

AN ANALYTICAL STUDY OF IMPACT OF RECESSION ON TOURISM & HOSPITALITY INDUSTRY

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Abstract

The hotel industry is directly connected by the tourism industry. It is due to the reason that with a decrease in the number of tourists, the arrival of customers at the hotels gets reduced, which directly affects the profitability of the hotels. The current business scenario accompanied by the economic recession has drastically affected the operations and business status of different industries. The hotel industry has also got affected by the economic recession. The efficiency and profitability of many companies got reduced significantly, which intended the companies towards cutting the cost and reducing the labor force. In spite of the drastic conditions imposed by the economic recession, the hotel industry managed to survive in the market.

Hotel industry is one of the most important segments of hospitality industry, which offers accommodation, amusement and recreation facilities to the potential customers. The main aim of the hotel industry operators is to provide quality services, maintaining the adjustable facilities and directing the lodging related operations for the customers. In the present competitive environment, the hotel industry is widely dominated by the large group of hotel chains. The paper intends to focus on growth of hotels in India during recession period. The paper will also highlight the strategies and practices in order to overcome the influence of economic recession.

Introduction:

The hotel industry is directly influenced by the tourism industry. It is due to the reason that with a decrease in the number of tourists, the arrival of customers at the hotels gets reduced, which directly affects the profitability of the hotels. The current business scenario accompanied by the economic recession has drastically affected the operations and business status of different industries. The hotel industry has also got affected by the economic recession. The efficiency and profitability of many companies got reduced significantly, which intended the companies towards cutting the cost and reducing the

labor force. In spite of the drastic conditions imposed by the economic recession, the hotel industry managed to survive in the market.

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Influence of Economic Recession on Hotel Industry

Economic recession impose severe challenges for all kinds of industries. The challenges are related to the financial and economical aspects of the market. Hotel industry has faced adverse conditions due to the reduction in the occupancy rate and tourism industry, which has resulted into the reduction in the revenues of the hotels. In the hotel industry, demand is derived from the business, as well as, tourist based travelers, whose spending is highly influenced by the economic strength.

Due to recession, the products and services purchasing from the hotels also got reduced, which is of great concern for the industry operators. The lag in the business performance occurred due to the late response of the corporate clients from the tourism policies. The performance of the hotels got changed with the widening of the economic variations.

Hotel Strategy in the Present Scenario

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.

Since the economy is recovering from the recession, so the consumer behavior will also change. Thus, it is necessary for the hotels to consider the variations in the consumer behavior and develop their flexible service portfolio accordingly. The hotel industry will be recovered modestly and the customers will rebound with the improvement in the financial prospects of the market. With the assistance of the above described steps, the

hotels can develop flexible business structure and manage the changes in the consumer trends. This implies that it will optimize the business approach of the hotels and will improve their efficiency and productivity, which will directly increase the revenues and brand name in the market.

Industry wide decline in performance during 2009-10:

Following over five years of healthy revenues and increasing accruals, the Indian Hotels Industry reported a continuous decline in revenues for two consecutive years, 2008-09 and 2009-10. While the decline in 2008-09 was driven largely by falling occupancies (ARRs posted a marginal drop), that in 2009-10 was prompted by a much steeper fall in both occupancies and ARR. Despite efforts at trimming operating costs in Food & Beverages (F&B), consumables and administration; the fixed costs of corporate overheads, repairs, insurance, and taxes weighed heavy on the industry, pushing down operating profits by over 10-40% across hotels in 2009-10. Despite many of the players scaling down their capital expenditure plans and new entrants delaying incremental supply, the capital structure of the domestic hotels industry as a whole deteriorated significantly in 2009-10.

Table 1: Snapshot of Key Financials of Indian Hotel Majors (2009-10)

Parameters	IHCL (Consol)	EIH (Consol)	Leela (Consol)	Taj GVK	OHL (Consol)	EIHAI (Consol)	ROHL (Consol)	Kamat
Net Sales	2,456.7	845.1	430.1	228.3	219.8	155.6	119.3	102.3
Decline in Sales (y-o-y)	-4.9%	-12.2%	-4.9%	-3.9%	-8.9%	-6.5%	-14.9%	-15.0%
Total income	2,533.2	1,013.8	436.2	229.2	223.7	155.6	120.6	107.8
OPBDIT	410.4	270.5	131.0	87.2	59.6	47.5	29.3	30.4
PAT &	(137.0)	66.3	45.0	36.6	20.0	2.5	7.0	(9.4)
OPM	16.2%	26.7%	30.0%	38.0%	26.6%	30.5%	24.3%	28.2%
NPM @	-4.9%	7.0%	10.3%	16.0%	8.9%	1.6%	4.1%	-8.7%
Decline in OPBDITA	-28.8%	-35.2%	-20.1%	-15.0%	-24.0%	-9.9%	-34.6%	-19.4%
Decline in PAT @		-58.1%	-69.1%	-31.0%	-45.1%	-66.6%	-75.4%	-64.8%

Source: Published results of companies concerned

Demand upturn supported by reviving economy and increasing foreign and domestic travel:

In terms of international visitors, India is still an underdeveloped market with around 51.1 lakh Foreign Tourist Arrivals (FTAs) annually (against China's over 500 lakh).

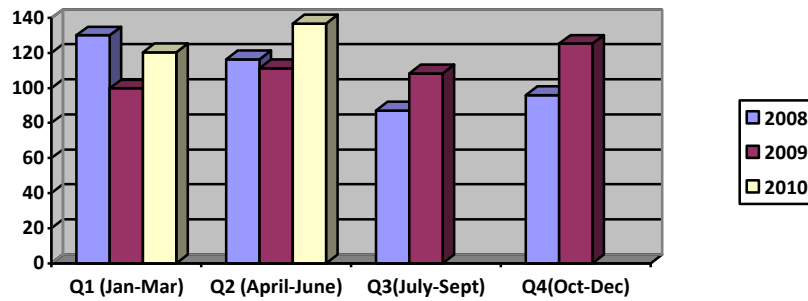
However, FTA is still one of the key demand drivers for India's premium hotels. Apart from the popularity of Indian tourist destinations like Kerala, Goa, and Rajasthan among overseas leisure travelers, the emergence of India as one of the fastest growing economies with significant business potential is expected to sustain growth in business travel, going forward.

In calendar 2009, around 51.1 lakh tourists visited India, which marked a 3.3% decline over the previous year. On the positive side though, following 13 consecutive months of declining or stagnating FTAs, volumes in December 2009 finally re-entered the positive territory, growing by 21% over December 2008. Again, for the period January to August 2010, FTA volumes witnessed a healthy 9.7% growth over the previous year. With fears of an H1N1 epidemic subsiding and the impact of the 2008 terrorist attack tapering off, the economic revival currently under way and event specific attractions (like the Commonwealth Games, Cricket World Cup and the Formula a One races) are expected to support the uptrend in FTAs. This augurs well for the premium hotels, which are heavily dependent on foreign tourists.

This trend of increasing tourists was also witnessed globally, with traveler volumes bottoming out in Q4, 2009. As against a decline of 10%, 7% and 2% in international tourist volumes during Q1, Q2 and Q3 of calendar 2009 respectively, Q4, 2009 reported a 2% growth. Further, global tourist volumes are estimated to have increased by 5.1% in Q1, 2010 and again by 8.7% in Q2, 2010, with business travelers being the key drivers. The global forecast for growth in traveler volumes stands at 3-4% for calendar 2010, as against the 4.3% decline to 88 crore visitors reported the previous calendar.

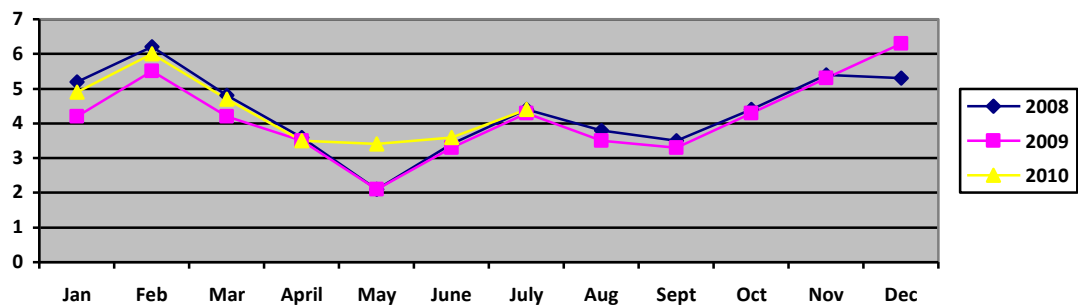
Often underrated, the 65.0 crore strong domestic traveler segment is also strongly feeding the current upturn in demand. In the past too, Indian hotels when faced with declining FTAs have sought to draw in domestic travelers of both the business and leisure variety, offering large discounts and attractive deals. Thus, in 2003 for instance, when the market was emerging from a downtrend, it was the domestic traveler who provided the initial push to the rebound. With hotel tariffs in India declining during the recession, domestic destinations have once again become a viable holiday option for the relatively cost conscious Indian traveler.

Chart No. 1 Trends in Domestic air traveler volumes



Source: www.icraratings.com

Chart No.2 Trends in FTAs into India (2008-10)



Source: www.icraratings.com

Additionally, with the economy turning around, Indian companies have also eased the restrictions on corporate travel. Domestic airline travel in India grew by 7.8% in calendar 2009 and again by 21.7% during the period January-July 2010.

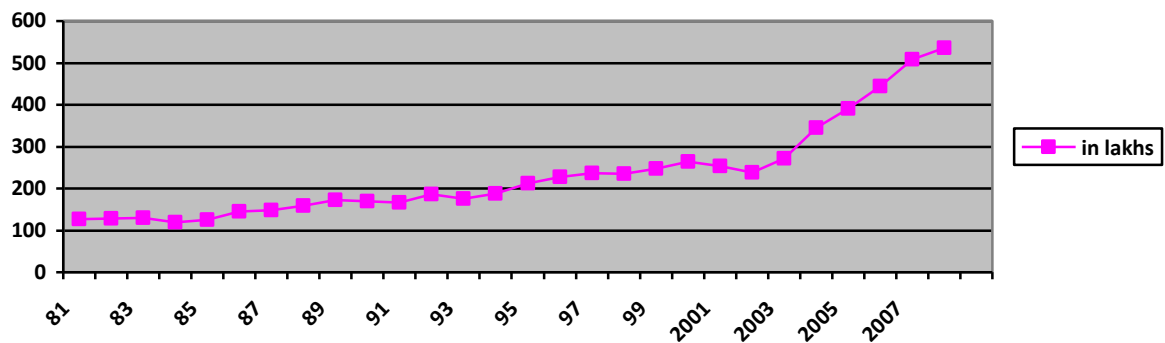
Table No.2 Foreign Tourist Arrival in India

Year	FTA in India
1981	1,279,210
1982	1,288,162
1983	1,304,976
1984	1,193,752
1985	1,259,384
1986	1,451,076

1987	1,484,290
1988	1,590,661
1989	1,736,093
1990	1,707,158
1991	1,677,508
1992	1,867,651
1993	1,764,830
1994	1,886,433
1995	2,123,683
1996	2,287,860
1997	2,374,094
1998	2,358,629
1999	2,481,928
2000	2,649,378
2001	2,537,282
2002	2,384,364
2003	2,726,214
2004	3,457,477
2005	3,918,610
2006	4,447,167
2007	5,081,504
2008	5,366,966

Source: India Tourism Statistics accessed and compiled from <http://www.tourism.gov.in/>

Chart No.3 Foreign Tourist Arrival in India



Source: India Tourism Statistics accessed and compiled from <http://www.tourism.gov.in/>

Conclusion:

Due to recession, the productivity and profitability of the businesses has been reduced and some big business organizations have got liquidated. With respect to the analysis of

the hotel industry, it has been analyzed that the hotel industry has a direct relation with the tourism industry and decrease in the tourist arrivals directly influences the hotel revenues.

The occupancy rates of the hotels and the average room rates got reduced, which affected the output from the business operations. The hotel industry involves large amount of fixed cost in the form of wages of the employees and billing of the desired utilities, so many organizations focused on the cost cutting and lay offs.. The level of competition in the hotel industry was intensified and the hotels focused on differentiating their services for sustaining their brand name as well as service quality.

Regarding the organization and execution of the business operations effectively, the hotels require implementing well structured and formulated management practices, so as to manage the different business aspects in an optimal manner. For overcoming the challenges posed by the recession climate, 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. It also promotes the services of the hotels for the creation of the brand image in the market and differentiating the service portfolio.

For the accomplishment of competitive advantage and managing the business operations in the recession influenced market environment, the hotels should alter their business strategy and focus on the integration of the different management practices optimally for generating better outcomes. It is essential for the hotels to focus on the restructuring of their management practices and including contingency plans for the sustenance of the efficiency and profitability in the adverse market conditions. Moreover, the process of maximization of the market opportunities for the execution of the business operations, the hotels requires developing service quality oriented approach, which enhances their operational excellence significantly.

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