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Working Paper

An initial assessment of economic impacts and operational challenges for the tourism & hospitality industry due to COVID-19

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TOURISM & HOSPITALITY

An initial assessment of economic impacts and operational challenges for the tourism & hospitality industry due to COVID-19

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An initial assessment of economic impacts and operational challenges for the tourism & hospitality industry due to COVID-19

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Abstract:

The tourism and hospitality industry currently faces one of its most serious operational, commercial, and financial crises as a result of the worldwide spread of COVID-19. Both destinations and source markets are substantially affected and have suspended operations and commercial activities. Major market players in all areas of the touristic value chain, i.e., airlines, tour operators, hotels, cruise lines, and retailers, have either minimized or even completely stopped their production for an undefined period of time, resulting in the sudden and total cut-off of their revenue streams. This paper will comprehensively highlight in an initial assessment economic impacts and operational challenges for the tourism and hospitality industry caused by the from COVID-19 crisis. General and mostly European-centered perspectives are supplemented by an African insight represented by a Ghanaian case-study.

Keywords:

COVID-19, tourism industry, travel industry, hospitality management, economic impact, operational challenges, crisis management

Introduction

The tourism and hospitality industry currently faces one of its most serious operational, commercial, and financial crises as a result of the worldwide spread of COVID-19. Both destinations and source markets are substantially affected and have suspended operations and commercial activities. Major market players in all areas of the touristic value chain, i.e., airlines, tour operators, hotels, cruise lines, and retailers, have either minimized or even completely stopped their production for an undefined period of time, resulting in the sudden and total cut-off of their revenue streams. The first companies have begun seeking financial aid from governments.

The COVID-19 crisis will dramatically change the tourism and hospitality industry, which has already been exposed to low margins, non-sustainable financial results, and disruptions as new technology-driven players have entered traditional market segments. With the current crisis and the complete collapse of markets, we will see a significant number of products and business models exiting the market, and consumer behaviors and preferences will drastically change.

Additionally, the crisis is hitting the industry during a period of weakening market demand as a result of declining consumer confidence: Figure 1 shows the development of passenger figures at German airports as a proxy for

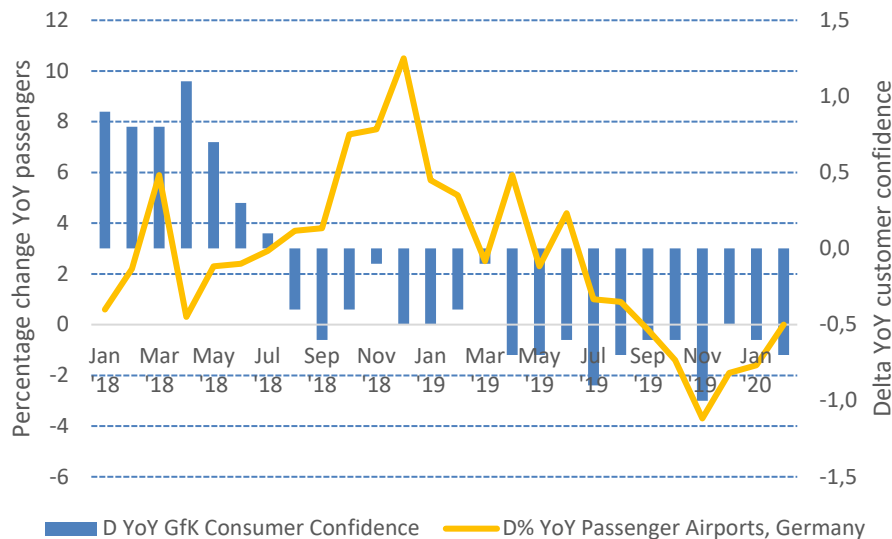


Figure 1: Passengers at German Airports vs. GfK Consumer Confidence, Jan. 2018 – Feb. 2020, source: Statista,

economic developments in the travel industry and relates it to the German GfK Consumer Confidence Index. As the graph shows, Germany, the largest European source market for tourism and hospitality, has been affected by a continuous reduction of consumer confidence compared against the previous year since July of 2018. This leads to reduced passenger figures at German airports, with an approximate time lag of 6–10 months. Also, in the first months of 2020, before the peak of the current crisis, we see a further decline in consumer confidence, which will be impacting the industry beyond the effect of COVID-19. Furthermore, the crisis comes during a period of the year in which usually the liquidity position of the industry typically remains weak due to the typical seasonality of demand.

The COVID-19 crisis is resulting in a complete market failure for the global tourism and hospitality industry. The effects of (1) an existing economic slowdown and (2) the currently low liquidity position as a result of the industry-specific seasonality are likely to create a very toxic cocktail for a significant number of players in the market. As a result of the ongoing crisis management, immediate, urgent, and decisive government actions are likely to be required in order to smooth the amplitude of the crisis. Furthermore, companies can accelerate their individual recovery by implementing a strict and structured crisis management.

In an initial assessment, this paper will comprehensively highlight the following:

1. the overall importance and relevance of the tourism and hospitality industry for the economy
2. the structure and economic characteristics of the industry
3. potential measures, both from a company and government perspective, to reduce the severity of impacts.

The economic importance of the tourism and hospitality industry

Income from tourism is economically important

With a substantial demand increase for tourism and hospitality products in the last two decades, the industry has

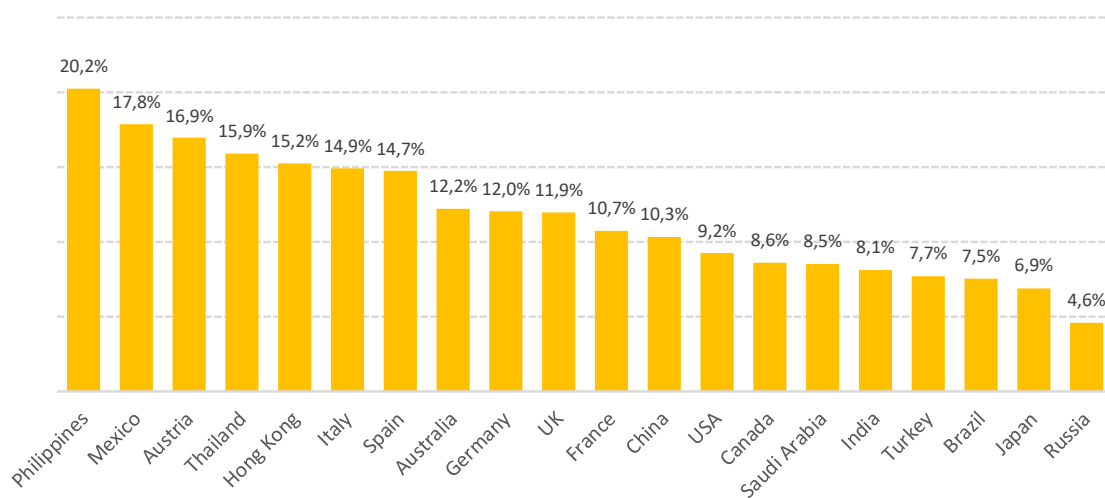


Figure 2: Contribution of tourism industry to employment by country, 2018, source: Statista, WTTC

substantially increased in importance and relevance for the overall economy. In 2018, the global income from tourism amounted \$1.45bn, which was almost three times as high as in 2000 (UNWTO, 2019). Significant shares of the labor force of major economies are employed in the tourism sector. Figure 2 describes the contribution of the tourism industry to the employment of distinct economies incorporating both direct and indirect employment. Italy, currently the country with the second-most COVID-19 cases in the world (John Hopkins University, 16 March 2020), has almost 15% of its workforce directly or indirectly employed in the tourism industry. Also, mature economies such as Germany, the UK, France, and the US exhibit shares of around 10% of employment for the tourism industry. The current crisis will lead to an extremely fast drop in employment in the tourism and hospitality industry. This will leave substantial gaps in the overall GDP in countries with a high relative share of tourism in the economy.

Consumption expenditures for tourism will further decrease

The largest tourism source markets in the world are all heavily impacted by COVID-19. Figure 3 ranks the corresponding markets by size. While China might be on the way to recovery from the COVID-19 impacts, the US and Germany are very likely at the beginning of the COVID-19 crisis. This makes demand recovery in the global tourism industry highly unlikely in 2020. The expected mid-term revenue streams for companies in the sector will be extremely weak, while financial challenges for many companies will dramatically increase. Additionally, the current crisis's development will further lower consumer confidence, which is expected to impact realized travel, with a time lag of approximately 6-10 months, as stated above.

Company size and structure in the tourism industry

The public discussion currently focuses on the development of larger companies in the sector. The actual

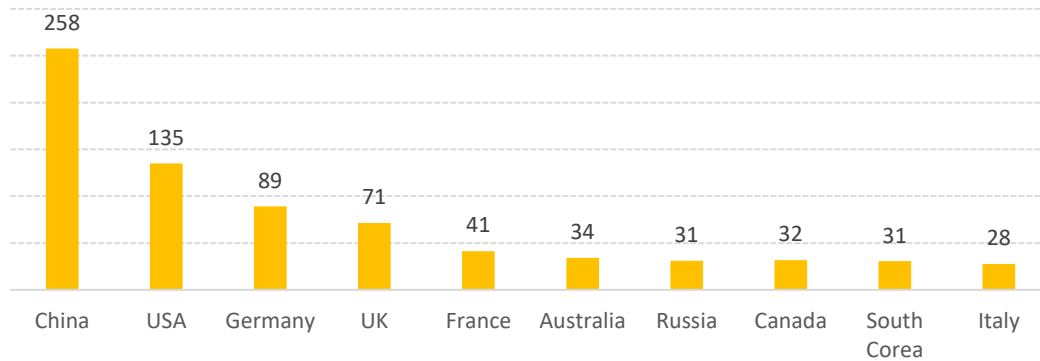


Figure 3: Countries with largest consumption expenditures in billion USD in the tourism industry, 2017, source: UNWTO

company structure in the industry is characterized by smaller units, which constitute the backbone of the sector. For example, in 2017, Germany had approximately 32,000 accommodation companies, with a total of 302,000 employees. This means that the average accommodation company had around nine employees (IHA, 2018). Particularly for these companies, it will be essential to find and accept quick and effective help from public institutions because their financial means are frequently limited.

Operational challenges: Benefits of a cooperative crisis management approach within the hospitality industry – Stakeholder management within the acute status of the COVID-19 crisis

Company crises will always affect and involve multiple stakeholder groups– to a varying extent. Stakeholders’ needs and demands have to be balanced and prioritized wherever applicable. This statement even gains on importance for the hospitality industry - including food and beverages, travel and tourism, lodging and recreation (Novak, 2017) – within the current COVID-19 crisis. Just about each hospitality unit on the one hand is or will be affected financially and/or operationally by the current global crisis situation. On the other hand, overcoming this crisis situation might be smoother by taking advantage of a cooperative crisis management approach. Generally starting in the course of anticipation and currently within the acute crisis phase, stakeholder management should embrace the following steps:

Step 1: identification of relevant stakeholders (as exemplarily displayed for a hotel in figure 4): Even SME companies – representing the majority amongst European hospitality companies – should draw a respective stakeholder map. By doing so, they will be enabled to establish a systematic cooperative network instead of maintaining informal relationships with individual internal as well as external stakeholders.

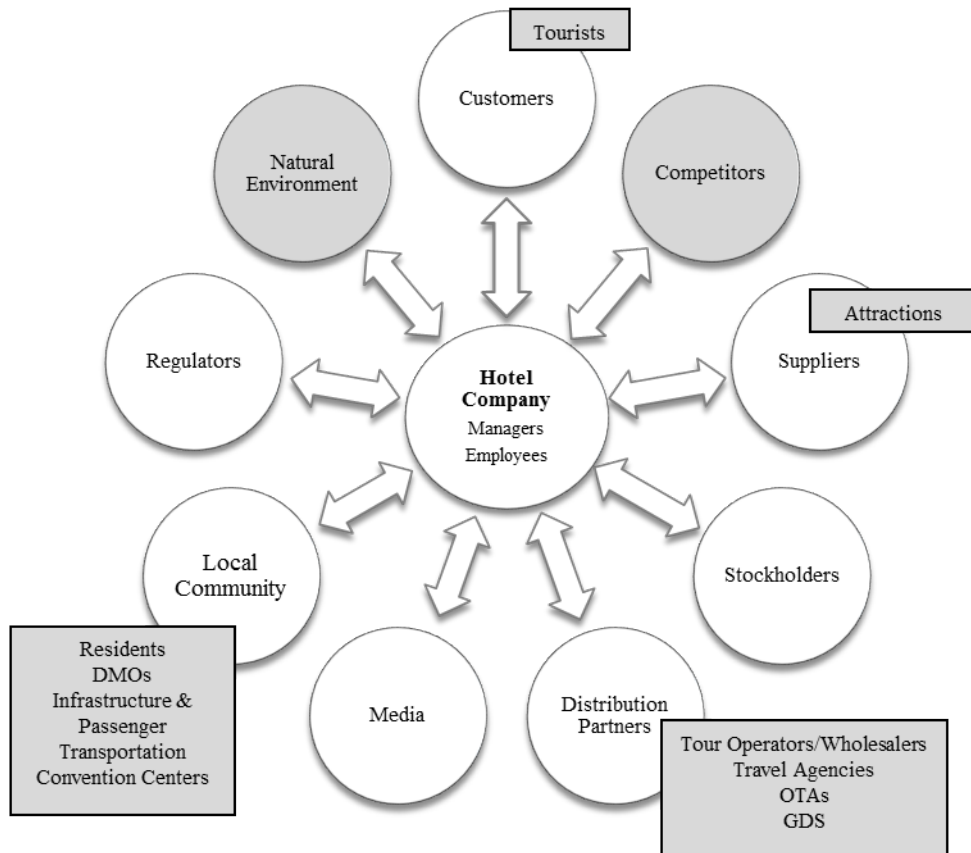


Figure 4: Hotel Company Stakeholder Map focusing the Tourism context, source: Zech, 2015

Step 2: specification of their respective needs and demands: Stakeholders’ needs and demands may vary from normal life to crisis situation. Based on a general classification it seems necessary to include or emphasize specific needs and demands associated with the current COVID-19 crisis.

Step 3: preparation of an anticipatory or effective tactic matrix (as exemplarily displayed in table 1) by evaluating and filling the given boxes: The colored boxes represent a possible prioritization within the acute COVID-19 crisis situation. Relationships as well as communication may be systematically adapted to the respective extent of operational challenges.

Tab. 1 Exemplary Stakeholder Tactics Matrix

Stakeholders	Tourism-related Stakeholders	Classification	Prioritization in crisis situation	Economic /Political Power	Influence	Partnering Tactics	Communication Tactics
Employees							
Managers							
Customers	Tourists						
Competitors							
Suppliers							
Stockholders							
Distribution Partners	Tour Operators/ Wholesalers Travel Agencies OTAs GDS						
Media							
Local Community	Residents DMOs Infrastructure & Passenger Transportation Convention Centers						
Regulators							
Natural Environment							

Source: based on Zech, 2017

By applying these three depicted steps, a hospitality company might have the chance to benefit amongst other from related or even competitive companies' experience, point of view as well as resources. As unfortunately the entire hospitality industry is affected by the current COVID-19 crisis effects, a cooperative approach seems more promising than an individual one.

Insights from Africa: impact on emerging markets – a Ghanaian case study

Since the year 2019 Ghana has welcomed hundreds of thousands of people in the name of the Year of Return¹, so that the country has initiated Beyond the Year of Return. Then the issue of COVID-19 surfaces. As at 6th March this year Ghana had not recorded any cases but the President caution the entire nation of taking preventive measures serious. On the 11th of March the president addressed that nation again on the virus and indicated that all the neighboring countries have recorded confirmed cases (Burkina Faso – 2, Togo – 1 and Ivory Coast - 1). Then on the 12th March two confirmed cases involving a Norwegian who works at the Norway Embassy in Ghana and a Ghanaian from Turkey were announced by the Health Minister. On the 15th of March the president addressed the nation again, banning all public gatherings including conferences, workshops, funerals², festivals, political rallies, sporting events and religious events such as services in churches and mosques for the next four weeks, except private burials will be permitted if there are no more than 25 people in attendance. He also ordered the closure of all educational institutions with effect from Monday, March 16, 2020, exempting pre-tertiary students that have already registered for basic and secondary school exams will be allowed to attend revision classes. This was because four additional cases were confirmed (2 cases on the 13th and 14th respectively) by 14th bringing the number of confirmed cases to six as at 15th March. The appendix at the end of this paper displays various statements and announcements documenting the the current effects of COVID-19 on Ghanaian everyday life.

In less than 72 hours after the address of the president, the effect of the phenomenon on tourism has been overwhelming. Most hotels, restaurants, tourist attractions, car rental and tourism related transported among other tourism and leisure related businesses have suffered a sudden decline in demand of 60% or more. Interactions with tourism related businesses outside Accra shows a decline of 70% to 80% or more with some have no patronage.

At the attraction sites, it was noted that locals who made the majority of visitors has stopped visiting so that foreigners now dominate. In the Ashanti region for instance visitor attractions have been closed down. Other institutions like the Ghana Ports and Harbors Authority have banned tours on their premises. A significant proportion of the reservations made by tour operators and other tour organizers have also been cancelled within the last 48 hours. Some tourists who were on tours in Ghana too have ended their tours immediately so that they can return to their countries before it is too late. All the event attractions such as the festivals (including religious one like Easter which was to take place within the next 4 weeks and other secular ones, most of which are celebrated after July, except the Aboakyer- deer hunting festival of Winneba), conferences, funerals, speech & prize giving days and weddings have been banned taking out a significant number of the attractions of Ghana's tourism.

Hotels are also suffering the effect of the incident greatly since conference are banned among other reason some of which have already been stated in relation to attractions. In smaller hotels and those located in the outskirts occupancy is so low that some have laid off their staff and closed down because their main stay is tourists and those who travel for funerals, festivals and other public gathering events such as weddings and speech & prize giving days. All these events have been banned for the next four weeks. Some big hotels have already made their staff take their annual leaves immediately. Other hotels to have checked out their guests immediately and closed down especially those that target leisure travelers. Restaurants are experiencing the same challenges.

The effect of the COVID-19 pandemic on tourist transportation is also facing similar problems. Several airlines have stopped operating to Ghana until further notice, while others are not allowed to land except by Ghana Civil Aviation Authority. The car rental and tourism related transported businesses have all come to a halt.

¹ The Year of Return, Ghana 2019 is an initiative of the government of Ghana that is intended to encourage African diasporans to come to Africa to settle and invest in the continent. The year 2019 is 500 years since the beginning of the slave trade to the Americas.

² Funerals are the main driver of tourism in Ghana, as culturally these occasions are often celebrations with hundreds and sometimes thousands of guests, with dancing, catering and parties going over the whole weekend. They are planned for months, whereby family members return from all over the country and world to show respect and celebrate collectively.

In less than 3 days the effect of the virus on the tourism industry is mind-blowing. An interaction with some personnel of the Tourism Authority indicated that they have gone round to educate and are in constant touch with hospitality and tourism businesses operators to ensure that their operation don't worsen the situation. They added that since they pay tax and create employment for the populace, they will not issue any statement to close these businesses down to make travelers and visitors whose only home here in the country are these businesses to make them stranded. However, some are already closing down on their own volition due the nature on the situation and its effect on their operations.

Ghana is an emerging market with the Ghanaian Tourism Board having made first steps in supporting a greater effort to increase tourism. Within 72 hours everything has come to a halt, halting not only international tourism, but also the basis of national tourism, the funeral and festival tourism that is a vital part of Ghanaian culture. After the four weeks period the picture will be clearer as to the effect of the virus on tourism in Ghana.

Implications and conclusions

The tourism and hospitality industry has become a substantial and relevant part of the global economy. An exact quantification of the economic consequences of the current COVID-19 crisis for the tourism and hospitality industry is not currently possible. Nonetheless, it is highly likely that the tourism and hospitality industry will be severely impacted for at least another 10 months, until end of 2020. Continuous industry-wide revenue drops of 30% and more seem to be realistic given the current shutdown of operations for a longer period. The financial challenges for the entire sector will continuously increase. Therefore, quick, effective, and decisive actions and measures on the part of public institutions aimed at the tourism and hospitality industry are urgently required. These measures must cover the following areas:

1. The immediate improvement of the liquidity position for companies across the entire touristic value chain, particularly small and medium-sized entities, which are characteristic of the hospitality segment. This must include access to loans and additional lines of credits also during the next winter seasons offered or backed by government institutions.
2. Temporary tax cuts and reductions, particularly transaction-based taxes for hotels and airlines, which have been implemented to a degree in recent years.
3. While (1) will increase the debt burden of companies substantially, debt cuts through institutions will need to be considered.
4. Reactivation of markets accompanied with a full empowerment and equipment of destination management companies to orchestrate the recovery plan. Market biasing subsidies should be avoided.

Furthermore, companies including SMEs in the hospitality sector need to implement strict and structured crisis management approaches to minimize the severity of impacts. Stakeholders need to be clearly identified and fully incorporated.

As both economic and operational impacts of COVID-19 on the tourism and hospitality industry may not be foreseen to a satisfying extend, research as well as concrete measures will have to be adapted on a regular basis. Industry as well as geographic specifics might either change or converge. Acute action will have to be displaced by long-term recovery strategies at the right time.

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Appendix

Official statements and announcements documenting the current effects of COVID-19 on Ghanaian everyday life

1 of 1 of reply the number
date of this should be quoted

GPS ADDRESS: GA-029-409
6
My Ref: No. 2020/017/20
Your Ref: _____
Tel: 0303976158



REPUBLIC OF GHANA

MINISTRY OF HEALTH
P O BOX MB-44
ACCRA

12TH MARCH, 2020.

FOR IMMEDIATE RELEASE: GHANA CONFIRMS TWO CASES OF COVID-19

Fellow Ghanaians, the Ministry of Health has confirmed two cases of COVID-19. The cases were confirmed on the 12th March, 2020, and the first cases to be reported in Ghana.

Laboratory results of the two confirmed cases were received at the same time from the Noguchi Memorial Institute for Medical Research.

Both individuals returned to Ghana from Norway and Turkey. So these are imported cases of COVID -19

Both patients are currently being kept in isolation and are stable. We have initiated processes for contact tracing.

I wish to assure all Ghanaians that the Government of Ghana together with all Health Partners will continue to work assiduously to ensure the situation is contained.

We wish to encourage every Ghanaian to take care of their health and that of their families by adhering to the following precautionary measures:

- Regular and thorough washing of hands with soap under running water and use of alcohol-based hand sanitizers.
- Avoid shaking of hands
- Keep a distance of at least two meters from a person with fever, cough, sneezing and difficulty in breathing.
- It is advisable to be physically active, drink plenty of water, eat healthy, avoid stress and have enough sleep.
- Stay home if you feel unwell with symptoms of fever, cough and difficulty in breathing and call the following numbers immediately: 0509497700, 0558439868



KWAKU AGYEMAN-MANU (MP)
MINISTER FOR HEALTH



*In case of reply the **number** and **date** of this letter should be **quoted***

Tel No: +233-(0)30-2227201
Fax No: +233-(0)30-2229786



Republic of Ghana

**MINISTRY OF INFORMATION
P. O. BOX M 41
ACCRA**

EMAIL: info.moi@moi.gov.gh

My Ref. No:
Your Ref. No:

15th March, 2020.

TRAVEL ADVISORY

1. All travel to Ghana is strongly discouraged until further notice.
2. Any traveler, except for Ghanaian citizens and persons with Ghana residence permits, who, within the last 14 days, has been to a country that has recorded at least 200 cases of Covid-19, will not be admitted into the Ghanaian jurisdiction. Airlines are instructed not to allow such persons to embark. Border posts are instructed not to allow such persons into the jurisdiction.
3. There will be a mandatory 14-day self-quarantine for persons who are otherwise allowed to enter the Ghanaian jurisdiction. Guidelines for self-quarantine will be available at the various Ghanaian ports of entry. Enforcement protocols are being deployed in collaboration with state security and health authorities. Persons determined to be unable to satisfactorily self-quarantine will be quarantined by the State.
4. Any admissible traveler, who exhibits symptoms of Covid-19 will be quarantined and tested upon reaching Ghana.
5. Item one of this statement takes immediate effect.
6. Items 2, 3 & 4 take effect at 1pm on Tuesday March 17th 2020. END.

A handwritten signature in black ink, appearing to read 'Kojo Oppong Nkrumah'.


**KOJO OPPONG NKROMAH (MP)
MINISTER**

KWAHU TRADITIONAL COUNCIL
(MINISTRY OF CHIEFTAINCY AND RELIGIOUS AFFAIRS)

In case of reply, the date and the Number of this letter should be quoted

TEL: 050 34 94 514
E-MAIL: kwahutraditionalcouncil@gmail.com

OUR REF: **KTC.30/VOL.8/111**
YOUR REF: _____


Republic of Ghana

POST OFFICE BOX MP 14,
MPRAES0 - KWAHU,
GHANA.

DATE: 16TH MARCH, 2020

FOR IMMEDIATE RELEASE
[CONVID – 19]

In line with the President’s directive on the current COVID – 19(Corona Virus) outbreak, Nananom of the Kwahu Traditional Council advise the public to adhere to the following strictly:


1. Appointments and visits to various Palaces in Kwahu should be suspended, unless they are extremely necessary.
2. All public engagements by Nananom within the Kwahu Traditional Council are cancelled. Akwasidae should be celebrated with minimal contacts and restricted to indoor traditional ceremonies. As already advised, handshaking, hugging and other forms of bodily contacts must be discouraged.
3. One week, forty days observations and funerals in Kwahu must be on hold indefinitely.
4. Chiefs and people in Kwahu are advised to travel only when necessary and take extreme caution if they have to.
5. Our various markets and trading centres should adhere to the strictest of hygiene and minimize contacts with people.
6. The Annual Kwahu Easter and all activities associated with it have been called off.
7. The media in Kwahu are advised to be extremely cautious in their reportage and not to cause unnecessary fear and panic.

Thank you.

DISTRIBUTION TO:

ALL NANANOM

ALL MEDIA HOUSES


REGISTRAR
(SAMUEL TUFFOUR)

KWAHU TRADITIONAL COUNCIL
MPRAES0 - KWAHU



GHANA HERITAGE CONSERVATION TRUST

GHCT/PN/VOL.1/01

18th March, 2020

PUBLIC NOTICE

TEMPORARY CLOSURE OF THE KAKUM NATIONAL PARK TO TOURISTS

The Board of Trustees of the Ghana Heritage Conservation Trust (GHCT) and the Management of the Wildlife Division of the Forestry Commission of Ghana have agreed to temporarily close the Kakum National Park to tourists until further notice. This is due to the increase and rapid spread of the COVID-19 (Coronavirus) globally. The situation has necessitated the precautionary measure to protect the staff, tourists and communities surrounding the Park.

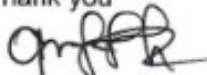
Kakum National Park serves a number of tourists annually with a large segment of the tourists being foreign nationals. The Government of Ghana, in line with measures to control the spread of COVID-19 and per the World Health Organization's (WHO) recommendations to avoid crowded areas, has issued directives to ensure the safety of Ghanaians.

In this regard, the Kakum National Park has suspended services to all tourists at the Park **with immediate effect and until further notice**. The closure is also in line with the recommendations from the Central Regional Health Directorate, Cape Coast.

The decision will be reviewed in thirty (30) days.

We look forward to serving you in the near future.

Thank you


Isadore Armah
Executive Director

**EXECUTIVE DIRECTOR
GHANA HERITAGE CONSERVATION TRUST
G. H. C. T.
P. O. BOX 454
CAPE COAST
TEL: 03321-30265 / 03321-30264**