



Hospitality: Planning for the 'New Normal'

COVID-19 has highlighted the fact that the travel and tourism industry is exposed to a global crisis of confidence and steps need to be taken quickly to mitigate the impact on the hospitality business.

Difficult decisions will need to be taken to protect assets and value, at the same time as making sure the business is in good shape to take advantage of the inevitable rebound.

There are some key issues affecting the majority of hospitality business owners:

- Mortgage servicing
- Other debt servicing
- Private equity return expectations
- Institutional investor return expectations
- Compliance with lease agreements
- Compliance with hotel management agreements
- Existing or new capex projects
- Redundancies
- Litigation
- Business & Asset Valuation
- Planning authorities
- Impact of governmental policy
- Change of use
- Change of business model
- And probably the most important question right now, how much cash do you have in reserve and how much can you afford to conserve over the coming months?

With the arrival of the COVID-19 Black Swan, where you were on the curve of your own business cycle will determine your plan for the immediate future and how you eventually emerge from the crisis.

Here are 10 questions to help you determine your planning strategy for the 'New Normal':

1. Were you stable and looking forward to a great 2020?
2. Were you going through a refurbishment programme in order to meet the challenge of the next cycle?
3. Were you looking for an investor to take you out of the next cycle or help you grow?
4. Was your business model starting to become obsolete?
5. Were you becoming the target of an acquisition bid?
6. Was your financing or capital structure in need of change?
7. Were you negotiating an investment in your existing business?
8. Was your EBITDA per square metre in need of optimisation?
9. Did you have development land with planning permission looking for investors and operators?
10. Were you planning or executing market entry for a new business model or in a new region?

Depending on your answers to the previous questions, you may find some inspiration in the following suggestions:

Protect occupancy

If you have been forced to temporarily shut down all or parts of your property, keep at least one eye on the horizon. Make sure you are still in touch with current trends. Carry on with market research and stay in touch with existing clients. Survey your customer database and find out how they are doing; how they feel about travel in the future. Approach new markets.

Review business plan and budgets

Give authority to asset and operations managers to make quick decisions. Don't wait to be asked. The second quarter is now upon us. Be prepared to take another wave of decisions that will affect the third quarter. Develop a true scenario analysis (not the same as sensitivity analysis). Consider a change of use or business model to meet trends in demand that may now accelerate. Conserve cash and redirect it to new priorities. Create a financial contingency plan.

Get clarity on contractual claims & obligations

Talk to lawyers, but get second and third opinions if necessary. The situation is evolving fast and there will often be a lack of precedent. Update your strategy accordingly. Be prepared for litigation.

Find short-term, flexible solutions with minimum commitment on both sides

Don't play hard ball. The playing field has changed. Don't be caught out by a BC (Before COVID) mentality. Be creative, think outside the box. Put yourself in the shoes of your guests and your suppliers, as well as your local health and emergency services. What would they want?

Avoid big, long-term, irreversible decisions (if you can)

Finding a new partner, supplier, lender or investor may cost more than finding a solution for an existing relationship and may take much longer than the duration of the lockdown. Prepare properly for re-negotiation. Get independent, professional advice.

Build trust and confidence

Be clear about what you are doing and what you plan to do. Communicate changes in strategy clearly to all layers of the organization and external partners. If you can, train or retrain your staff; keep them ready for reactivation. Be open to offering refunds, deferred payments, special terms etc. to help individuals and companies survive.

Critically assess timelines and budgets for development projects and capex

Some capital projects will need to be pushed back as their viability is now questionable or the resources needed to progress them are no longer available. Once properties and sites reopen, other projects can be accelerated (e.g. refurbishment or maintenance and repair work). Contractors may have new capacity and prices may fall.

Develop an AC (after COVID-19) opening or re-opening plan

Don't get caught out by the lifting of restrictions. Start working now on a plan to raise awareness of your business, even during closure. Guests will be extra-sensitive to hygiene – find ways to calm their fears, for example redesign amenity packages, embrace new technologies that reduce personal contact.

There are always more options than you might think. But be careful.

“Never look back, unless you are planning to go that way.”

Henry David Thoreau, Essayist & Philosopher, 1817-1862



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