COVID-19: A ‘Perfect Storm’ for the Hospitality Sector

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COVID-19: A ‘PERFECT STORM’

For the hospitality sector

Fear of infection, strict stay-at-home-orders (SAHOs), and mandated business closures have all combined to severely disrupt supply and demand for many businesses. As a result, COVID-19 devastated the hospitality industry in a way unlike any other. Dr. Arthur Huang of the Rosen College of Hospitality Management and his colleagues assessed the effects of state and local intervention policies on the hospitality industry through the early stages of the COVID-19 pandemic.

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ince the celebration of the third millennium, and less than a quarter of the way through the twenty-first century, the world has experienced the ravaging effects that viral diseases can have on the economy and health of the human population multiple times. Examples include SARS (Severe Acute Respiratory Syndrome) in 2003 (170 deaths worldwide, followed by Swine Flu (H1N1) in 2009 (various estimates from 150,000 to 575,000 deaths), Ebola in 2013 (12,000 deaths from only 29,000 cases), and MERS (Middle East Respiratory Syndrome) in 2015 (900 deaths from 2500 cases, but re-contained).

Then, of course, the most globally deadly and disruptive: COVID-19, appearing first in China in late 2019. The numbers for the most recent pre-COVID event, MERS, taken to South Korea from the Middle East by a single traveler, are much lower than might have been expected; 38 deaths from 29,000 cases, and MERS (Middle East Respiratory Syndrome) in 2015 (900 deaths from 2500 cases, but re-emerging periodically).

For Dr. Huang and the research team identify practical and managerial insights that may be valuable in the recovery of this vital sector.

Therefore, the disease may have devastating effects worldwide.

In his study, Dr. Huang focused on one of the critical measures of the industry: the non-salaried labor market. The research considers three distinct phases: before the stay-at-home policies, after the stay-at-home policies, and the release of the imposed restrictions.

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COVID-19 has severely affected the hospitality industry, with estimates of a 15-30% reduction in revenue.

PANDEMIC

Hospitality has three essential ingredients for success: people want to go out, there are hospitality services available that they can enjoy. COVID-19’s emergence and rapid global diffusion quickly interrupted all three aspects required for success.

However, while the hospitality and tourism industry could not make a case for being essential, it is a sector capable of rapid recovery once restrictions are lifted and the market returns. Dr. Huang’s report describes this as ‘resistance’ and ‘resilience.’ While there could be no resistance to temporary business closure in the face of a pandemic driven by close human contact, there could be hope that, as in previous closures (such as with SARS and MERS), the industry would show considerable resilience in its ability to recover from such closures quickly.

Dr. Huang cautions against presuming a similar resilient recovery will be seen after a pandemic as profound as COVID-19.

PUBLIC CONFIDENCE WILL BE AN ESSENTIAL COMPONENT IN THE RATE OF RECOVERY OF BUSINESS REVENUES.

COVID-19 or any possible future pandemic that might have an even greater human and economic cost. Instead, he argues that pre-emptive policies and actions should be ‘refined’ to reduce the catastrophic effects of a novel disease. By refined, Dr. Huang is referring to the heterogeneous nature of the U.S., with each state having its own unique challenges that must be considered in dealing with the onset of a threat. To a certain extent, states must be responsible for developing their own plans to reopen businesses as the pandemic is tamed.

These challenges are fundamental and complex, size is one major issue. The state planners in California, for example, must safeguard a population of approximately 39.5 million people, while Wyoming has just 577,000. Adopting extreme one-size-fits-all policies for small businesses in the hospitality sector, Dr. Huang and his colleagues combined anonymized, pan-U.S., non-salaried employment data from the HomeBase payroll and time tracking service used by many businesses employing less than ten people, with data on COVID-19 cases and deaths, and state-level intervention policies, from March to June 2020.

Nationally, the impact on non-salaried employment, working hours, and the number of business closures were in the range of a 15-30% reduction. Again, all sectors within hospitality were at the higher end, with leisure the worst hit, at close to 30%, followed by food and drink.

Among the non-salaried workforce, there was a high correlation between the number of COVID-19 cases and the negative impact on jobs.

STATE-LEVEL DISPARITY

However, there was considerable variation by state, which is also true for the positive impacts of reopening businesses. The report...
also highlights that the rate at which the labor market was negatively affected by introducing intervention policies was not necessarily correlated to the positive impact when the guidelines were lifted.

New Hampshire, Hawaii, and South Dakota experienced the highest drop (over 50%) in working hours for the food and drink industry. But when the interventions were lifted, and businesses could reopen, the most positive impact was seen in Delaware, Wyoming, and Montana, with an over 40% increase in working hours.

IMPLICATIONS FOR REOPENING HOSPITALITY BUSINESSES
Once supply-side interventions such as SADMs and business closure mandates have been lifted, there must be positive stimulation for market demand. Public confidence will be an essential component in the recovery rate of business revenues, and the demand will increase the labor hours needed. The report describes how business managers may need to reassess priorities, citing the possibility of giving clear signals of sanitation and infection control significantly higher attention than venue aesthetics, for example.

Similarly, the disparity in the results across the country suggests there are other significant factors involved that were not included in the analysis. For example, the degree to which companies had a digital presence (e.g., Uber Eats) could mitigate the impact on labor hours.

There is evidence that areas with higher social capital have been able to weather the pandemic with a lower human and economic cost; this has been attributed to greater trust and compassion for neighbors and a willingness to voluntarily social distance.

For the high-end hospitality sector, managers should reflect on the findings of Cheny et al. (2020), cited in the researcher’s paper, which suggest that the decline in consumer spending during the pandemic was greater in the higher-income areas. Does this mean hospitality businesses need to hit the reset button on all of their strategies? As with all major events, to an extent, only time will tell, but an exploration of purchase intent could be an excellent place to start.

OPPORTUNITIES FOR FURTHER RESEARCH
The observations from this study were made possible by the HomeBase data, but that data was only gathered from the small-to-medium-sized companies which use HomeBase’s services. Therefore, data from larger companies and other sectors may not tell the same story.

PERSONAL RESPONSE
How hard is it to predict the long-term effects of the pandemic on consumer behavior and the hospitality labor market in the absence of any direct domestic comparisons?

Various factors can affect the long-term effects of the pandemic on consumer behavior. Careful policies and management practices need to be implemented. On the one hand, extreme intervention policies such as stay-at-home orders can take a toll on small hospitality and tourism businesses. On the other hand, companies need to be proactive in following COVID-19 safety guidelines to reduce COVID-19 transmission and regain consumers’ trust.

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