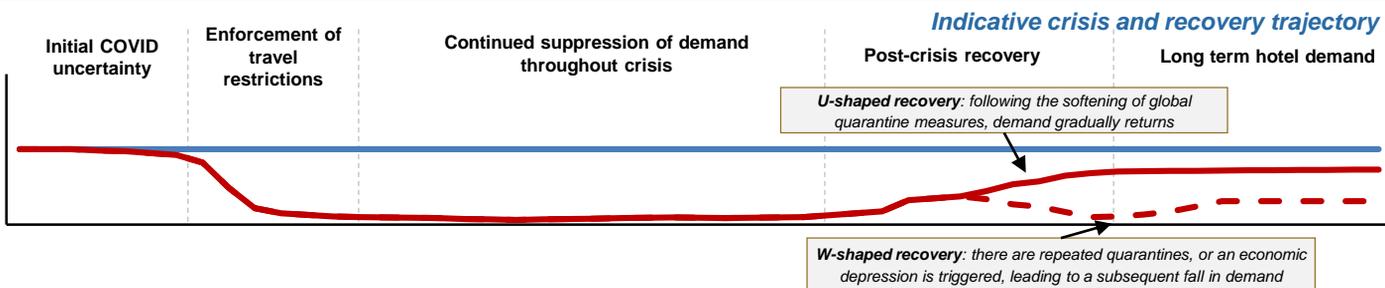
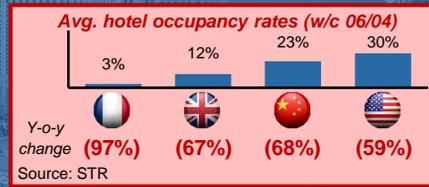


The four step process for hotels to survive and recover

The coronavirus crisis is posing an existential threat to the hotel industry, with occupancy rates plummeting. It is becoming increasingly likely that the impact of this crisis will be long-term, with structural shifts in travel demand rewriting the market landscape for hotel groups and their franchisees.

Groups and franchises are acting fast to reduce costs, yet unless they are set up for a new, unprecedented market, they will likely fail in the long term. Teneo offers thoughts below on how groups can act within their own business or support their franchisees.



Phase 1: Immediate actions to respond to the crisis

1 Immediate flexible cost cuts

Hotels have seen an **unprecedented drop in demand**, and revenue loss. To counter this, a number of key actions have been taken:

- **Reviews** of variable costs, including **clear decisions** on matters such as temporary closures, and furloughs / redundancies, and cancellation of supplier contracts
- **Revaluation of expansion and investment plans**, to preserve capital
- **Longer term costs and debt** such as rent, mortgage and rates will need to be repackaged

2 Additional uses for capacity

Shortfall in demand creates **excess capacity**, with most hotel rooms empty – **alternative uses** for this capacity should be explored:

- Renting rooms to authorities and organisations, such as for isolating **key healthcare workers** or vulnerable people, may generate revenue
- However, providing rooms for free can build goodwill and improve **brand image** which will support recovery after the crisis

3 Understanding the recovery

Proactively **assessing potential recovery profiles** today will empower hotel businesses to make **clear decisions** on the scale, timing, and permanency of cost cuts and capacity redeployments

- **Scenario modelling** can help understand financial exposure under different conditions
- Measuring **changing social attitudes** towards travel across key customer segments such as business and leisure can help prepare for the 'new normal'

Phase 2: Setting up the business for the 'new normal'

4 Setting up for the 'new normal'

The recovery is **expected to be lengthy** (U- or W-shaped), and is unlikely to be steady or structured. Further, longer-term structural changes to demand are likely and will therefore need to be met with revised service propositions. Hotel businesses should therefore:

- **Develop a new model** for safe hotel operation consistent with social distancing guidelines and ensure 100% compliance across all franchises and properties; building trust in the hotel brand in terms of safety and cleanliness (and contingency plans) will be critical to survival
- **Plan a staged reopening programme** which effectively matches demand and staffing capacity to maximise profitability as the market recovers; continued engagement with staff over this period will be critical to successfully managing this dynamic and retaining staff affinity
- **Plan for a different type of leisure demand** in the early phases of recovery; domestic leisure is likely to return first and there may be a 'staycation boom' as travelers avoid overseas destinations (see figure below) – rethinking loyalty schemes to capture and exploit this market should be considered
- Develop deeper **partnerships with airlines, city authorities and attractions** to re-establish the urban leisure market as soon as possible
- Be realistic about the **potential changes to the business market**; a combination of latent economic suppression and increased familiarity and comfort with digital conferencing may lead to permanent changes to business travel and spend (see figure below) - significant volume discounts may be required

Hotel demand recovery

Global business travel revenue

Hotel demand by type

How Teneo can help

- **Extensive experience across all phases of the recovery programme** – we have the depth and breadth of skills necessary to help firms understand the potential industry recovery profiles and shape their recovery plans accordingly, and have industry-leading experience in modelling travel demand to translate different recovery profiles to potential demand by customer segment
- **Uniquely placed to help you navigate this crisis** – we have the business connections to CEOs to understand how future demand for travel will change; the airline, tourism, and political connections to help lead on an integrated recovery profile; and the strategic communications capabilities to develop and articulate an integrated strategy
- **Unparalleled expertise** – we have the deep understanding of customer acquisition, retention and loyalty programs necessary to help specific hotel chains lead the market in shaping an offering for the changing needs of customers



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