

# The shape of recovery - and why it may not be the right question to focus on

By [Rishabh Thapar](#)

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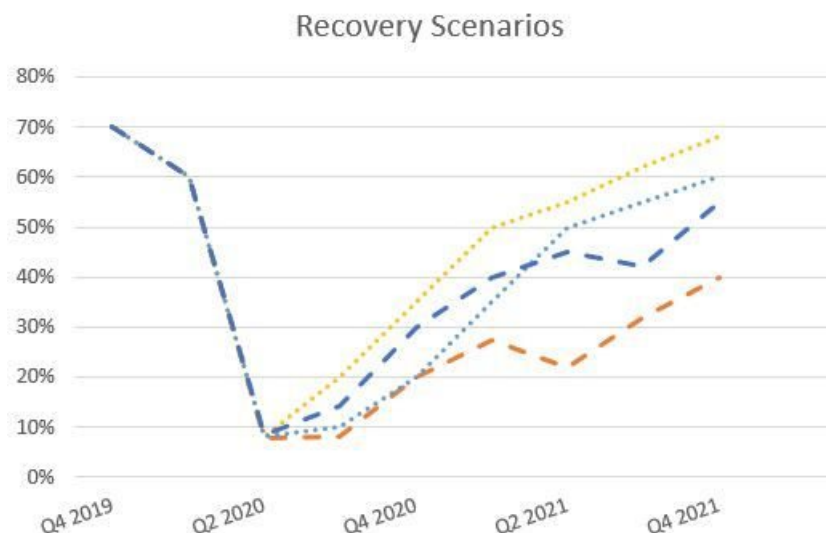
“ ...Frankie liked to say that boxing is an unnatural act, that everything in boxing is backwards. Sometimes the best way to deliver a punch is to step back . . . but step back too far, you ain't fighting at all... - Million Dollar Baby ”

As South Africa embraced phase 4 of the lockdown last week, perhaps you managed to go on a run and get a whiff of that surreal scent of dew on grass, even as you wore your mask and wondered how safe it really was. Just as you prepared for the run to ensure you are ready and don't catch the virus, re-opening the hotel will also require an assessment of fitness, a warm up routine and ensuring necessary precautions to prevent the aches, injuries and a virus that could send you back in quarantine.



Image Supplied - William Cairns Photography

Just like the fellow runners, remember there will be other hotels that will be re-opening dissimilar in timing, inventory, strengths, newfound capabilities and immunisation (or the lack of it) to brace for the monumental recovery.



If the graph caught your attention more than the picture with the pathways, you are probably scenario planning. The recovery scenarios during this crisis have evolved in alphabet shapes V, U, W to a Nike (swoosh) and an alphabet E scenario - the last is where you prepare for the best, worst and base case scenario.

The fact is we will only know the shape of the recovery in hindsight once we get over it, but the more important question right now is the path you will take to get there. The pre-crisis market-wide data points were more reliable as free-market forces were at play and hotels were operating on a more level playing field. During the lockdown, most hotels remained closed as they focussed on the most important issue during the pandemic - the people.

But as the focus shifts towards re-opening the economy, travel and tourism industry continues to embrace uncertainty.

## **Be proactive**

As a hotelier, you should be critically evaluating your options. Market indices may be very different to your revenue and profit/loss reality as different hotels will have a different set of circumstances, and financial backing to drive their strategy. If you have the reserves and are relatively risk-averse, you may perhaps be planning to keep the hotel shut till demand grows substantially.

*“ Identifying the strengths of your new business model and the impact of costs on profitability will be key. ”*

If you weren't sailing smoothly before the crisis and/or don't see hospitality as a core business you should be evaluating your options to exit, or partner with a hotelier that will enable your business model, or a bank that will see you through the trough, so you can sell it at a better valuation during the recovery. But eventually, you and your 'partners' (with newfound meaning that includes your employees, bank and even government!) will have to look at the reopening of the hotel; and your approach should be a proactive one based on informed decision making.

While there are too many variables in trying to plan for various scenarios, it is important to undertake scenario planning and at this stage focus more into looking internally as you see external developments take shape. It will not be a few months but at least a couple of years till the industry goes back to revenue performance of 2019.

Even if revenues go back to that level, profits will take some more time still. There were a lot of financial and marketing lessons to learn from during the 2018 Cape Town water crisis that got even the stabilised hotels adjusted their pricing strategies and segmentation to find a more optimal mix.

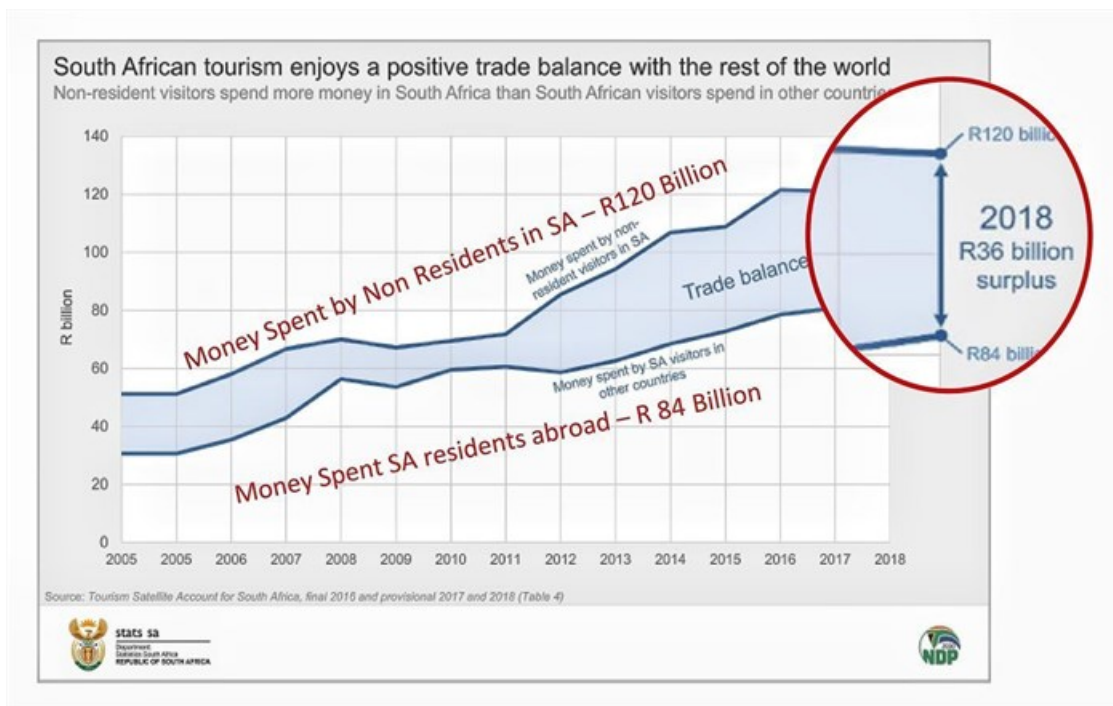
## **Adapt to a more flexible model**

Identifying the strengths of your new business model and the impact of costs on profitability will be key. Reducing your fixed costs and adapting to a variable cost model (even for payroll) will go a long way in ensuring stability.

Understanding your mandatory costs (unavoidable payroll, property expenses and debt obligations) and modelling them with the variable costs that increase with higher revenues will give you a better perspective on your 'affordable payroll cost' at various levels of occupancy as you go through the ups and downs. Account for higher volatility in payroll costs at a senior management level during the recovery.

## **Deliberate a domestic tourism strategy**

In 2018 South Africans spent R 84bn travelling overseas, combine that with the pent-up leisure demand and you are looking at an opportunity to sustain your business till the international skies open.



The uncertainty of international flight movement considering the travel bans and financial losses in the airline industry should be reason enough to bet on domestic tourism in the short to medium term.

However, if you are going to offer discounted rates and packages make sure you differentiate between your resident pricing and channels to not impact the international rates and positioning. The government will need to play its part in stimulating domestic tourism, perhaps through creating a web portal that allows VAT exemption and minimum or no booking fees.

## International travel corridors and outlook

When travel resumes it is likely to be through international travel bubbles/travel corridors for countries that are Covid-19 free and compliant with travel precautions issued by international travel bodies. Australia and New Zealand may become the first example of this model by July. South Africa with its natural diversity and wildlife has some unique advantages of attracting tourism in a responsible and sustainable way.

Our leisure attractions predominantly are not crowded museums and historic monuments but serene getaways with an array of accommodation options accessible through quality international airports. Timely and thorough sanitation measures, tourism plan to sustain and recover the sector, a good e-VISA policy and a targeted marketing campaign (separate for international and domestic tourism) can go a long way in shaping a profitable and sustainable tourism industry in the long run.

## Thoughts and Pointers

Communicate recovery scenarios and align all stakeholders to ensure agility to adapt

Your team	Processes	Finances	Dialogue with Industry and Government	Guests
<ul style="list-style-type: none"> <li>Two way honest and open communication with your team</li> <li>Understand the personal and financial nuances of your team members to be able to best help them. Get them to think, empathize and be involved</li> <li>Communication on potential pay cuts / variable component to pay</li> <li>COVID-19 preparedness</li> <li>Focus and assistance with e-learning aligned to their long term personal goals</li> </ul>	<ul style="list-style-type: none"> <li>Safety and Hygiene protocols are the key</li> <li>Reinventing a touch free experience for high touch processes such as check in</li> <li>Potential alternate income sources – food delivery, day use rooms as a substitute to cramped offices</li> <li>Reengineering food menu and leisure facilities for a focus on wellbeing (and profitability)</li> <li>Understand supply chain dynamics and lead time for essential goods. Also evaluate possible relaxations in credit lines.</li> <li>Strategic manning of staff on shifts to reduce chances of an infection</li> </ul>	<ul style="list-style-type: none"> <li>Hard look at every cost item</li> <li>Moving to variable costs as much as possible and keeping fixed costs to an absolute minimum</li> <li>Understanding 'affordable payroll cost' at various occupancy/performance levels</li> <li>Differentiating between cash flow and income during recovery projections</li> <li>Flexibility in scenario planning for agility and adaptation to external developments</li> <li>Understanding and factoring for UIF/government relief measures</li> </ul>	<ul style="list-style-type: none"> <li>There is a paramount need to keep communicating and collaborating with your peers in the industry and tourism bodies to keep alignment</li> <li>Dialogue with government is key to ensure appropriate relief packages as well as long term policy changes to support the sector</li> <li>Need for easier VISA regulations for South Africa to improve its competitiveness on a global level</li> <li>Long Term Tourism policy and strategic direction will be required</li> <li>A web portal for SA resident rates where commissions and VAT are exempted</li> </ul>	<ul style="list-style-type: none"> <li>Soft Marketing and staying in touch with guests</li> <li>Communicating safety protocols once they have been implemented and winning the trust of your guests</li> <li>Understanding the needs of your guests post pandemic crises</li> <li>Differentiate between your domestic and international pricing strategy and distribution channel</li> <li>Shift towards more sustainability practices communicated to guests</li> <li>Focus on South Africa's natural diversity as leisure attractions</li> </ul>

## ABOUT RISHABH THAPAR

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