DOI: 10.17626/dBEM.ICoM.P00.2015.p101

IMPACTS OF ECONOMIC CRISIS ON HOTEL INDUSTRY – A HUNGARIAN CASE STUDY

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Summary: Tourism and hospitality is one of the world's largest economic activities. It is leading industry in many countries, as well as the fastest growing economic sector in terms of job creation worldwide. In 2006, the sector generated 10.3 percent of world gross domestic product, providing 234 million jobs, or 8.2 percent of total world employment.
The financial crisis which has hit the global economy since the summer of 2007 is without precedent in the post-war history. It has severely impacted on international tourism, causing a decline of 4% in international tourist arrivals and a decrease of international tourism revenues by 6% in 2009. Since tourism has become a major economic engine at a global level, this deterioration had important impacts on various countries, and in particular in developing countries, where the sector has become an increasingly relevant source of income and employment.
After this significant contraction in 2009, tourism rebounded strongly in 2010 and in 2011 the international tourist arrivals and receipts are projected to increase substantially. The hospitality industry is expected to show a sustained recovery in 2012.
According to Gergely Horvath, the President and CEO of the Hungarian National Tourist Office, the financial crisis did not affect tourism in Hungary as deeply as in many other countries. The only reason for that was that Hungary is usually not the priority or main destination for most holidays. Travellers visit Hungary mainly as the destination of their second or third trip.
The contemporary hotel industry has entered a period of complexity and rapid change due to intense globalisation and competition, environmental uncertainties and technological and information's changes and development.
In our study, we describe crisis management in hotel industry, we introduce the situation of the Hungarian Hotel Industry and we analyse the development of companies through a Hungarian case study.

Keywords: hotel industry, crisis, crisis management, occupancy, revenue

1. Introduction

There is no universally accepted definition of what constitutes a crisis. However, it appears that three elements must be present: a triggering event causing significant change or having the potential to cause significant change; the perceived inability to cope with this change; and a threat to the existence of organizations (Keown-McMullan, 1997). Every crisis is unique displaying a remarkable range and variety (Henderson, 2006), yet characteristics generally cited include unexpectedness, urgency and danger (Hermann, 1972). Tourism crises usually share these attributes although certain crisis situations can be predicted and lack immediacy.

Crises generated within the industry can also be analysed under the headings of economic, sociocultural and environmental when tourism has negative impacts in these fields (Henderson, 2006).
The external and internal threats of the economic crisis to the tourism industry are recession, currency fluctuations, taxation; rising cost, falling revenues, unprofitability (Sian et al., 2009)

2. Crisis management in hospitality sector

According to Paraskevas (2013) crisis is a perception of an unpredictable event that can seriously affect and threaten organization's performance. When analyzing crisis, Paraskevas et al (2013) mentioned Mitroff's model as the most significant from crisis management studies and scholars. Mitroff's model (1988) of the crisis management has five phases or mechanism; signal detection; prevention; damage limitation; recovery and as a last one, learning. In addition, organization needs to understand and be able to recognize early signs of crisis in order to take applicable action. Thus, accomplishment and successiveness in terms of recognizing the early warning crisis signals are depending of hospitality organization size, financial capability and mostly important, organization culture.
Hotel industry is highly incorporated with other industries, meaning that a wide range of potential crisis within hotels can affect and influence other businesses (Glaesser, 2013).
As with most industries, the hospitality and tourism sector is experiencing numerous challenges as a result of the global economic crisis. The industry is feeling the impact of a shrinking capital market and decreased spending by both corporate and individual consumers (Global Financial Crisis Bulletin, 2009). Businesses have reported a downturn in sales of lodging, foodservice, events and other hospitality products and some have closed their doors forever. The decline resulted not only from fewer customers in hotels, restaurants, conference and convention centres, etc., but also from a significant decline in the average expenditure per guest (Pizam, 2009).The recession caused serious problems for luxury hotels in particular. However, many hotels in certain global markets, especially those catering to leisure travellers, were less affected. Crisis management has its roots in strategic planning incorporating, contingencies for unexpected events. The challenge for organizations is to recognise the early warning signals and take actions.

3. The Hungarian hotel industry between 2007-2013

During recent years, the number of nights spent in tourist accommodation establishments has generally shown an upward trend. However, there was a short-lived downturn in the number of nights spent in tourist accommodation establishments in 2008 and 2009 as a consequence of the financial and economic crisis: the number of tourism nights in the EU-28 fell by 0.6 % in 2008 and by a further 2.1 % in 2009. In 2010, however, the number of nights spent increased by 4.7 % and this positive development continued, with growth of 3.3 % in 2011 and 4.3 % in 2012. In 2013, the number of nights spent in tourist accommodation establishments in the EU-28 reached a peak of 2.6 billion nights, up by 2.2 % compared with 2012. (eurostat.com)
The statistical data of the Hungarian hotel industry shows that hotel capacity especially in four and five star category is expanding from year to year parallel to which the number of guest nights is also increasing in 2007. Hotel capacity went up compared to the year 2000 by 17%, meanwhile, demand was up by 21%. This tendency was experienced in the five and three star category, at the same time; the 87% increase of four star hotel rooms was coupled with only 78% increase in the number of guest nights.

Two thousand and three hundred hotel rooms were completed in 2007, of which 500 was opened in spa- and wellness hotels. As to demand the trend of the recent years continued: demand from abroad stagnated in 2007, while domestic turnover was up by 4.5%. This resulted in 2% total increase of guest nights.
In 2009, the deepest global economic recession for decades with its own political and economic problems hit the sector hard in Hungary. During a period of significantly reduced demand for corporate and conference business and collapsing average rates across the whole city, more than 3,200 new hotel rooms were opened in Budapest in 2009. This led to fierce competition, lower occupancy and a price cutting war. Only the weaker Hungarian forint in 2009 helped to offset some of the worst effects of the crisis.
The hotel industry is in a difficult situation since owing to the hotel industry investments carried out in the past decade the hotel capacity in the Central-East European region increased significantly to which demand is expected to adjust only after long years of time. Hotels are up against a fierce competition for retaining the narrowing demand where beside rates, increasing efficiency, cutting and streamlining costs play a major role.
In 2011, the public accommodation establishments registered a slight decline due to lower domestic demand. The number of guests was higher by 1.5% while the number of guest-nights was 0.6% lower compared to 2010. The number of domestic guests decreased by 2.4% whiles the number of guest-nights lowered by 4.3% compared to last year. The number of foreign guests increased by 6%, while the number of guest-nights was up by only 3.2% compared to 2010. Accommodation establishments showed a 3% increase in revenue at current prices.
In 2013, at the public accommodation establishments the number of guest-nights increased by 4,6%. The number of domestic guests was higher by 5.5%, the number of guest-nights were 4.5% higher compared to the previous year. The number of foreign guests increased by 5.1%, while the number of guest nights was up by 4.6% compared to 2012. Accommodation establishments showed a 9.4% increase in revenue at current prices.

4. Case study

In 1972 Danubius Hotels and Spa Co. was established by the Ministry of Domestic Trade, which has reassigned Grand Hotel Margitsziget (Budapest), Hotel Helikon (Keszthely), and transferred the construction license to Danubius to build Budapest Hilton. In the following years there were numerous changes in their life.
In 1999, Danubius reorganized its structure. Danubius itself became a holding company and operated a Property Company (Hungaria Hotel and Property Rt.) and a Management Company (Danubius Hotel Management and Service Rt.). In the same year bought 100% interest Butterfly in Mariánské Lázné (Marienbad, Czech Republic).
According to the new stategy of the Group, different brands were set up in 2006, - Danubius Health Spa Resort for the health-spa hotels; Danubius Hotels for the high quality city hotels while other hotels are listed under the category of “Member of Danubius Hotels Group”.
In 2008, Danubius had to face with the growing financial crisis and the negative effect of strong national currencies on Euro and other revenues. Then, the banking crisis reached its peak and the economic recession started to have a major impact on Central Europe. Unfortunately, the consequent reduction in demand was accompanied by a continued increase in hotel capacities as many development projects were started before the effects of the crisis were fully appreciated.
It is very important that the Group created years ago its overall financial risk management programme seeks to minimise potential adverse effects on the Group’s financial assets and liabilities. The Board of Directors provides written principles for overall financial risk

management and written policies covering specific areas, such as market risk (including foreign exchange risk, interest rate risk), credit risk, liquidity risk, use of derivative financial instruments and investing excess cash. Such written policies are reviewed annually by the Board of Directors and periodic reviews are undertaken to ensure that the Group's policy guidelines are complied with.

In the financial year of 2009 total net sales revenues were HUF 43.5 billion, down by 6.6% compared to last year figure after eliminating one-off items. The movements in HUF/EUR FX rate had a considerable positive effect on Hungarian segment revenue in 2009 compared to 2008, but in EUR terms there was a 17% decrease.

The main steps were to reduce the negative impact of the crisis:

- 7.5% reduction in operating expenses,
- Working capital was tightly managed and interest costs reduced,
- Whilst capital expenditure had to be limited, the introduction of new operating software in Hungary continued. This state-of-the-art system was a major tool to improve competitiveness. It is the platform for new central reservation system, which, together with its website, is an already generated impressive communication system.

The cost reduction measures started in 2008 were continued on a more intensive basis in 2009. A fall in headcount of 13% was achieved in Hungary together with a major reduction in outsourcing and other costs.

In 2011, the management exercised tight control over liquidity. Thanks to these measurements revenues increased by 2%, more than HUF 1 billion compared to 2010, group occupancy increased by 0.7% compared to 2010, whilst occupancy increase was 1.1% despite an increasingly competitive market. The net cash provided by operating activities increased from HUF 4.3 billion in 2010 to HUF 4.6 billion in 2011, due largely to effective management of working capital.

In 2013, the positive trends, first experienced in 2012, proved to be continued through the year. Revenue of the Danubius Group in 2013 showed nearly an 8% increase to HUF 50 billion and EBITDA exceeded 2012 by 25% reaching a figure of HUF 8 billion, from the sale of one hotel. In Budapest, there were many MICE events.

In 2013, as part of the e-commerce marketing strategy, the Danubius website was redesigned, which has had a positive effect on web bookings. In line with many other hotel companies, the impact of mobile devices on guest behaviour is continued.

Similarly, social media continues to become ever more important and websites such as Tripadvisor are having a greater influence on guests and their choice of hotels.

In 2012-2013, they introduced several new marketing initiatives. One example is a strategy to promote family holidays with children. Another innovation was the introduction of an "All-inclusive" concept at Danubius Health Spa Resort Bük.

With the increase in activity in 2013, particularly around the busy summer season, they use a variety of flexible labour arrangements to ensure that the fixed cost base did not increase. In parallel, permanent staff had the opportunity to benefit from a variety of incentive schemes, bonus arrangements and upselling rewards.

The Danubius Goes Green project means, that they developed 10 environmentally friendly green rooms at the Danubius Hotel Flamenco, in co-operation with the World Wildlife Fund.

5. Results and conclusion

Over more than five years, the restrictions, reorganisations, cost reduction and a multitude of efficiency-improving measures were the most important reactions of hotel management.

The global economic crisis has a powerful effect over the hotel industry. The hotel managers had to adapt business plans for letting the biggest possible efficiency.

In this environment, the Hotel Managers' duty of care should also involve planning and preparing for unforeseen events; running 'what if' scenarios, designing action plans for all departments, allocating individual responsibilities; building back-up capacity and training their staff to respond in appropriate manner to security concerns. Danubius Hotels Group made risk management plan, in which they defined signals and focused on right actions. They reduced operating expenses and interest costs; and they tightly managed working capital. At the difficult years they did not forget to develop their communication system. The reduction of revenues in 2008-2009 could mean unsolvable problem for hotels. Remaining liquidity and competitiveness could be the real challenge for hotels.

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