

# COVID-19 impact on hospitality

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## Introduction:

The terror of the pandemic has engulfed the global economy and continues to impact all business sectors. With social distancing and stay-at-home precautions, the hospitality sector seems to have been impacted the most. The contagious nature of the virus has created a panic among travellers. Negligible to zero footfall has impacted the revenue of many service providers, with many shutting down operations, resulting in job cuts. The US hospitality sector reported unemployment of 39.3% in April 2020, according to US Bureau of Labor Statistics data, compared to 10% during the 2008 global recession.

## Impact on core hospitality:

While the coronavirus has affected a number of sectors, the hospitality sector has been directly and severely hit, experiencing mass layoffs amid the global lockdowns. We look at the impact on the three main hospitality sub-sectors:

- **Hotels and accommodation:** WHO declaring coronavirus a pandemic resulted in mass cancellation of hotel bookings, with many hotels closing down their operations temporarily to prevent further spread of the virus. These containment measures have resulted in revenue loss for many. Hotel occupancy rates have fallen by more than 50% in many countries, for example, the UK (67%), the US (59%), China (68%), and Italy (96%). The US is estimated to witness the loss of 4m hotel jobs, equivalent to 50% of total jobs.
  - **Restaurants/fine dining:** The restaurant sub-sector has been drastically affected. In the US, fine dining has dropped by more than 90% since the outbreak, with more than 110,000 restaurants shutting down permanently. Fast food chain McDonald's has decided to temporarily close all its operations in the UK and Ireland amid the lockdowns. The restaurant sub-sector has lost 3bn jobs and USD25bn of sales, according to data released by the National Restaurant Association, and is expected to lose another 7m jobs and USD225bn of sales over 2Q 2020.
  - **Travel and tourism:** This sub-sector contributes 10% of global GDP and has been severely and directly affected by the pandemic. It will see c.50m job losses, with Asia being the worst hit, according to the World Travel and Tourism Council. In Italy, tourism is a major industry, contributing 13% of the country's GDP. Before the outbreak, it had recorded total revenue of USD25bn. Since then, it has recorded a 40% drop, with 80-90% of bookings cancelled. The airline industry will also see a revenue loss of approximately USD113bn (20%), as estimated by the International Air
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Transport Association (IATA). compared to the USD23bn (7%) loss after the 9/11 attacks.

## How is the sector dealing with the pandemic?

The hospitality sector is adjusting to the sudden slowdown, as we see below:

- **Hotels and accommodation:** While some hotels have closed their operations temporarily and laid off staff in an effort to cut costs to manage the situation, others have made their hotel rooms available to the healthcare sector for use as makeshift treatment centres. In the UK, as part of the national action plan instituted by the government, most hotel chains (such as Accor, Best Western and Hilton) have been made available to shelter the homeless, who are more vulnerable to the virus. Industry experts believe that the hotel industry will be quick to recover and will display the same resilience it displayed during previous pandemics such as SARS. Following the SARS outbreak in 2003, the industry witnessed a drop of 50% in hotel bookings but soon bounced back and contributed USD5.2bn of global GDP in 2006.
- **Restaurants/fine dining:** The sub-sector is adjusting to the new normal. While many restaurants closed their operations temporarily, others are keeping their takeaway and home delivery options open. Most restaurant chain operators have changed their mode of operation from fine dining to home delivery. Many famous fine-dining restaurants (such as Artusi and Bao) have switched to taking online orders and offering no-contact drop-off delivery services through online delivery platforms such as Deliveroo.
- **Travel and tourism:** One of the world's largest industries, this has hit the pause button amid the lockdowns. Most airline operators have grounded flights and temporarily laid off staff. To reduce losses, airline operators are encouraging travellers to postpone trips, rather than cancel them. To preserve forward-booked revenue, airline operators (such as Lufthansa and Qantas) are offering deep discounts or discount vouchers to customers as an alternate option to cancelling bookings, while others are providing customers with refunds. More than 50% of business travel has been cancelled, according to data published by the Global Business Travel Association. Compared to after the 9/11 attacks, when fear subsided as time passed, fear now is increasing daily as the virus continues to spread. The IATA believes that although airline operators are taking preventive measures to counter the impact of the pandemic, domestic travel will resume faster than international travel.

## Private equity to navigate the hospitality sector through choppy waters?

The current situation is a time of testing for all sectors, but more so for the hospitality sector due to lockdown regulations. However, they can all learn from previous crisis such as the Great Depression and the global recession. Private equity (PE) giant Blackstone, which purchased Hilton Worldwide Holdings for USD26bn in 2007, eventually exited in 2018 at a profit of USD14bn. With the valuations of many hospitality sector operators getting adjusted in the current scenario, PE firms could seek deals in the sector. With dry powder of USD1.5tn, they can help the struggling hospitality sector companies stay afloat and eventually exit through a sale or an IPO.

Acuity Knowledge Partners has been supporting global PE firms as a natural extension of their teams, with secondary-market research, marketing collateral and RFPs.

To help our clients navigate both the people and business impact of COVID-19, we have created a

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[dedicated hub](#) containing a variety of topics including our latest thinking, thought leadership content and action-oriented guidelines and best practices.

**Sources:**

[www.bls.gov](http://www.bls.gov)

[www.hospitalitynet.org](http://www.hospitalitynet.org)

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