



Horwath HTL

Hotel, Tourism and Leisure

INDUSTRY REPORT

*Staying Ahead
through Change*

APRIL 2020

A Catalyst Event

Change is an incessant constant. The COVID-19 pandemic as an event, together with the response of humankind and the aftermath of the event, is undoubtedly a marker for major change in many aspects of life, of methods of living and working, and of lifestyles.

The hotel sector too needs to incorporate many changes. In this article, I have made some suggestions of changes that have longer term implications. The short and medium term changes are many; some of these have also been briefly stated at the end.

Attitude

Adopting the right attitude is a key underlining factor that will determine the ease of change, and its effectiveness. Changes made voluntarily yield a better net result because the change fulfils a voluntarily adopted goal; when a change is forced, it becomes that much harder to implement and to fructify. Of course, every change needs a trigger – and if COVID-19 isn't a big enough trigger, then you are simply not interested in change.

It is critical that we have confidence in the future. Half the battle needs to be won in the mind. Positivity will beget the right decisions; combined with the right heart, it will successfully create whole-hearted hospitality.

This same positive attitude will also allow us to accept that face masks will be the order of the day. Service with a smile is technically not possible – that's fine, because health is more important. Let your service bring the smile. And who says that the masks can be dreary. Use colours and even smart messaging to remove the monotony.

This positivity will also help us act responsibly in ensuring that each guest wears a face mask in public areas of the hotel, with polite but firm reminders to those in violation. Non-use of a face mask is equivalent of abuse and must not be tolerated.

Fundamental Cause

Most changes arise from competitive rivalry and the need to get ahead. In the present case, that is not so. Please recognise that we have been “Viralled and not Rivalled”.

Our response must therefore put aside the damaging aspects of sectoral rivalry as we deal with the recovery from the impact of this viral. What does it mean in effective reality?

To me it means that the rate structure for the next 18-24 months should not be a 'Race to the Bottom'. Increasing rates is anti-gravitational and exceedingly painful, as we

We have been Viralled and not Rivalled. So let us set our responding actions in a manner supporting the industry, not diluting each other

have seen in India in the last dozen years. Let us please learn a hard lesson from it and not create a rate war. Medium-term demand will not be materially price elastic, with people travelling only when they must (for business or leisure or MICE); more so, they will choose their hotels based on factors other than mere price.

By this I am not suggesting that there will not be a rate decline – there surely will be rate softness. But there is a stark difference between reasonable pricing and cut-throat pricing; the latter is avoidable at all costs, because the long-term pain is too severe.

Platform consolidation is another suggestion - radical but a valuable long-term option. Local chains should look to consolidate their digital and loyalty platforms. Retain front end individuality, and revenue management differentiators, but consolidate the backend investment in running and administering the platform so as to derive cost benefits.

Credit and Credit Worthiness

Nobody is too big to fail. You are in business for realised revenue, not just for revenue. Recognising these two basic truths, it will be important to carry out a thorough credit

appraisal of customers and corporates who get credit from the hotel; and monitor the limits meticulously. Far too often have Sales and Revenue Heads overridden these controls on grounds of "sales and competitive pressure".

Additionally, for the immediate term (say 6 months), consider a differential rate structure for credit card / cash sales as compared with Bill to Company / travel agent sales. Incentivise cash / credit card based sales with a lower rate than when the stay is on credit terms.

Cash Management and Debt Service

Cash management is getting extra attention these days, as you make limited resources stretch longer. And conserving cash is highly advisable. While the additional attention is certainly needed in times of emergency, some of the measures could also be incorporated into regular time practices – enhanced efficiency must always be the goal.

Operators must recognise that there will be greater review by hotel owners – now and in future – of their cash management practices. Equally, hotels that have separate Income and expense bank accounts with Owner sweeping the revenue and funding the expense account will see a change in all cases where Owners have failed to provide the necessary funding.

Debt service is the biggest headache for those straddled with debt at this unfortunate time; by functional character, bankers are fair-weather friends so you will need to restructure your debt obligations through a meaningful dialogue – and the time to start is already behind you.

Cut the Fat

Every hotel, every business, every company has some "fat" in the cost structure – expenses that can be optimised. There must be a relentless search to identify and remove this; often, this may mean restructuring some processes for greater efficiency by using technology. Procurement is possibly an area; loss of electronic key cards by not politely pursuing return of these cards on check out is

another. Service lacunae that are 'recovered' through discounting is a third. The billing process and time delays is a fourth. And there are many others.

Petition the government to permit 10% service charge, for the benefit of staff

Staffing will certainly be looked at hard because it is a significant fixed cost. With sufficient attention already given by hotels to this aspect, I will not elaborate on this. But watch the thin line between fixed cost management and staff getting de-motivated. People want to remain employed, even with pay-cuts.

On the other hand, the government should be petitioned to permit service charge levy of upto 10% to be handed over entirely to staff; this should be allowed at least till March 2021.

Digital Sales Capability

OTAs have been unduly dilutive of rates and revenues; this situation either needs corrective measures or an alternative approach.

Hotels were themselves unready for the digital sales changes, and succumbed to the high costs and revenue dilution. With retail business being a relatively low demand component for the next several months, the industry must make the effort to materially enhance its digital capability and reduce reliance on OTAs. OTAs on their part will need to recognise that they have to be fair participants in the hospitality sector; anything burdensome must be jettisoned.

Hotel chains must provide a lower cost solution for contracting retail and even GDS business – the chains that are able to successfully deliver this will stand differentiated.

Arrivals and Departures

Changes to the arrival experience will occur for the immediate and medium term, with chains varying this by their ethos, standards and brand positioning. The change could start

with the airport pick-up as number of pax per vehicle are restricted, coach capacities are curtailed, and vehicles are sanitised between each trip.

Digital check-in and in-room check-out should be encouraged (bonus loyalty points perhaps), so that interaction and waiting time at reception and cashier are much curtailed. This will, of course, will put pressure on the digital security capability of each hotel (and its data protection responsibility) as you digitally obtain guest ID and card details in advance to enable digital check-in. Further, it will still be necessary to check that the person arriving is the same as the person who has provided an ID – frauds and impersonation possibilities could certainly follow increased digitisation.

Food and Beverage

We expect restaurants to be opened gradually, starting with the Three Meal restaurant and then popular specialty outlets. Social distancing will be an inevitable norm, possibly disallowing more than 4-6 guests per table and leaving sufficient space between tables in the initial few months. Incentive pricing is not needed under present circumstances.

The Buffet will take a while to return – limited occupancy and the dictates of social distancing may limit demand and push hotels to work with mini-buffets or TDH options. Even the Sunday Brunch will be materially downsized with limited capacities – more like the Easter Sunday Lunch in the days of yore.

Redefine buffets etiquettes. And restructure buffet spreads too, with specials for the day instead of multiple specials served daily

Service standards for buffets will need to be differently set, and guests clearly reminded of service etiquettes. Can guests handle the same spoon to serve themselves; guests cannot touch multiple pieces of bakery or Indian breads before selecting the piece they want to eat; guests must use a hand-wipe between courses or before revisiting the buffet stations (enough numbers of guests eat

with their fingers and then use that hand to serve themselves).

Over the last 10 years, buffet spreads have become very extensive - all encompassing, seemingly catering to every desire and palate. The guest is overwhelmed (and generally satisfied) with the range, not necessarily on account of taste, skill and style. The concept of 'specials for the day' has disappeared, and the Sunday feast is now the daily fete. Breakfast buffets have 15-20 bakery options and I am told that this is brand standard – really? Can guests not be satisfied with six to eight excellent items each day? I suggest that now is the time to review this practice and to restructure the buffets, potentially reducing the spread by upto 30%. Restaurants deny that the vast spread leads to wastage – but are unable to effectively evidence this. Let us replace volume with skill and taste; replace specials served daily with specials for the day.

Club Lounge and Happy Hour

Social distancing will force change to the 'Happy Hour' experience. The executive / club lounge is extremely busy during about 2 hours every evening where substantial food and liquor are laid out. Social distancing needs will cause lounge capacity and use to be restricted enabled by re-grading of entitlements, dis-allowing member's guests, limiting the time one can spend in the lounge, creation of additional spaces or even in-room delivery of some benefits (possibly a limited service for lower membership tiers). The lounge issue is a particular challenge to chains with large loyalty memberships, needing to balance safety with the desire to offer promised hospitality to members. Reduced use will also help lower club lounge costs and increase F&B sales. The need for limitation will also apply during the day, particularly when food is served.

Banqueting

MICE and social functions, including weddings, will certainly resume in the near medium term as business opens up. It will be interesting to see how this functions while maintaining social distancing. Undoubtedly, more spaced out seating will be necessary instead of the cluster seating of 6-10 persons per table; more like 3 people on a table for 8, with space between tables. Examination style seating could be adopted, with spaces between each guests, provided the hotel has the right furniture.

Sanitisation tunnels or masks – which is more acceptable for weddings and social events?

Should hotels install the sanitisation tunnel for wedding and social event guests? Or will guests prefer masks from Gucci, Hermes, Chanel, Louis Vuitton etc?

A big challenge will be meal service in the pre-function area, particularly if there are multiple meetings held simultaneously. Several hotels do serve lunch and coffee breaks in the pre-function area with limited separation between groups; this will lead to crowding of the pre-function space and may require either (a) variation in timings, with strict adherence to duration; or (b) service within the meeting room though this is not always practical; or (c) reduced bookings so that service separation is better achieved.

With reduced meeting room capacities (number of people accommodated under social distancing norms), the minimum revenue expectation for each meeting room will need to be re-set. On the one hand, a hotel should be entitled to charge for the space; on the other, the resultant per-head cost needs to be acceptable. The food plus rental approach will necessarily arise, but numbers will likely need a re-set.

Replacement Reserve

The importance and value of maintaining a replacement reserve has been driven home hard by this present crisis. Hotels that have systematically maintained a funded reserve

have found a pot of money that is available for use; of course, it needs owner and operator to sit together and release the replacement reserve funds towards working capital, but I can't see any operator being hard-headed about this. Those hotels that did not set aside this money, on various grounds including the need for debt service, certainly do not have a reserve to fall back on.

International Leisure

We have to recognise and expect that the channels for international leisure marketing and contracting which were previously used may no longer be available due to business circumstances in foreign markets – those channels and entities may no longer exist. The Indian hotel industry will need to examine alternative ways of reaching out to international leisure and contracting their business. It is also possible that some domestic service providers who were handling international groups may, unfortunately, go out of business or substantially scale down their size. Alternative sources of delivery will need to be identified and contracted.

Short / Medium Term Issues for Change

- Air-conditioning filters, to prevent infection spread
- Housekeeping standards and cleaning policies for rooms and public areas
- Cleaning curtains and blinds, to avoid these being infection holders
- Daily change of bath linen, sheets, pillow slips etc; finding other aspects of sustainability than the same dog-eared tent cards on linen washing
- Face mask disposal policies for guests – even men must use the sanitary bag
- Social distancing norms in public facilities, especially related to MICE and wedding events
- Periodic medical testing of staff, including contract staff

- Temperature checks on guest arrivals; these must be meaningful and solid (at two hotels I recorded such low temperatures at which I should not be here to write this piece – at least I would have avoided the lockdown)
- Access security and attendance recording in the absence of biometric access control, with the latter becoming impractical at the present time
- Hotel response mechanism – operating and from PR perspective – if a guest is diagnosed with COVID-19, while at the hotel or later
- Wet wipes replacing cold towels
- Reskilling surplus staff to do other duties that can help reduce contract labour
- Packed food demand, as companies prohibit / discourage employees from using crowded food courts and other casual options.

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Horwath HTL

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