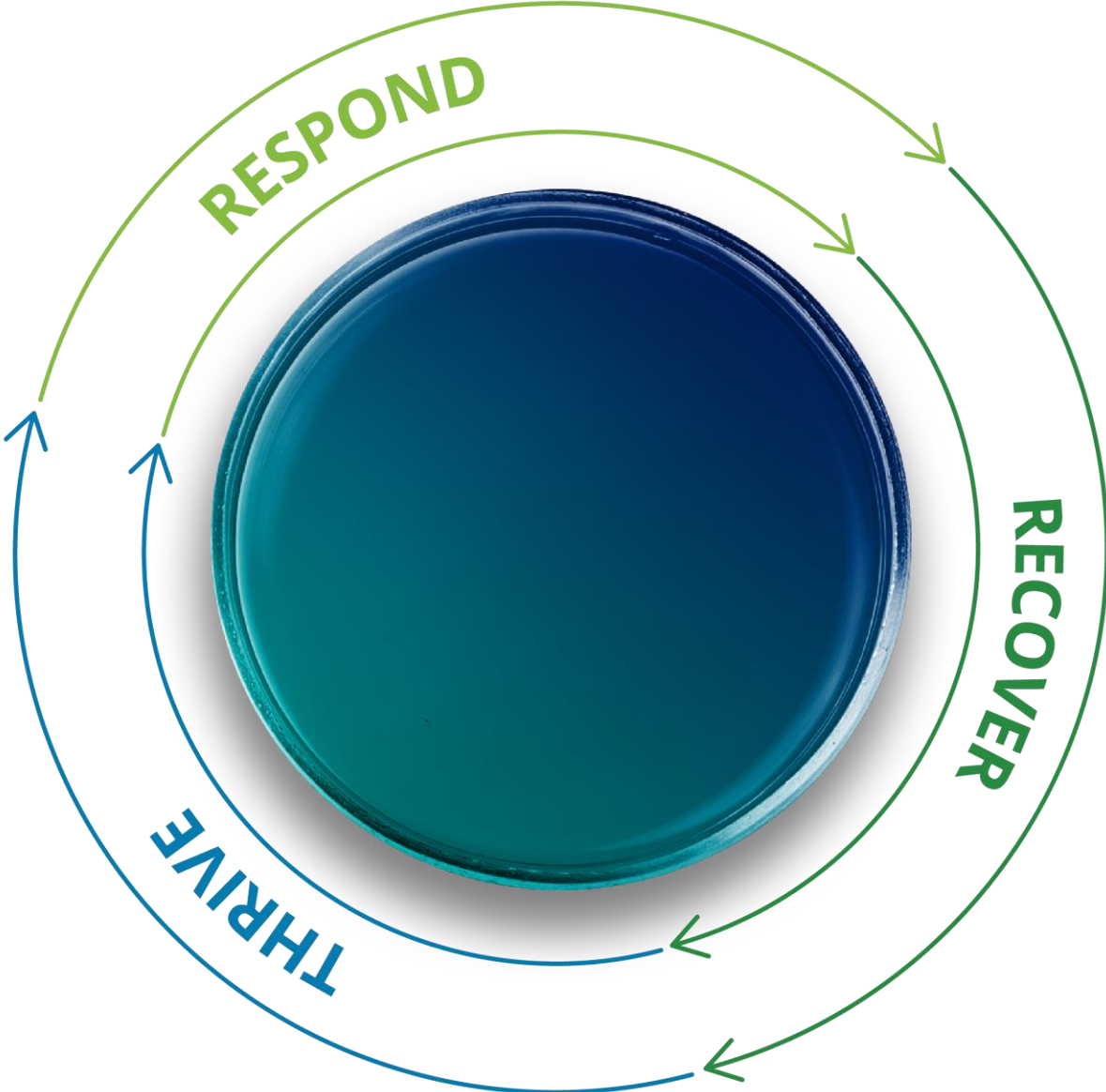




JUNE 2020

Considerations for the Hospitality Industry's Response to a Pandemic

COVID-19



What issues are we seeing?

The rapid global spread of COVID-19 has quickly eclipsed other recent pandemic in both size and scope.¹

In addition to the human toll and the ongoing disruption to millions of people's lives, the economic damage is already significant and far-reaching.

In the face of certain challenges and a still uncertain set of risks, hospitality leaders are concerned about how their companies will be affected and what they have to do next. In the heat of the moment, there are several lessons from history – and from other parts of the world – that can be applied now.

Dynamic shifts in traffic flow

The UK and select countries have either completely closed hospitality outlets or limited them in how they can service their customers, in order to enforce social distancing.² These “shelter in place” guidelines and a general uneasiness about potential virus spread is resulting in a decrease in guest counts anywhere from 20% to 90% year over year³. In China for example, restaurants are still experiencing a reduction in normal order volume even after restrictions have been lifted.

Consumption patterns emphasise health and cost

Due to shifts in traffic flow and mandated lockdowns, many consumers seeking restaurant & pub food will turn to online for both ‘click & collect’ and delivery aggregators with these delivery options having the potential to overload these networks. Consumer preferences may also shift, as Public Health England guidelines may force consumers to become more conscious of cleanliness, especially in public spaces. Restaurants and pubs with demonstrably more sanitary facilities and stricter food safety guidelines may be able to appeal more to these customers. Hotels will need to be clear on customer's new requirements both from how they co-habit. Vulnerability consideration and their messaging to engage. Customers will care about the safety of the product but also want reassurance that employees are safe. Additionally, potential economic impacts could encourage consumers to be more price sensitive when ordering or making future bookings.

Supply chain and inventories are significantly disrupted

The production, availability, and distribution of food may be limited or slowed by governmental regulation or by an affected workforce across the entire food supply chain. Food inventories may expire or spoil if not closely monitored and sold timely.

Talent availability is consistently in flux

While food preparation continues to be an essential function, the de-crowding of kitchens based on social distancing guidance may slow food production. In addition, some employees who themselves are affected by COVID-19 or whose families may require time off work to recover. Hotel's will need to assess head count requirements with flexibility of roles while protecting staff.

Cash flows are limited and interrupted

Based on reduced revenue from consumer traffic and other market impacts, many businesses will likely experience liquidity and cash flow issues during this time forcing downstream impacts such as furloughs, layoffs, inability to pay rent and utilities, or reduced investment in innovation and technology.

Quick, appropriate action can help hospitality weather the COVID-19 pandemic

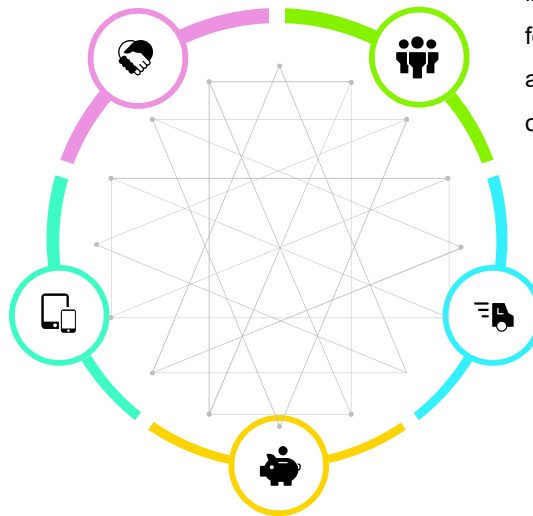
Responses to COVID-19 provide an opportunity for hospitality to demonstrate strength and flexibility for employees and consumers in a time of uncertainty.

Stay engaged with customers

Customer safety is the highest priority, and the current pandemic challenges should be continually re-emphasised and addressed responsibly at a outlet and asset level. Offer support in served areas: proactive social responsibility in your communities can support employees and customers.

Strengthen digital capabilities

With hospitality outlets closed more operators and asset owners are capitalising on pick-up and delivery options or other ways to engage with 'pent up' demand. Strengthen your digital and mobile presence and strategic brand alliances to connect with your customer base.



Support your talent and revisit your talent strategy

Understand how your talent capacity needs will change with fluctuating demand and create open and frequent communications with employees. Reduce risk by implementing social distancing, exercising sanitation and hygiene practices, and following "clean room" policies. Consider making sick leave or half-pay time off available to help ensure employees who need to stay home, do so. Don't lose sight of forecasting talent demands as the lockdown eases.

Shore up the supply chain

Assess operations in strongly affected areas and evaluate the viability of alternate sourcing options. Engage with critical production and distribution vendors to understand and plan for any potential impacts early. Work with store and asset leadership to implement appropriate inventory management across the board.

Maintain business continuity and financing

Confirm that you can find the liquidity your company needs to continue to grow and develop in the face of unpredictability. Investigate all cash flow forecasts and understand mitigation options. Review job grants as well as tax deferral and refund options.



Stay engaged with customers

Limited interaction opportunities and an uncertain social and economic situation allows hospitality businesses to engage with customers and communities in specific ways that can demonstrate the strength of their brand.

1

RESPOND

This is a **critical moment that matters in the relationship with your customers and communities** and a time for your company's brand to lead. During crises, uncertainty and volatility cause customers to react emotionally, and hospitality should empathise with this behavior and engage in actions that protect the customer and make them feel supported and safe.

- Communicate to customers your brand's decisive actions related to health and the community
- Be creative in your engagement with your customers – e.g. chatrooms, virtual dinners, understand new behaviours
- Be thoughtful about sales efforts that can be perceived as profiteering – e.g. pricing, upcharges
- Explore opportunities to share excess inventory, rooms or supply chain with the community
- Evaluate temporary menu changes for supply limitations or production speed

2

RECOVER

The rapid shift away from on-premise dining/drinking or need for accommodation may have long-term effects on the existing balance with off-premise options, rate mix and promotions. **The impression your brand leaves on customers during this uncertain time may have a strong, lasting impact on image and loyalty**, which could manifest in future traffic patterns and your customer landscape.

- Educate employees on interacting with customers with empathy
- The fastest back to market will be those with good delivery and/or takeaway options in food & beverage with hotels needing to define a new customer engagement strategy
- Improve the customer experience by enhancing delivery and pick-up options for food & beverage businesses
- Monitor shifts in buying behaviors and customer preferences – e.g. shift to family dinner
- Offer targeted promotions to get your customers back in restaurants, pubs and hotels

3

THRIVE

The period after COVID-19 will be a vulnerable time with customers that should be built on trust, brand and loyalty. **(Re)connect with your customers via digital mediums, loyalty programs, adjusted menus/promotions, an improved customer experience** and most importantly - welcome them back in a clean and safe environment

- Promote and strengthen safety and communicate actions taken to customers
- Strengthen your customer relationship through promotion of loyalty programs
- Reevaluate menu and rate mix architecture based on supply availability, food cost, and willingness-to-pay
- Understand the “new customer” and conduct targeted promotions to drive traffic



Support your talent and revisit your talent strategy

Now more than ever, employers should balance the concerns and needs of their people with adapting to a volatile business environment. How a brand treats employees during the pandemic will stay in the memories of consumers, further emphasising the need to prioritise employee health and well-being.

1

RESPOND

Treatment of employees and customers in this current situation is significant. Mismanaging this could have long-lasting negative implications that could stay with a brand after the pandemic has passed.

- Open frequent lines of two-way communication with your workforce to share updates and emphasise your commitment to their safety
- Offer appropriate reward and keep furloughed employees informed and supported
- Inform your support and planning by understanding how your employee group is at risk
- Implement flexible work arrangements or consider adjusting your leave policy where applicable in order to minimise onsite work
- Secure PPE material for employees within your stores and assets, implement social distancing practices and stricter guidelines for sanitation

2

RECOVER

COVID-19 may change how you interact with and manage your workforce for the foreseeable future, making it an opportunity to assess your talent strategy. Demands for social responsibility and transparency may incent companies to offer stronger benefits programs. Staying ahead of this curve will be critical to attract and retain top talent.

- Provide options for remote work *where feasible*, to give your people greater flexibility
- Understand headcount requirement, skills of your people and what is required to deliver new priorities
- Update your leave policies, as changes implemented now may be here to stay and will need to be accounted for in future forecasts
- Assess your talent strategy to include how candidates may consider health care benefits, sick leave, or paid time off more seriously during recruitment

3

THRIVE

Looking ahead to BAU operations, we believe **expectations of you as an employer, as a brand, as a hospitality business of choice, as a socially responsible corporate citizen, will be changed dramatically by this crisis.** “Social Enterprises” are on the rise: organisations that see a greater purpose to their business than simply increasing shareholder value.

- Assess your commitment to social responsibility – the imperative to generate return for owners and investors is still there, but incentives for companies that exhibit a sense of social good are increasing
- Consider carrying over frequent and transparent communication to your employees after recovery
- Communicate to the market how you are creating a positive work experience – this transparency will be more valued by workers and customers than ever before



Strengthen digital capabilities

Hospitality businesses cannot engage with customers for on-premise dining, drinking and stays in many locations, so they should focus on creating and enhancing opportunities they do have to connect with customers digitally.

1

RESPOND

As COVID-19 fears rose in early March in the US **online sales increased 52%** year over year, and the **number of online shoppers increased 8.8%**.¹ As a result of this shift in many markets F&B operators, including those in the UK, have had to rapidly transition their on-premise dining towards **pick-up and delivery options**. This type of rapid transition can be challenging as off-premise dining requires new operational capabilities. Hotel operators need to mitigate the financial impact of loss of revenue while continuing engagement with their customers.

- For food & beverage operators transition to focus on pick-up and delivery options, but be careful - if not done correctly guests may receive a subpar experience and may not return
- For hotel operators engage with existing customers, build relationships with new customers and prioritise the vulnerable, review booking T&Cs
- Gather data and feedback to monitor quality of pick-up and delivery options
- Respond quickly and make sure you consider the robustness of your vendor integrations
- Manage rapidly evolving operational regulations
- Provide options for contactless delivery/pick-up/payment and tamper-proof packaging

2

RECOVER

Those with a **scalable and flexible digital foundation** will likely be able to rapidly pivot the business and position well for recovery. Those that have not made the necessary investments may have to double down on technologies, customer data, process, and new mindsets such as being a more digital product-focused brand.

- Create new offerings and test concepts with guests that entice them (more digitally mature brands may be able to execute this more rapidly and at larger scale)
 - Digital loyalty programs, rewards, subscriptions
 - Hotel operators should maximise digital sales channels
 - New digital touchpoints
 - Meal kits for food & beverage operators
- Explore third-party relationships for new and existing digital channels

3

THRIVE

Taking your brand's capabilities to the next level once this crisis is behind us means taking not only a product mindset, but also a **design-led approach focused on the guest**. This includes testing, refining, and rapidly scaling digital capabilities to meet the market demands of tomorrow. New internal skills, data, and vendors will likely be required to thrive into the future. This pandemic is forming **new guest behaviors and expectations**.

- Plan for long-term shifts in consumer behavior, embracing guest-facing technology and customer data as critical growth drivers
- Update digital and brand strategy to reflect the new consumer reality
- Explore a product incubator to rapidly adapt to consumer trends
- Invest in an innovation lab to improve health and safety, even after the crisis



Shore up the supply chain

Hospitality operators must properly manage supply chain risk from strongly affected areas and must simultaneously manage store-level inventory carefully to adapt to fluctuating demand.

1

RESPOND

Sourcing of products and materials from strongly affected areas may be impacted by a potentially heightened global demand. Inventory management may already be a challenge, given unpredictable consumer demand via alternative consumption methods. Hospitality **should balance upstream supply chain risk with downstream consumer demand** throughout this fluctuating situation.

- Assess operations in strongly affected areas and evaluate the viability of alternate sourcing options
- Engage with critical production and distribution partners to understand and plan for any potential impacts early
- Work with store leadership to implement appropriate inventory management
- Food & beverage operators should evaluate both food and materials supply chain against changing needs, such as increased demand for pick-up/delivery packaging

2

RECOVER

A decades-long focus on supply chain optimisation to minimise costs, reduce inventories, and drive up asset utilisation has improved many companies' supply chain efficiency. But COVID-19 illustrates that many companies are **not fully aware of the vulnerability of their supply chain relationships to global shocks**, which may have much longer-lasting impacts than anticipated.

- Identify specific direct suppliers and understand their capabilities in meeting supply requirements and managing potential risks
- Build resilience into end to end supply and explore localised, sustainable supply options
- Discuss with suppliers your position among their consumers from an allocation perspective, in the event of any future inventory or capacity shortages

3

THRIVE

Given likely uncertainty in the future, **it will be a challenge to rebound any organisation** and restart a global supply chain that has been **impacted by both demand-side shocks and supply-side disruptions**. To aid in their recovery, hospitality organisations should have unprecedented internal and external collaboration, across their extended supply chains.

- Have risk management frameworks and systems in place, specifically for customers and suppliers
- Actively assess customer and supplier financial health to mitigate against insolvency affecting your supply network
- Develop agility within production and distribution networks to quickly reconfigure and maintain supply in the face of global demand
- COVID-19 has highlighted what can be achieved to support sustainability. Include sustainability in your supply chain review to thrive in the longer term.



Maintain business continuity and financing

In a financial crisis, maintaining stable cash and liquidity remain a company's top priority: the revenue lost during this period may be permanent and may not be made up at a later period.

1

RESPOND

Hospitality businesses should **determine that they have the liquidity needed to continue to grow and develop in the face of unpredictability**. Financial resilience should be assessed considering cost mitigation, incl. capex commitments, payment and tax deferrals, liquidity and borrowing. Property and lease terms should all be reviewed.

- *Liquidity* – Identify 'quick win' self-help measures to deliver rapid, tangible cash flow benefits, such as temporary rent concessions or refinancing options to allow for higher borrowing capacity under existing debt facilities
- *Working Capital* – Prioritise all available actions and produce a working capital roadmap; prepare an initial 100-day cash flow forecast, revise assumptions, identify specific pain points
- *Restructuring* – Identify any restructuring activities that are occurring within your industry or location

2

RECOVER

Hospitality businesses should continue to maintain **the right amount of cash on-hand to balance any potential negative financial impacts** that could occur in three months, five months or even longer down the road. Review what aid has become available to you and continue to keep investors informed of any changes.

- *Liquidity* – Review receivable and payable terms to collect cash on time and avoid paying early; consider restructuring debt to help reduce monthly expenses and cash flow
- *Working Capital* – Begin daily monitoring of working capital balances and implement a 13-week cash flow forecasting process
- *Restructuring* – Strategically plan for any potential opportunities that arise from restructuring / consolidation activities
- Stay on top of short-term tax relief

3

THRIVE

After the COVID-19 pandemic has passed, it will likely take some time for cash flows to return to the consistency and predictability enjoyed before. **Hospitality businesses should continue to use their working capital levers to improve overall liquidity** and conduct ongoing reviews of potential restructuring opportunities within the industry landscape.

- *Liquidity* – Monitor cash collections daily, minimise dispute and late collection risk; minimise WIP by reviewing bottlenecks and streamlining production
- *Working Capital* – Drive a cash-centric culture across the working capital team, focusing on cash, not P&L metrics
- *Restructuring* – Take actions to reap the benefits (cash-in-hand) from restructuring / consolidation activities

We are here to support you



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