

Hospitality (and Retail): chances and challenges in the time of Coronavirus

Our Partner **Mauro Cosani** shares his thinking



The world shows a heterogeneous picture at the moment with only a few safe places: Europe is one of them with good chances of recovery in hospitality, if you do things properly.

As an active host for Italy, a consultant for a German startup developing a platform for sustainable tourism and as an attentive reader and fact checker from Stockholm where I'm since last March, I would like to share with you this first short overview.

The UK as an example

After *stay at home* and *stay alert*, the new slogan is: *go out* and help the economy.

Hospitality was obviously badly hit by the lockdown, as was retail. E-commerce and online services were the winners, as also people unused to online shopping – like myself – abandoned physical shopping.

This lockdown-induced reaction is there to stay and will accelerate the already previously shifting trend to digital services.

In countries which did not manage the pandemic well - like the UK, where the lockdown was late and communication poor - it will cost time to build up trust again and have people feeling safe.

The government keeps throwing money at people, especially in favor of retail and hospitality: the borrowing needed for all of this will reach 18% of GDP (listen to the *Financial Times* Payne's Politics podcast of July 14), a level never achieved in peacetime. But will slashing VAT and food vouchers be enough to encourage people?

There is already a new acronym for a problematic syndrome: *fogo*, fear of going out.

Hospitality is about enjoying pleasure and having fun. Unfortunately, the need to book in advance, wear masks and keep safety distance are no fun.

And soon, soaring unemployment (the furlough scheme will end by October) will not only affect the willingness to spend, but also the capability to do so.

Extra costs needed without any revenue (for ppe, cleaning, etc.) combined with the reduced capacity to guarantee distancing can be the final blow for the smaller ones. Some of them won't reopen at all.

It might be easier for accommodations: we will focus on it later.

The US, a risky place

As *Dr. Antony Fauci* mildly puts it, in the US the spread of the coronavirus is “nowhere near” under control.

A disastrous communication at federal level and a premature reopening in some States led to a resurgence of the outbreak with daily new records in the last few weeks in many Western and Southern States. New York City – badly hit at the beginning of the pandemic – is one of the few safe places.

New weekly cases in the US are extremely high with more than 100 per 100k of the population, more than 12 times the limit set by the EU to open its external borders since early July.

The rest of the world

Latin America and the region around India are two further critical hotspots together with some African and Middle-East States, where the number of weekly new cases exceeds 100 per 100k of the population as well.

East Asia (China, Japan, South Korea, Vietnam, Taiwan among others) on the other side of the spectrum have been successful in stopping or controlling the virus by applying different strategies across countries, from draconian restrictive measure via masks to very efficient testing and tracing. This demonstrates that it is possible to stop the pandemic, if you act properly.

Others like New Zealand were also successful isolating their island very early from the rest of the world.

Worldwide however, the spread seems still to be at the beginning.

Europe, the safest spot

With the exception of Russia (and Sweden, where the age group 70+ is rebelling against the more tolerant approach of public authorities which proved unable to protect them and against the young reckless generation not caring too much about responsible behavior) Europe has also been able to control the spread.

The lockdowns reduced the death toll by half (see *Imperial College* studies) and new cases are low (EU average 8 new weekly cases per 100k of the population).

Here the chances for a successful recovery of hospitality are currently the best ones.

Optimists thought that – with many citizens not leaving their countries for holidays this year – local tourism could compensate and lead to a neutral balance (see *Sole24Ore* on April 8).

Unfortunately, this is not the case as of today: occupation in hospitality remains at 50% or below as a result of

- reduced capacity to guarantee safety distance,
- less willingness to travel anyway.

Concerns about rising unemployment won't help either to sustain a lively touristic activity.

In Southern France you can breathe an old quiet atmosphere, which resembles the fifties of the past century. In Spain idle spaces substitute usual queues. Flight mobility remains down.

So, we should not play down the consequences on hospitality. But there are also good signs.

Individual mobility by car is recovering significantly as many feels safe moving around in their own 4-wheels bubble. This means that tourism and hospitality are showing a new regional approach, which goes beyond the national borders within a reopened EU/EEA area.

Forecasts for Europe's hospitality business

Modeling-based forecasts are always as good as their assumptions.

Forecasts of the virus spread and the stress on the health systems (see *Imperial College* or *IHME*) are based on scientific pieces of evidence taken from previous experience (in terms of reproduction numbers, evolution of sickness, etc.).

There is no reliable evidence from the past however regarding the social impact of a global pandemic in the Western world. The last case is more than 100 years old (the Spanish flu, 1918), a time at which tourism as we know it today did not exist yet.

Metrics from restaurant bookings to hospital bed availability drive trading on the stock exchange.

It looks nevertheless arbitrary to make quantitative forecasts about the hospitality business for the near or mid-term future under the current conditions of no vaccine and only first progress in treatment against this new virus. The new normal will be to keep hygiene and distancing behavior.

Any forecast from any source with the attempt to identify any quarterly curve for recovery from now till 2022 won't have any robust sample of data as a support. Without an effective vaccine – and knowledge about its positive immunity impact – we won't go back to the old normal.

So, let us forget about forecasts and move on.

Prerequisites for survival

For many small activities, reducing capacity to fulfill distancing criteria implies a direct threat. Fixed costs – typically rent of the location – can threaten the sustainability of their business, if they are not able to adapt variable costs. This often will have to result in reduced staff.

A state-of-the-art digital platform to offer your services will be key along with partnership and networking with other actors of the hospitality scene to complete the offer: not only an accommodation, but also entertainment, events, laboratories, unique experiences.

Bigger players will have to follow a similar path on a larger scale as part of an innovative and cost-saving program. A very customer-oriented approach and the proposal of individual tailor-made solutions will be more relevant than ever to build new trust.

Lack of liquidity is an issue, governments across Europe are trying to help throwing money at almost everyone. The servicing cost of national debt in Europe will be a burden for decades to come. This rain of cash and subsidies cannot go on for long and will die out soon. The hospitality industry will have to find ways to be sustainable by itself. Partnerships and mergers might help to diversify the risk.

It is a crisis, quite obviously. But it is a different one. Nothing must be taken for granted, everything must be questioned.

As every crisis, also this one will offer opportunities. One of them is the chance to rethink tourism in a more long-term sustainable way. Whether this will be compatible with old profitability paradigms remains to be seen.

The toughest challenge will be for midsized companies:

- the smallest family-run activities can either be downsized or they will have to give up;
- big groups will have the financial strength to cross the desert.

Midsized companies will have to make a cultural jump towards a professional managerial organization, they will have to look for – temporary or permanent – support to manage this transformation.

Positive new trends in hospitality

The winners in hospitality will be the ones who are capable to reinvent themselves and offer a new experience to their guests.

People are keen to enjoy a pleasant experience.

Regional destinations, slightly off the beaten track have the best chances right now.

Big cities on the contrary will be badly hit (e.g. Venice, Florence or Rome in Italy), both because of a traditional higher share in tourists from abroad and because of the concern/difficulty to organize safety-distance-compatible space fruition.

Museums try to reinvent themselves offering open-air spaces where possible. In Italy the museum tries to develop into a new *piazza* (e.g. Triennale in Milan, Madre in Naples).

The established leading platforms like Booking and Airbnb have been proactive in communication and updates about behavioral rules during the pandemic – well done – and in the case of Airbnb also propose alternative new approaches:

- *Great escapes, jet lag not included* (i.e. by car, no flight),
- *Take the trip less traveled* (off the beaten track destinations),
- *Explore experiences* (additional local simple outdoor activities),
- *Get away without going far* (a journey close to home as a short break),
- *Explore the world from home* (without traveling at all...).

Smaller innovative niche players stress even more the individual, local, sustainable approach transforming a response to an emergency situation into a new lifestyle looking for wellbeing.

Conclusions, for now

In my personal experience as a host – formerly also in Southern France, now only in Italy – and as a consultant to a German startup I am positively surprised about how many real signs of recovery are already there, just one month after reopening the EU-internal borders on June 15.

Guests from the UK and Germany are happily enjoying their well-deserved holiday in Tuscany and on the Garda lake.

As people want to go out after work and have fun in their leisure time, tourism and hospitality will sure enough come back. The open question is how soon.

Remote places might be the pioneers of a more sustainable restart.

As soon as safety concerns will disappear as a result of an appropriate therapy and/or a vaccine the more local approach showing up right now might be quickly forgotten. And we will start travelling and flying around as before – if the airline companies will still be there to serve us: question mark on low-cost flying.

Duke & Kay Srl

Via Santa Maria Segreta, 6 - 20123 Milan (Italy)

Tel. +39 02 49759973

www.dukekay.com