

The Russian hospitality industry during a pandemic - crisis or breakthrough?

Golovin, Maxim V.

Veröffentlichungsversion / Published Version
Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Golovin, M. V. (2021). The Russian hospitality industry during a pandemic - crisis or breakthrough? *Public Administration*, 23(4), 85-89. <https://doi.org/10.22394/2070-8378-2021-23-4-85-89>

Nutzungsbedingungen:

Dieser Text wird unter einer CC BY-NC-ND Lizenz (Namensnennung-Nicht-kommerziell-Keine Bearbeitung) zur Verfügung gestellt. Nähere Auskünfte zu den CC-Lizenzen finden Sie hier:
<https://creativecommons.org/licenses/by-nc-nd/4.0/deed.de>

Terms of use:

This document is made available under a CC BY-NC-ND Licence (Attribution-Non Commercial-NoDerivatives). For more information see:
<https://creativecommons.org/licenses/by-nc-nd/4.0>

РОССИЙСКАЯ ИНДУСТРИЯ ГОСТЕПРИИМСТВА В ПАНДЕМИЮ – КРИЗИС ИЛИ ПРОРЫВ?

МАКСИМ ВАЛЕРЬЕВИЧ ГОЛОВИН, руководитель отдела финансового контроллинга, соискатель экономического факультета РУДН

ООО «Акцент Капитал» (Российская Федерация, 119034, Москва, Барыковский переулок, 2). E-mail: contact@accent.ru

Аннотация: В настоящей статье рассматриваются наиболее острые проблемные вопросы стагнации в индустрии гостеприимства и гостиничного бизнеса в России, связанные с новыми вызовами пандемии коронавируса как на международном, так и на национальном уровнях. Анализируются новые тенденции и структурные изменения отрасли, дается оценка перспектив выхода из сложного кризиса в отрасли. Разработаны конкретные предложения, направленные на восстановление и конструктивное развитие туристической отрасли – как для органов власти и управления по внесению изменений в принятую Стратегию развития туризма в Российской Федерации на период до 2035 года, так и для бизнес-структур, туристических компаний. По мнению автора, индустрию гостеприимства в ближайшее время еще могут ожидать серьезные потрясения и отрасль не выйдет из кризиса, не испытав повторных шоков, закрытия границ. Тем не менее туризм известен своей способностью противостоять экономическим спадам и может сыграть ключевую роль в оживлении как мировой, так и российской экономики в период выхода из кризиса. Для закрепления тренда – усиления развития внутреннего туризма – необходимы согласованная позиция, согласованные стратегии поведения основных игроков рынка – бизнес-компаний, работающих в индустрии гостеприимства, а также органов власти и управления на федеральном и региональном уровнях. Для этого требуется разработка и внедрение современной стратегии развития отрасли с учетом необходимости выхода из кризиса, вызванного пандемией коронавируса, адаптация принятой стратегии к новым реалиям и устойчивое развитие государства на всех уровнях.

Ключевые слова: индустрия гостеприимства, туризм, кризис, Стратегия развития туризма в Российской Федерации на период до 2035 года, коронавирус, меры поддержки государства, бизнес-модели управления в отрасли туризма

Статья поступила в редакцию 21 июня 2021 года.

Головин М.В. Российская индустрия гостеприимства в пандемию – кризис или прорыв? *Государственная служба*. 2021. № 4. С. 85–89.

THE RUSSIAN HOSPITALITY INDUSTRY DURING A PANDEMIC – CRISIS OR BREAKTHROUGH?

MAXIM VALERIEVICH GOLOVIN, Head of the Financial Controlling Department, Applicant of the Faculty of Economics at the Peoples' Friendship University of Russia

LLC "Accent Capital" (2, Barykovsky pereulok, 119034, Moscow, Russian Federation). E-mail: contact@accent.ru

Abstract: This article examines the most pressing problematic issues of stagnation in the hospitality industry in Russia, associated with the new challenges of the coronavirus pandemic, both at the international and national levels. The author analyzes new trends and structural changes in the industry and assesses the prospects for overcoming the difficult crisis. The article presents specific proposals aimed at the restoration and constructive development of the tourism industry both for the authorities and administration to amend the adopted Strategy for the development of tourism in the Russian Federation for the period up to 2035, and for business structures, as well as travel companies. According to the author, the hospitality industry can still face serious shocks in the near future and the industry will not come out of the crisis without experiencing repeated shocks and border closings. Nevertheless, tourism is known for its ability to withstand economic downturns and can play a key role in reviving both the global and Russian economies as they emerge from the crisis. To consolidate the trend and to strengthen the development of domestic tourism, the industry needs a coordinated position and strategies for the behavior of the main market players, such as business companies operating in the hospitality industry, as well as authorities and authorities at the federal and regional levels. This requires the development and implementation of a modern strategy, taking into account the need to overcome the crisis caused by the coronavirus pandemic, the adaptation of the strategy to new realities and sustainable development of the state at all levels.

Keywords: hospitality industry, tourism, crisis, The Tourism Development Strategy of the Russian Federation for the period until 2035, coronavirus, government support measures, business models for managing the tourism industry

The article was received on June 21, 2021.

Golovin M.V. The Russian hospitality industry during a pandemic – crisis or breakthrough? *Gosudarstvennaya sluzhba*. 2021. No. 4. P. 85–89.

Introduction

The hospitality industry is “a service sector related to the tourism industry, which includes numerous enterprises of different directions (such as hotels, restaurants, travel agencies, tour operators, entertainment establishments, cultural and natural heritage sites, transport companies; this also includes enterprises, supporting the functioning of these main enterprises, namely: insurance companies, trade enterprises, the media, educational institutions, etc.) based on the principle of hospitality, serving tourists, travelers, as well as the local population and organizing their recreation and leisure” [Pokhomchikova, 2014]. Since 2020, the industry is in a very challenging situation. There are no tourist trips around the world. People and businesses experienced a shock, a lack of understanding of an array of new negative phenomena – “self-isolation”, “coronavirus”, “curfew” is everywhere. Borders between countries are closed, daily reports on the number of infected people across all countries continue to grow: almost 200 million cases of infection and more than 4.2 million deaths from COVID-19 (cases of infection: 198,216,868, deaths: 4,221,854; data as of 08.01.2021, 11:23 Moscow time)¹. The first place in terms of sickness and mortality belongs to the United States – 34.9 million people and 613.2 thousand people respectively; Russia

also has high sickness rate – 2.3 million people with 159.4 thousand people dead. Here are some official statistics for the countries with the highest COVID-19 cases, based on data from the World Health Organization (**Table**)².

Challenges for the hospitality industry posed by the pandemic

The COVID-19 pandemic has become the most serious challenge for the hospitality industry ever. According to the OECD report “Rebuilding tourism for the future”³, in 2020, the international tourism economy contracted by about 80 %. The World Tourism Organization (UNWTO) says that by the end of 2021, the losses of this sector will exceed 1 trillion US dollars, and more than 100 million people may lose their jobs.

According to UNWTO, from January to August 2020, the drop in export revenue from international tourism amounted to 730 billion US dollars compared to the same period in 2019. This is more than 8 times higher than the losses incurred as a result of the global economic and financial crisis of 2008–2009. During that period, due to the downturn in the economy, rising fuel prices, falling demand for air tickets and package tours, many air carriers and tour operators around the world ceased to exist.

The largest decline in tourism revenues due to COVID-19 was recorded in Spain. Compared to the previous year, in 2020 revenues fell by 80 % – from 79 to 16 billion US dollars. In Thailand, revenue decline is 78 % (12.9 instead of 59.7 billion US dollars), in Japan – 77 % (10.8 instead of 46.1 billion US dollars). In the United States, the decline was approximately 67 %, from 193.3 to 63 billion US dollars. In some other countries the decline in income is also significant: Canada (61 %), Italy (60 %), France (49 %), Germany (45 %), and Australia (44 %). In Russia, tourism revenues are relatively small, but in percentage terms, the decline was one of the most significant – by 76.3 %, from 11 to 2.6 billion US dollars⁴.

The current crisis has shown the longstanding structural weaknesses in the tourism economy:

It is an extremely fragmented sector consisting of small and medium-sized businesses, which, in contrast to large businesses, are most susceptible to market fluctuations.

There is a high degree of business debt along with high bank rates for the hospitality industry.

The tourism industry is highly seasonal.

OECD experts emphasize that there are many gaps in the ability of governments and businesses to respond quickly to new challenges and crises.

In our opinion, one more important problem should be added here – the lack of a unified strategy for overcoming the crisis in the tourism industry, both at the national and international levels. All attempts to solve the challenges of

Table. Statistics of COVID-19 cases by countries of the world (WHO data as of 08.01.2021)

Country	Total cases	Died	Mortality rate	Average number of cases per 100 thousand people
USA	34 978 276	613 157	1,8%	24
India	31 655 824	424 351	1,3 %	3
Brazil	19 917 855	556 370	2,8 %	17
Russia	6 288 677	159 352	2,5 %	16
France	6 190 334	112 055	1,8 %	33
United Kingdom	5 883 421	129 949	2,2 %	40
Turkey	5 727 045	51 332	0,9 %	24
Argentina	4 929 764	105 721	2,1 %	29
Colombia	4 785 320	120 723	2,5 %	19
Spain	4 447 044	81 486	1,8 %	51
Italy	4 350 028	128 063	2,9 %	9
Iran	3 871 008	90 630	2,3 %	35
Germany	3 776 724	91 666	2,4 %	3

¹ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports>

² <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports>

³ <https://www.unwto.org/international-tourism-and-covid-19>

⁴ <https://howmuch.net/articles/high-tourism-countries-income-loss-due-to-pandemic>

the last two years have led to the futile use of individual measures and tools that do not have a systemic nature.

What is happening in this industry now? What assessment can be given to the measures taken? What are the trends and prospects for its development? In the economic theory and practice of most developed countries of the world, a crisis is not only a decline in the production of goods and services, serious losses in productivity, resources, income, but also an opportunity for a new beginning, the possibility for a breakthrough to a new level of efficiency using revolutionary technologies. The main thing here is to be able to take advantage of these new opportunities.

The aforementioned problems of the tourism industry led to multidirectional consequences, which we would assess as follows:

Activities in many areas have been suspended, especially in the tourism and hotel business (the exception is domestic tourism in Russia).

There is an opinion regarding the duration of the crisis – more than 12 months with a change in the active phases of “return to normal, growth” and “return to the initial position” during quarantine.

Along with this, there is a search for new market opportunities – assessment of the changing market situation and adaptation to new realities.

There is a massive increase in the use of digital technologies by both customers and service providers (establishment of a direct relationship/emotional connection through digital communications).

In the new conditions, business models of activity and management are changing, in particular – carriers, hotels, tour operators, travel agents, and service providers.

Consumer behavior patterns also change – “new” preferences and habits appear, higher sensitivity to hygiene and health issues, healthy eating, active sports, special attention to travel safety, etc.

The rapid transition to an online way of doing business has affected many travel companies, changing the internal structure of organizations, management methods, sales, and communication with customers.

At the same time, research shows that the demand for travel is still high. According to Ipsos, in March 2021, 69 % of respondents said they planned to travel within Russia, 36 % expressed their readiness to go abroad. Those who did not plan to travel name the following reasons – a high risk of contracting coronavirus (42 %), high cost of travel (37 %), unwillingness to undergo quarantine measures at the destination (29 %), etc.⁵

Domestic tourism in the Russian Federation

It should be noted that the growth in demand for domestic travel in the Russian Federation corresponds to global trends in the tourism market (UNWTO “Tourism Barometer” report). However, compared to the domestic tourist markets of India, China, the USA, Japan, and other countries, the number of domestic trips in Russia is still relatively small.

In the current circumstances, the client’s profile has changed. According to the consulting and auditing company KPMG, in most cases, the people who refused to travel were able-bodied people aged 35 to 60 years, including families with children who are concerned about both uncertainty and safety issues during travel.

Due to the closure of external borders, many residents of the Russian Federation went on a trip around the country, although they had not previously planned this. For Russia, the development of domestic tourism brings some additional benefits:

Consumers estimate a higher degree of certainty when planning a vacation: if the country’s borders are closed and will not open soon, then the probability of closing borders between the regions of Russia is extremely low. At the same time, the period of vacation for consumers is also limited.

There is still a possibility of getting sick – what to do in case of illness during a trip? In the Russian Federation, you can get medical care free of charge. On the contrary, while abroad, there are real problems for foreigners with its provision and the cost of treatment.

When travelling domestically, there is an opportunity to save money: on accommodation (you can stay with relatives or friends), and on the services of a tour operator (tickets) – you can order them by yourself without the necessary participation of a tour operator or travel agent.

For older clients, the problem of foreign languages and customs in foreign countries is quite relevant; when traveling in Russia, there are no such problems.

Among the most popular regions for travel, in addition to Moscow and St. Petersburg, there are the Republic of Tatarstan, Karelia, Altai, Kamchatka, Sakhalin, Baikal, etc.

At the same time, the problems of developing domestic tourism remained the same as they were before the pandemic situation:

High cost of travel (accommodation and tickets) due to remoteness and low transport accessibility; the almost complete absence of low-budget options in the field of tourism between the cities in Russia.

Insufficient level of service compared to expectations (low level of staff training and lack of professional personnel). An interesting fact is that expectations are compared not with what happened before the pandemic but with the year of the pandemic itself, that is, with quarantine restrictions, inconveniences during the trip, and the inability to travel at all.

Low level of infrastructure, tourist facilities, attractions, poor condition of roads and roadside infrastructure.

Concerns about health safety in some regions, especially during summer. For example, it is not possible to maintain a safe distance between people on the beach.

The probability of getting less vivid impressions while traveling around the country despite many interesting offers related to excursions, entertainment activities aimed at studying the culture of indigenous peoples, etc.

New difficulties, such as unpredictability or uncertainty of demand. There is no confidence in the future, and on the contrary, due to this, bookings in advance have

5 <https://www.ipsos.com/ru-ru/plany-puteshestviy-v-2021-godu>

significantly decreased, and sales of “last minute deals” have increased.

Despite many challenging moments, the crisis has accelerated development in the hospitality industry, which, in our opinion, will only intensify in the next years:

Changing preferences in the types of tourist recreational activities. Independent recreation is gaining popularity; as a result, more individual tours appear. The “new generation of tourists” minimizes the use of travel agency services by booking hotels and tickets online (low prices, it is a convenient, fast, and reliable service). As a result, we see sales growth through online resources.

Demand for domestic tourism is increasing.

There is a change in the business model of tour operators (consolidation of tour operators with their own airlines, the transition of tour operators to the B2C market, combining tourist products with the offers of other tour operators), and a change in the business model of travel agencies (reducing the agency commission, closing a large number of travel agencies, strengthening the role of expert advice, organizing complex individual programs, thematic tours, etc.).

Intensive development of new digital technologies and internet resources (metasearch engines, Online Travel Agencies (OTA) are becoming global distributors of travel services, some of them are starting to participate in transactions between customers and suppliers (marketplaces)). Big data technologies are used more often when planning the structure of a tourist product and analyzing factors that affect the dynamics of sales.

The widespread introduction of modern technologies such as robotics, virtual reality (video services, 3D tours of the aircraft cabin, hotel), etc.

In our opinion, in the near future, the hospitality industry can still face serious challenges. This industry will experience more than once the problems associated with quarantine and border closures. According to a survey conducted among participants in the tourism market in Russia and the CIS at the end of 2020, the industry will return to its pre-crisis state no earlier than 2023⁶. However, as we know, the tourism sector can withstand economic downturns and crises and can play a key role in reviving both the global and Russian economies in the post-crisis period.

The Tourism Development Strategy of the Russian Federation

To consolidate the trend and strengthen the development of domestic tourism, it is necessary to have a coordinated position and unified strategies for the main market players – business companies working in the hospitality industry and government authorities at the federal and regional levels. To make this happen, we propose to make adjustments to the Tourism Development Strategy of the Russian Federation for the period until 2035 (hereinafter referred to as the Strategy), which was approved on September 20, 2019, and did not take into account the new

pandemic realities. It is necessary to develop, coordinate and implement a modern Strategy for the development of the industry, taking into account the need to overcome the crisis caused by the coronavirus pandemic as well as to adapt this Strategy to modern circumstances.

The already adopted Strategy notes that “a particularly significant socio-economic effect of tourism development for the population involved in the formation and provision of services is the growth of employment and incomes of the population...”. It is necessary to maintain the level of employment since many people lost their jobs in 2020 due to the pandemic. Many workers were dismissed, some were sent on indefinite unpaid leave, and others resigned. In Russia, in 2020, the number of registered unemployed people increased from 3.5 million to 4.8 million. The increased burden on social payments for unemployment, as well as the lost tax payments to the budget from the tourism business in the regions of Russia, has greatly complicated the situation. The current version of the document prescribes measures of financial support only for some types of tourism activity. However, new mechanisms of financial support for all spheres of tourism in regions of Russia need to be introduced and supplement the new version of the Strategy.

Today, in the absence of tourists arriving from abroad, it is advisable to accelerate the development of regional infrastructure. This primarily concerns transport: it is necessary to improve the transport accessibility within tourist areas, provide preferential terms and financial guarantees for the construction/reconstruction of hotels, improve tourist facilities and other infrastructure. According to the adviser to the head of the Federal Agency for Tourism of the Russian Federation, Elena Lysenkova, “if we do not help the owners of assets in the current situation, then we will never be able to stimulate them to invest in the development of the tourism industry”⁷.

To increase investment in tourism, stimulate investment activity of entrepreneurs and the formation of modern investment projects, it is proposed to reduce contributions both to extra-budgetary funds (it can have a significant effect on the implementation of new investment projects in tourism), and the use of other instruments, for example, through a deferred payment of taxes and reducing the VAT rate to at least 10 % (for tour operators, hotel business structures). This will have a significant economic effect for the entire industry since it will allow to complete the projects started earlier, reduce the administrative staff of companies, solve the issue of “whitewashing” the business, etc.

The main problem for medium-sized businesses is the lack of VAT input from a large number of suppliers without VAT (individual entrepreneurs, self-employed, etc.). Therefore, the cost of services for the end-user, in addition to profit, should be increased by 20 %. In this regard, companies are trying to optimize the tax burden in various ways, including by violating the tax legislation of the Russian Federation. In 2022, catering enterprises will be exempt from VAT if their revenue does not exceed 2 billion rubles per

6 <https://assets.kpmg/content/dam/kpmg/ru/pdf/2020/12/ru-ru-tourism-in-russia-current-situation-and-recovery-prospects.pdf>

7 <https://tourism.interfax.ru/ru/news/articles/68942/>

year. The share of income from catering services in the total income of such organizations or individual entrepreneurs should be at least 70 %.

Methods to stimulate demand for touristic products in a crisis need to be identified as a separate area. Nowadays, it is important to focus not on group tourists but on independent travelers, whose share grows every year. The program of state support with cash-back promotions for travel vouchers has been implemented perfectly. At the same time, in the future, it can be implemented more precisely to increase the tourist flow to rapidly developing regions.

In the current Strategy, the basis for stimulating demand and ensuring the availability of touristic products is a system for subsidizing Russian touristic products. To maintain the domestic demand, it is proposed to increase subsidies for the organizations working with transportation of tourists, organizations working in cultural, educational, and event field, including the development of children's tourism, medical and wellness tourism, travel routes for pensioners, etc., especially in the off-season period.

Participation in co-investment and the launch/implementation of digital technologies and services should also be taken into account in the Strategy, since, with the help of new technologies, the demand for touristic products increases, transaction costs decrease, awareness of tourist destinations, new locations, and interesting projects raises.

Conclusion

In the new conditions, it is necessary to review development plans, evaluate priority steps and expected results. In other words, it is necessary to adjust the main indicators of tourism development in the Russian Federation. Despite all the measures of state support that many organizations of the tourism and hospitality industry can use, they need to reconsider their approach to doing business. The future will show how the tourism industry will survive the crisis, but whether the business will prosper depends on the businessmen themselves. Here are some general recommendations for business structures that can be offered in the current conditions:

- assessing the situation both in the market and in the company, which requires constant monitoring (team, marketing, finance);
- analyzing and monitoring changes, such as marketing

innovations (target audience research, search and creation of new products, testing new channels, working with content, increasing the level of service);

- working with data analytics (requests, demand volume, changes);
- implementing measures to stimulate demand (analysis of deferred demand, behavioral patterns), applying situational marketing;
- working with market segments, using marketing strategy;
- developing flexible price offers, e.g., for situations with a lack of brand loyalty, with high anxiety or insecurity;
- working with clients "directly" (reminders, empathy for consumer values, client retention, offering support services, solvency analysis, conducting surveys, in-depth interviews, creating communities, forecasting changes in the target audience/promising niches);
- collaborating with bloggers and opinion leaders, using promotion in social networks;
- creating the possibility of remote work, adapting the websites (keywords, customization for requests);
- implementing Customer Relationship Management (CRM) (input of customer analysts, "getting to know" potential customers better);
- developing specialized types of tourism: ecological tourism, medical and wellness tourism, auto tourism, sports, extreme/adventure tourism, etc.;
- implementing modern IT technologies;
- training and retraining personnel for more effective work in new conditions.

In Russia, the hospitality industry is experiencing a serious development crisis caused by both external factors (the global coronavirus pandemic) and internal accumulated problems. At the same time, during the crisis, there is a renewal, the reset of outdated forms of management, technologies, and behavioral models. The crisis provides a chance for the revival at a new technological, socio-economic, digital level not only of the branches of the real sector of the economy but also of various segments of the service sector. First of all, this is the sphere of tourism, travel, recreation, entertainment. It is with these services that positive emotions, new impressions, pleasures, and anticipation of the holiday are associated, which people always striving for, forming a steady growing demand.

References

- Pokhomchikova E.O. The concept and structure of the hospitality industry. *Vestnik Kemerovskogo gosudarstvennogo universiteta*. 2014. Vol. 3. No. 4 (60). In Russian
- The World Health Organization informational portal. <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports>. In English
- The World Tourism Organization (UNWTO) informational portal. <https://www.unwto.org/international-tourism-and-covid-19>. In English
- Informational portal. <https://howmuch.net/articles/high-tourism-countries-income-loss-due-to-pandemic>. In English
- Informational portal. <https://www.ipsos.com/ru-ru/plany-puteshestviy-v-2021-godu>. In Russian
- The KPMG International Limited (KPMG) informational portal. <https://assets.kpmg/content/dam/kpmg/ru/pdf/2020/12/ru-ru-tourism-in-russia-current-situation-and-recovery-prospects.pdf>. In Russian
- Interfax informational portal. <https://tourism.interfax.ru/ru/news/articles/68942/>. In Russian
- Rosturizm informational portal. <https://tourism.gov.ru/contents/covid-19/mery-podderzhki/aktualnye-i-prinyatyemye-podderzhki-dlya-predpriyatiy-turistskoy-otrasli-malogo-i-srednego-biznesa/#>. In Russian
- The Garant legal informational resource portal. <https://www.garant.ru/products/ipo/prime/doc/72661648/>. In Russian