

## Managing Demand Downturn for Hotel Rooms: Evidence from Cairo Hotels

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### Abstract

*Hotel rooms are the major source of hotel revenues and generate about 70% of a hotel's total revenues. In many hotels, guest rooms represent the only source of revenue. However, due to the vulnerability of the hotel industry and the perishability its products and services, there are many factors, including: political; economic; environmental; etc., that can negatively impact the demand for hotel rooms and lead it to decline. This study investigates the problem of demand downturn for hotel rooms within the context of Cairo hotels. A mixed methods approach was adopted in this study using multiple sources of evidence, including: questionnaire survey; semi-structured interviews; document analysis. The results of this study showed that Cairo hotels had witnessed periods of demand downturn on a regular basis. There were several reasons that had negatively impacted the demand for Cairo hotels and led to these periods of downturn, such as the political events of 2011, the financial crisis of 2008, poor facilities of hotels and low-quality services and products. Research findings also revealed that the performance of both individual hotels and the official bodies in relation to demand downturn management was ineffective for handling serious periods of demand downturn. Although some of the practices were perceived to be effective, the overall performance was ineffective. The study ends by providing some recommendation that could enhance the management of demand downturn.*

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**Keywords:** hotel room demand, demand downturn, downturn management.

**Aim:** this research represents an exploratory study that aims to: first, explore the reasons for and the negative impacts of decreased room demand on the overall hotel performance in Cairo; second, identify and

critically evaluate practices undertaken by both hotels and official bodies regarding the management of demand downturn for hotel rooms; third, provide a model that would enable an enhanced managed of demand downturn for hotel rooms.

**Value/Originality:** as one of the first research studies to investigate the problem of demand downturn for hotel rooms in Cairo, this research provides a better understanding of a serious problem that threatens the hotel industry in Cairo, i.e. demand downturn. This study also provides some practical implications that would enable a better management of demand downturn for hotel rooms.

## **1. Introduction**

Demand downturn is a stage of the lifecycle of a product or a service during which sales and prices are significantly decreasing (Tranter Stuart-Hill & Parker, 2009). During the last two decades, the hotel industry at both a national and an international level had suffered a series of events that had impacted negatively on hotel demand. Such events included global epidemics, e.g. SARS and swine flu; financial crises and economic recession; natural disasters, e.g. Indonesian tsunami; war and terrorist attacks against tourism, such as Luxor attacks in Egypt in 1997 (Knowles, Diamantis, & El-Mourhabi, 2004; Malhotra & Venkatesh, 2009). Such events had negatively impacted the hotel industry and had led to serious downturn in hotel demand. Witnessing demand downturn for hotel rooms results in many negative impacts at a hotel level, such as decreased occupancy rates and reduced hotel revenues, and at a country level, such as declined GDP and foreign currency earnings and increased unemployment levels (Smith, 2011).

This study investigates the problem of demand downturn for hotel rooms within the context of Cairo hotels. It aims to explore the reasons for demand downturn for hotel rooms; as well as to explore and evaluate the practices undertaken by both hotels managers and official bodies in Cairo to handle periods of demand downturn. Despite the importance of effective management of demand downturn within the context of the hotel industry, only few published studies have investigated this issue and were focused on certain geographic regions (see for example Pine, Chan, & Leung, 1998; Blake & Sinclair, 2003; Butscher, Vidal, & Dimier, 2009). Therefore, this research provides a valuable contribution to knowledge in relation to the management of demand downturn for hotels. In addition, this study contributes to practice through providing practical

recommendations that would enable better management of such a serious problem.

## **2. Literature Review**

### **2.1. Importance of Hotel Rooms**

Hotel rooms are the primary source of hotel revenues and in some properties it is the only source of revenue. Room sales are also the most profitable source of revenue that generate the highest profit margins providing the main share of hotel overall profits (Medlik & Ingram, 2000). Barrows and Powers (2009) explained that hotel rooms represent a major source of hotel revenues that generates about 70% of the hotel's income compared with 15 to 20% for the food and beverage department. Hotel rooms have also a direct contribution to the revenues of other departments as most of their revenues are derived from the hotel residents. At the country level, Knowles et al. (2004) explained that there a strong positive correlation between hotel occupancy and the growth of the gross domestic product (GDP) of a country.

### **2.2. Demand for Hotel Rooms**

Demand for hotel rooms is an essential aspect for hotel management as it helps to determine business profitability, plan hotel activities, and formulate medium and long-term strategies, such as expansion, pricing, and segmentation (Song & Witt, 2000). Also, demand for hotel rooms dominates the thinking of strategic managers of the hotel industry due to the over-supply of hotel rooms in many tourist destinations and fluctuations in hotel demand (Roberts & Chan; 2000). Thus, increasing demand for hotel rooms and achieving high occupancy rates are the primary targets of hotel management (Jeffrey & Barden, 2000). Moreover, demand for hotel rooms has a significant role in determining room rates and consequently the overall hotel revenues (Tsai, Kang, Yeh, & Suh, 2006). Therefore, it is prudent for hotel managers to understand different changes and factors that can negatively impact the hotel demand in order to efficiently respond and cope with them, use resources properly and even create a competitive edge (Claveria & Datzira, 2009; Wang, 2009).

### **2.3. Reasons for Demand Downturn**

#### **2.3.1. External factors**

According to Blythe (2009); Hassanien, Dale and Clarke (2010); Okumus, Altinay and Chathoth (2010), the external environment of a

hotel can be classified into two main layers: macro environment and micro environment. The macro environment (aka the broad environment) includes all the aspects and issues that affect all the common firms or properties in the same industry, either nationally or internationally. It includes factors such as political, economic, socio-cultural, technological and ecological issues. On the other hand, the micro environment (aka the industry environment) involves the factors that affect an individual organization within a certain industry or sector. The micro environment includes issues such as: the current competitors; potential competitors; customers; suppliers.

According to Hassanien et al. (2010) the macro environment of a hotel includes six major aspects: political, economic, social, technological, environmental and legal aspects. There are several political issues and factors that can negatively impact the tourism and hotel demand, such as war, political instability, revolutions, terrorism and safety and security concerns (Okumus et al., 2010). Such issues are crucial in determining the image of a destination and the real and perceived safety of tourists which in its turn can negatively or positively impact the tourism and hotel demand (Ritchie, 2009; Okumus et al., 2010). Tranter et al. (2009) and Page (2011) explained that the economic environment includes many issues and factors that can negatively impact the hotel demand, such as: low income of potential guests; inflation and high prices including living costs, tourism prices and travel costs; recession; financial crises; low exchange rates; high interest rates.

Socio-cultural aspects also involve some issues and factors that can represent a serious inhibitor for hotel demand, such as: demographic forces, i.e. the structure of the population in terms of age, income distribution and ethnicity; cultural forces including differences in the beliefs, behaviours, lifestyles and customs between people from different countries (Blythe, 2009). Tourists avoid travelling to destinations that may have cultural or religious beliefs that might be perceived to be hostile to them which results in decreasing demand for these destinations. For example, Knowles et al. (2004) discussed that many European and American tourists avoid travelling to Islamic and Middle East countries as they are perceived as hostile and unsafe destinations.

Middleton and Clark (2001) discussed that using modern technology, particularly information and communication technologies (ICTs), has a strong positive impact on demand for tourism and hotels. However, Blythe (2009) explained that technology can represent a threat when a hotel does not cope with recent technological changes, e.g. CRS, e-

commerce and the adoption of the internet, while its competitors exploit these changes and develop their products and services accordingly.

Okumus et al. (2010) argued that environmental or natural aspects have a major impact on the hotel industry as the number of natural threats has increased significantly. Fuchs and Pizam (2011) explained that ecological environment includes many aspects and issues that can negatively impact the hotel demand. Such factors include: natural disasters, such as hurricanes, storms, floods, volcanic eruptions and earthquakes; disease outbreaks; pollution; seasonality; geographical factors; severe climate changes. These issues have led to a significant decline in tourism and hotel demand and they are expected to continue threatening the tourism and hotel industry in the future. There are many examples on how did the natural aspects negatively impacted the tourism and hotel demand globally, such as SARS, bird flu, swine flu and Indonesian tsunami (Gu & Wall, 2006; Specht, 2006; Holden, 2008).

Hassanien et al. (2010) discussed that legal aspects impact the hotel industry at many levels. At a national level, governments set regulations, such as regulations related to prices, competition, health and safety, disability access and smoking, that directly impact on hotel demand. At an international level, trade relations and peace treaties between nations influence demand for hotels. Tourism and hotel demand tends to decrease when such regulations restrict or eliminate travel or tourism activities in certain destinations.

The micro environment also includes issues that can negatively impact the demand for hotel rooms. Blythe (2009) and Enz (2010) explained that in 1985 Michael Porter developed a model that is widely used for analysing the micro environment for an individual business. According to this model the micro environment includes five major forces: rivalry among current competitors; threat of new entrants; threat of substitute products and services; bargaining power of customers; bargaining power of suppliers. Such forces can threaten a hotel and reduce demand for its services.

The level of competition between current competitors determines the market share of a hotel and hence the volume of demand for its services. Enz (2010) explained that competition in most segments of the hotel industry is very strong to the extent that some properties may suffer lack of profitability. New entrants or potential competitors represent another threat for hotels. Butler (2006) emphasized that new competitors are one of the major reasons of declining demand for current hotels in a

destination. Blythe (2009) discussed that competition within the same business tends to be strong when new competitors are able to set up in the same business and reduce market share of established businesses. Substitute products and services are another threat particularly for industries or markets where alternative products or services could replace the existing ones through shifting the buying behaviours of customers (Okumus et al., 2010). Tranter et al. (2009) discussed that demand declines for products or services whenever suitable substitutes are available for customers to choose between them.

Customers can be a threat to the hotel industry when they use their buying or bargaining power and to put pressure on hotels, such as requesting reduced prices. Such practices negatively influence a hotel's demand and even threaten its market position (Blythe, 2009; Okumus et al., 2010). Suppliers can represent a threat for hotels in certain ways that eventually result in declining its demand, such as increasing prices of raw materials they provide to hotels or providing low-quality raw materials that end with low-quality final products. Such practices negatively impacts on hotel prices and quality which eventually result in serious downturn in hotel demand.

### **2.3.2. Internal factors**

There are several factors that emerge form a hotel's internal environment and negatively impact the hotel demand. Mismanagement of hotel room capacity and demand is a serious internal issue that results in dramatic downturn in hotel demand and occupancy. This includes undertaking inappropriate practices, such as failing to attract suitable customer segments that achieve the optimal business, i.e. highest demand and occupancy levels; setting high room rates; lack of capabilities and aids, such as appropriate technology, trained staff, adequate techniques and tools such as yield management (Butscher et al., 2009; Tranter et al., 2009).

Another internal factor that results in decreased demand for hotel rooms involves incidents that endanger tourists' safety, security or even their life or any negative events that result in bad experiences for them. According to Page and Connell (2009) and Fuchs and Pizam (2011) such incidents include a wide range of issues and problems, for instance lack of proper sanitation and hygiene standards causing health concerns are serious reasons that have a serious negative impact on hotel demand. According to Tranter et al. (2009) and Hassanien et al. (2010) inappropriate location, poor facilities, lack of differentiation and low quality of products and

services are major internal weaknesses that negatively impact on a hotels' reputation and eventually decrease demand for its services.

#### **2.4. Negative Impacts of Demand Downturn**

Demand downturn for hotel rooms is a critical problem that threatens the hotel industry at many levels (Smith, 2011). At a hotel level, it negatively impacts on a hotel's occupancy rates and reduces its total revenue (Tranter et al., 2009). In severe downturn times, hotels may close some departments (such as some food and beverage outlets or a section of guest rooms, or even the entire hotel) until the market recovers (Ritchie, 2009). At an industry level, demand downturn leads to serious lack in industry investment and expansion as a result of reduced capital available for new projects and development (Butscher, Vidal, & Dimier, 2009). At a country level, demand downturn for a destination results in declining GDP, reduced foreign currency earnings, increased unemployment rates, threatening many supporting and supplying sectors for the hotel industry, such as internal transportation, hotel suppliers, gift shops (Blake & Sinclair, 2003; Knowles, et al., 2004).

#### **2.5. Management of Demand Downturn:**

The relevant literature suggests some practices that can be used for handling demand downturn for hotel rooms. Reducing operating expenses is one of the main strategies adopted in such circumstances. A high percentage of a hotel's operating costs are fixed costs (Guilding, 2009) and the only fixed costs that hotels can reduce are the salaries of staff (Butscher et al., 2009) leading many hotels to lay off a proportion of their employees during periods of low demand and occupancy. Ritchie (2009) added that hotels can also postpone their due payments to creditors and reallocate their resources to keep expenses at a minimum level.

Reducing room rates and providing promotional packages are also common techniques to handle periods of demand downturn. According to Reid and Bojanic (2006); Butscher et al. (2009), decreased room rates are an important factor in improving occupancy rates, particularly in bad economic situations. Hotels can also increase demand through targeting new market segments, such as local people, companies and organizations, to compensate for any reduction in the number of international tourist arrivals. Intensive advertising campaigns are another effective tool for improving decreased demand and occupancy. Malhotra and Venkatesh (2009) recommended that hotel managers should have a predetermined contingency plan for handling periods of demand downturn.

Ritchie (2009) explained that a local government has an important role to play during tourism crises. Governments should provide substantial resources, including financial support and other aids, required for recovery and international marketing efforts. It also can provide assistance to help offset essential operational expenditure through tax exemption for certain periods. This is in addition to the important role of the government in international public relations and its diplomatic role in improving the perceived image of the country as a tourist destination through participation in tourist international exhibitions, conferences and festivals. Page and Connell (2009) added that the government, represented in local authorities and police forces, play a major part in providing appropriate safety and security services for tourists and in guaranteeing their well-being while they are at the destination.

### **3. Research Methodology**

A mixed methods approach was adopted in this study. Primary data collection involved using multiple sources of evidence, including a questionnaire survey that was conducted among hotel managers in Cairo; semi-structured interviews conducted with employees in three departments in the Ministry of Tourism; document analysis investigating UNWTO statistical reports and the Egyptian Ministry of Tourism statistical reports on the tourism and hotel industry in Egypt. SPSS version 15.0 was used for analysing quantitative data collected from the questionnaire survey. Content analysis was used for analysing the quantitative data gathered from the semi-structured interview using NVIVO version 9.0. All the interviews were transcribed and coded in numbers (such as Participant no.1) to ensure interviewees' confidentiality. The study has also adopted certain measures to ensure the validity of its tools, including: triangulation of methods using multiple sources of evidence; external auditing and peer reviewing, as suggested by Creswell (2007) and Yin (2009). The reliability of the tool was ensured through using Cronbach's Alpha test (scoring 0.743), as suggested by (Pallant, 2005).

The sample of this study involved 36 hotels, i.e. 37.8% of the whole population (95 hotels), for conducting the hotel manager questionnaire survey. The sample was selected from Cairo hotels using a stratified random sampling technique, as suggested by Saunders, Lewis and Thornhill (2009) and included: nine five-star hotels, eight four-star hotels and 19 three-star hotels. In addition, 17 government officials from three departments/sectors in the Ministry of Tourism were approached for

conducting the semi-structured interviews, including Sector of Hotel & Resort Control and Inspection, Sector of Planning, Research and Training and Tourism Promotion Department, Cairo office.

#### 4. Results and Discussion

##### 4.1. Witnessing demand downturn

The results of the questionnaire survey showed that the majority of the investigated hotels (88%) had witnessed periods of demand downturn for hotel rooms, during the past fifteen years, while only 12% had not witnessed such periods. The results also showed that the majority of the investigated hotels (40.6%) had experienced periods of demand downturn three times a year, 31.3% of these hotels had witnessed demand downturn more than three times every year, 25% of the hotels had experienced demand downturn twice a year and only 3.1% of the hotels had experienced this problem only once a year. Also, the majority of the interview participants (76.5% interviewees) also reported that the hotel industry in Cairo, and across Egypt in general, had witnessed serious periods of demand downturn for hotel rooms.

Table 1: International tourist arrivals to Egypt 200-2014

Year	No. of international tourist arrivals	Change rate	Total difference
2000	5,116,000	13.94%	626,000
2001	4,357,000	-14.84%	-759,000
2002	4,906,000	12.60%	549,000
2003	5,746,000	17.12%	840,000
2004	7,795,000	35.66%	2,049,000
2005	8,244,000	5.8%	449,000
2006	8,646,000	4.9%	402,000
2007	10,610,000	22.72%	1,964,000
2008	12,296,000	15.9%	1,686,000
2009	11,914,000	-3.11%	-382,000
2010	14,051,000	17.94%	2,137,000
2011	9,497,000	-32.4 %	-4,554,000
2012	11,196,000	17.9%	1,687,000
2013	9,174,000	-18.1%	2,022,000
2014	9,628,000	5%	454,000

Source: UNWTO, Tourism highlights (2002, 2004, 2006, 2007, 2010, 2012 & 2015)

The analysis of the statistical reports of the UNWTO, as presented in Table 1, revealed that the tourism and hotel industry in Egypt had performed well during the period 2000-2014, despite witnessing some major downturns. The number of the international tourist arrivals significantly increased every year until reached its peak in 2010 with a total of 14.05 million international tourist arrivals. It can be noticed that the number of the international tourist arrivals in Egypt 2000-2014 had witnessed four major declines: first in 1998 when international arrivals decreased by 12.12% compared to 1997; second in 2001 when arrivals decreased by 14% compared to 2000; third in 2009 when arrivals decreased by 3.1% compared to 2008; fourth in 2011 when arrivals decreased by 32.4 % compared to 2010.

According to the previous results, tourism demand in Egypt during 1995-2012 had witnessed some serious periods of demand downturn which in its turn had resulted in several significant declines in demand for hotels and other tourist facilities. This conclusion is supported by Beech and Chadwick (2008) as they discussed that hotel demand is characterized by its derivative nature which means that demand for hotels in any destination is derived from demand for travel and tourism in the destination. Therefore, hotel demand tends to decline as a result of low demand for travel and tourism, which is mainly measured by the number of the international tourist arrivals.

## **4.2. Reasons for demand downturn**

### **4.2.1. Political factors**

The results of the questionnaire survey revealed the majority of hotel managers (91%) agreed that the political factors had a serious negative impact on hotel demand. Also, 100% of the interview participants (i.e. 17 interviewees) agreed that the political events, particularly the events of 2011, had the largest negative impact on tourism and hotel demand in Egypt generally and in Cairo particularly as being the capital of Egypt and the epicentre of these events. The decline in the number of international tourist arrival in 2011 (Table 1) reflected the severe negative impacts of the revolution of the 25<sup>th</sup> of January on tourism and hotel demand in Egypt. According to the UNWTO (2012) the number of the international tourist arrivals to Egypt had sharply declined by 32.4% in 2011 and reached 9.49 million which represented a huge decrease when compared with the 14.05 million arrivals of 2010. Also, due to war and the violent incidents that took place in the Middle East during the 1990s

such as Gulf War, the number of international tourist arrival in 1990s was always below 4.5 million.

#### **4.2.2. Economic factors**

The results of the questionnaire survey revealed that 75% of hotel managers reported that the economic factors (such as financial crisis 2008, low income of local people) were very important factors that had resulted in sharp decline in hotel demand and 21% agreed that these factors were important. Similarly, 94% of the interview participants explained that economic factors had led to a huge decline in hotel demand and occupancy. For example, participant 6 explained that *“I believe that both the political and the economic factors are the most impacting factors that resulted in low demand for hotel. The most evident example was the low occupancy rates during the last few months of 2008 and the first few months in 2009 that caused by the global financial crisis (Participant 6)”*. It can be also noticed from the figures in Table 1 that the number of international tourist arrivals had declined by 3.11% in 2009. Such significant decline can be contributed to the global financial crisis that took place in the late of 2008.

#### **4.2.3. Socio-cultural factors**

Three socio-cultural factors were identified as demand inhibitors: (1) contradictions between the habits and traditions of the tourists and local people as the results of the questionnaire survey showed that as 62.5% of the hotel managers perceived this factor to be an important factor that had led to significant decline in tourism and hotel demand; (2) the lack of social awareness about the importance of the tourism industry and the rise of the segment of the Egyptian people that rejected the tourism industry as it was against their religious beliefs which drove many tourists away and resulted in serious decline in tourism and hotel demand (as revealed by 35% of the interviewees; i.e. six participants); (3) the notion that Egypt was perceived, by many international tourists, as a traditional and old tourist destination that provided only cultural tourism and sightseeing while tourists nowadays are looking for modern destinations that supported different types of tourism activities (as revealed by five interviewees).

#### **4.2.4. Technological factors**

The results of the questionnaire survey showed that 31% of the hotel managers reported that lack of appropriate technologies, either at a hotel

level or at a destination level (such as Central reservation system CRS), represented a very important technological factor that had resulted in serious declines in hotel demand and 40% agreed that it was an important factor. Also, 17.5% of the interviewees (three participants) believed that the technological factors had a significant negative impact on hotel demand in Cairo. They explained that many hotels in Cairo, particularly economy hotels (i.e. one-star, two-star or three-star hotels), were using old and primitive technologies that did not satisfy the needs of their guests. Consequently, these hotels provided negative image for themselves and for the whole destination which led to significant decline in hotel demand.

#### **4.2.5. Ecological (natural) factors**

The results of the questionnaire survey showed the majority of the hotel managers (about 75%) reported that natural factors, such as: seasonality of tourism and hotel demand; outbreak of global epidemics, such as SARS and swine flu; global natural disasters; inappropriate climate changes, such as global warming; the long distance between Egypt and the tourist-generating countries, had a slight negative impact on hotel demand. Moreover, nine interviewees (52.9%) explained that the ecological factors had a serious negative impact on tourism and hotel demand in Egypt. For example, the global warming had negatively impacted on the moderate weather in Egypt resulting in decline in the number of international tourist arrivals. In addition, some major tourist cities in Egypt, particularly Cairo, had suffered air pollution, uncleanness of streets, traffic jams and crowded public facilities, such as airports which impacted negatively on tourism and hotel demand.

#### **4.2.6. Competition issues**

The results of the questionnaire showed that competition issues, including competition between current hotels, threat of potential competitors and substitute properties or services, had a slight negative impact on hotel demand as reported by approximately 80% of the participant hotel managers. Also, 41% of the interviewees (7 participants) argued that competition issues had a very slight negative impact on hotel demand as Cairo had not a large number of competing hotels that could result in low demand levels. In addition, Cairo is a big tourist destination that hosts millions of international tourist arrivals every year and requires large number of hotels. On the contrary, they explained that competition had positively impacted on the hotel demand and increased it. The availability

of many hotels with different grades and sizes in one tourist city, such as Cairo, provided a variety of options for both potential tourists and tour operators and delivered a positive image of the city which positively impacted on hotel demand. For example, participant no. 7 explained that: *“Competition issues have very limited impact on hotel demand. On the contrary, I think that the availability of many hotels in the one city like Cairo provides more options for both tour operators and tourists which may increase the demand not decrease it (Participant 7)”*.

However, competition between Egypt and other competitor tourist destinations, such as Turkey, Lebanon and Greece, represented a serious threat for hotel demand in Cairo. 23% of the interviewees (four participants) reported that competition between Egypt and these destinations had negatively impacted on hotel demand in Egypt generally.

#### **4.2.7. Internal reasons**

The results of hotel managers' questionnaire survey revealed that there were some internal factors that had negatively impacted on hotel demand. Such factors included internal incidents that endanger the life and safety of guests as 53.1% reported as very important factor and 31% reported as important; unavailability of appropriate techniques for capacity management with a total of 68.8% reporting as important and 15.6% reported as very important; mismanagement of hotel room capacity with 78.1% of the hotel managers reporting it as an important factor.

Also, analysing the responses of the interviewees concluded four main internal factors, as reported by 10 Interviewees (58.5%). Such factors included: (1) deficiency of hotel management in managing the room capacity or in handling periods of demand downturn; (2) providing inappropriate or limited products, services or facilities that did not meet expectations or needs of the hotel potential guests (particularly in three-star hotels); (3) providing low-quality products and services (specially food and beverage services); (4) many hotels in Cairo were independently owned and operated and only a small percentage were managed by famous hotel management companies that are internationally recognized by tourists and tour operators. It is worth mentioning that most of the famous management companies, such as Hilton, Sheraton, Four Seasons and JW Marriott, only operated five-star hotels; whereas most of the four-star and three-star hotels were privately managed either by the owner or a local management company.

Figure 1 summarizes the factors that were perceived by hotels managers in Cairo to have negative impact on hotel demand. Participant managers were asked to state the importance of these factors on a three level scale where 1 = not important, 2 = important, 3 = very important.

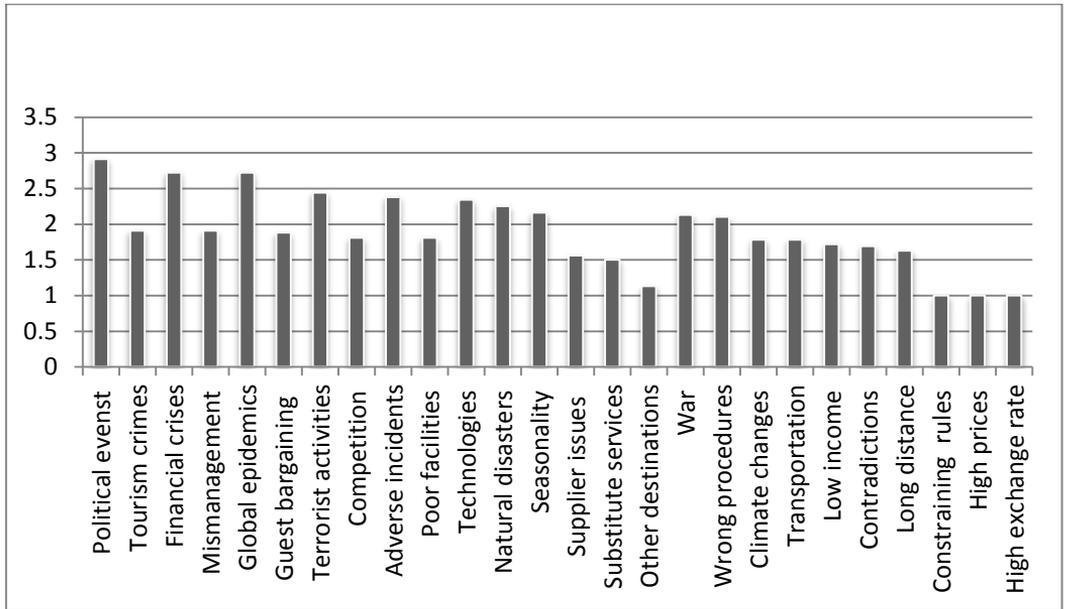


Figure 1: reasons for demand downturn for Cairo hotels

### **4.3. Negative impacts of demand downturn**

#### **4.3.1. Negative impacts at a hotel level**

The results of the questionnaire survey showed that witnessing demand downturn at a hotel level resulted in five major negative impacts. Decreased occupancy rates was perceived to be the first, and the most important, negative impact as 100% of the participant hotel managers and 100% of the interviewees agreed it was the largest negative impact that hotels had experienced as a result of demand downturn. The second negative impact was decreased hotel revenues as reported by the majority of participant hotel managers (approximately 90%) and interviewees (more than 90%). The third negative impact involved laying off some employees who were trained and skilled as 78.2% of the investigated hotels agreed that it was a very important negative impact of demand downturn; while 18.7 % believed that it was important negative impact; just 3.1% argued that it was not important. The fourth negative impact included reducing sales and revenues of other departments and facilities in the hotel where 71.9% of the hotel managers agreed that it was an

important negative impact of witnessing demand downturn; 21.8% thought it was very important; only 6.3% believed it was not important. The fifth negative impact included shutting down some departments or facilities due to the low number of customers as the majority of the participant hotels (71.9%) reported that it was important negative impact, 15.6% agreed that it was very important while 12.5% reported that it was not important.

The results of the semi-structured interviews suggested two more negative impacts at a hotel level. The first negative impact was decreasing the quality standards of hotel services due to switching to cheaper raw materials and reducing staff numbers which inevitably resulted in lower quality services as revealed by 29.5% of the interviewees. The second negative impact, as discussed by 23.5% of the interviewees, involved wasting hotel resources, such as: hotel assets including rooms, food and beverage outlets and many other facilities; human resources; stock of raw materials. Such perishable resources are wasted if they are not used or consumed in a certain period of time.

#### **4.3.2. Negative impacts at a country level**

The results of the questionnaire survey, semi-structured interviews and document analysis revealed that witnessing demand downturn at a country level led to three major negative impacts. The first negative impact involved a significant decline in the Egyptian GDP and foreign currency earnings. 100% of the interviewees (i.e. 17 participants) and approximately 95% of the participant hotel managers agreed that Egypt had suffered a sharp decline in national income and foreign currency earnings as a result of witnessing periods of demand downturn for the tourism and hotel industry. According to the Ministry of Tourism (2010), the tourism and hotel industry in Egypt is responsible for 11.4% of Egyptian GDP and 20% of the foreign currency earnings. Therefore, any decline in tourism and hotel industry demand and business led to significant shortage in the Egyptian GDP. Table 2 shows that Egypt had witnessed serious declines in tourism receipts 2000-2014, as a result of experiencing periods of demand downturn for tourism and hotels.

Table 2: International tourism receipts in Egypt 2000-2014

Year	Total receipts (US\$ billions)	Change rate	Total difference (US\$ millions)
2000	4.345		
2001	3.800	-12.5%	545.0
2002	3.764	-0.9%	36.0
2003	4.584	21.8%	820.0
2004	6.125	33.6%	1,541.0
2005	6.851	11.8%	726.0
2006	7.591	10.8%	740.0
2007	9.303	22.5%	1,712.0
2008	10.985	18.0%	1,682.0
2009	10.755	-2.9%	230.0
2010	12.528	16.4%	1,773.0
2011	8.707	-30.4%	3,821.0
2012	9.940	14.8%	1,293.0
2013	6.047	-39.1%	3,893.0
2014	7.208	19.1%	1,161.0

Source: UNWTO, Tourism highlights (2002, 2004, 2006, 2007, 2010, 2012 & 2015)

The second serious negative impact of witnessing hotel demand downturn at a country level included increased unemployment rates. All 17 interviewees and more than 95% of participant managers agreed that downturn of hotel demand and occupancy had led to high percentage of unemployment in Egypt as hotels tended to lay off many employees during periods of low demand and occupancy in order to reduce their operating expenses which resulted in thousands of unemployed people. According to the Ministry of Tourism (2010) the tourism and hotel industry was an important employer for Egyptians providing 12% of the direct and indirect job opportunities for the Egyptian workforce. Thus, serious downturn in tourism and hotel demand could have resulted in a significant increase in the unemployment rates.

The third negative impact at a country level involved threatening many supporting industries that basically depended on the hotel industry as a main outlet for their products and services. Nine interviewees (53% ) and 93.7% of the participant managers explained that there were many other industries and business, such as hotel suppliers, gift shops, transportations, restaurants, car rental, travel agencies and many others, that had suffered a huge decline in their business due to downturn in hotel demand as they mainly relied on the tourism and hotel industry. This

result concurs with the reports of the Ministry of Tourism (2010) that there were about 70 different supporting industries in Egypt that depend on the tourism and hotel industry.

#### **4.4. Handling demand downturn**

##### **4.4.1. Hotel practices**

The results of the questionnaire survey revealed that the majority of Cairo hotels (90.6%) had not have any contingency plans for handling periods of demand downturn. only 9.4% of the hotels had such contingency plan. The results of both the questionnaire survey and the semi-structured interview revealed that there were seven common practices undertaken by individual hotels in relation to downturn management.

The first and the most common practice, as revealed by 100% of the interviewees, that the majority of the hotels in Cairo had undertaken during periods of demand downturn was reducing their room rates and providing promotional offers, such as free meals, half-price services and extra free nights. The results of the questionnaire survey showed that 62.5% of the participant hotels undertook this practice on a regular base and 37.5% undertook it occasionally. The second common practice involved laying off employees as 100 % of the interviewees (i.e. 17 participants) agreed that the majority of Cairo hotels, particularly large hotels (including four-star and five-star hotels) laid off employees and maintained only a small proportion of their workforce to run the hotel. The results of the questionnaire survey also revealed that 62.5% of the participant hotels undertook this practice on a regular basis and 37.5% undertook it occasionally.

The third practice involved closing down some of the hotel departments or facilities that mainly depended on hotel residents, such as: health clubs; food and beverage outlets; sections of hotel rooms, as approximately 35% of the interviewees (i.e. 6 participants) agreed that many Cairo hotels, particularly four-star and five-star hotels, had undertaken this practice to save operating costs, such as staff salaries, electricity, gas, water and any other raw materials, of these facilities. The results of the questionnaire survey also revealed that 81.2% of the hotels undertook this practice on an occasional basis and 15.6% never undertook it. The fourth practice included targeting new customer segments (including individual people or local organizations such as universities or large companies) as reported by about 23% of the interviewees (i.e. four participants). The questionnaire

survey revealed that 90.6% of the participant hotels had occasionally undertaken this practice and only 9.4% had not undertaken it.

The fifth practice involved launching intensive advertising campaign locally and internationally. Seven interviewees (41%) reported that during periods of demand downturn, most of large chain hotels in Cairo had initiated advertising campaigns to stimulate demand and promoting their products and services. The questionnaire survey results revealed that 34.4% of the participant hotels had undertaken this practice occasionally while the majority of the hotels (56.5%) agreed that they had not undertaken this practice. The sixth practice was postponing some of the hotel due debts for certain period of time until their business recovered and restored its normal level of operation, as revealed by 29.5% of the interviewees (i.e. five participants). The seventh practice included organizing and hosting some local or international events, such as festivals, wedding parties, birthday parties or musical concerts as discussed by 35% of the interview participants (i.e. six interviewees).

#### **4.4.2. Practices of official bodies**

The results showed that the official bodies had undertaken five main practices in relation to managing periods of demand downturn for hotels at a country level. The first common and the most important practice involved undertaking intensive marketing and advertising campaigns at both a local and an international level where 87.6% of the hotel managers agreed that the government had undertaken this practice on an occasional basis while only 9.3% reported that the government had not undertaken it. Also, about 89% of the interviewees (15 participants) reporting that the government had usually undertaken this practice very often. For example, participant no. 14 explained that: *“The Ministry of Tourism usually promotes the tourism and hotel industry in Egypt through different tools, such as brochures, CDs, guiding booklets, annual reports and the local media. Sometimes the government participates in international tourist exhibitions as another way of promoting Egypt as tourist destination (Participant 14)”*.

The second practice involved providing the necessary support and help for individual hotels as the majority of the hotel managers (93.8%) agreed that the government had occasionally undertaken this practice. In addition, seven interviewees (41%) discussed that the government had usually provided considerable support and help for hotels, including technical financial support and compensation for hotels that were severely hit by demand downturn.

The third practice of downturn management regularly undertaken by the government was rescheduling or cancelling some debts due from hotels. 47% of the interviewees agreed that the government helped individual hotels to decrease their operating expenses during periods of low demand through postponing, rescheduling or cancelling some debts until their business recovered and generated a reasonable revenue flow. Such debts included taxes, loan interests, water, gas and electricity. Sometimes the government exempted hotels and other tourist properties from taxes during periods of severe downturn. The fourth practice was providing proper security services in the major tourist cities in Egypt, such as Cairo, as reported by five interviewees (29.5 %). The fifth practice involved encouraging domestic tourism and educating local people about the importance of the tourism industry with about 17.5% of the interviewees (i.e. three participants) reporting that the government has domestic tourism activities ,particularly during summer seasons, in order to compensate for the decline in the international arrivals.

#### **4.5. Effectiveness downturn management**

##### **4.5.1. Effectiveness hotel practices**

The results of the questionnaire survey revealed that the practices undertaken by hotel managers in relation to managing demand downturn for hotel rooms were insufficient to handle serious periods of demand downturn. The majority of the participant hotels (71.1%) considered their practices as slightly effective for handling periods of demand downturn, while 18.6% of the hotels considered these practices as very effective and only 9.3% evaluated them as effective.

Analysing the interviewees' comments showed that hotel practices of downturn management were perceived to be ineffective. The majority of the interviewees (14 participants) agreed that although some of these practices were perceived to be effective, the overall performance of was perceived to be ineffective for addressing serious periods of demand downturn as some of these practices had negative impacts, such as laying off employees which resulted in losing trained and skilled staff. Also these practices were considered to be traditional practices that did not really help hotels to improve demand and occupancy, particularly during serious periods of downturn. For example, participant no. 6 explained that:” *I think that hotel procedures are effective for certain periods of downturn, such as competition between hotels or low season periods. However, most of these techniques are useless when it comes to*

*threatening the life of the tourists, such as terrorism, clashes and global diseases (Participant 6)”.*

#### **4.5.2. Effectiveness of official bodies practices**

The results of the questionnaire survey showed that the government practices of demand downturn were considered to be ineffective to handle serious and prolonged demand downturn with the majority of the participant hotel managers (75%) perceiving the government practices to be slightly effective and 6.2% evaluated them as very effective, while 18.8% considered them to be ineffective.

Also, 47% of the interviewees argued that government practices were ineffective as these procedures were not appropriate for different types of demand downturn, there was a lack of coordination and cooperation between official bodies entitled with undertaking these practices and the response of many official bodies was always undertaken very late. However, 35% the interviewees perceived the government practices to be slightly effective, where 35% of the interviewees (i.e. six participants) reported that these practices were ineffective as some of them were useless and there were no proactive or long-term recovery practices.

### **5. Conclusions**

The majority of hotels approached in this study had witnessed demand downturn at least twice a year. There were several reasons that had negatively impacted on demand for Cairo hotels and led to serious periods of downturn. These reasons involved factors from a hotel's macro environment, including: political factors (such as terrorism against tourism; the political events of 2011); economic factors (e.g. the global financial crisis of 2008 and low income of local people); socio-cultural factors (e.g. contradictions between tourists' habits and locals' habits); technological factors (including lack of appropriate technologies in some hotels in Cairo); environmental factors (such as global warming and outbreak of global diseases such as SARS and bird flu). These reasons also included factors from a hotel's micro environment with slight negative impact, including competition between current competitors, potential competitors, substitute properties and services, suppliers and customers. They also involved factors from a hotel's internal environment, such as mismanagement of room capacity, low-quality services and adverse incidents.

Experiencing demand downturn for Cairo hotels had resulted in many negative impacts at a hotel and a country level. Negative impacts at a hotel level included: reduced occupancy rates; decreased sales of other department; reduced total hotel revenues; increased accumulative debts on a hotel; wastage of perishable resources; threats for hotel market position and survival. Negative impacts at a country level involved reduced national GDP and foreign currency earnings; increased unemployment rates; threats for many supporting industries, such as hotel suppliers, restaurants, gift shops and transportation industry.

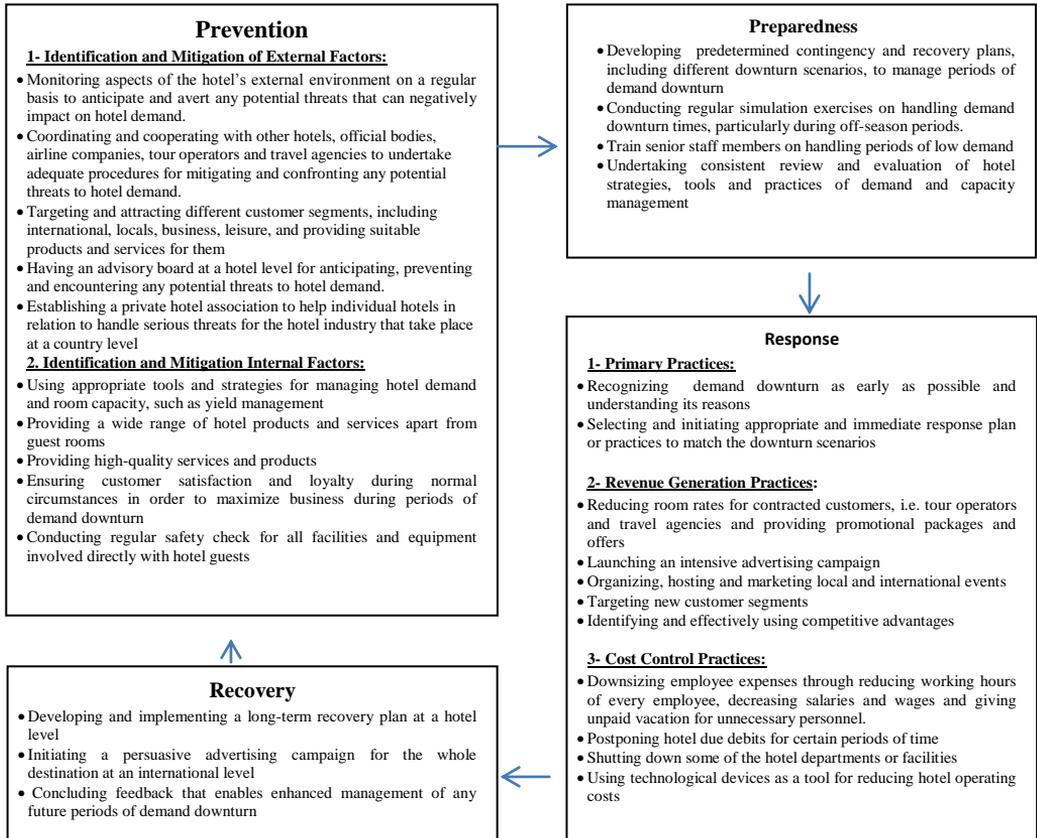
Management practices of demand downturn investigated in this research involved two categories: individual hotels; official bodies. Hotel practices for managing periods of demand downturn included: reducing room rates; providing promotional offers and packages; laying off employees; postponing some debts; initiating advertising campaigns; targeting new customers segments; organizing and hosting events. The practices of official bodies involved: undertaking intensive marketing campaigns at an international level; providing technical and financial support for individual hotels; providing proper security service; encouraging domestic tourism, motivating tour operators in the tourist-generating countries; participating in international tourist exhibitions; hosting and organizing some international events.

Research findings also revealed that the practices undertaken by both individual hotels and the official bodies in relation to downturn management were perceived to be insufficient for handling serious periods of demand downturn. Although some practices were perceived as effective, the overall performance was ineffective for three reasons. First, practices of downturn management undertaken by both individual hotels and the official bodies were considered traditional practices that were more suitable for traditional periods of downturn, such as off-season times, but they were not good enough to handle serious periods of demand downturn. Second, there was a lack of systematic and strategic approach, in terms of strategy of contingency plan, to be adopted for handling periods of demand downturn. Third, response of both individual hotels and the official bodies was always late and there was a serious lack of prevention, preparedness and recovery practices. Thus, the performance of both individual hotels and official bodies regarding downturn management was perceived to be ineffective.

Based on the relevant literature and the results of the empirical investigation, this study provides a proposed model for managing demand downturn for hotel rooms (Figure 2). The model includes four

consecutive stages, i.e. prevention, preparedness, response and recovery, and each stage involves certain practices to be undertaken by hotel managers.

Figure 2: proposed model for managing demand downturn for hotel rooms



## 6. Implications

Hotel managers are advised to develop and maintain predetermined contingency plan for handling periods of demand downturn at a hotel level. Such a plan should include a variety of scenarios and practices that can be adopted in different downturn circumstances. Hotel managers are also encouraged to use promotional and marketing tools, such as reduced room rates, promotional packages, advertising campaigns and hosting local or international events, to stimulate hotel demand and attract more customers.

Another important piece of advice for hotel managers involves targeting and attracting different customer segments to compensate for any decline in demand generated by one segment through focusing on other segments. For example, hotel managers should target more local people and provide appropriate services for them as they represent an important customer segment, particularly when the number of international tourist arrivals declines. Hotel managers are also recommended to provide a variety of services and products, including different packages of accommodation, various food and beverage services and recreation facilities, in order to attract a mixture of customer segments and to ensure customer satisfaction and loyalty which can lead to repeat business during downturn times. Last but not least, hotel managers are also advised to use appropriate tools and techniques for managing hotel room capacity, such as yield management systems, to effectively manage hotel demand and room capacity.

Official tourism bodies are advised to provide appropriate facilities and services, particularly security services, which represent a critical issue for the recovery and development of the tourism and hotel industry. They are also encouraged to use promotional and marketing tools, such as international tourist exhibition, international marketing campaigns, hosting international events, hosting TV shows and TV channel representatives, to stimulate tourism and hotel demand and promote Egypt at an international level as a modern and safe tourist destination.

The government should also target new and untraditional tourist markets (e.g. Japan, China, India, Turkey) to compensate for decline in the international tourism arrival coming from the traditional markets. It also should support new and less vulnerable types of tourism, such as domestic tourism, therapeutic tourism, business tourism and events tourism, besides traditional types as they are less sensitive to inconsistent events that negatively impact on hotel demand.

## **7. Future research**

Future research could be conducted on handling demand downturn for hotels rooms considering a wider context than Cairo through accessing larger population and sample in order to provide more generalizable results. Also, the proposed model needs to be judged or tested in real life. So, research can be conducted to judge the model using a panel of experts or to test it within the same enterprises approached in this study or within different contexts.

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