McKinsey and Company)

The recovery of the sector could be slowed down due to the renewal of lockdown measures in some countries, restrictions on travel, and the reduction of disposable income. The UNCTAD forecast that if the halt on international tourism lasts for eight months, a loss of 2.8 percent of the world's GDP could be faced by the global tourism industry due to the pandemic.

According to the policy brief "Covid-19 and Transforming Tourism", launched by the UN Secretary-General, restrictions on travel due to covid-18, poses a threat to the loss of millions of direct jobs and opportunities for the vulnerable populations and communities that are dependent on tourism and hence, must be alleviated in a timely and responsible manner with coordination from all countries in the formation of policies. According to the World Travel and Tourism Council, if restrictions are substituted with effective testing programs, 31 million jobs could be saved by the end of 2020 (Haine, A., 2020).

Depending on the duration of the crisis and the speed with which travel and tourism rebounds, a decline of 60-80% could result from the implied shock in the international tourism economy in 2020 (OECD, 2020). As per the policy brief by UN (2020), the foreign direct investment (FDI) is expected to experience to drop in 2020 and 2021 and the global FDI is forecasted to drop up to 40% in 2020 with a further decrease in 2021 by 5 to 10%. As per the UNCTAD, World Investment Report (2020), the lockdown due to pandemic has severely affected the travel, tourism, and hospitality industry, especially the accommodation and foodservice activities, which experienced a drop of 94%.

A drop of 11.6% was experienced for a week in the hotel industry of United States, ending on March 7 2020, cancellation of 90% and 80% hotel bookings were reported in Rome and Sicily respectively, while in Ghana a drop of 70% to 30% and less was experienced in the hotel occupancy rates (Mensah, 2020). Direct aid of approximately \$150 billion was sought by different hotel companies in the United States for the employees and the loss of about \$ 1.5 billion since mid-February due to a fall in demand (Kumar, 2020). Besides, a temporary suspension was announced at all Las Vegas properties by MGM Resorts International (Kumar, 2020). Similarly, Tui, one of the largest tourism multinational companies in the world, sought aid in March 2020 from the governments of the UK and Germany and signified a price cut in its global operations (Hancock, 2020).

According to the China Hospitality Association (2020), a loss of over 67 billion Yuan in revenue was experienced by the Chinese hotel industry and in January and February 2020, 74.29% of hotels were closed for 27 days. The independent hotels in China, comprising about 80% of its hotel industry are likely to suffer more loss than the other 20% of hotels

which are operated by hotel chain brands as the independent hotels are more intrinsically prone to disaster (Zhou, 2020). During the first eight months of 2020, the hotel occupancy rate severely declined to 28% in Thailand's hotel sector, while in Singapore and Hong Kong, a decline of 23% and 50% was reported respectively (Globaldata, 2020). An article on Schengenvisa.info (2020) states that the European Tourism Manifesto Alliance, representing 60 organizations, has highlighted the need for mutual coordination for the implementation of travel restrictions to overcome the financial crisis in the travel and tourism industry due to covid-19.

The aviation industry was one of the first industries to be hit due to the pandemic due to the cancellation of flights and reduction in capacities (Sobieralski, 2020). A decrease of 60 to 80% in capacity by major carriers like American Airlines and Trans-pacific flights respectively, was experienced (Josephs, 2020). As per the ICAO report (2020), the impact of covid-19 on world scheduled passenger traffic compared to baseline would result in an overall reduction of seats offered by airlines by 50-51% and a drop of 2,858 to 2,891 million passengers, with a loss of approximately \$387 to \$391 billion in gross passenger operating revenues in airlines. In the first eight months of 2020, the international tourist arrivals in the Asia-Pacific (APAC) region dropped by more than 75%, with Hong Kong reporting a loss of more than 90%, followed by the loss of 80% of internal visitors in Japan, South Korea, and Macau and 79% and 75 % loss in Singapore and Thailand respectively. The highest drop of 87%, in inbound visitors, was reported by China in the first quarter of 2020 after Covid-19 was reported (Globaldata, 2020).

Due to the pandemic, a significant impact was experienced in the aviation industry in India as well. A loss of Rs. 2,570 crore was incurred by Air India and a net loss of Rs. 2884.3 crore was reported by India's largest airline, IndiGo, in the first quarter of 2020-21, due to which, airlines in India have opted for cost-cutting measures in the form of pay cuts, leave without pay or laying off employees (Economic times, 2020).

From May 25, domestic passenger flights were resumed in India after a 2-month gap due to Covid-19. However, the scheduled internal passenger flights are still suspended in India due to the pandemic (Economic times, 2020). As per the recent order issued by the Civil Aviation Ministry, a maximum of 60 % of the pre-COVID domestic passenger flights can be operated by the Indian airlines till February 2021 due to the pandemic (Civil Aviation Ministry, 2020). Special international flights have been operating under the Vande Bharat mission since May and under the bilateral air bubble pacts signed with various countries since July (De, 2020).

## **Impact of Covid-19 on Indian Hospitality Industry**

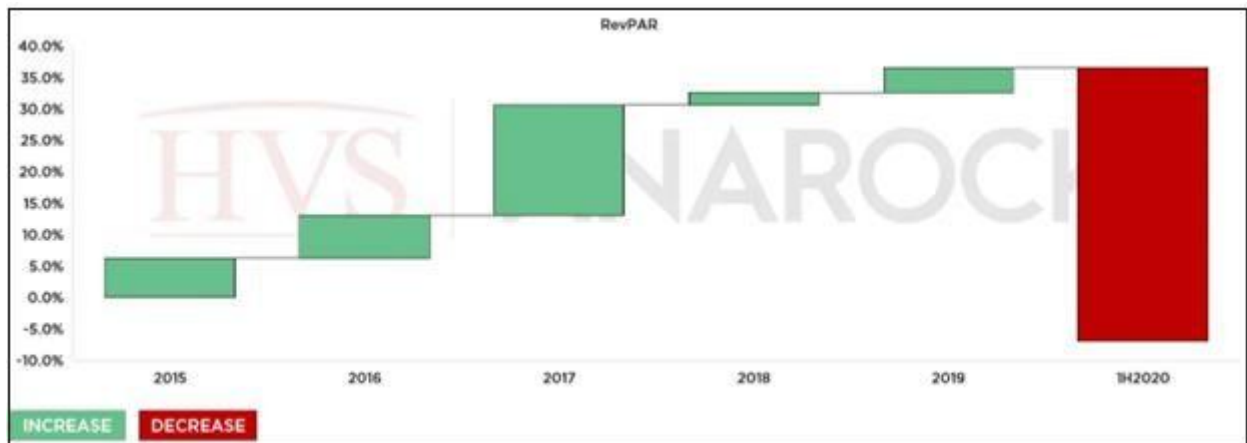
The Federation of Associations in Indian Tourism & Hospitality (FAITH), the policy federation of all the national associations representing the complete tourism, travel and hospitality industry of India, comprising of all national associations i.e. ADTOI, ATOAI, FHRAI, HAI, IATO, ICPB, IHHA, ITTA, TAAI & TAFI, is of the view that the tourism supply chains in India have broken down across all the crucial inbound, domestic and outbound markets and no recovery is

expected till November 2020 making the total impact to a minimum of nine months starting from March 2020 (Awasthi, 2020).

As per a statement of FAITH, July 2020, that the loss of jobs in both organized and unorganized categories of tourism could go as high as 4 crores in 2020. FAITH had put the economic value of tourism at risk at Rs 5 lakh crore due to the pandemic, in March 2020 which was later revised to Rs. 10 lakh crore and again to Rs. 15 lakh crore in terms of the economic output of tourism in India. As per the statement, the direct and indirect economic impact of the tourism industry in India roughly puts the full-year economic multiplier value of tourism at approximately Rs 20 lakh crore in India, resulting in an impact on a minimum of three-quarters of tourism. The statement also noted that the value would cover all tourism chains including airlines, travel agents, hotels, tour operators, restaurants at tourism destinations, tourist transport as well as tour guides (ET Hospitality World, 2020).

The tourism industry constitutes approximately 10% of GDP, which translates to \$275 billion, in India (Business Line, 2020). The government and tourism industry needs to come up with a joint plan to overcome the damage caused by Covid-19. For 2020, the estimated revenue lost for the hospitality sector in India is at Rs 89,813 crore, of which the revenue loss for organized, semi-organized, and unorganized players in the industry is seen at Rs. 40,309 crore, Rs. 8,379 crore and Rs. 41,126 crore respectively, while a drop of 31.6% and 57.8% (Figure 5) is estimated in occupancy rate and Revenue Per Available Room (RevPAR) (Gohel, 2020).





**Figure 5: Revenue Per Available Room, 2020** Source: Smith Travel Research (STTR)

After Thailand, with a 90% drop in occupancy rate, India has reported the second-largest drop among large Asian markets, while countries like Malaysia, China, and Singapore have lower drops in occupancies (Kaushik, 2020). Due to shortage of labor and vendor and supply chain issues, new hotel launches are expected to get delayed while some might get cancelled or altered altogether due to prevailing market conditions (Nangia, 2020).

Covid-19 has resulted in a demand drop in hospitality industry, restrictions on non-essential employee travel are expected, a significant decrease in the number of MICE tourists and relocation in the number of international weddings destinations to domestic destinations has been reported and domestic tourism is more likely to be the demand driver as per the report by HVS India (Hospitality Valuation Services) and ANAROCK. Also, the occupancy rates and average daily rate are anticipated to reach pre-Covid levels by 2022 and 2023 respectively by the report. As per the report, the full-service hotels will be more vulnerable due to their dependency on group business while secondary and tertiary markets are expected to hold up better. The recovery growth in the sector will be led by upscale/luxury leisure and branded economy/mid-market business hotels.



Figure 6: Change in growth and recovery(Source: HVS Research)

## Discussion and Suggestions for Post Pandemic Recovery

Unprecedented measures are taken by different governments to contain the spread of Covid-19. The restrictions on travel, business operations, and interactions between people have severely impacted the tourism economy. Although it is difficult and complicated, some countries are in the process of reopening the tourism economy while battling the virus (OECD, 2020). A global future survey conducted by Preferred Hotels & Resorts among 3,695 of its members from the United States of America, Europe, Canada, Asia Pacific, and all other regions, revealed that 75% of the respondents plan to travel with family, 50% intend to travel regionally or domestically, 40% want to travel to another continent while over 80% were ready to travel by air. According to the director of The Belgadia Palace, Akshita M Bhanj Deo, the future of the hospitality industry lies in domestic travel. Due to the physical and economic restraint caused due to the pandemic, it is necessary to make efforts to adapt to the changing business environment. The main consideration will be health and safety which can be ensured by providing physical evidence of the hotel's concern for the health and safety of visitors. For example, the 'Sanitized stays' with minimal touch introduced by OYO rooms to ensure social distancing. Incorporating a few measure like security checks for temperatures with non-contact temperature assessment devices, sanitizers at receptions, lobbies, and guest rooms, taking extra precautions in making the guest rooms and common areas, like hotel lobbies, clean and sanitized while maintaining the air quality, use of only essential facilities and loyal and multi-skilled experienced staff for housekeeping, kitchen staff, front desk, security, engineering, and so on, use of masks and surgical gloves by all staff. The practice of self-service should be encouraged wherever possible to reduce contact. From the marketing point of view, digital and social media marketing will be useful in retaining the customers

as well as showcasing the contributions to the pandemic caused as social media would be the new go-to travel agent and potential visitors will be drawn in by authentic experiences. It is important for hotels to effectively manage room rates and marketing offers to maximize revenues while avoiding discount panic. It should be noted that essentials should be purchased according to the occupancy level. According to Ralph Hollister, a travel and tourism analyst for GlobalData, when demand returns, recovery would be difficult for the hotels providing high discounts and drop in rates. It is also essential to avoid circulation of fake news by staying up to date with new announcements by local government authorities. Providing

adequate support to the employees to help them get back to their work life, providing training for specific jobs and departments, and providing assistance wherever possible is also crucial. With improved demand, the closed areas and departments can be re-opened after ensuring the safety of the visitors. With the changes in the buying behavior of consumers, the hotel industry must come up with new models that can create more opportunities for business development. While it's important to ensure the safety of the visitors, creating an economic balance is also crucial to secure a place in the market. The Federation of Hotel and Restaurant Associations of India (FHRAI) has appealed to the government to provide soft loans to hotels and restaurant players to help them sustain and cover for the required working capital (Chaturvedi, 2020).

The pandemic has resulted in significant damage to the hospitality industry and the seven months of lockdown has resulted in negative cash flows, threats of insolvency, and loss of jobs that have wrecked the sector. To ensure the recovery of the hospitality industry, tax reductions and other associated costs are vital. The businesses in the sector need to work on cost reduction and manage cash flow as well as maintaining communication lines between all stakeholders. It is necessary to retain employees as well as customers till normality returns. It is vital to come up with recovery strategies to ensure the smooth running of the business when demand for travel returns.

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