











“The hospitality market in Ukraine: War challenges and restoration possibilities”

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THE HOSPITALITY MARKET IN UKRAINE: WAR CHALLENGES AND RESTORATION POSSIBILITIES

Abstract

The Crimea annexation and the military aggression of the Russian Federation, which first began in some territories of the Donetsk and Luhansk regions in 2014 and escalated into a full-scale war on February 24, 2022, resulted in heavy losses of life and a humanitarian crisis, exacerbating economic, political and social instability. To restore Ukraine's economy, all businesses, including hospitality (hotel and restaurant business) sector, should continue functioning, though it is a challenging but crucial task. The paper aims to analyze the state of the hospitality market in the current war conditions in Ukraine and assess the possibilities of its restoration and development. An online survey was conducted among 282 representatives of the hospitality business in Kyiv, Sumy, Chernihiv, Dnipropetrovsk, Kharkiv, Poltava, Ivano-Frankivsk, Lviv, Ternopil, and Zakarpattia regions. Based on the results, in 2022, almost 23% of hospitality industry representatives suspended their activities, and 54% functioned only partially. Many surveyed hotels and restaurants (36%) have gradually changed and adapted their business strategies. For more than half of the hospitality representatives, expenses increased by 20-50%, and profits dropped by more than 20%. The critical consequences of the full-scale war for the Ukrainian hospitality market are as follows: disruption of supply chains, reduction in consumers' purchasing power, changes in consumer demand, shortage of certain types of products, shortage of personnel, and business unprofitability.

Keywords

hospitality industry, tourism, sustainable development,
business development, hotels, restaurants, Russian-
Ukrainian war

JEL Classification

M31, Z30, Z32, Z33

INTRODUCTION

Nowadays, the tourism and hospitality sector is one of the critical directions for achieving the Sustainable Development Goals (SDGs). Hospitality belongs to the leading industries in developed and developing countries. In particular, the final document of the UN Conference on Sustainable Development, or Rio+20, defines tourism and hospitality as vital spheres that can significantly contribute to sustainable development. It plays an essential role in creating jobs, eradicating poverty, promoting gender equality, and strengthening peaceful relations worldwide, which is a highly urgent issue today. The hospitality (hotel and restaurant) business is an integral part of the tourism industry, which aims to satisfy travel and recreation needs of the population offering accommodation, meals, transport, and excursion services (Akhorshaideh et al., 2022).

Since the beginning of 2020, representatives of the tourism and hospitality business suffer from the harmful effects of the COVID-19 pandemic (Melnyk et al., 2020). Russia's full-scale military aggression in 2022 dealt a devastating blow to Ukraine's hospitality market. In order to restore the economy, businesses in the country must work, and

keeping businesses in the conditions of war is a complicated and essential task. The hospitality sphere, being an integral part of the tourism market, is one of the most promising areas for developing and reconstructing the national economy, even in wartime conditions.

However, research recognizes wide theoretical and applied problems related to assessing the war's impact on the hospitality market in Ukraine and the need to create effective measures for its recovery and ensure further sustainable development. Therefore, this paper tries to fill in this research gap and analyze the recovery prospects of hospitality businesses in Ukraine.

1. LITERATURE REVIEW

War has devastating consequences for humanity, especially regarding lives and livelihoods. Due to a complicated economic situation in Ukraine caused by military actions, entrepreneurial activities should be intensified to strengthen the state's economic stability and ability to effectively resist the aggressor. The consequences of the Russian aggression against Ukraine are felt almost all over the world, which arouses scientists' interest in exploring subjects related to the war. However, only some studies have analyzed and evaluated the impact of the war in Ukraine on the hospitality market.

Over the past five years, most scientific articles have only considered the impact of COVID-19 on the hospitality industry. For example, Bovsh et al. (2020, 2021), Boiko et al. (2022), and Kostynets et al. (2020) assessed the impact of COVID-19 on the digitalization of the hospitality industry. They emphasized the numerous difficulties the global pandemic has posed.

Filimonau (2021) claimed that COVID-19 has imposed significant detrimental effects on the global hospitality sector. He evaluated the implications of the preventive and protective measures adopted against COVID-19 for the hospitality sector. Seyitoğlu and Ivanov (2021) recommended practical implications for the recovery of the tourism and hospitality industry (which suffered numerous losses because of COVID-19) with the help of service robots. Furthermore, they claimed that service robots could ensure a high physical and social distance during the epidemic.

These studies propose valuable discoveries because the global pandemic of COVID-19, even in the conditions of war, has not reduced its negative impact on tourism and the hospitality industry. These im-

plications can become a useful source of information regarding the recovery of the hospitality industry in Ukraine. To uncover the prospects of sustainable development in the hospitality industry, even in a high level of uncertainty, this study strives to research scientific studies related to the role of the hospitality industry and the hotel and restaurant business in implementing the SDGs.

Abdou et al. (2020) developed a questionnaire to assess the opinions of environmental management representatives on the extent to which green hotel practices contribute to the achievement of environmental SDGs. The study showed that ecological hotel practices positively contributed to achieving SDGs 6, 12, 7, and 13. The authors concluded that hospitality managers should consider environmental aspects in their activities.

Several studies have compared the degree of implementation of SDGs in the hotel and restaurant business. In particular, Bacari et al. (2021), Phan et al. (2021) and Kuznichenko et al. (2018) examined SDG initiatives in five international hotels to demonstrate how hotel owners worldwide engage in environmental movements. They discovered that the hotel sector is geared toward achieving the SDGs, but hotel owners view different ways to fulfill them.

Gil and Agudo (2022) and Melnyk et al. (2022) explored opportunities to achieve sustainable development goals in the hospitality sector while coping with the impacts of the COVID-19 pandemic. The researchers performed a statistical regression analysis on four hotels to identify the potential correlation between hotel financial performance and operations (revenue and net income of hotels) and progress in robust and responsible variables. However, this study did not test the adequacy of the calculated model, so it is impossible to assert its practical feasibility.

As Gensecka (2022) implies, the “backbone of the Ukrainian economy” consists of entrepreneurs and businesses that can work stably in a war. The effective national business guarantees that the state budget will be filled and the population will retain solvency. At the same time, current studies related to the impact of the war on the hotel and restaurant business predominantly focus on the economic situation in the country, outflow of labor in general, analysis of legislation to support small and medium-sized businesses in times of war, and volunteer initiatives of hotels and restaurants.

Bazhenova et al. (2022) considered certain theoretical aspects of developing Ukraine’s hotel and restaurant businesses in the current conditions. However, they analyzed data for 2015–2020; thus, it is problematic to conclude about the operating conditions of the hotel and restaurant business in 2022, i.e., under war conditions.

The lack of specific data on the losses of the hotel and restaurant business can be explained by the need for more sources since active hostilities complicate collecting reliable information. With the outbreak of hostilities, almost every representative of the hotel and restaurant business in Ukraine suffered certain losses. Currently, the state of Ukraine’s hotel and restaurant market depends on the region (location area and distance from the places of hostilities).

According to the Russia will Pay project of the Kyiv School of Economics (2022), in this full-scale war, Ukraine lost USD 127.0 billion from damage and destruction of residential and non-residential buildings and infrastructure (as of September 1, 2022). It is challenging to assess industry-wide losses

incurred in Ukraine’s hotel and restaurant business since hostilities are still ongoing, and the situation in some regions is unpredictable. However, the Kyiv School of Economics (2022) independently cites USD 2 billion as the sum of direct losses of Ukraine’s tourism industry.

2. AIMS

Considering the literature review, this paper aims to analyze the state of the hospitality market in Ukraine in the current war conditions and to assess the possibilities of its restoring and development.

3. METHODS

To achieve the research goals, the study uses analysis and generalization methods (to identify the state of the hotel and restaurant market in Ukraine after the invasion of the Russian Federation into Ukraine (on February 24, 2022)). In addition, it highlights the war’s impacts on Ukraine’s hospitality industry.

The study elaborated the online survey (Appendix A) to assess the current state of the Ukrainian hospitality market, determine the relevant issues, and identify the approaches for further development. The study sampled 400 representatives of the hotel and restaurant business in Kyiv, Sumy, Chernihiv, Dnipropetrovsk, Kharkiv, Poltava, Ivano-Frankivsk, Lviv, Ternopil, and Zakarpattia regions. 282 answers were received; thus, with a response rate of 70.5%, this survey is deemed valid. Table 1 shows the sample composition by region and industry

Table 1. Respondents’ profiles by region and industry type

Region	Number	Percentage	Distribution by activity type	
			Hotel business	Restaurant business
Kyiv region	31	5.50%	35.48%	64.52%
Sumy region	19	3.37%	31.58%	68.42%
Chernihiv region	18	3.19%	55.56%	44.44%
Dnipropetrovsk region	17	3.01%	47.06%	52.94%
Kharkiv region	33	5.85%	39.39%	60.61%
Poltava region	25	4.43%	20.00%	80.00%
Ivano-Frankivsk region	36	6.38%	69.44%	30.56%
Lviv region	36	6.38%	61.11%	38.89%
Ternopil region	35	6.21%	34.29%	65.71%
Zakarpattia region	32	5.67%	71.88%	28.13%
Total	282	100%	–	–

type. The survey was anonymous, and the paper summarized obtained information on the impact of the war on the hospitality industry.

4. RESULTS

Figure 1 shows the analysis of responses on the changes in the mode of operation of the hospitality sphere. Almost 23% of hospitality industry representatives have suspended their activities, and 54% are working partially. 10% indicated that they had found an opportunity to increase turnover since the beginning of a full-scale invasion. A further survey determined that those restaurants and hotels that reformatted their activities by providing budget services (forming hostels for refugees, adding complex or cheaper dinners to the menu) were able to increase their opportunities.

Many hotels and restaurants have suspended their activities due to security concerns, lack of demand, or inability to work for technical reasons (which is also somewhat costly for the country). The best situation is in the western part of Ukraine: in Ivano-Frankivsk, Lviv, Ternopil, and Zakarpattia regions, hotels and restaurants operate at total capacity, and there are no prerequisites for closing or stopping their work.

According to Suprun (2022), more than 2,000 new catering establishments have opened, but about 7,000 have stopped working since the full-scale war in Ukraine began. Overall, the restaurant business market is down about 25% compared to February 2022. In some regions, the market decline was more than 50% (Kharkiv, Mykolaiv, Zaporizhzhia, and Luhansk regions); in Kyiv, Odesa, and Dnipropetrovsk regions, the drop is up to 30%. By the beginning of summer, the market decline was more significant. However, since June, restaurants have begun to open in Kyiv (Kobynets, 2022). The restaurant market developed most intensively in Lviv: more than 500 new establishments have opened since the beginning of the full-scale war.

As for the changes in business strategies, most surveyed hotels and restaurants are gradually adapting their business strategies, considering the new wartime conditions. Companies are also diversifying their operation and looking for additional areas of activity. 6% of hotels and restaurants have radically changed their strategies; others need more time to finish the planning process. Viewing all responses, the trend for adaptation to conditions showed the highest indicators (Figure 2).

Based on the questionnaire results, hotel and restaurant businesses chose to relocate only in a few

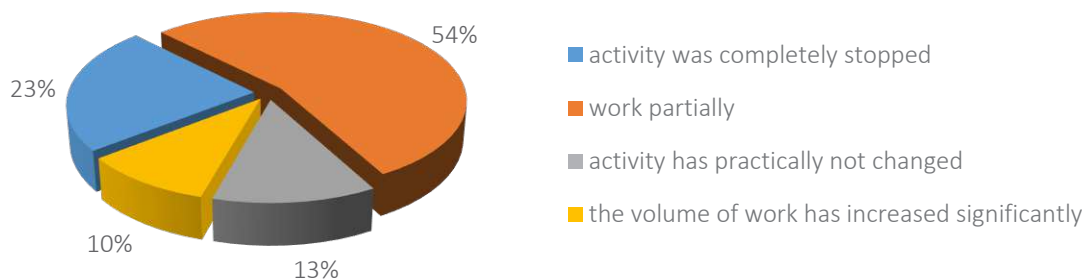


Figure 1. Mode of operation of the hospitality industry

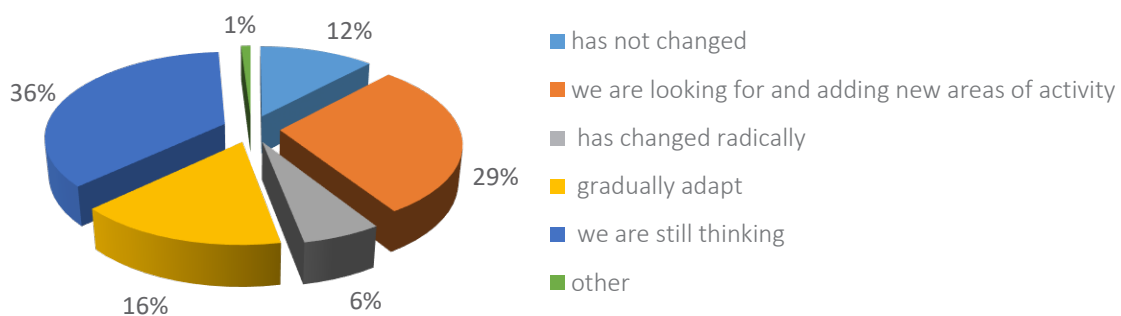


Figure 2. Changes in the business strategy considering new realities

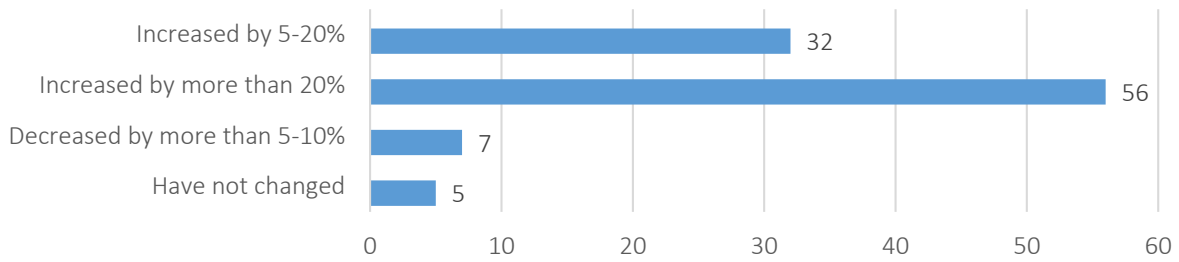


Figure 3. Changes in expenses of the hospitality industry during the Russian-Ukrainian war

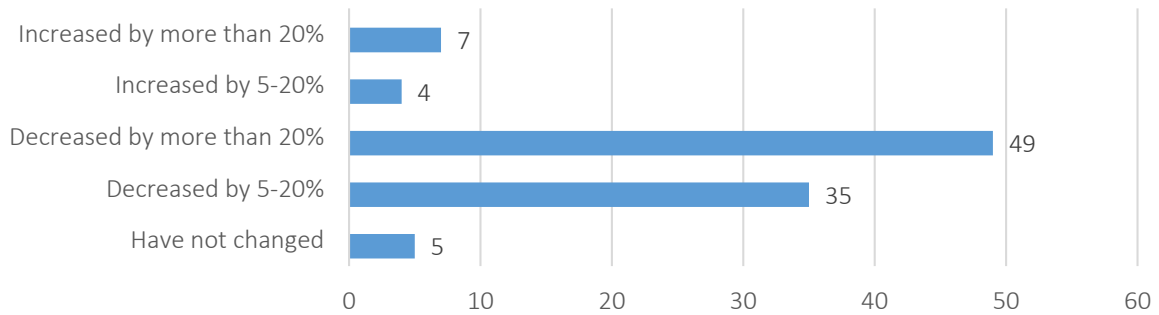


Figure 4. Changes in profits during the Russian-Ukrainian war

cases. That is, 97% of restaurants and hotels operate where they were before the military invasion.

As for costs and expenses, more than half of the surveyed hotels and restaurants noted an increase of 20-50%. This may indicate that although the volume of services decreased, taxes and salaries were paid from companies' financial reserves. Entrepreneurs who managed to cut costs – about 5-10% – remained in the minority. Only 5% did not feel the impact of the war on expenses (Figure 3).

Almost all interviewed representatives of the hotel and restaurant business saw a decrease in profits due to the war. When comparing the responses, it can be noted that hotels are more vulnerable to

crisis difficulties, because more than 40% of hotels saw their profits halved (Figure 4).

Despite the country's risky and unpredictable situation, the Ukrainian hotel and restaurant businesses are trying to adapt, survive, and even develop. Nevertheless, the hospitality sector continues to struggle with difficulties and has optimistic hopes for revitalizing its activity (according to the questionnaire responses). In particular, 41% of respondents expect recovery within 2-3 years (Figure 5).

To overcome the crisis, the hotel and restaurant industry needs support from the state and marketing approaches to attract customers (Figure 6).

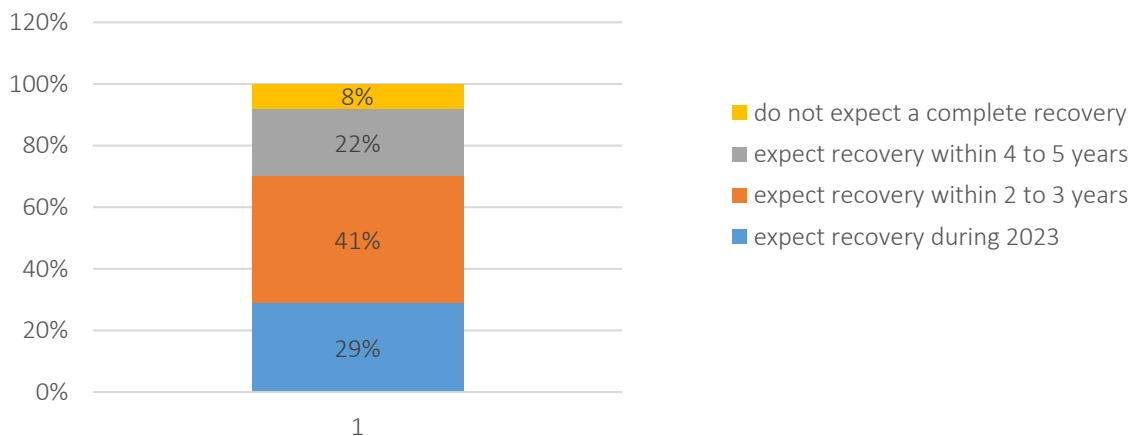


Figure 5. Expectations of the hospitality industry regarding the timing of business recovery

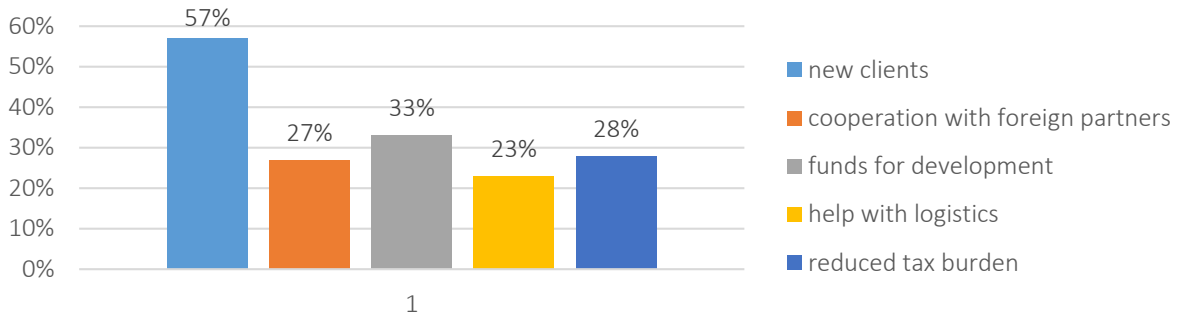


Figure 6. The primary needs of the hospitality market participants

Concerning the last part of the questionnaire, the study split the answers according to the type of activity. The respondents indicated the following central problems for the development of restaurant business and market participants during the war:

1. Supply chain disruption. Restaurants cannot simply move to a safer location. The most challenging situation with logistics was in the first weeks of the war: owners could not predict or plan their activities. It was almost impossible to move products from one warehouse to another. Now the situation has stabilized as much as possible, and restaurateurs have the opportunity to forecast the amount of food needed or the best route. However, the Russian-Ukrainian war and the related economic consequences have increased the pressure on the global supply chain that has not fully recovered from COVID-19, causing additional problems with rising transportation costs and higher food prices.
2. Lack of food. The war caused a surge in inflation and a global crisis in food availability. This problem is closely related to the previous one. Most supply chains are either lost or changed. In addition, some suppliers and factories stopped working altogether, resulting in a shortage of some products.
3. Understaffing. Because of the panic, people began to leave their homes and go abroad or to western Ukraine. This led to a labor shortage. Those who decided to stay could resume their work only once the situation cleared up. Currently, employees are gradually returning, and many volunteers have decided to join the food security and provision projects.
4. Economic component (self-sufficiency). This issue still needs to be solved. All businesses function on reduced hours due to curfews and constant power outages and receive about 30%-50% of their pre-war income. The maximum that restaurants and cafes can achieve is to break even without losses. Those companies that voluntarily acted from the beginning suffered the most; no one compensated them for the cost of a communal apartment.
5. Consumer demand. Among the reasons that prevent the restaurant business in Ukraine from recovering is the need for a sufficiently higher number of paying customers in the domestic market. Moreover, with uncertainty and rising prices everywhere, consumers are moving away from “free shopping” and sticking to the “basic shopping basket.”

During the war, only three categories of food establishments showed high adaptation rates: small coffee houses, bakeries, and expensive restaurants. The first two offer a flexible work policy, and the latter has high prices and regular customers.

From June 2022, hotels are trying to resume their activities. However, due to the full-scale war, the hotel supply has decreased. Russia occupied part of the Ukrainian territory in the east and south and destroyed some facilities. According to preliminary information from the Ukrainian Hotel & Resort Association (UHRA, 2022), together with the Kyiv School of Economics, at least 10 hotels in the Mykolaiv, Chernihiv, Kyiv, Kherson, Odesa regions and the city of Mariupol were damaged or destroyed. The work of international brand hotels deserves special attention: such accommodation facilities located in large cities have mostly suspended their work; this can be explained by secu-

rity policy and foreign management. In addition, their clientele is foreign tourists who avoid visiting Ukraine now.

The most optimal situation is in the west of Ukraine (this is a safer part of the country). The situation in the hotel market is directly proportional to the region's relative security and remoteness from the front line in the east and south of the country. Hotels in the west of Ukraine showed impressive dynamics in March and April, showing record high occupancy rates caused by the migration of people mainly from the eastern, southern, and central regions. Some were transit guests traveling to other countries; others were internally displaced persons who chose western Ukraine as their temporary residence. As a result, such hotels have reached 100% occupancy.

According to Antoniuk and Paraliush (2022), the Bankhotel in Lviv and Yaremche Club Hotel in the Ivano-Frankivsk region from the end of February to April were 100% booked. Premier confirms that there were and are periods when there were no free rooms in Lviv. According to HotelMatrix, the average occupancy in Ukraine reached 44% in March, 38% in April, and 33% in May.

The hotels also accommodated international journalists, representatives of international diplomatic missions, embassies, volunteer organizations, and corporate clients who moved to safer regions in the first months of the full-scale war. Currently, the situation of the hotel business is changing again. The internally displaced persons, who comprised about 70% of the guests in the first months of the war, either returned to their homes or went abroad. Thus, even hotel complexes in the country's west faced decreased occupancy. For example, in September and October 2022, occupancy in Lviv ranged from 30% to 40%; it was 40% in Ivano-Frankivsk and 50% in the Zakarpattia region. In Kyiv and Odesa, the occupancy ranged from 10% to 25%. In addition, the length of stay was reduced to 2-4 days compared to 1-1.5 months previously (Antoniuk & Paraliush, 2022).

A low occupancy rate is forecast until late 2022/early 2023. Only the Zakarpattia region can have higher rates due to its proximity to the European border. At the same time, with the start of the war,

the conditions of the hotel and restaurant business have changed, and the services provided in this area have also been transformed.

Orientation toward restoring Ukraine and ensuring its further sustainable development are the critical aspects of doing business in Ukraine today. The key to the effective use and added attraction of funds for rehabilitation is that the Ukrainian side considers the context of sustainable development and its goals. The media, government, and consumers show a growing interest in sustainable development and demand increased activity levels in this area. Thus, hotel and restaurant businesses increasingly emphasize their own role in the country's recovery, note their commitment to sustainable development, and integrate it into their strategic plans.

Since the beginning of the war, Ukrainian hotels, restaurants, and cafes in many cities have served as hubs for accommodating refugees, preparing hot meals, and providing catering during the evacuation from various war-torn areas for Ukrainian defenders and volunteers. Hotels also provide storage space for humanitarian aid, Red Cross aid, and other efforts to support suffering civilians. Recently, Ukrainian hotels launched the Visit Ukraine in the Future campaign to support the Ukrainian hospitality industry, which is engaged in the logistics of military operations and has incurred high financial costs since the beginning of the war.

5. DISCUSSION AND RECOMMENDATIONS

Summing up the analysis results, even under martial law, the hotel and restaurant businesses are trying to resume their activities; however, it is significantly complicated by active hostilities on the territory of Ukraine. Therefore, this study offers the following recommendations on possible methods of their adaptation with the aim of the post-war reconstruction of Ukraine and ensuring its further sustainable development:

1. Conducting negotiations and further cooperation with global hotel chains. It is important to start such negotiations today and invite

international hotel chains to enter Ukraine to build development strategies after the war. The study supports the suggestions of Bernthal (2022). This exploratory study implies that collaborative strategies enable international hotel chains to compete and develop successfully in worldwide markets. In the conditions of war, such cooperation can become a tool for the post-war recovery of the hotel business.

2. Offering favorable conditions for the accommodation of foreign citizens. Kobynets (2022), Polyakov et al. (2021) noted that approximately 90% of foreigners who previously came to Ukraine currently refuse due to a sense of danger (even in regions with no active hostilities). The most optimal situation is in the west of Ukraine (this is a safer part of the country). This should be demonstrated to foreigners when forming the image of hotels.
3. Reformatting the services. Modern hotels in Ukraine have a typical structure of services and low specialization. Along with traditional full-cycle hotels, it is necessary to create a network of specialized ones with a narrow range of services focused on serving a particular category of tourists. As Bazhenova et al. (2022) demonstrated, the government should create specialized hotels with an explicit specialization in sports and health tourism.
4. Implementing a large-scale marketing campaign in foreign markets. Such a marketing campaign will allow Ukraine to shift its perception from a place of war to a safe place to travel.
5. Accounting for socially responsible investment principles in carrying out activities. The hotel and restaurant industry seriously threatens the environment due to the massive consumption of water, energy, and non-durable goods and the dumping of raw and solid waste in various quantities. If these resources

are misused, they will have a negative impact on the environment.

The CSR Development Center, an expert organization on sustainable development, has created the first Catalog of Business Contributions to Ukraine's Victory. The catalog includes an alphabetical list of companies and a description of their support cases. It offers the experience of 314 companies, among which 227 are national, 83 are international, and 4 more cases are business partnerships (Diiia.Business, 2022). The Case Catalog officially included 23 companies in the hotel and restaurant businesses. Unfortunately, 23 companies in the hotel and restaurant business is an extremely small number.

This issue arose even before the war, but at present, given the energy shortage in Ukraine and environmental pollution (because of active hostilities and the destruction caused by them), this problem needs to be urgently addressed. Therefore, transforming the hotel and restaurant business by incorporating sustainable practices into their operations will help them gain a competitive edge and increase their market share by attracting customers concerned with environmental sustainability. In addition, the government should introduce green building standards when restoring damaged facilities or building new hotels, restaurants, and cafes in the post-war period.

6. Keeping abreast of the market. This rule is always relevant, especially during a crisis. Businesses must become as mobile and flexible as possible to adapt to the current conditions and demanding times. Hospitality managers should constantly monitor the movement of war zones and consumers' reactions to the situation. This rule was still valid during the COVID-19 pandemic. The study aligns with Filimonau (2021), who emphasized the significance of adaptive skills in the hotel and restaurant businesses during crises.

CONCLUSION

The paper aims to analyze the state of the hospitality market in Ukraine in the current war conditions and to assess the possibilities of its restoration and development.

To describe the current state of the Ukrainian hospitality market, determine the relevant concerns, and identify the approaches for further development, the study surveyed the respondents from Kyiv, Sumy, Chernihiv, Dnipropetrovsk, Kharkiv, Poltava, Ivano-Frankivsk, Lviv, Ternopil, and Zakarpattia regions. The results demonstrate that during 2022, almost 23% of hospitality businesses have stopped working completely, and 54% have been working partially. In addition, 36% have gradually changed and adapted their business and market strategies. More than half of the hospitality representatives increased their expenses approximately by 20-50% and lost their profits by more than 20%.

The findings identified that the critical consequences of the full-scale war for the Ukrainian hospitality market are as follows: disruption of supply chains, reduction in the purchasing power of customers, changes in consumer demand, shortage of certain types of products, shortage of personnel, and business unprofitability.

Summarizing the results, it can be confidently stated that despite the martial law and active hostilities in the territory of Ukraine, its hospitality market is trying to resume its development. Thus, the study offers the appropriate recommendations to hospitality business owners.

AUTHOR CONTRIBUTIONS

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APPENDIX A

QUESTIONNAIRE

PART ONE

General information:

Region:

Activity:

Restaurant business

Hotel business

PART TWO

1) In what mode does your business work now?

We completely stopped all activities

We work partially

Our activity has practically not changed

The volume of our work has increased significantly

2) How has your business strategy changed taking into account the new realities?

It has not changed

We are looking for and adding new areas of activity

It has changed radically

We are gradually adapting

We are still thinking

Other

3) Has your business been relocated?

Yes No

4) Have your business expenses changed?

They increased by 5-20%

They increased by more than 20%

They decreased by more than 5-10%

They have not changed

5) How have your business profits changed?

They increased by more than 20%

They increased by 5-20%

They decreased by more than 20%

They decreased by 5-20%

They have not changed

6) After what period of time do you expect your business to resume?

I expect recovery during 2023

I expect recovery within 2 to 3 years

I expect recovery within 4 to 5 years

I do not expect a complete recovery

7) What are the main needs of your business at the moment?

New clients

Cooperation with foreign partners

Funds for development

Help with logistics

Reduced tax burden

8) Please, try to identify the central problems of your business since the beginning of the war: