

The Influence of Economic Recession in Hospitality Industry, in a Time of COVID-19 Pandemic: A Study of Selected Hotels in Umuahia Abia-State Nigeria

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Abstract

The study identified the influence of economic recession in the hospitality industry, in this time of COVID-19 Pandemic. The specific objectives of the study include; to identify the effect of recession on hotel industry and to determine the measures of tackling the recession problem. The study adopted a survey research design. The population was drawn from Sixty-six (66) registered hotels in Umuahia Abia –State, where six hotels were randomly selected. The data were analyzed using percentages. The factors affecting economic recession as well as the problems were determined. The findings from the study shows that decrease in customer patronage is a problem to hotel business during this period. Strategies were adopted to maintain the continuity of the business through forecasting, hygiene practices, market analysis and customer satisfaction. The study recommends that services of hotels during economic recession can be improved through quality service delivery, staff training, maintenance and handling of customer complaint. In other words, in spite that recession negatively affects the performance of hotels due to the current pandemic, there are still strategies that can be adopted to maintain the continuity of business. The hotel management should implement appropriate forecasting policies in order to analyze the market trends and assess the consumer behavior in a proper manner in order to encourage return patronage from customers.

Keywords: *Hospitality, Hotel, Recession, Customer, COVID-19 Pandemic*

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Background to the Study

The hospitality industry has reported a downturn in sales of lodging, food service, events and other hospitality products and some have closed their doors forever due the COVID-19 pandemic (coronavirus). COVID-19 is an infectious disease caused by the most recently discovered coronavirus (WHO, 2020). The decline resulted not only from fewer customers in hotels, restaurants, conference and convention centres, etc., but also from a significant decline in the average expenditure per guest (Pizam, 2009). The recession caused serious problems for luxury hotels in particular. However, many hotels in certain global markets, especially those catering to leisure travelers, were less affected. The COVID-19 pandemic and the associated restrictions on business activity and travel have caused a tremendous impact across all market industries and especially in hotels. The constant decrease in occupancy rates and revenue per available room has imposed unprecedented challenges not only to hotel owners and operators but also to investors and lenders. On one hand, hotel owners and operators are trying to tackle the crisis by making hard decisions in terms of staffing and continuing or suspending operations. (Farazad, 2020).

However, nowadays the market is experiencing a contraction in demand due to the pandemic, which drives hotel owners to be more reluctant in selling their assets, as the sale price will be underestimated. Additionally, lenders refrain from engaging in transactions and when they do, they provide lower leverage with higher than usual rates leading to a significant decrease in the number of transactions (Farazad, 2020) Evidence from the recession in 2007, prove that the hospitality industry took three years in order to start accelerating and about seven years in order to reach the number of transactions it used to experience just before the start of the recession.

According to the National Bureau of Statistics(NBS) the Nigerian economy slid into recession path in first quarter (Q1) of 2016 (since 2004) with real GDP of 60.36 percent, the contraction of economic activities resulted from an evaporation of confidence and no new investments, inordinate delay in government speeding during the period, acrimonious legislative squabbles in approving budget, erosion in the value of Naira in the forex market, pipelines vandalism, misaligned currency and forex shortages, high interest rate environment as well as trade and import restrictions. The current recession seems to affect socio political structures, Nigeria's credit condition general living standards, imports, production and employment as well as consumption demand in Nigeria (Agri, Maliafia and Umejiaku, 2017). Large hotel chains or even smaller boutique hotels are constantly trying to tackle the current crisis by changing their cancellation policies and supporting the well - being of their customers. The vast majority of hotels have changed the cancellation policy for bookings up to the 30th of June, 2020 even if the booking was made by a third party. Additionally, they provide online yoga sessions in order to help maintain the mental health of their customers. The small number of hotels, which is still operating during this difficult time, has adopted new standards on hygienic practices in order to ensure the safety of their customers and also stop the spread of the pandemic. Large hotel chains or even smaller boutique hotels are constantly trying to tackle the current crisis by changing their cancellation policies and supporting the well - being of their customers.

A period of downturn is also a great time to renovate a hotel property, and this is why long-term capital planning is the key. The lack of it is often problematic for a hotel's operations in the long term. This period is also an opportunity for investors who are willing to understand the market and carefully consider the upsides and downsides before commencing development. Some of the notable impact of Nigeria's economic downturn on the hotel industry are briefly discussed below:

United Airlines' cancellation of its only African route (Houston to Lagos) in May 2016, due to foreign exchange restrictions imposed by the Central Bank of Nigeria, and low performance of the route. The route had been operational, although not profitable, as it mostly served the oil and gas community in Houston. But the downturn in the oil sector meant significantly reduced oil-related business travel. Hence, it no longer became viable for the carrier to continue operating the route. This has a negative influence in the hotel industry because majority of the travelers who would have booked rooms and other recreational facilities in the industry were not seen thereby reducing the revenue generation (foreign currency) of the sector.

A substantial decrease in foreign business visitors to the country and lower domestic corporate spending, the hotel market was left with a substantially smaller demand market and hotels had to engage in price wars to maintain competitiveness and attract demand. Therefore, the problem of this study observed that due to the pandemic, the productivity and profitability of the businesses has been reduced and some hotel establishments have got liquidated. With respect to the analysis of the hotel industry, it has been analyzed that the industry is widely influenced by recession. It is due to the reason that the hotel industry has a direct relation with the tourism industry and decrease in the tourist arrivals directly influences the hotel revenues. The COVID-19 crisis has exposed vulnerabilities and deep technological limitations across the hotel industry. The economic consequences of the pandemic have been staggering, and perhaps no sector has been hit as hard as hospitality Industry.

Hoteliers should capitalize on this time to streamline operations, take on previously deferred maintenance projects and explore new technology and strategies to cut costs, future-proof operations and ultimately increase net operating income as they reopen. The management practices of the hotel industry are based on the effective coordination and implementation of the business strategy comprising of the marketing activities, human resource activities, financial management and customer relationship management. It is due to the reason that these factors contribute towards the attainment of the competitive advantage in the market. With the assistance of effective management practices, the hotel industry is able to gain span of control and chain of command over the operations followed by the optimum resource application. These factors are significant in the enhancement of the productivity and efficiency of the hotel industry.

The dominance and sustenance of the business operations in the competitive market place with compliance to the legal regulations can be obtained by the hotels through the effective management practices. Along with this, the management practices represent the hotels

persistent driving forces, which are important for the administration and execution of the operations in order to judge the economic performance. This implies that the hotels having well defined management practices are able in organizing and sustaining their businesses in the adverse market environment (Rutherford & O'Fallon 2006). The importance of hotel cleanliness and hygiene has become particularly salient as of late because COVID-19 can be spread by touching surfaces contaminated with the virus (WHO, 2020). Hotel surfaces are likely to be dirty, contain higher microbial counts, and yield potential sources of disease transmission (Pakpour,2020). In addition, aerosol transmission via central air conditioning could be another route of COVID-19 infection (Zhang et al., 2020). Due to the COVID-19 outbreak, travelers will likely patronize hotels that offer reassuring lodging services and accommodation products in terms of hygiene and cleanliness. To this end, hotels should implement regular hygiene surveillance at facilities via manual (i.e., staff rounds) and automated (e.g., robot-based) practices. Given that cleaning robots nowadays are endowed with sensors measuring the quantity of dust in a specific area of a hotel and either work more on that area or generate data that can be useful for the cleaning teams, future research could investigate how hotel cleaning staff should collaborate with AI-driven robotics to achieve hygiene and cleanliness goals.

The major steps that should be taken by the hotels are described below:

1. Firstly, the hotels should analyze the influence on their operations and understand the loopholes in their contingency planning, which can further be improved significantly for rationalizing the future implications of the business strategy and planning.
2. The hotel management must consider the importance of taking strong decisions in the uncertain and risky situations. Along with this, it is essential to analyze the key value drivers related to the business and assessing the business risks for taking adequate position and advantage in the form of upturn in the profitability.
3. The hotels should analyze the availability of the adequate funds and working capital for procuring their credit functioning and avoiding the situations related to liquidity.
4. Appropriate cash management is essential with respect to the management of the treasury, funding and financing in terms of the integration of the financials.

Contingency Planning: It is the most important segment of the business strategy, which should be considered by the hotels effectively. With the assistance of appropriate contingency plans, the hotel management can adapt requisite modification in their service policies corresponding to the market environment. It will provide assistance to the hotels in the implementation of the new plan for making adjustments in the business policies and sustaining the competitive advantage.

Market Analysis: Proper strategy for the market analysis should be developed by the hotel management, so that the management structure and the service portfolio can be made adjustable within the available resources. It is helpful for the hotel management in analyzing the influence of the market trends and the market environment on their operational excellence. The consideration of market trends is helpful in mitigating the risk posed by market fluctuations and adverse conditions similar to negative waves of economic collapse. It

is necessary for the hotel management to concentrate on the important segments, which are generating profits for them. In this regards, the management should assess the requirement of the products and services to be included in the hotel for creating value to the customers and elaborating the business channels.

Methodology

This research was carried out in Umuahia, the capital city of Abia-State in south eastern Nigeria. Survey research design was adopted. The population of study covers all the employees in the selected hotels in Umuahia Abia-State. Umuahia has sixty-six (66) registered hotels with the tourism board. The sample size is made up of five randomly selected hotels in Umuahia metropolis. Ten managers and staff were selected from each of the randomly selected hotels making it a total of 40 respondents that constitute the sample size of the study. The selection was based on the size of the hotels. Instrument for Data Collection was the questionnaires.

Table 1: Mean responses on the effect of recession on hotel operation

S/N	Observation	SA	A	D	SD	Total no	Total score	M
1	Poor customer patronage	17(42.5%)	17(42.5%)	4(10%)	2(5)	40	129	3.23
2	High cost of maintenance	15(37.5%)	15(17.5%)	5(12.5%)	5(12.5)	40	120	3.00
3	Low profitability	17(42.5%)	17(42.5%)	4(10%)	2(5)	40	129	3.33
4	Decrease in sales volume	15(37.5%)	15(37.5%)	5(12.5%)	5(12.5)	40	120	3.00

Note: SA=strongly agreed, A=agreed, D=disagreed, SD=strongly disagreed.

Source: Field survey (2020).

The table 1: above shows that Poor customer patronage, high cost of maintenance, low profitability and decrease in sales volume are the major effect of recession in hotels. The above listed items have the mean above 2.5 which is above acceptance level. This implies that recession affects the performance of hotels in Nigeria especially in this COVID-19 pandemic. The dream of every business is to maximize profit and minimize cost but the reverse is the case in this time of recession based on the respondent's responses. It is also revealed that there is always a decrease in customer patronage during recession due to high cost of products and service in the industry. Customers are the engine to every successful business. However, decrease in customer patronage is a very big problem to every business example hotel.

Table 2: Mean responses on the measures put in place in tackling recession in hotel industry.

S/N	Observation	SA	A	D	SD	Total no	Total score	M
1	Increase in service Quality	15(37.5%)	15(37.5%)	5(12.5%)	5(12.5)	40	120	3.00
2	Minimizing operational cost	15(37.5%)	15(37.5%)	5(12.5%)	5(12.5)	40	120	3.00
3	Awareness programme	17(42.5%)	17(42.5%)	4(10%)	2(5)	40	129	3.23
4	Lower rates and Tariff	17(42.5%)	17(42.5%)	4(10%)	2(5)	40	133	3.23

Note: SA=strongly agreed, A=agreed, D=disagreed, SD=strongly disagreed

Source: Field survey (2020).

Table 2: shows that increase in service quality (37.5%), minimizing operational cost (37.5%), awareness programme (42.5%) and lower rates and tariff are the Measures put in place in tackling recession in hotel industry (42.5%). These were all accepted with a mean score of 3.00,3.00,3.23,3.23 which is the means which is above the acceptance mean level of 2.5. This implies that for the hotel industry to tackle recession they must increase the quality of their service delivery, minimize the cost of their operation in order to enhance profitability, engage in market awareness both online and offline in order to increase the level of customer patronage and finally lower their rates and tariff in order to retain existing customers and as well attract new ones.

Conclusion and Recommendation

This paper explores the effect of economic recession in the hotel industry in time of the COVID-19 pandemic. Due to recession, the productivity and profitability of the businesses has been reduced and some big business organizations have got liquidated. The negative consequences of the recession have led to the reduction of standard of living and the quality of life of the people and increase in poverty rate in the present market overview, the hotels require integrating their procurement strategies, business strategies and practices in order to overcome the influence of economic recession. The uncertainties imposed by the economic environment, which were faced by the industry, affected the overall performance and operability of the industry. Therefore, the industry needs considering a well- defined budget and specific criteria based customer service portfolio, so that the position of the industry can be raised and new business challenges can be effectively handled by the industry players. The major business approach of the hotels should focus on the sustenance of the business performance to progress in the industry and overcoming the business related threats for generating the desired outcomes. The hotels should adopt the differentiation strategy, so that the products and service offered to the key customers can be differentiated from that of the competitors, which will aid in retaining a brand name in the market. The hotels should analyze the availability of the adequate funds and working capital for procuring their credit functioning and avoiding the situations related to liquidity. Appropriate cash management is essential with respect to the management of the treasury, funding and financing in terms of the integration of the financials. Employee engagement practices should be clearly defined by

the hotels in order to increase their value and recognition. Effective communication network with the employees is required to be established within the hotels, so that the employees can be engaged within the management practices.

For overcoming the challenges posed by the recession in this pandemic, the implementation of effective marketing, human resource, financial and customer service strategy is essential. The marketing strategy provides assistance to the hotels in optimizing the market overview of the products and services favorable for the customers.

I therefore recommend that Services of hotels during economic recession can be improved through quality service delivery, personal hygiene and safety measures, staff training, maintenance, handling of customer complaint and observing the NCDC rules for COVID-19 pandemic effectively. The hotel management should implement appropriate forecasting policies in order to analyze the market trends and assessing the consumer behavior in a proper manner. For this, hotels can also take services of the external market forecasting companies for the development of contingency plans.

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