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The Journey Ahead:
How the Pandemic and Technology Will Change Airline Business Travel

This CarTrawler-sponsored report addresses business travel trends and how airlines can prepare for a post-pandemic future.

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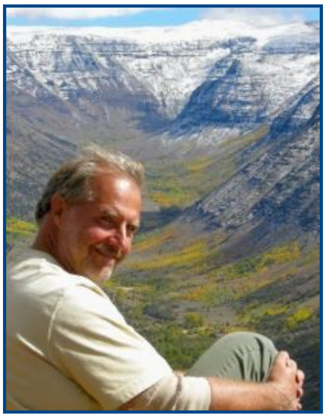
Jay and son Aleksei hiking in the Santa Monica Mountains National Recreation Area in California.

Mr. Sorensen is a veteran management professional with 36 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start airlines and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for marketing, sales, customer service, product development, operations, planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

About Eric Lucas, Editor of the Report



Eric Lucas is an international travel, culture and natural history writer and editor whose work has appeared in Michelin travel guides, Alaska Airlines *Beyond* Magazine, *Westways* and numerous other publications. Founding editor of *Midwest Airlines Magazine,* he is the author of eight books, including the 2017 *Michelin Alaska* guide. Eric has followed and written about the travel industry for more than 30 years. He lives on San Juan Island, Washington, where he grows organic garlic, apples, beans and hay; visit him online at TrailNot4Sissies.com.

Eric, at his favorite summer retreat, Steens Mountain, Oregon.

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The Journey Ahead: How the Pandemic and Technology Will Change Airline Business Travel

This too shall pass

This report begins by borrowing an old English expression — the pandemic is an ill wind that blows nobody any good. Companies caught in this storm have three choices: 1) seek opportunity, 2) change and survive, or 3) fade away. Happier times allow companies to bob along in a gentle stream of good growth and attractive profits. These are not happier times. Hurricane-force winds have ruled 2020. What appeared to be occasional calmer periods were just pauses before renewed storms.

However, the pandemic is not a forever thing. The pandemic may recede during 2021 but remnants of this storm will forever affect the travel industry, most notably airlines. It's crucial for airlines to anticipate how their fortunes will be changed by the pandemic and the quickening embrace of technology the crisis has spurred.

This report helps airline management define a likely course of events; to see past the edge of the storm and to plan for sunnier days when they arrive. Notably it will address business travel trends and how airlines can prepare for a possible 36 percent permanent loss of business trips. For this task, this report uses what is likely a first-ever approach of assessing business travel by trip purpose, rather than industry category.

How will airlines react to a business traffic loss? Some companies, such as low cost carriers, might only consider modest changes because leisure travel is their predominant market. But many will begin a process in which an airline is transformed into something very different, and likely never anticipated. Route selection, cabin layouts, and aircraft types will need to adjust to a significant loss of high yield business traffic. All airlines will increase their efforts to gain more leisure traffic. For an industry that has witnessed amazing changes since deregulation 40 years ago, this will be a once-in-a-lifetime experience.

Buckle up for 2021; it's going to be a bigger challenge than 2020

The airline industry nearly had a full quarter of normal operations before the pandemic arrived in mid-March 2020. This brief period provided a smidgen of economic fuel for the remaining months. That same early boost won't occur in 2021. The year will begin after a 9-month drought that has drained financial coffers dry. These will only be replenished courtesy of loans secured by assets, new outside investment, and government grants. The hoped-for recovery during fall 2020 didn't arrive and the travel industry is just beginning on the path to understanding how its future will change.

This much is known. Business travel by air has largely disappeared. The unpredictability of the virus has led to repeated opening and closing of cities, regions, and the borders of countries. Consumers seem resilient and give the impression of wanting to resume their leisure travels. As time passes this desire will only grow and when the pandemic eventually recedes, consumers are expected to readily open their wallets.

This happened after the Black Death in the mid-1300s as chronicled by shoemaker and tax collector Angolo di Tura, "When the pestilence abated, all who survived gave themselves to pleasures . . . and everyone thought himself rich because he had escaped and regained the world."[1] The 1918 flu pandemic led to the joie de vivre known as the Roaring Twenties which delivered a decade of growth and prosperity. The Twenties also brought the birth of the airline industry. We expect consumers to behave in the same manner after this pandemic comes to its end. The world's leisure travel industry is hoping for a return to good times and a surge of traffic.

Qantas, or Queensland and Northern Territory Aerial Services, was born during the Roaring Twenties and celebrates its 100th birthday this year.
Image: Qantas.com

The intermediate period between now and then will require living in the reality of the pandemic – mask wearing, avoidance of crowded places, and working from home. The involvement of technology in our lives has been quickened by the pandemic. A doctor quoted in a recent *Wall Street Journal* article commented on the rapid advance of telemedicine, "More was accomplished in two weeks than in five years."[2]

Airline travel will return as allowed by government restrictions, economic ability, and consumer confidence. Most believe leisure travel will eventually return in full measure. People love to travel and there is a tremendous supply of airline, hotel, car rental, cruise, and attraction inventory that is waiting to be enjoyed. The return of business travel is more difficult to predict. The Airlines Reporting Corporation (ARC) enables financial transactions between airlines and US travel agencies, and also publishes data on travel agency sales volume. Agencies whose primary business is the booking of corporate or government travel saw a 95+ percent year-over-year plunge in transaction value at the beginning of the pandemic. This slightly improved to an 85 percent drop by November.[3] Said another way, only 15 percent (compared to 2019) of business trips by air are occurring six months after the pandemic began. This is a painful revenue loss for traditional airlines and global network carriers.

[1] "The Long Shadow of the Pandemic" dated 16 October 2020, *The Wall Street Journal*.
[2] Ibid.
[3] "Variances in Tickets Sold by Segment for All Itineraries" at the Covid-19 travel data page at ARCcorp.com.

The future of business travel is a meaningful topic to consider because it's a crucial revenue component for many airlines. Lufthansa Group, in a Capital Markets Day 2019 presentation, disclosed business trips provide 50 percent of passenger revenue. On a global basis, data from the World Travel and Tourism Council reveals business travel represents 21.4 percent of total travel spending, with leisure comprising the remaining 78.6 percent for 2019.[4] It doesn't play a major part at all airlines; low cost carrier Wizz Air disclosed just 7 percent of its passengers flew for business during 2019.[5] When using trips as a measurement, data provided by a US airline trade association reveals business travel represents 29 percent of total trips in the US, which is down significantly from 46 percent two decades ago.[6] This report assumes business travel represents 30 percent of airline trips industry-wide.

Leisure travel has become a new source of airline executive affection. That's because the bounce-back of leisure travel will benefit all types of airlines. The remaining 50 percent of Lufthansa's revenue pie is produced by holidaymakers and those visiting friends and relatives (VFR). For Wizz Air, and other LCCs, it's almost the entire pie. How airlines maximize leisure travel revenue, and compete with others for holidaymakers, will shape how airlines transform their business models during 2021 and beyond. For many, there is an immediate desire to determine how business travel will return from its current worrisome level.

New habits will continue past the pandemic.

Communication in the business world is evolving from a mixture of in-person and digital interaction before Covid-19 to one focused almost entirely on remote online contact. With the pandemic beginning in March 2020 and likely lasting through most of 2021, more than a year will pass before commerce has much opportunity to return to past practices. That's a lot of time spent doing our work through mobile phones, Zoom, Google Meet, and Microsoft Teams.

Recognizing that something significant and permanent is happening to our business culture is not a popular topic. The airline industry really wants a return to pre-pandemic spending on higher yield airline tickets for business trips. Most of this activity will return, but it's crucial to realize that some will not. Many airline executives are eager to point to past disruptive events such as 9/11, the global financial crisis of 2008, and the arrival of FedEx, fax machines, and the internet. Some of these may have dented demand on a short-term basis, but did not forever reduce business travel by air.

The future method of meeting? Portl has introduced its Holoportl machine which can transmit a life-size hologram of a person, creating a live-motion "being there" experience.
Image: Portlhologram.com

[4] World Travel and Tourism Council, Global Economic Impact & Trends 2020.
[5] *2020 CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany*.
[6] Air Travelers in America 2019 report by Airlines for America.

Why is the pandemic different? First, more than a year will likely pass with business travel experiencing a 75+ percent drop below 2019 levels. Twenty-one days is widely credited as the time required to develop a new habit. If you multiply that by nearly 20 times, the habits developed during 2020 and 2021 will be enduring. The relationships between employees, divisions, regional offices and headquarters have been forced to evolve. For example, distant employees have become less reliant on the regular presence of "someone from headquarters." Corporations should welcome this autonomy because it strengthens local capabilities and speeds responsiveness. Online meeting technology is truly instrumental in keeping employees productive.

The unglamorous side of business travel . . . delivery pizza in your budget hotel room does not make a memorable experience.

We have read posts by grounded business travelers who miss the freedom and fun of a far-flung trip in business class, luxury hotels, and foreign lands. This vocal sample neglects the less glamorous business travel of long-haul flights in economy seats, budget hotels, and boxed pizza for dinner. There are a good number of employees who have found it's easier and more enjoyable to stay home. Meanwhile, corporations have saved a huge amount of cash courtesy of grounded business travelers. The pandemic brought an immediate but temporary drop. However, the factors described in this section – from technology to human habit – will encourage a permanent reduction in business travel on airlines.

Where will investment flow . . . to technology or the airline industry? The answer is obvious and the online meeting experience of the future will be much better than what we have today. The billions of dollars flowing into online technology will enhance the feeling of "being there." By comparison, the passenger experience will remain largely the same and perhaps become more challenging by safeguards designed to prevent future viral spread. But it's important to note that, for many meetings involving company employees and customers, the act of being physically present will remain paramount.

Who travels for business and why?

It's relatively easy to find data which lists business travel activity by industrial sector, such as financial services, construction, and manufacturing, or by geographic region. But if you want to determine how technology can replace the need to take a business trip, you need to identify the business activity and audience. The physical need to be present, which might be required for audits, installation of equipment, or to observe manufacturing operations, is difficult to conduct via online communication such as Zoom. Likewise, the desire to establish a personal connection with potential clients, which usually involves a leisurely dinner and drinks, will always require a business trip. But there are plenty of business activities that don't require a physical presence or involve customers. This report identifies seven reasons (or categories) why employees take business trips.

The analysis offered in this report derives from a mix of collaboration and research. This includes four travel industry experts who have met online since the start of the pandemic.[7] These weekly discussions led to the definition of business travel categories. Subsequent work by Jay Sorensen identified reports which guided the assignment of percentages to the categories. The results of this work were reviewed by the group of four and feedback was sought from more than 15 executives working at airlines, trade organizations, hotel companies, and travel management companies.

Table 1: Airline Business Trip Purpose	
Categories	**Definition and Types**
Focus on Customer Audience	
Sales and Securing Clients	Business development activities, such as prospecting, presentation, and negotiation visits with new and existing customers.
Support of Existing Customers	Sales and account support of a non-technical nature to existing customers by sales staff.
Conventions and Trade Shows	Two sub-categories: 1) participants attending conventions and trade shows, and 2) services to support events.
Professional Services – Clients and Research	Three sub-categories: 1) client support including finance, insurance, legal, medical, advertising, and consulting, 2) market research including on-site data gathering for product and service development, and 3) higher education including research, collaboration, and presentation related to college degree or professional designation.
Focus on Internal Audience	
Technical Support – Equipment and IT	Two sub-categories: 1) installation, repair, and maintenance of physical equipment and facilities and 2) installation, maintenance, and upgrading of on-site software and programs.
Intra-Company Meetings	Two sub-categories: 1) C-level meetings such as board and senior annual and quarterly meetings, and 2) general meetings, which are all other meetings for the primary benefit of internal staff (not public events).
Commuters by Air	Regular pattern travel between two airports; from home to a headquarters. The cost of this travel can be paid by the company or employee. The category does not include remote workers; their travel is distributed among the other six categories.

[7] Ben Baldanza – former CEO Spirit Airlines; Charlie Leocha – Travelers United president and co-founder; Scott McCartney – *Wall Street Journal* correspondent; and Jay Sorensen – IdeaWorksCompany.

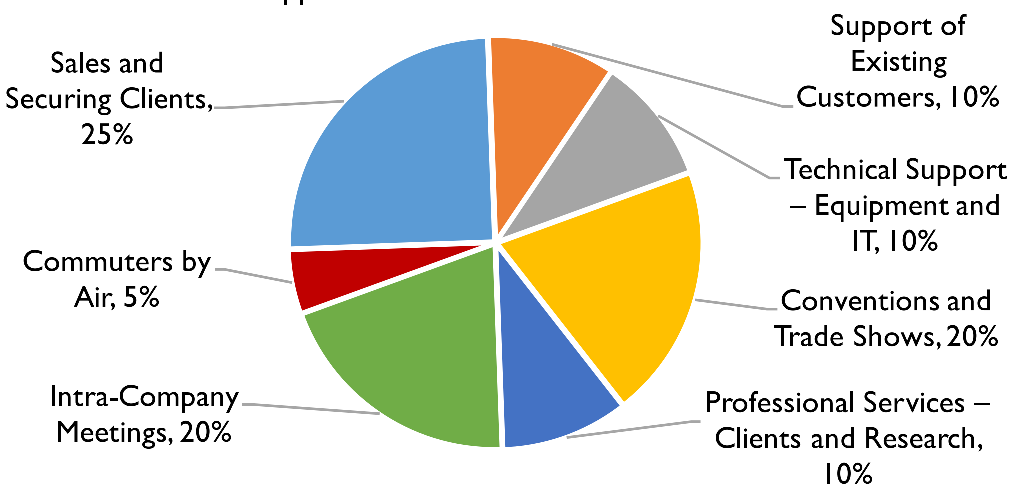
After the categories were identified, the analysis progressed to assign airline trip shares to each. Broadly speaking, the categories focus on interactions with customers or internal operations. Results from the following sources guided the assignment of percentages:

- American Express/*The Economist* (*Business on the Move,* 2013) surveyed 318 senior executives in Europe and found approximately 55 percent of business trips involved customers (potential and existing) and approximately half of that 55 percent involved meeting potential customers.
- German Business Travel Association (*Business Travel Report,* 2019) found 63 percent of trips were for client needs, and 37 percent for internal reasons.
- US Travel Association and Oxford Economics (*The Return of Investment of US Business Travel*, 2009) found 10 percent of travel budgets was spent on trade shows, an additional 10 percent for conferences, and 33 percent for office work and internal meetings.
- USDOT National Household Travel Survey (2001-2002) provided statistics for long-distance commuting trips by airline. The data was updated in 2017.

The percentages were reviewed by the 15 industry executives; the group of four airline experts used this feedback to derive the final results displayed in Chart #1 below. Readers may assume the activity described is composed of business travel by air from all sources such as corporate, private enterprise, self-employed, government agencies, non-profit, and academia.

Chart 1: Airline Business Travel Activity by Trip Purpose

Approximate shares of airline traffic



Percentages based upon a review of reports from government, commercial and academic sources with assessements made by a group of travel industry professionals coordinated by IdeaWorksCompany.

The resulting division between customer and internal audiences is 65 and 35 percent respectively. This approximates the balance described in the sources listed above. The pie chart very likely represents a first-ever attempt to categorize airline trips by business activity. It's a global template covering many types of organizations from public to private. Once the categories and percentages were established, the work turned to the question of how each would be affected by the embrace of technology as a replacement for travel.

Some business travel will not return

The majority of business travel will return as the pandemic recedes but a portion of airline trips will be replaced by technology. It's a factor that's important to identify as airlines plan for the recovery of travel. Airlines want to know if they should reduce capacity, lower fares, or reconfigure aircraft interiors to address lower demand. For each business trip purpose category, a low and high loss percentage was assigned by the group of four and was subsequently reviewed by the 15 executives. Table #2 lists each category, low and high percentages, and explains the rationale behind the percentages.

Table 2: Permanent Airline Trip Loss Due to Technology

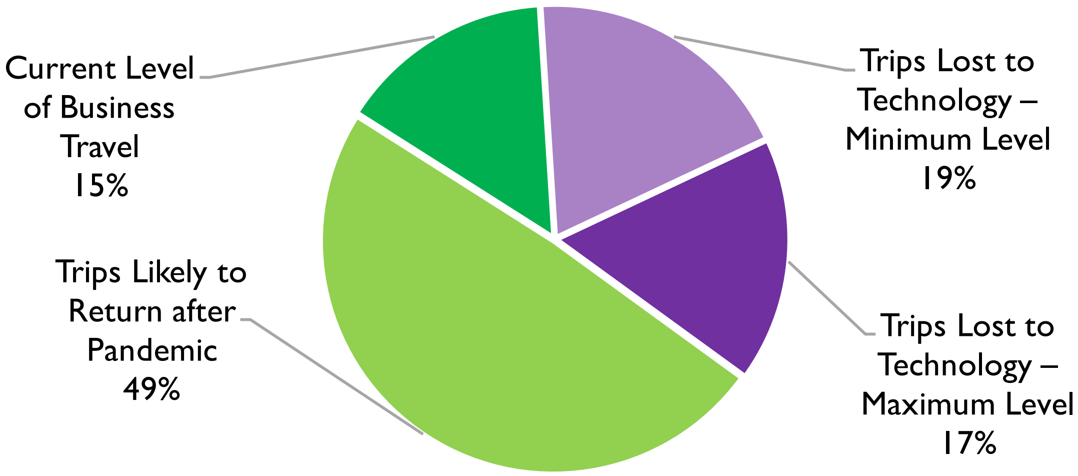
Categories	Trip Loss		Rationale
	Low	High	
Sales and Securing Clients	0%	20%	Business development will stay consistent with pre-pandemic levels with 80 to 100% of trips kept because "being there" remains an important attribute for sales.
Support of Existing Customers	20%	30%	Travel occurring after the "sale is made" is a moderately good candidate for replacement by technology, with a drop of 20 to 30%.
Conventions and Trade Shows	10%	20%	The need to be physically present will remain a strong allure, but technology will flow to this category to create online events, resulting in losses of 20% or less.
Professional Services – Clients and Research	30%	50%	This category is a prime candidate for technology replacement, resulting in a loss of 30 to 50%. But a portion of this category involves clients and there is pressure to "be there" because of this.
Technical Support – Equipment and IT	20%	40%	Physical plant support will stay consistent with pre-pandemic levels. The large majority of the drop would occur with non-physical support, ranging from 20 to 40%.
Intra-Company Meetings	40%	60%	This category will be a strong candidate for cost savings and in-person activity will be condensed to fewer events. Technology suppliers will eagerly create products to replace the need for trips for meetings, with an overall reduction of 40 to 60%.
Commuters by Air	40%	60%	The need to be always present in the office, courtesy of a weekly trip, will diminish in the era of remote working. In effect, many commuters could be reclassified as remote workers with fewer trips to headquarters.
Overall Loss	**19%**	**36%**	*Overall Loss is the weighted average, determined by multiplying trip loss rates and trip purpose shares.*

The percentages in Chart #1 and Table #2 for each category were multiplied to generate an overall loss ranging from a low of 19 percent to a maximum of 36 percent. Described another way, the low end of the permanent loss will be 19 percent below pre-pandemic levels of business trips by air, and the high range would be up to 36 percent (17 percent above the low range).

Chart #2 displays how the pandemic will affect total airline business trip activity. For the final months of 2020 the level of business trip activity is at 15 percent of pre-pandemic levels. As a recovery occurs in 2021, approximately half of the former trip activity (the 49 percent slice) will return as the business environment normalizes. But beyond this, 19 percent of business trips at a minimum will not return, and the loss could be as high as 36 percent (17 percentage points higher). That's a potential for 1 out of 3 airline business trips to be permanently lost as employers continue the technological replacements adopted during the pandemic.

Chart 2: What Happened to Business Trips by Air?

Estimate of Current and Missing Activity Compared to Pre-Pandemic



Percentages based upon a review of reports from government, commercial and academic sources with assessments made by a group of travel industry professionals coordinated by IdeaWorksCompany.

Projecting reduced levels of business travel should include one caveat. The global economy could come roaring back with a dramatic increase in overall commercial activity above the 2019 baseline. This rising tide would lift all boats, and airline travel could increase above pre-pandemic levels. Whether this increase would be enduring or temporary is yet another unknown. The most likely outcome has the global economy gradually rebounding with a two- to four-year delay before achieving net growth above 2019 levels.

How the top-end 36 percent loss statistic affects an airline is determined by its reliance on business travelers. If the typical airline has 30 percent of passengers traveling for business purposes, there would be a nearly 11 percent permanent loss of total passengers. If the 30 percent share represents 50 percent of airline revenue, this equals an 18 percent drop of total revenue. These are significant traffic and revenue losses.

Airline business trips will recover more slowly

Sales managers at airlines have been relaying the news to commercial teams for many months. Major corporations have virtually eliminated business travel out of an abundant concern for employee safety. The "duty of care" mandates require employers to mitigate the risks associated with employee travel. This is why corporate bookings have dropped 85 percent. Not only does the trip itself need to be safe, there must be someone at the destination office available to meet with and conduct business. All moving parts in the process of travel, from airlines, hotels, and taxis, to car rental, are under new scrutiny during the pandemic.

There most certainly is pent-up demand for sales people to get "back on the road" and for teams to gather together to launch and manage projects. At present all of this activity is forced through the funnel of online technology. There will be a date in the future when the World Health Organization declares an official end to the pandemic. That date will likely arrive after many business travelers have resumed their journeys. Each bit of good news such as enhanced cleaning protocols, the certainty of mask usage, better methods of disease treatment, dramatic decreases in infection rates, and the introduction of a vaccine will push travel activity up.

You just gotta be there to enjoy it. The Sorensen family near Lauterbrunnen in Switzerland back in 2017.

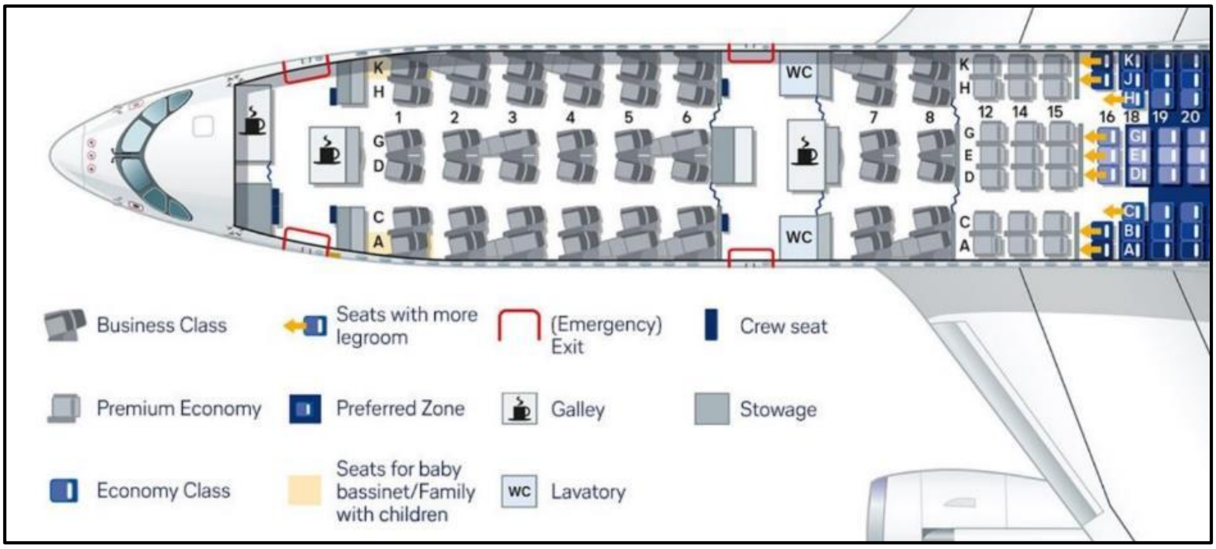
Leisure travel, such as holiday-making and visiting friends and relatives, is self-financed and self-determined. Most importantly, nothing can compare with travels to a favorite destination or exploring someplace new. Technology can enhance the motivation for leisure travel by enticing us with immersive experiences of the visual pleasure to be found. But it can't reproduce the sounds, tastes, and smells of being on a beach, in a forest, on a mountaintop, or in a gourmet restaurant.

This report has described seven categories of business travel and many of these have sub-categories, each of which is affected differently by replacement technologies. Being there in person is obviously paramount for generating sales and securing clients – that's why the trip loss ranged from zero to just 20 percent for the sales and securing clients category. By comparison, travel for intra-company meetings has already been replaced by online meeting technology, and 40 to 60 percent is expected never to return. The future prospect of life-size hologram imagery or virtual reality goggles for meetings could steal even more traffic from airlines. If airlines had perfect clarity to see the future, Zoom may have been launched by a major airline years ago.

Transformation will start in the cabin

Low cost carriers, which don't rely upon business travel, will focus on surviving the pandemic with the knowledge low fares will remain a very powerful attraction for consumers. Ancillary revenue has been proven as a robust cash generator through the pandemic and will remain so as Covid-19 recedes. LCCs should work to become better retailers of leisure travel with strong emphasis on building their car rental, hotel, and trip insurance offers. Cost control, scheduling discipline, boosting ancillary revenue, and building package sales are tools which have served them well in the past, and will help create opportunities after the pandemic.

Regional airlines and global network carriers should consider more dramatic changes to survive. The aircraft cabin is effectively a retail store and the types of seats offered are products on the shelves. The selection of products will see changes in the post-pandemic period. Below is a partial seat map for an Airbus A350 aircraft displaying rows 1-20 but omitting an additional 22 rows of economy seats. It's a busy aircraft cabin with regular economy seats, a preferred zone in economy, wider premium economy seats, and lie-flat beds in business class. Approximately 1/3 of the cabin space is allocated to the high yield luxury of business class. This will likely change in the future, with an expanded premium economy section replacing some business class seats (and maybe some economy seats).



This Lufthansa A350-900 offers 48 business class, 21 premium economy and 224 economy seats. The airline does not offer first class in this aircraft type. *Image: Lufthansa.com*

Premium economy was a financial success for airlines before the pandemic and has appeared on an increasing number of long-haul flights in the last five years. Airlines compare revenue statistics for type of seating using revenue produced per square meter of cabin floor occupied. Lufthansa disclosed (before the pandemic) premium economy is its best revenue producer when measured this way.[8] Average revenue per square meter was 6 percent higher than business class and 33 percent higher than economy. Premium economy can attract economy class passengers seeking more comfort, and retain business class passengers who are forced to cut costs. Many business travelers are budget conscious and the permanent loss of business traffic will also reduce economy traffic too.

[8] Lufthansa Capital Markets Day 2019 presentation dated 24 June 2019 at LufthansaGroup.com.

Prepare for the post-pandemic period

Earlier in this report, this prediction was offered: *Airline travel will return as allowed by government restrictions, economic ability, and consumer confidence.* The three factors are largely outside the control of airlines. Among these, consumer confidence is the most important.

Consumer confidence can be encouraged to a degree. Airlines have done an admirable job of adding layers of safety. HEPA filtration, mandatory mask wearing, and surface disinfecting are necessary and helpful. Consumers will only return in large numbers when their assessment of Covid-19 risk falls below the benefits provided by travel. Their assessment is largely influenced by the world around them. This includes everyday activities such as the ability to have guests in your home, returning to the office for team meetings, enjoying a restaurant meal, and even giving someone a hug. These simple moments are far more important than the arrival of a vaccine. Everyday activities represent tests that must be passed before confidence in travel is restored.

Recent comments by Federal Reserve Chairman Jerome Powell nicely summarize the essence of this report, "What this crisis is in the process of doing is accelerating a lot of pre-existing technological change. We are not going back to the same economy, we're recovering, but to a different economy. And it will be one that is more leveraged to technology."[9] Covid-19 has changed the airline business; the winter of 2021 is the time when we must proactively transform it to fly smoothly in the future.

Checklist for your Transformation Journey

- **Add meaningful safety protocols.** Testing could become a major travel motivator if it became instant, inexpensive, and accurate. Consider a future requirement for proof-of-vaccine to encourage acceptance.
- **Emphasize a la carte sales.** Baggage, seat assignment fees, and extra leg-room seating have been resilient during the pandemic in terms of take rates and revenue production. If you were hesitant to embrace ancillary revenue before, the moment is now to make the change.
- **Build your leisure retail capabilities.** Vacation travel will endure because it can't be replaced by technology. Become a better travel retailer by helping consumers plan holidays and easily book car rentals, accommodations, and activities. Create branding to promote new leisure-oriented offers.
- **Optimize cabins for tomorrow's travelers.** Lie-flat business seats will be a challenge to fill due to near term depressed demand and long term trip loss. Premium economy provides profitable and popular appeal. Leisure travelers can upgrade and companies can still provide employee perks at a lower cost.
- **Anticipate how elite loyalty will change.** Many top flyers won't qualify for elite status in 2021 and perhaps 2022. The design of elite tier programs will require structural change to remain relevant in the post-pandemic period. Less complexity would be a welcome change.
- **Identify what has changed for the long term.** Use the winter of 2021 as a period to build new products and programs. Consider radical and new concepts to claim new markets while competitors are distracted by the present.

[9] European Central Bank's Forum on Central Banking, 12 November 2020.