
HOTEL AND RESTAURANT BUSINESS UNDER WAR CONDITIONS: KEY CHALLENGES AND SURVIVAL STRATEGIES

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Abstract. *The full-scale military aggression against Ukraine has formed a completely new socio-economic reality of the functioning of all the sectors of the national economy. The new operating conditions have become a significant challenge for the hotel and restaurant business as well: some business entities were forced to completely stop their activity or repurpose it. Considering that, the issues of forming key strategic orientations and approaches in the hotel and restaurant business with the aim of preserving it and forming the potential of post-war development are gaining special relevance today.*

The purpose of the research is to characterize the key challenges of the hotel and restaurant business in wartime and to substantiate possible strategies for their survival.

Methods. *The study analyzes the activities of business entities in the hospitality industry, based on the data of the official statistics and the results of surveys by international analytical companies. An adapted method of ABC analysis is applied in order to rank the challenges of the hospitality industry under martial law conditions.*

The findings of the research. *An analysis of the main indicators of the hospitality industry in Ukraine until 2022 is carried out. The composition and structure of the key challenges to the functioning of business in the conditions of martial law are studied. The identified factors are ranked and classified into three groups: general, specialized, and individual importance. The specific challenges of the hospitality industry under martial law are outlined and possible strategies for overcoming them are defined.*

Keywords: *hotel and restaurant business, hospitality industry, martial law, survival strategies, challenges*

Actuality.

The full-scale military aggression of a neighboring state against Ukraine has created a completely new socio-economic reality of functioning for absolutely all sectors of the national economy. At the same time, a significant part of business entities has been forced to completely stop their activities. Thus, according to the research of Advanter Group and the USAID Program of Competitive Economy of Ukraine [1], as of the beginning of summer 2022 in Ukraine, 46.8% of business entities had stopped or almost stopped their activities. At the same time, businesses in the territories, directly in the occupied territories or near the war zone, suffered the most: 87% of enterprises in the East, 44.5% in the South and 56.8% in the North of Ukraine.

April survey of Gradus Research Company [2] testified that in the structure of active Ukrainian business during the martial law, 6% was occupied by the activities of restaurants and cafes, while the hotel business accounted for only 1%. At the same time, 55.5% of economic entities from those that have not completely stopped their activities do not have a further strategic vision of their functioning and are at the stage of intuitive management [1]. Consequently, the issue of forming key strategic orientations and approaches in the hospitality industry in order to preserve business and form the potential of its post-war development is becoming particularly relevant today.

Analysis of recent research and publications.

The definition of the essence of in-

Questions of formation and improvement of strategies for hotel and restau-

rant business enterprises have been in the field of view of researchers for a long time. Among the key achievements of recent years, it is worth noting: the method of simplified construction of multi-criteria decision matrices and assessment of the importance of criteria for the implementation of state strategies for the activation of the development of the hospitality industry in the post-COVID period [3]; formation of the strategy of three R (reopening, recovery, resilience) for the hospitality industry, which suffered due to the impact of quarantine restrictions [4]; the strategy and technology for the development of the economic potential of enterprises in the tourism and recreation sphere [5], which is based on the application of the modified system of inequalities of the "golden rule of economics"; approaches to the selection and optimization of the crisis management model of the hospitality industry for the period of the pandemic [6]; assessment of changes in consumer preferences regarding the use of catering services as a result of quarantine restrictions [7]; study of social aspects and behavior patterns of users of hospitality industry services during the pandemic [8].

At the same time, the situation in which the domestic hotel and restaurant business found itself is completely new for the modern global economic space, although the problems of the functioning and preservation of the business of the hospitality industry in Ukraine during the martial law period are currently in the field of view of domestic scientists. For example, T. Sydorenko [9] investigates the peculiarities of the operation of the hotel and restaurant business in the conditions of martial law, K. Palamarek, O. Romanovska and L. Strutynska [10] focus on the study of the impact of crisis phenomena on the hospitality

industry in Ukraine, S. Bazhenova, Yu. Pologovska, I. Kantsur [11] update the issue of finding ways to develop the hotel and restaurant business under modern conditions, etc. At the same time, the outlined issues require further research in the context of summarizing existing developments and forming, based on them, basic strategic alternatives for the survival of enterprises in the hospitality industry, especially taking into account the temporal uncertainty of the duration of the active phase of hostilities.

The purpose of the research is to characterize the key challenges of the hotel and restaurant business in wartime and to substantiate possible strategies for their survival.

The methods.

The study analyzes the activities of business entities in the hospitality industry, based on the data of the official statistics and the results of surveys by international analytical companies. The

methodological base of the research consists of general scientific and special methods of economic theory and economic analysis. In particular, methods of comparative analysis and synthesis - for detailing the research object; economic-mathematical - to assess the volume of activity and the dynamics of the development of the hotel and restaurant business in Ukraine before the full-scale military invasion; graphic - for the purpose of visual illustration and construction of diagrams related to the subject of research; abstract and logical - for substantiating tasks, generalizations and formulating conclusions.

The results.

The domestic hospitality industry suffered significantly during the period of the COVID-19 restrictions and in the fourth quarter of 2021 only began to actively recover, although it did not reach the pre-pandemic level of functioning (Fig. 1).

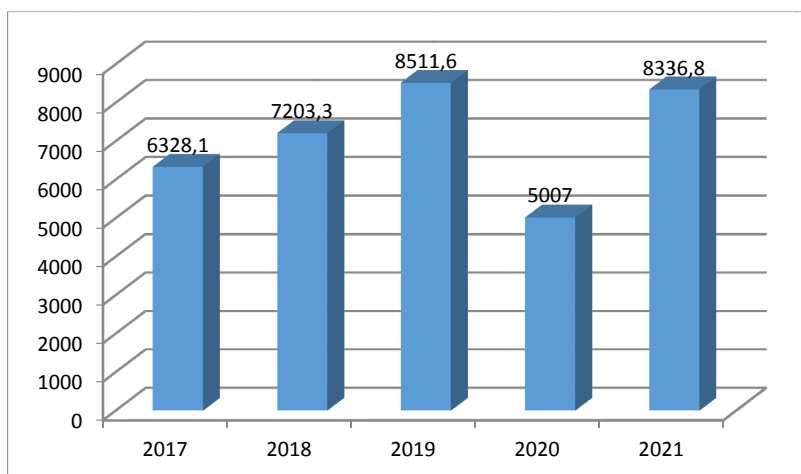


Fig. 1. The volume of services provided by temporary accommodation and catering establishments in Ukraine in 2017–2021 (as of the end of Quarter IV), UAH million*

* made by the author based on the data [12]

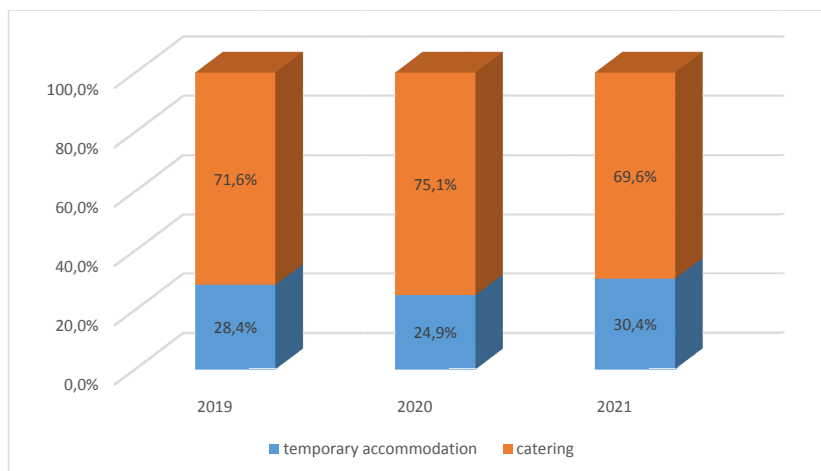


Fig. 2. The structure of revenues of the hotel and restaurant business of Ukraine in 2019–2021 by main types of activity (as of Quarter IV), %*

* calculated by the author based on the data [12]

Stable three-year growth in the volume of services provided in the hotel and restaurant business in Ukraine, even under the conditions of the occupation of part of the territories and constant hostilities in the East, was leveled by the introduction of quarantine restrictions - in the fourth quarter of 2020, hospitality industry establishments lost 21% of income in compared to 2017 and 41% compared to industry revenues in 2019.

It should be noted that in the fourth quarter of 2021 there were even some changes in the structure of service volumes of the hospitality industry compared to previous periods. Thus, for the first time, the revenue of temporary accommodation facilities exceeded 30% of the total revenue structure of the hotel and restaurant business (Fig. 2).

Instead, in 2022, according to the data of international analytical companies [2], it was the hotel business that was one of the most affected by the martial law. Among the key factors of

the crisis of the martial law hospitality industry, researchers [10] single out:

- unstable socio-economic situation;
- close proximity to the combat zone or occupation.

At the same time, they emphasize the unsolved complex of systemic problems of the industry, including the imperfection of the tourist infrastructure, low quality of service and high cost of services.

If we talk about Ukrainian business as a whole, then the key challenges for it, judging by the results of a survey conducted by a number of organizations [1], during the period of martial law were:

- a significant decrease in solvent demand;
- the impossibility of predicting the development of events;
- lack of equity capital;
- unpredictability of government;
- loss of supply chains (Fig. 3).

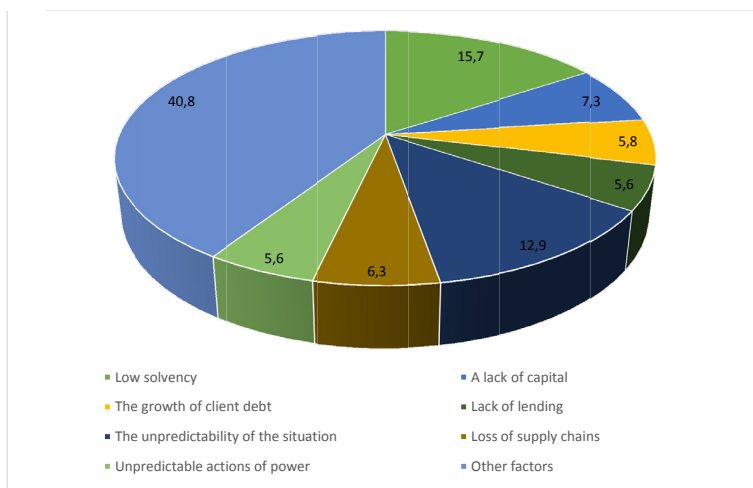


Fig. 3. The structure of key business challenges under war conditions by the level of importance for entrepreneurs*

* calculated by the author based on the data [1]

Thus, in 15.7% of cases, respondents indicated the lack of a sufficient number of solvent customers on the domestic market as the biggest challenge for business operation. The second most important factor is the unpredictability of the development of the situation in Ukraine and the domestic market - this factor was noted as one of the most important by 12.9% of respondents.

It is worth noting that in 40.8% of cases, the respondents indicated other factors as important obstacles to conducting business in the conditions of martial law, none of which in general exceeded the 5% barrier of importance within the limits of our study. Therefore, an ABC analysis of the identified factors was carried out for a clearer ranking of business challenges in the conditions of martial law (Table 1).

On the basis of the conducted analysis, it is possible to single out three groups of factors influencing business in the conditions of martial law. The first group is general factors, which includes

those factors and challenges of wartime that are faced by every business entity. This group includes, in addition to those we defined earlier in Fig. 3, as well as significant logistical problems and the accumulation of all business resources, both material and human, to help the front.

The second group of factors, the influence of which was noted by a small group of respondents and whose total specific weight is about 20% according to the calculations, contains specific factors of influence. That is, in this case, we are talking about those wartime factors that have an impact on certain areas of business, on certain industries, groups of enterprises, etc. In this case, we are talking about the lack of necessary raw materials or qualified personnel, insufficient government support, a high level of tax burden and obstacles from regulatory bodies and, which is typical for businesses located in territories directly in the combat zone or territories close to it - accumulated fatigue staff

1. ABC analysis of business challenges under martial law*

The factor	Specific weight, %	Accumulated specific gravity	Result
Lack of a sufficient number of solvent customers in the domestic market	15.7	15.7	≈ 70%
Unpredictability of the development of the situation in Ukraine and the domestic market	12.9	28.6	
Lack of sufficient capital	7.3	35.9	
Destruction of supply chains	6.3	42.2	
Growth of customer debt (doubtful debts)	5.8	48	
Unpredictability of state actions	5,6	53.6	
Unavailability of credit funds	5,6	59.2	
Inefficiency, high cost and significant loss of time in logistics	4.8	64	
Focusing all resources on helping the Armed Forces, TRO, displaced persons, refugees, etc	4.3	68.3	≈ 20%
Lack of orders in foreign markets	3.7	72	
Lack of necessary support at various levels of government	3.3	75.3	
Owner/Management Fatigue	3.3	78.6	
High taxes and fees	3.0	81.6	
Lack of necessary raw materials and materials	2.7	84.3	
Lack of sufficient number of qualified personnel	2.7	87	
Obstacles from regulatory and fiscal authorities	2.5	89.5	≈ 10%
Dumping of competitors, decrease in profitability in the industry	2,3	91.8	
Inaccessibility of data, knowledge, information	2.0	93.8	
Lack of business support at the community level	1.8	95.6	
Insufficient state support for exports	1.5	97.1	
Lack of necessary equipment	1.3	98.4	
Unfair competition	0.8	99.2	
Outdated business model	0.8	100	

* built and calculated by the author according to the data [1]

The third group of factors, the total specific weight of which does not exceed 10%, according to the calculations, consists exclusively of individual factors, that is, those factors and challenges that became characteristic of a specific economic entity during the period of martial law.

In this case, we talk about the aggravation of those problems that in the period of pre-war functioning did not acquire critical importance from the point of view of the survival of economic en-

tities. In particular, such challenges are the lack of necessary equipment, dumping and unfair competition, the obsolescence of the applied business model, the lack of support for export activities from the state, etc.

If we talk about the hospitality industry itself, we should note that it is characterized by absolutely all the challenges that we have classified as a general group. However, there are also specific factors, among which, in particular, the complete stoppage of tourist

traffic in the country and a significant drop in demand for hotel and restaurant business services, especially during the first three months of the active phase of hostilities. Increasing requirements for the safety of both staff and customers, especially in areas under constant threat of shelling - in Sumy, Chernihiv, Zaporizhzhia, Mykolaiv, Odesa, Kharkiv, Dnipropetrovsk Oblast, etc., which requires the provision of shelter, strengthening of requirements for the safe stay of guests in institutions and, accordingly, requires additional capital investments. Repurposing hospitality industry establishments into temporary shelters for internally displaced persons, territorial defense headquarters or volunteer centers. In addition, one of the important factors in the functioning of hospitality industry establishments in the context of the beginning of the heating season is the ability to ensure the availability of electricity, water and heating, which, again, requires additional capital investments in the purchase of at least diesel generators, electric heating devices, the formation of reserve water reserves etc.

Thus, the martial law has become a rather significant challenge for the hotel and restaurant business, although even now it is safe to say that the industry as a whole will successfully overcome it. Especially in the context of truly effective support both at the state level and at the level of a number of state and international institutions and organizations. Thus, if the state introduced separate tax incentives for taxpayers, allowing large businesses to use a simplified taxation system, and sole proprietors of Groups I and II to pay a single tax on a voluntary basis [13], then the Association of Hotels and Resorts of Ukraine together with the State Tourism Development Agency and a number of other

organizations organized the campaign Visit Ukraine in future [14], aimed at attracting charitable funds as hotel room reservations by foreigners. In addition, various grant programs are being implemented to support micro-businesses and self-employed persons. Thus, the UN Migration Agency organized a grant competition in the Lviv, Zakarpattia, Kyiv, Chernihiv and Sumy regions for micro-enterprises and self-employed persons, with preference given to those operating in the hospitality industry, hotel industry, restaurant business and public catering [15].

Based on all of the above, we can conclude that the key strategy for the survival of the hotel and restaurant business in the conditions of martial law in the areas of increased risk of shelling or destruction is partial repurposing. First, it will allow staff to be retained, providing them with employment and appropriate remuneration. Secondly, it will allow establishing cooperation with local authorities in part, at least, of compensation from local budgets for payment of communal services, that is, to ensure the full functioning of the institution. Thirdly, this approach will form a positive image of the institution both in the strategic perspective and in the current time, stimulating existing and potential customers to make donations or contributions to support its charitable activities. Fourthly, active coverage of non-professional charitable activities of hotel and restaurant establishments on the Internet will increase the level of awareness of potential users regarding their existence, activities, etc.

As for business survival strategies in rear conditions, the main thing here should be the strategy of adaptation to existing conditions. That is, if the institution can fully function, it should

do so, but taking into account a number of socio-economic and territorial-geographic features of the location. In particular, we are talking about reorientation to local suppliers of products and raw materials, democratization of menus and prices (including temporary accommodation services), maximizing the efficiency of using temporarily unused premises, including by renting them out. When applying the adaptation strategy, attention should also be paid to the presence of public demand regarding the social responsibility of business, supporting local community initiatives or acting as their active driver.

Conclusions and perspectives.

The hotel and restaurant business of Ukraine, operating in the conditions of martial law, although it suffered significant losses and losses, including destruction, nevertheless proved itself to be a very flexible and active player in rear support. It was the initiative and significant media activity of representatives of the hospitality industry that drew the attention of the world associations of hoteliers and restaurateurs to the problems of Ukrainian business and stimulated the receipt of significant charitable contributions in this sphere, which allowed to survive the most difficult months of the war. However, further uncertainty, especially regarding the duration of active hostilities on the territory of Ukraine, forces us to state that for the further functioning of the hotel and restaurant business, it is necessary to form a strategic vision of the future prospects of its activity or survival strategies, which is especially relevant for businesses in close proximity to the front line. On the basis of the conducted research, two key groups of

hotel and restaurant business strategies in wartime conditions were identified: strategies of partial repurposing and adaptation, however, within each group, sets of specialized strategies and mechanisms for their implementation can be singled out, which should become the topic of further research.

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ГОТЕЛЬНО-РЕСТОРАННИЙ БІЗНЕС В УМОВАХ ВІЙНИ:

КЛЮЧОВІ ВИКЛИКИ ТА СТРАТЕГІЇ ВИЖИВАННЯ

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Анотація. Повномасштабна військова агресія щодо України сформувала абсолютно нову соціально-економічну реальність функціонування всіх секторів національної економіки. Нові умови діяльності стали значним викликом і для сфери готельно-ресторанного бізнесу: частина суб'єктів господарювання була вимушена повністю припинити діяльність або ж перепрофілювати її. З огляду на це сьогодні особливої актуальності набувають питання формування ключових стратегічних орієнтирів та підходів у готельно-ресторанному бізнесі з метою його збереження та формування потенціалу повоєнного розвитку.

Мета дослідження полягає в характеристиці ключових викликів діяльності підприємств готельно-ресторанного бізнесу в умовах війни та обґрунтуванні можливих стратегій їх виживання.

Методи. В дослідженні здійснено аналіз діяльності суб'єктів господарювання індустрії гостинності, виходячи з даних офіційної статистики та результатів опитувань міжнародних аналітичних компаній. Застосовано адаптований метод АВС-аналізу з метою ранжування викликів індустрії гостинності за умов воєнного стану.

Результати. Здійснено аналіз основних показників діяльності індустрії гостинності в Україні до 2022 року. Досліджено склад і структуру ключових викликів функціонуванню бізнесу в умовах воєнного стану. Проведено ранжування виявлених факторів та їх класифікацію за трьома групами: загального, спеціалізованого та індивідуального значення. Окреслено специфічні виклики діяльності у сфері індустрії гостинності в умовах воєнного стану та визначено можливі стратегії їх подолання.

Ключові слова: готельно-ресторанний бізнес, індустрія гостинності, воєнний стан, стратегії виживання, виклики
