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Four ways in which the corona episode will make the hospitality industry question itself: Prashant Das

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Article

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attitudinal shift of people's behaviour on social and economic front and the recessionary aftereffects, how a few fronts will make the hospitality sector question itself

“Na kimchit shashwatam” (nothing is permanent) – An ancient saying in India.

As bleak as things are turning in recent days, statistics from China show that we will eventually recover from the crisis. But, the predicament that Coronavirus forced us to face signals that the world will never be the same again, at least in the medium term. Not only shall we see recessionary aftereffects of the current scare, people's fundamental attitude may shift on social and economic fronts. While the world should change on several broader levels, here are a few fronts on which the hospitality sector will question itself:

Back to basics: Excessive personalisation and finely-grained segmentation is a luxury afforded by good times. The hospitality industry rode this trend as tourism, cross-border in particular, soared. However, Wilmott and Flatters in their 2009 HBR article documented a “demand for simplicity” from consumers in times of crisis. People go back to basics, when things turn bleak and economic outlook gets murky.

Think about the businesses which are less affected: food, healthcare, education. On the other hand, the hospitality industry found itself obsessed with luxury, a discretionary segment that pushed itself farther from what it fundamentally stands for: the need for adequate lodging. In the following times, hospitality enterprises will start to focus on their most fundamental offerings. How to reduce the dramatic sensitivity of their business to exogenous factors? What do we offer that is less dispensable by our core clientele? Are our profits mostly coming from areas whose demand is highly sensitive to such crises? Does the asset-light obsession still make sense? Should there be a limit to our reliance on non-essential offerings and segments?

“because it’s there” justification for his Everest expedition inspired mankind as his efforts were geared towards a concrete goal. However, a great deal of recent innovation in hospitality seems an expedition to shoot in the dark. Our strategic thinking must rather follow this mantra: “because this is what will sustain our business”. Corona is a bloated version of similar crises we witnessed in recent decades and brutally exposed how ill-prepared our risk management has been. Not only will this episode persist for a while, we should brace for other similar crises in the future.

Our innovation efforts will be increasingly geared towards identifying ways that save us from shutting our shops. Rather than seeking bailout packages from the governments, what will render us useful -if not critical- during prolonged crisis periods? How can hotel facilities and staff support the healthcare system during pandemics? Do we need to redesign the rooms and the FFE so that they are flexible and adaptable (e.g. conversion into quarantine areas without much disruption)? Can our staff, at least partially, be used as “reserves” for healthcare services? Can we automate food production and delivery so that during the crisis periods, they serve as tools for the survival of our own industry as much as the society?

Sincerity: Despite the increasing economic and military mights, the Corona crisis has stripped naked our core weakness, a prolonged denial mode to inevitabilities! We must acknowledge that economic growth must coexist with social welfare. The current crisis has audaciously showed that economic wealth of nations does little to protect their subjects from crises like these.

Pollution and greenhouse emissions present a similar story. Yes, calamities happen in the real world, not in apocalyptic, B-grade movies only. We are seeing one as this article is being written. Will the hospitality sector move beyond greenwashing and show a more concerted

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commitment? Will the chains and brands develop more “local” approaches to their offerings and revenue targets?

Valuation: The Corona crisis has another serious implication: on the financial valuation and investment analysis of hotels. International tourism may have witnessed a regime change after the dust settles. There are some serious questions to be answered: will crises like these become the new normal? If so, will the revenue patterns (ADR and occupancy rates, in particular) be systematically reset to lower levels? Will the uncertainty about demand lead to long-term revision in risk metrics (discounts rates, growth rates and capitalization rates)? Will the perceived risk in hotel assets will move further higher compared to, say, apartments? Will loan underwriters be even more stringent with financing hotels? Will the cost of capital be pushed so high that the new supply will be severely constrained?

The first step towards solving a crisis is to build an acquaintance with its repercussions. These questions are a part of this step, among potentially many others. Strategists could spend their quarantine time to brainstorm.

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