



Expert Insights

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# Navigating travel in the wake of COVID-19

Four ways the  
industry can rebound

IBM Institute for  
Business Value



## Experts on this topic



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For two decades, John Bailey has served as an advisor for airlines, airports, and passenger rail companies. He joined IBM in 2016, charged with developing and delivering innovative solutions for the travel services industry. Before that, John led digital transformation initiatives at United Airlines and Amtrak.



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Optimism is not a viable strategy. Travel providers have to avoid the temptation to “wait it out.”

## Key takeaways

### **There won't be a return to the old normal**

Regaining the trust of travelers after global contagion means airlines and hotel companies need to demonstrate that the physical well-being of customers and employees alike is a top priority.

### **Think past crisis management**

Travel companies that make good strategic decisions about how to compete in a post-pandemic world will enjoy volume and loyalty advantages over those who simply cut costs.

### **Enterprise survival versus long-term viability isn't the same thing**

Four strategies will guide recovery planning: engage travelers to deeply build trust, differentiate their experiences, optimize operations for costs, and reimagine business models.

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## We're still deep in uncertainty

The travel industry is still reeling from the impacts of the COVID-19 crisis. News regularly surfaces about financial restructuring plans, government support packages, bankruptcies, and layoffs in every sector. Many airlines, hotels, cruise operators, travel agencies, and rental car companies are in the throes of crisis management. But even as critical decisions continue to consume corporate boards in the travel industry, industry leaders need to get to recovery planning.

Recent survey results predict a slow return of travelers: 62 percent of respondents say they won't travel in the next six months, and many aren't willing to attend conferences (55 percent), visit theme parks (43 percent), or attend live sporting events (45 percent).<sup>1</sup> Even when new cases of the virus wane and curves flatten, 18 percent say they will never again travel by plane, and 36 percent won't board a cruise ship.<sup>2</sup>

## This crisis is different

The industry survived a decline in air travel after the 9-11 attacks on the US, a Severe Acute Respiratory Syndrome (SARS) outbreak in 2003 that crippled Asian tourism, and consumer belt-tightening during the 2008 global financial crisis. Each of those events impaired the industry's ability to supply travel services. Yet in all but the immediate aftermath of prior crises, underlying travel demand was relatively stable.

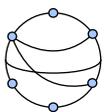
# Travel companies must regain the trust of the populations they serve.

COVID-19 created a severe, global, and sustained demand shock for travel services. SARS wasn't a global event and smaller in magnitude, and 9-11 a short-lived and localized supply shock. The global financial crisis, too, had little impact on travel demand or supply. But recovery from COVID-19 will come. We suggest four essential priorities to help travel companies get there: engage, differentiate, optimize, and reimagine (see Figure 1).

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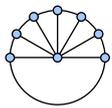
**Figure 1**

What will it take for the travel industry to rebound?



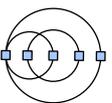
## Engage

Connect with travelers via new processes designed to improve safety and build trust



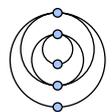
## Differentiate

Prepare for increased industry competitiveness by developing more personalized and unique travel services



## Optimize

Continue to identify near term cost reduction opportunities and develop plans to continuously reduce operating costs



## Reimagine

Design, test, and implement business models that transition from fixed to variable

## Engage: Interact with travelers

Getting it right will require new procedures, robust communication, and more traveler use of personal mobile devices and other self-service technologies. The first order of business is to engage travelers in ways that help them feel safe.

### Airlines

A modern airplane full of people may be a safer place than an enclosed group situation where the air is stagnant and social distancing suspect. Airplanes deliver 10 to 12 air changes per hour.<sup>3</sup> In a hospital isolation room, the minimum target is six to 12 air changes per hour. Cabin air that is rapidly circulated from ceiling to floor and passed through HEPA filters can capture 99.97 percent of airborne particles.<sup>4</sup> The vast majority of passenger's seats are tall and face the same direction, creating physical barriers.

In line with government requirements—and to demonstrate how safe it is to fly—airports and airlines have gone to great lengths to reduce the risk of spreading COVID-19 and promote their enhanced methods to help keep travelers healthy. This includes:

- *Enhanced cleaning processes.* Large US carriers Delta<sup>5</sup> and United<sup>6</sup> have implemented and marketed extensive sanitary measures, and partnered with hospitals and cleaning companies to increase the frequency and depth of cleaning.
- *Airport check-in.* Airlines suggest travelers use their own mobile devices instead of self-service kiosks, scan their boarding passes through security for a contactless experience, and stand on measured floor markings to stay six feet apart wherever a queue forms.
- *Passenger screening.* Screening methods may include electronic self-surveys about disease symptoms, temperature scans using a hand-held thermometer or advanced camera, COVID-19 testing off-site, and mandatory rules of quarantine before or after travel.

- *Gate and boarding.* The use of personal mobile and facial scanning devices limits passenger and gate agent contact. Boarding window seats first or starting from back to front, as well as limiting carry-on luggage can also reduce physical exposure to fellow passengers.
- *Onboard.* To limit contact, flight attendants may pre-place food, drink, and cleaning supplies on seats before any passengers board. Per policies at some airlines, middle seats are unoccupied to allow for more physical distance between travelers. Passengers can, in many cases, use mobile and in-flight entertainment devices to communicate with flight attendants.

Donning a mask is the new normal for aircraft crew and passengers until further notice. And while some flyers may balk, the industry must continue to enforce demonstrable changes in travel processes that reduce personal health risks through limiting exposure to others.<sup>7</sup> In the months and years ahead, some governments will require travel providers to adhere to new health safety measures to reduce the risk that viruses are introduced or reintroduced into their countries. Local governments in the US are imposing travel restrictions on people from COVID-19 hot-spots, forcing them to self-isolate upon arrival.<sup>8</sup> And US travelers may not be allowed into the EU at all as the bloc reopens internationally.<sup>9</sup>

## Hotels

Lodging poses a risk for virus spread, but more so outside of a hotel room when in contact with hotel staff and other guests, or using shared amenities and common spaces. The virus that causes COVID-19 can be killed if the correct cleaning procedures are followed, including the use of EPA-approved disinfectants. Hotels are reinventing themselves as a cleaner, safer haven and are embracing contactless hospitality.

Unlike apps for airline travel that place a boarding pass swiftly in hand, share flight status, and direct travelers to their departing gates, hospitality mobile apps are used less frequently since they often provide less personalized content.

But contactless hotel arrival and departure will drive travelers seeking a “no-hands” experience to use a hospitality app. Some hoteliers offer loyalty members the option of using digital keys to skip the front desk entirely, select their room and floor, and access exclusive services and promotions.<sup>10</sup> On-property requests for food and beverage, housekeeping, concierge services, or maintenance can be submitted via the mobile app as well, offering contact-free delivery of amenities.

As the use of hospitality mobile apps increases, new opportunities are expected to emerge, including:

- *Increased on-property revenue:* Customized offers tailored by artificial intelligence (AI) based on past guest behaviors could become revenue-enhancing mechanisms to drive purchases on-property, such as reserving a sought-after spot at the pool for a fee.
- *Loyalty programs:* Elite members could use the mobile app to spend reward points on special perks beyond a room upgrade: perhaps to obtain a pool cabana, restaurant reservation, or access to a private fitness class.

## Hilton: Shoring up liquidity<sup>11</sup>

Hilton was among the earliest companies to tap credit lines to weather the virus. Hilton Worldwide Holdings Inc. raised USD 1 billion from an advance sale of loyalty points to its co-brand credit card partner American Express. Hilton will use proceeds for working capital and general corporate purposes. The sale provides adequate liquidity to fund hotel operations over the next 18 to 24 months.

## Differentiate: Forge lasting relationships

Winning back the traveler isn't going to be enough. Post-pandemic structural industry changes will result in substantially different competitive conditions. "Me-too" products and services—after all, airlines buy aircraft and seats from the same few providers and offer similar services onboard—may not motivate customers nor justify premium pricing.

The post-COVID hyper-competitive environment facing travel providers has further intensified the endless industry quest for differentiated services and experiences, including a new standard of sanitation. The choice of who to fly with and where to stay could simply come down to price. If all airlines are the same on health variables, why select a travel service on brand, or loyalty? To encourage allegiance, providers must set themselves apart by developing new, different, or better ways to keep travelers interested and engaged.

## Optimize: Adjust operations to maintain cost discipline

During the initial impact of COVID-19, many hotel companies moved quickly to cut costs in the back office. Immediate cuts included furloughs and staff layoffs; stopping projects that were non-essential to core operations; negotiating with service providers to defer payments on large technology investments; selling debt, and using loyalty points as collateral (see sidebar, "Hilton: Shoring up liquidity.")

At this point in the recovery cycle, hotel companies are eschewing long-term IT investments in infrastructure and services that could create a more variable cost structure. Instead of investing in cloud, AI, edge computing, and software "out of the box" to forecast demand at the local level, and enable more dynamic adjustments to staffing and supplies, many have turned to patchwork solutions that shifted financial burdens to franchise operators. This will likely not help hoteliers substantially reduce longer-term costs.

“First, governments must be prepared to allow passengers to travel, between countries and regions. Secondly, passengers must have sufficient confidence that they can travel safely.”<sup>12</sup>

June 2020 IATA Medical Advisory Group

## Reimagine: Recreate business models as elastic

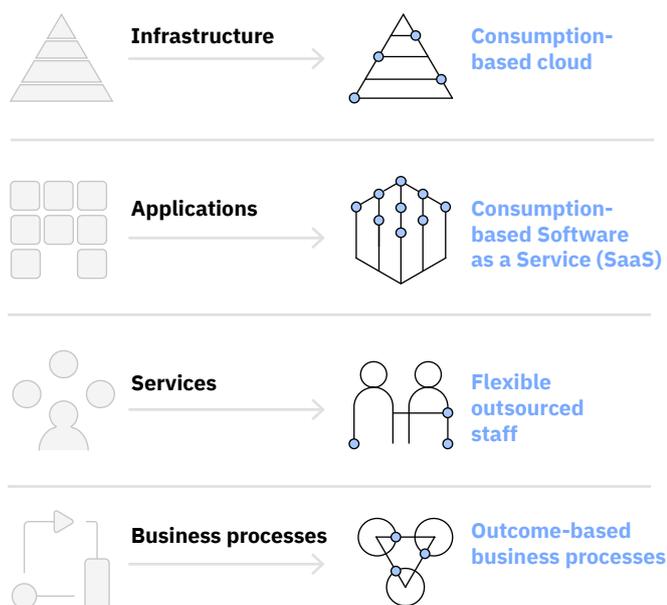
Some industry leaders view the recovery period as an opportunity to restructure debt burdens and justify painfully, but often long overdue, cost reduction campaigns. Travel providers that do a good job at shifting from fixed to variable costs will be better positioned in the future, which is why most are intent on bringing more elasticity to their highest cost departments and operations.

In these uncertain times, current conditions and the global market swing have magnified the value of elastic business models. An elastic business model enables costs to grow incrementally or shrink temporarily, based on consumption. This means replacing large, one-time capital costs with operating costs spread over time, and transferring some of the risks associated with sudden downturns to service providers (see Figure 2).

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**Figure 2**

Elastic business models shift some risk



*Infrastructure.* A clear example of enabling elastic business models is the use of cloud computing. By design, all major clouds offer consumption-based commercial models. When COVID-19 shutdowns caused bookings to drop by 95 percent, cloud-hosted airline applications saw infrastructure costs drop automatically. Applications hosted in legacy data centers likely saw little relief or had to turn off environments manually to realize savings.

*Applications.* Major carriers run their businesses on hundreds of applications. Some build and maintain custom solutions; others choose a service provider and common applications. Truly differentiating applications should not be outsourced, of course, but considering the thousands of IT personnel now supporting similar applications, there’s a strong case to shift more to SaaS.

*Services.* Armies of staff account for a major portion of airline IT costs. Compared to other industries that rely on higher levels of contracted labor, this lack of an elastic workforce drives higher costs and adds risk.

*Business processes.* The ability to run standard functions for limited timeframes at highly competitive prices is a key advantage for carriers willing to outsource business processes.

## Action guide

### *Navigating travel in the wake of COVID-19*

A near-term challenge associated with planning an effective recovery strategy lies in developing a flexible vision that accounts for current uncertainty but can be tailored and adjusted as market conditions change.

#### **1. Recognize the uniqueness of the moment**

There's a key lesson to learn from the travel industry's past; corporate pre-conditions matter, but they don't determine future outcomes.

#### **2. Envision multiple recovery scenarios**

Although significant uncertainty and volatility will dominate future travel planning, that can't overshadow the need for travel providers to develop and implement recovery plans now, ahead of the coming "different normal."

#### **3. Embrace new business models**

Our current crisis could bring about lasting structural changes to help prevent the worst effects of future demand shocks. Travel services must maintain cost discipline in an industry with exceptional high fixed costs, and inherently variable and uncontrollable operating expenses.

## About Expert Insights

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