The Impact of COVID-19 on Hotel Industry: Evidence from Financing

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Abstract. Since COVID-19 has been exposed to the world, every industry has been significantly negative affected, among which the hotel industry has been influenced the most. With this in mind, an empirical analysis will be carried out for the sake of investigating the corresponding impacts of the pandemic on the hotel industry based on specific cases of giant representative corporation. According to the analysis, this study will conclude the effects that were caused due to COVID-19, the common financing methods that most hotels will use and implement to address the issues. There are some income statements being used in this research from the Marriott Hotel and Hilton Hotel, so as to quantitatively demonstrate the effects. It also includes the case study of COVID-19 affection on The Hilton Hotel. In conclusion, there will be some suggestions that were made for hotels according to the analysis and evaluations. These results shed light on guiding further exploration of hotel improvements under the condition of pandemic.

Keywords: COVID-19; Hotel; Financing.

1. Introduction

Contemporarily, the COVID-19 pandemic has strongly affected and influenced a large amounts of industry negatively in recent years, among which the hotel industry is one of the most affected one. To be specific, according to the statistical analysis, as of the end of July 2022, hotel occupancy rates in China were 60 percent, compared with 48 percent in the U.S. and 32 percent in Italy [1-5].

On this basis, under the impact of such event, governments have also considered and already implemented a series of measures to provide aid to struggling industries. The repeated outbreak of it has already brought a large number of challenges to the hotel industry, while it also contains some new opportunities. In this case, Hotel operators ought to focus on customer experience, operational efficiency, customer acquisition capabilities, etc., so as to make more efforts in product iteration, talent optimization, and length balance, carry out a multi-form operation matrix layout, and create new products that meet consumer demand scenarios. The impact of the epidemic on the market is both a crisis and an opportunity. Instead of looking forward to a recovery in the market, hotels should think about how to face the crisis head on [6-8].

For hotels, managers take the attitude of "preparing for the worst". According to the relevant person in charge of Hilton Hotel Group, with the increase of corporate annual meetings, the business travel market will become the next focus of the hotel industry. However, most companies currently strictly control the cost of business travel and conferences, which also brings more opportunities to mid-to-high-end hotel brands with relatively high cost performance. The way and measures to offer cost-effective, high-quality, and diversified services for travelers remain a key issue under such a situation. The relevant person in charge of InterContinental Hotels Group concluded.

The main direction of this research is the impact of the COVID-19 on the hotel industry, because the COVID-19 restricts people's chances of traveling, people will also resist traveling and be afraid of being infected. The epidemic has affected the market and revenue of the hotel industry. This article will use the reports of Marriott and Hilton as a comparison, and also allow readers to compare the impact of the epidemic on them more carefully. The reminder of the paper will be separated as follows. The Sec. 2 will give a description of the history and development of the corporation. Subsequently, a specific analysis in the context of financial data will be presented with visualization of balance sheets and financial reports. Afterwards, the suggestions according to the analysis and evaluations will be proposed, and the limitations as well as future prospects will be demonstrated. Eventually, a brief summary of the whole study will be presented.

2. Descriptions

Founded in the U.S. in 1927, Marriott International Group has grown into one of the world's largest hotel management corporation, which owns 30 hotel brands. In 2017, it achieved an operating income of US$22.894 billion. The fee income of the hotel franchise and management business was US$3.327 billion, of which the basic management fee in the context of the revenue of the managed hotel was US$1.102 billion, the incentive management fee with regard to the profit of the managed hotel was US$607 million, and the franchise fee was US$1.618 billion. Based on the closing price of US$138.67 per share on June 18, 2018, its market value reached US$49 billion, an uncompromising aircraft carrier hotel group. After the restaurant started, it focused on the hotel business [9, 10].

Prior to 2011, it was deeply cultivated in the domestic market of the United States. Mainly through the cultivation of independent high-end hotel brands to consolidate the brand line. For the sake of consolidating the high-end brand line, it acquired the Ritz-Carlton Hotel, which is regarded as the granddaddy of luxury hotels, with its first hotel opening in Boston in 1927, and its reputation for having en-suite bathrooms in every room, introducing celebrity chefs and providing personalized service.

3. Analysis

Partnership is a common financing method in the hotel industry. To be specific, a partnership enterprise is strictly required to be established as an unlimited partnership, and all partners must bear unlimited liability to the partnership enterprise. All of the listed and participated objectives ought to be fully responsible for all debts of the business and undertake to take an active part in the management and are taxed separately on their profits.

Successful hotel groups have gone through the process of developing from their own to management and to franchise, and realize asset-light operation. Marriott's businesses include corporate operations, franchise franchises, and other businesses such as associates and condominiums. The proportion of hotel rooms owned and rented to the total number of rooms excluding other businesses has remained low and continued to decline for many years. Since 2006, the proportion has dropped from 2% to 1.5%. The number of hotel rooms managed by the company has dropped from 50% in 2006 to 43% in 2017 due to the rapid increase in franchised hotels. The proportion of franchised and authorized rooms has increased significantly, from 47% to 55%.

It is worth noting that the higher scale of individual hotels helps to allocate fixed expenses such as labor and rent. Marriott's corporate operations and franchise business differentiate its revenue structure. In terms of revenue and net profit of international hotel groups in the first quarter of 2022 (seen from Fig. 1), thanks to the relaxation of global travel restrictions and the continuous recovery of tourism demand, both revenue and net profit have achieved substantial growth. Except for Hyatt Hotels, they have turned losses into profits. The year-on-year average of revenue was 86.44%; the year-on-year average of net profit was 760.67%; among them, the revenue of Hyatt Hotel increased by 192.01% year-on-year, the highest growth in revenue; Marriott International's net profit increased by 3527.27% year-on-year, the highest growth in net profit. Compared with the first quarter of 2022, the foreign epidemic situation continued to show a large-scale outbreak in the first quarter of 2021, with a year-on-year decrease of about 50%. From the second quarter of 2021 to the first quarter of 2022, the international hotel group began to adapt and resumed, and achieved good performance. Recovery and some degree of rebound. In the first quarter of 2022, the performance of various international hotel groups in China is just the opposite of their global performance, and their performance in China is not satisfactory. Compared with other regions, it shows a lower level. The main reason is that China has adopted stricter measures to control the epidemic compared to the global level, as well as sluggish consumption and a downturn in real estate, which has put heavy pressure on the hotel industry.

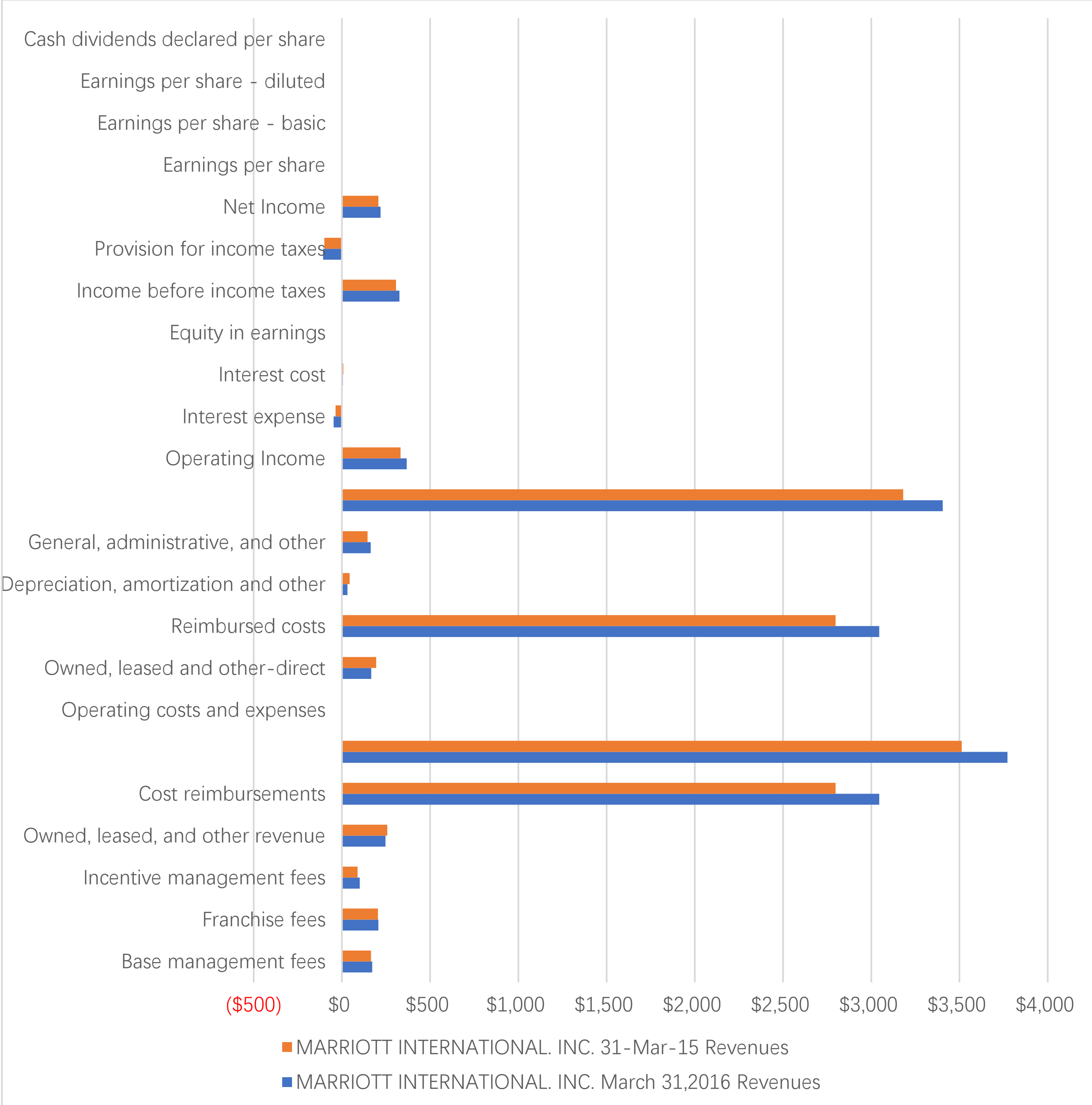

Fig. 1 Statements of income of Marriott Hotel

In the first quarter of 2022, the international hotel group's assets and cash flows show that the average asset-liability ratio is 85.35%, and the average shareholder's equity ratio is 16.65%, showing a high degree of debt. Among them, Hilton Hotel's asset-liability ratio is 104.53%, which has exceeded its assets, indicating that it has extremely high leverage and high-risk investments or loans. If Hilton's global performance can continue to recover and rebound, it is believed that the income it creates can wipe out the liabilities. level and develop further. International hotel group has the highest cash flow from operating activities is Marriott International, which is as high as 1374.07% year-on-year, reflecting the group's strong liquidity; the highest cash flow from investment activities is Wyndham Hotels & Resorts, indicating that there are assets disposed of in the current period, resulting in net income , the group believes that benefiting from the construction of core infrastructure in the United States, franchised hotels are entering a period of super growth with a cycle of 10 years, so increasing their investment is believed to be an important measure for future development. The cash flow of financing activities of all international hotel groups was negative, indicating that the financing activities in the first quarter were insufficient, that is, the financing activities generated by the issuance of stocks or the funds received from loans were all negative.

According to Hilton Hotel data, the operating income in the first quarter of 2022 was US$1.72 billion, a year-on-year increase of 96%, including a net profit of US$210 million and a loss of US$110 million in the same period last year. The group opened 76 new hotels worldwide. RevPAR increased 80.5% year over year, recovering to 82.2% in the same period in 2019, as occupancy and ADR increased. A total of 24 hotels opened in Greater China, and their room volume in the Chinese market increased by 20% year-on-year; as epidemic prevention measures and travel restrictions continued to suppress market demand, RevPAR fell by 45% compared with the same period in 2019. All the results are presented in Fig. 2.

Fig. 2 Hilton.INC statement

4. Suggestions, Limtations & Proepects

Although the hotel industry is still struggling to develop in the quagmire of the epidemic, the hotel group is also boosting the updating of the supply chain in the face of practical difficulties. First, accelerate the pace of scale expansion. Second, speed up the mid-to-high-end layout. Third, speed up the increase in the proportion of franchising. Fourth, make efforts to sink the third and fourth lines into the market. Fifth, speed up the construction of direct sales channels for private members. On the whole, the weakness of the hotel industry is limited by factors such as epidemic control and other factors, and the overall performance is weak, which has dragged down the speed and efficiency of the rapid rebound. With the domestic epidemic situation stabilizing, travel demand is expected to gradually recover; superimposed on the historical reduction of hotel stock supply, the supply and demand pattern of the hotel industry in the post-epidemic era has been significantly optimized, and a new round of business cycle is about to start. For example, InterContinental Hotels Group still plans to open a large number of new hotels in China; Hilton will open 20% more hotel rooms in China this year than in 2021. Jin Jiang Hotels actively grasps the development trend of the global hotel industry, firmly promotes digital transformation, refined management, and information empowerment to ensure a new balance between epidemic prevention and epidemic prevention and economic normal operation; Huazhu Group maintains the direction of lean growth. Strengthen confidence and determination in China, strengthen digitalization and supply chain empowerment, seize the opportunity period of overseas market recovery, and accumulate momentum for growth. In the long run, domestic hotel groups have abundant resources, rich brands and strong store openings; and the integration is accelerated, the platform effect is prominent, the performance is expected to improve, and the profit space is continuously released.

5. Summary

In conclusion, this paper investigates the effects that were caused to the hotel industry based on the explosion of COVID-19. Specifically, the hotel industry is selected to be compared. According to the analysis, the lifting of travel restrictions has brought great benefits to the recovery of the hotel industry. People have begun to travel and are not so worried about the epidemic. The hotel industry has gradually returned to profitability. In the future, hotels should consider the suggestions the research gave, COVID-19 has affected the hotel industry because most people are afraid of being infected, and governments gave restrictions on traveling.

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