COVID-19 Impacts on and Responses of the Hotel Industry

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Abstract. The hotel industry has been hit hard by the epidemic. This paper discusses the development of the hotel industry under the background of the epidemic, which has important practical significance and can provide necessary reference for understanding the development trend of the hotel industry. This paper finds that the business performance of the hotel industry is constantly improving and is in the recovery stage, and there are some differences in the recovery status of different types of hotels. At the same time, remote working provides more service opportunities for hotels. This article can provide some inspiration for the development of hotel industry.

Keywords: Hotel industry; COVID-19; Recovery stage; Opportunities.

1. Introduction

In this paper, hypothesis, 2 facts: more desired offices → lower tier hotels; Provide road map: catch interest.

The COVID-19 pandemic has changed people’s lives drastically. After its discovery in December 2019 in Wuhan, China, COVID-19 (coronavirus disease 2019), a disease caused by a virus named SARS-CoV-2, quickly spread around the world (CDC). This resulted in serious economic stagnation. Millions of businesses face an existential threat and nearly half of the world's 3.3 billion workers could lose their livelihoods (WHO).

1.1 Global Economic effects of the COVID-19 Pandemic

Output has fallen by historic proportions in nearly every major economy (Biden). In the second quarter of 2020, U.S. GDP fell by 8.9%, the largest drop seen in 70 years. Despite this, the U.S. GDP surpassed pre-pandemic levels earlier than other major advanced economies. By the third quarter of 2021, the cumulative U.S. discretionary fiscal response exceeded 25% of GDP, and by the end of 2021, U.S. consumption had returned to its pre-crisis state. However, consumer demand continues to favor goods over services as the recovery progresses.

In face of the pandemic, remote working was introduced to accommodate social distancing policies. After lifting such policies, remote working is helping to redraw the economic map (Pickert, Tanzi, and Gu). Thousands of Americans fled coastal cities like New York and San Francisco for cheaper places in the South or in the mountains. Wall Street financiers headed south to Florida, while technological companies moved inland.

Labor shortages and rising wages are prompting companies to invest in technology that automates routine tasks (Pickert, Tanzi, and Gu). Thus, post pandemic, unemployment rates increased with these implementations of automation that are unlikely to be reversed. For example, restaurants and bars are moving to app-based or digital ordering while more applications are developed for contactless interactions. McDonald's has been rolling out kiosks where customers can order food, and said it is also considering automated frying and grilling. Hilton expanded its system for contactless check-in via mobile phone. United Parcel Service Inc. said automation initiatives such as label application have freed up 1,200 building employees this year.

1.2 Background of Current Hotel Market

Marriott International, Hilton, etc. are mainly high-end hotels, while InterContinental, Wyndham, Select International, etc. are mainly economy/mid-range hotels (Li). According to the ranking of global hotel groups released by HOTELS in 2020, the top 10 hotel rooms list has 6 American hotel groups, namely Marriott International, Hilton, InterContinental, Wyndham, Choice International, and

Best Western Hotels Group etc. (Gourtsilidou). In the room structure of listed hotel groups in the United States in 2021, Marriott International, Hilton and other hotel groups accounted for more than 50% of high-end hotel rooms and above, and these two full-service hotels accounted for a high proportion, 71% and 43% respectively; InterContinental, Wyndham, and Select International accounted for more than 50% of the economy and mid-end hotel rooms, and a even higher proportion of limited-service hotels, being 86%, 99% and 96%, respectively (Li).

1.3 Service Level Breakdown in the Hotel Industry

A hotel defines the section of the service industry that deals with guest accommodation or lodgings (Whereas, hospitality defines an activity or business of providing services to guests which contains restaurants, casinos, nightclubs, transportation, and hotels). The accommodation types of the hotel industry mainly include the following aspects:

The hotel provides accommodation, catering and other services for tourists and visitors.

Bed and Breakfasts: Guests are provided with a private room for the night and breakfast in the morning; often converted from private homes and many owners live in their property.

Motels: tailored towards motorists; typically located conveniently by the roadside and offer ample free parking, but will usually have fewer amenities than hotels.

Inns: smaller than hotels, and are closer or larger in size to bed and breakfasts.

Resorts: Business premises that usually include a hotel and various additional services and facilities.

While there is no international standard for the star rating of hotels, the most popular system is affiliated with the Forbes Travel Guide, where there is a conventional criteria to base the hotel star rating off. Star ratings can equate to the number of bookings and charging rates that the hotel holds, but it is also a promise to the customers with the quality of service they can expect. Thus, higher star rate would promise customers with service that extends beyond just overnight rooms such as gym, restaurants, meeting rooms. Thus, the strategies to manage a higher star level hotel would differ from that of a lower star level hotel.

2. Analysis I: Remote Working Impacts on the Hotel Industry

In response to the COVID-19 outbreak, many companies began their incorporation of remote working. While regulations for social distancing were lifted, remote work gained popularity in the United States, as people and companies rose in preference to work from home. As of 2021, 26.7% of U.S. employees work fully remote, and 16% of U.S. companies are fully remote (Flynn). From 2018 to 2021, the number of fully remote workers increased from 6% to now 26.7%, and it is projected to grow even more in the future (Flynn). What this brings to the hotel industry and many other service industries, however, is a dramatic decrease in the number of business travelers. The Global Business Travel Association (GBTA) predicted (in 2021) that business travel will be in full recovery to pre-pandemic level by 2025. The spending loss in business travel in 2020 is expected to be ten times larger than that of 9/11 or the Great Recession of 2008 (GBTA). However, this opened up new operating strategies for hotels to target remote workers.

With the idea of "work from anywhere" being emerged, Workcations and Staycations also became more accessible as more people started to combine work and vacation. A recent online survey conducted on 1,117 US respondents received a positive response that 67% of those surveyed took a workcation in 2021 and 94% intend to do so in 2022, and 88% found their most recent workation to be positive or very positive (Woolf). Of these, 31% stayed at a hotel, and the most important accommodation was reliable internet (Woolf). These data all represent the effectiveness in combining remote work and staying at a hotel for vacation.

At the same time, hotels replied with strategies such as changing their approach from providing a place to stay to having various functions at the same time. While some employers still enjoy a corporate setting or working environment, some hotel industries thought of a strategy which turns work from home into work from a hotel suite. One pioneer of this field is MGM Resorts, which rolls out "Viva Las Office" hotel working packages (Globetrender). Their packages offer convenience and perks, including flexible check-in and check-out times, a dedicated administrative assistant to handle all reservations and experiences, and daily food and drink credits starting at $101 per night (based on a five-night stay). This cost may be even lower than some rental places.

3. Analysis II: Limited-Service Hotels Recover Faster Than Full-Service Hotels

With the easing of the pandemic and the increase in vaccination rates, the hotel industry has entered a recovery state. In comparison to business travel, short-distance leisure travel is less restricted, and thus, more flexible. The recovery of leisure travel has brought a rebound in hotel average daily revenue (ADR). The ADR level of some hotels has even exceeded the level before the pandemic, driving RevPAR to increase (Li). However, the speed at which hotels recover is found to be associated with their service levels; thus, it is important to differentiate between the hotels with limited-service and full-service.

Hotels can be broken down into three broad categories: full-service hotels, select-service hotels, and limited-service hotels (Yapp). Limited service hotels typically have the lowest operating costs of the three hotel categories due to their lack of additional services. Room rates are usually lower as these hotels cater to budget-conscious travelers. Full-service hotels often require more staff and larger facilities to accommodate guests who want more luxury. In the United States, there is no official definition of limited-service and full-service hotels. Typically, full-service hotels such as Marriott or Hilton will provide guests with turndown service, newspaper delivery, security, wake-up calls, room service, and shuttle service to and from the airport or other nearby attractions. Conversely, hotels with limited services usually offer very little: guests get a room for the night and nothing else. (Further breakdown of hotel service level can be found in Service Level Breakdown in the Hotel Industry)

During the pandemic, the overall occupancy rate of economy/mid-end hotels was relatively high, and the high occupancy rate drove the rapid recovery of revenue per available room (RevPAR) (Li). This can be described by the difference in hotel's fixed cost. Because the fixed cost for economy/mid-end hotels are lower than that of high-end hotels, payments for additional accommodations (i.e. restaurant, gym, pool, etc.) result in a lower revenue for high-end hotels.

Taking Wyndham Hotel as an example, according to its weekly average hotel occupancy rate statistics during the pandemic (March to May 2020), the occupancy rate of economy/mid-end hotels is higher than that of high-end hotels (Li). Supported by high occupancy rates, economy/mid-end hotels posted stronger RevPAR growth than high-end and above hotels. The RevPAR of US economy/mid-end hotels recovered first in 2021Q4, a 5.3% increase from 2019Q4. In conclusion, RevPAR growth for Wyndham's economy/mid-end hotels was far ahead of high-end and above hotels.

Similar trends can be seen in the operating conditions of InterContinental Hotels Group plc's economy hotel brand Holiday Inn Express, mid-end hotel brand Holiday Inn, high-end hotel brand Crowne Plaza, and luxury hotel brand InterContinental (Li). Compared with the same period in 2019 before the pandemic, the occupancy rate of economy/mid-end hotels has recovered to a higher degree. In 2021Q4, the occupancy rates of Holiday Inn Express and Holiday Inn hotels recovered to 96% and 87% of the same period in 2019, respectively, much higher than the 75% and 76% of Crowne Plaza and InterContinental. By 2021Q4, the RevPAR of Holiday Inn Express and Holiday Inn hotels recovered to 100% and 87% of the same period in 2019, respectively, much higher than the 69% of Crowne Plaza and InterContinental.

Moreover, comparison between Hilton Hotels' full-service hotel brands, Hilton Hotels & Resorts and DoubleTree by Hilton, and limited-service hotel brands, Hampton by Hilton and Tru by Hilton, further this trend (Li). In 2021Q4, the occupancy rates of Hampton by Hilton and Tru by Hilton hotels recovered to 95% and 93% respectively in the same period of 2019, much higher than the 72% and 78% of Hilton Hotels & Resorts and DoubleTree by Hilton. With the rapid recovery of occupancy rate, the RevPAR of limited-service hotels is the first to recover. In 2021Q4, the RevPAR of Hampton by Hilton and Tru by Hilton hotels recovered to 94% and 106% of the same period in 2019 respectively, much higher than Hilton Hotels & Resorts and DoubleTree by Hilton Hilton's 69% and 76%.

4. Conclusion

It can be concluded of hotel companies: 1) The revenue and net profit of United States hotels have increased significantly, and the industry has gradually entered the recovery channel; 2) The recovery of limited-service hotels is better than that of full-service hotels; 3) Economy/mid-end Hotels recover better than high-end and luxury hotels. While remote working lowered the number of business travelers, it expanded opportunities for hotels to incorporate more services including but not limited to providing for workations and establishing working packages.

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