

CARTRAWLER ANCILLARY REVENUE SERIES

2020



## Flight Plan 2020: 8 Ways Travel Will Be Different a Few Months from Now

This CarTrawler-sponsored report focuses on post-virus consumer behavior and how airlines can best serve a travel economy in recovery.

RESEARCHED AND WRITTEN BY JAY SORENSEN • EDITED BY ERIC LUCAS



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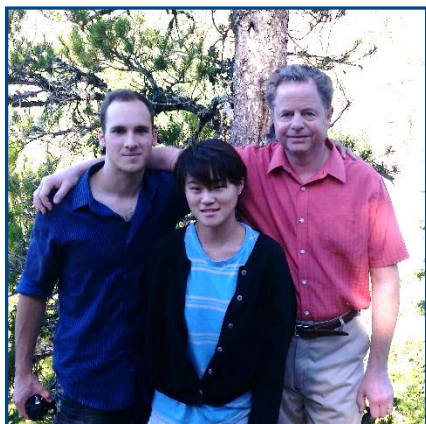
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## About Jay Sorensen, Writer of the Report

Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at the annual MEGA Event, spoke at IATA Passenger Services Symposia in Abu Dhabi and



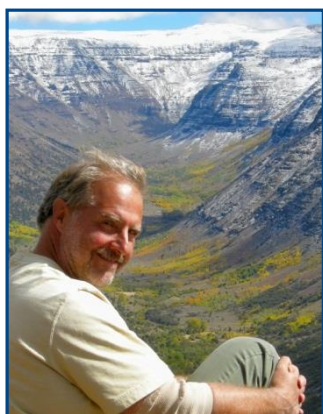
*Jay, with son Aleksei and daughter Annika, in North Cascades National Park in Washington.*

Singapore, and has testified to the US Congress on ancillary revenue issues. His published works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

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 appears 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](http://TrailNot4Sissies.com).

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

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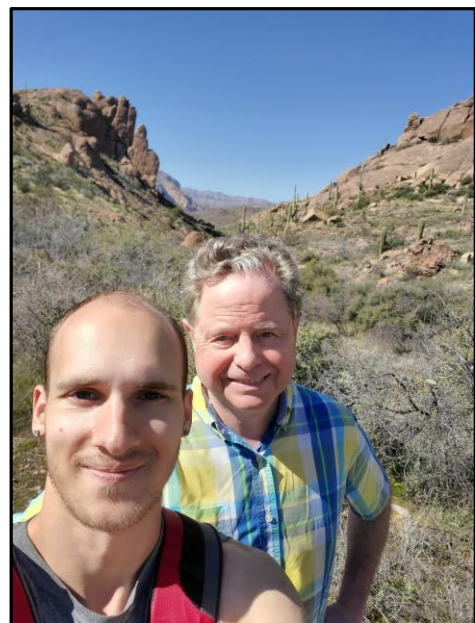
## Flight Plan 2020: 8 Ways Travel Will Be Different a Few Months from Now

### We are travel people

I have had the privilege of working in the travel industry for 36 years and I am determined to make it 40 years. If anyone tells you the travel industry will not rebound, tell them they are “full of hops.”<sup>1</sup>

Travel has been in my blood my entire life. This begins with a grand opening photo of infant Jay sitting on his mother’s lap poolside at the Travelodge hotel his parents built in Sarasota, Florida. It continues through my adult life in travels all over the world with my family, which includes visits to more than 90 national parks with my kids. My wife and I brought our three adopted kids from Latvia and South Korea courtesy of standby passes for airline employees.

My son Aleksei continues the work tradition with a young career in the hotel business. It’s a generational thing, and my current mission has become doing my part in the recovery of our travel industry. I’m working to ensure a new generation can join an industry that has delivered a lifetime of enjoyment for me. Many of you reading this report can share similar stories. It’s certainly true – this business gets in your blood.



*Hotel industry son Aleksei and airline business father sharing a hike in the Superstition Wilderness in Arizona, February 2020.*

Fortunately for us, travel is an essential element of being human. We work in a business that is a very meaningful part of modern life. People love to travel and business people need to travel. Travel will return again. Much will remain the same, but elements of it will be very different. This report helps you anticipate the changes that will occur as consumers return to airlines, hotels, vacation rentals, and car hire companies. We can learn from past economic challenges and global events that have tested the travel industry. However, I also rely upon a fair amount of conjecture because this pandemic is unlike anything I have ever experienced. Let’s begin the analysis of how travel will be different a few months from now.

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<sup>1</sup> I live in Milwaukee which is a beer-brewing town; hops is a core ingredient of beer. It’s also a local replacement for the usual vulgar word one might use in this phrase.

## I. Capacity and inventory will decrease through business failures

IATA estimates global passenger traffic will drop nearly 40 percent for 2020 based upon a spread of COVID-19 beyond earlier predictions. Who knows, subsequent estimates could place the reduction at 50 percent of 2019 traffic. IATA believes revenue will decrease by more than \$250 billion for the year. Last year's revenue estimate was approximately \$900 billion, so this represents a nearly 30% loss. As bad as this appears, IATA's projections might be overly optimistic. As goes the airline industry, so go vast swaths of the travel business to include hotels, vacation rentals, car hire, and sightseeing. Each of these categories will have business failures. Economic reality says many companies will cease to exist or will stumble along and eventually fail.

<b>IATA Global Traffic and Revenue Scenario for 2020</b>		
<b>Airlines Based In:</b>	<b>% Change in RPKs*</b> 2020 vs. 2019	<b>Estimated Reduction of Passenger Revenue</b> 2020 vs. 2019
Africa	-32%	-\$4 billion
Asia Pacific	-37%	-\$88 billion
Europe	-46%	-\$76 billion
Latin America	-41%	-\$15 billion
Middle East	-39%	-\$19 billion
North America	-27%	-\$50 billion
<b>Industry</b>	<b>-38%</b>	<b>-\$252 billion</b>

Source: Deeper Revenue Hit from COVID 19 press release dated 24 March 2020 (IATA)  
\* RPK designates Revenue Passenger Kilometers (one passenger flying one kilometer).

Travel industry capacity will shrink. Many aircraft will remain parked and older models will be scrapped. Weaker airlines will merge with others or simply disappear. Some hotels will close and be repurposed for other uses, or will sit empty waiting for travel to recover. Newly constructed hotels will open during this period which will increase pressure on older room inventory. The travel industry has benefited from years of generous financial results and significant capital investment was made to improve reliability, comfort, and quality. This will cease for a good period of time unless government intervention encourages capital spending.

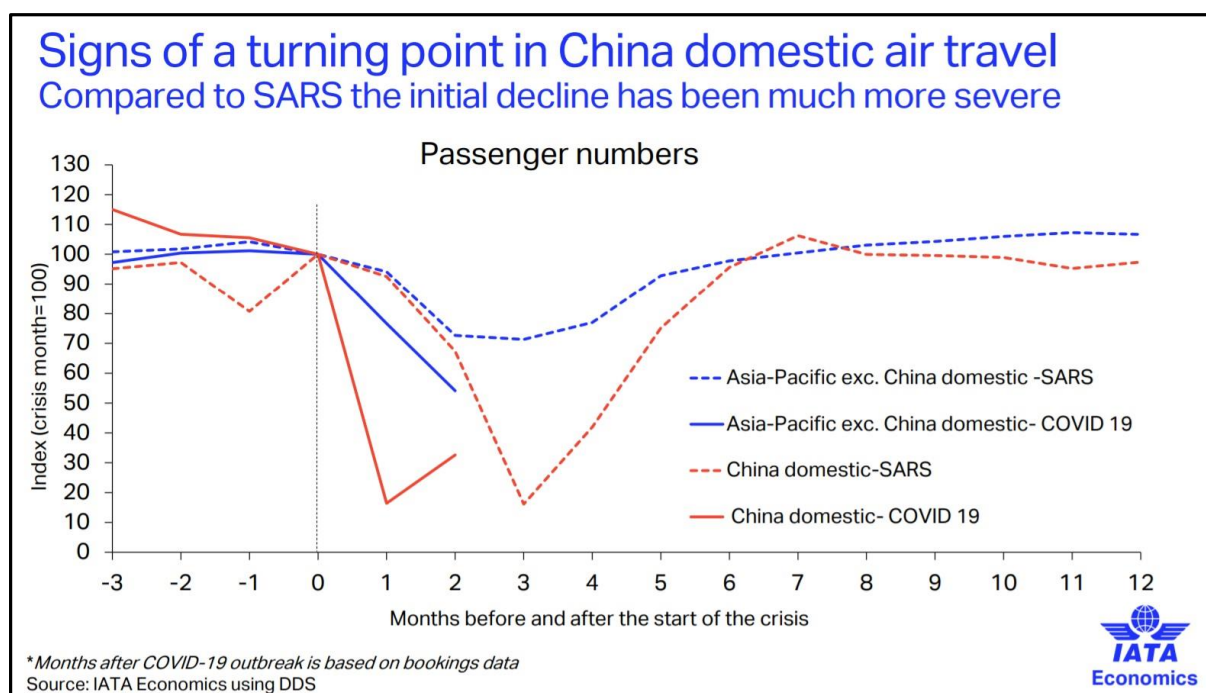
When travel resumes, consumers will respond to the lower prices offered in the post-pandemic economy. In the longer term (beyond one year) the capacity contraction will serve to boost yields. Fewer producers, during a period of increasing demand, automatically leads to higher prices. This will recover a tiny portion of 2020 losses, and allow companies to spend cash on service, equipment, and facilities improvement.

The human toll will be substantial, but we will define a new normal. Travel industry employees will lose jobs through no fault of their own, and encounter severe financial stress. Mental health will suffer due to social separation and the economic pain caused by this pandemic. There are no "opportunities" to be gained from this time of trial; I wish to provide a clear-eyed assessment of what our industry can anticipate during its recovery.

## 2. Closer to home will define leisure travel for the near term

“Safer close to home” will most certainly define the near-term psychology of leisure travel, and may also apply to business travel habits. For the most part, business travel destinations are defined by “need” rather than “want.” It’s not wrong to eagerly anticipate the resumption of travel behavior during this time of crisis and pain. Quite the opposite, as this discussion is necessary to help the global economy recover. According to the World Travel & Tourism Council, there are 330 million travel and tourism jobs on the planet, or 1 in 10 jobs. People need jobs to provide financial security for their families.

History provides limited advice for how the recovery will occur. The challenge of comparison is the scale of this pandemic and the damage wrought by a recession. IATA has created a chart to display how passenger numbers decreased and recovered during the SARS (Severe Acute Respiratory Syndrome) epidemic of 2003. The World Health Organization (WHO) reported 8,096 persons globally had a probable SARS diagnosis with 774 deaths.<sup>2</sup> Let’s acknowledge COVID-19 is a far more catastrophic event that has created a nearly complete shutdown of the world’s travel industry.



WHO declared COVID-19 a pandemic on 11 March 2020.<sup>3</sup> Let’s assume this represents day zero on the IATA graph. For the SARS epidemic, travel began to recover three to four months after the start of the crisis; this equates to June and July for 2020. That’s unlikely to happen given the severity of COVID-19. The lodging industry might make a sincere attempt to promote bookings for August out of a desire to capture the last remaining portion of the Northern Hemisphere’s summer season. The chart displays very early evidence of a COVID-19 recovery in China, which provides some encouragement. Data provided by the USDOT describes a long arc for recovery with US travel taking two to three years to recover from the 9/11 terrorism event.

<sup>2</sup> “CDC SARS Response Timeline” reviewed 03 April 2020 at the CDC.gov website.

<sup>3</sup> WHO media briefing on 11 March 2020.

Travel will be strongest within regional geographic areas. Americans will travel within America, Europeans within Europe, with Asia perhaps seeing the same trend. Long-haul international travel will not be attractive for most leisure travelers. This is due to the fear of being so far from home and justifiable worries about the ability to return to one's home country in the event of an incident.

Travel by automobile, passenger rail, and shorter flights will see the first indication of renewed demand. Hotels, vacation rentals, car hire, airport transfers, and sightseeing activities serving these markets will see the strongest demand. Within this regional geography rural and outdoor destinations will be the most popular. The US National Park system will see unprecedented visitation and this will create its own set of problems. Densely populated urban experiences will not be popular, especially if these require transit by subway. Travelers will equate "rural and outdoors" with good health, and "crowds and public spaces" with higher risk.

### 3. Health safety will become an ever-present factor

Perhaps we will never touch airline tray tables, hotel television remote controls, and car hire steering wheels without hesitation again. Personal sanitation assurance while using public facilities is now a priority. However the often sloppy behavior of our species does suggest this may disappear with the passage of time. Protection against disease will become an expectation in the same manner that protection from terrorism has been built into the travel system. In much the same way that travel companies seek to be rated for quality of hospitality or generosity of frequent flyer programs, so too will new surveys be introduced to grade providers on disease prevention.

This is a very necessary development for the travel industry because it has been ignored for too long. Of course, food outlets have been inspected for decades. But ask any frequent flyer if they believe aircraft interior cleanliness is subject to the same oversight as aircraft engines, and you will hear a resounding "no." Hotels may appear to do a better job of it, but a Google search reveals plenty of reporting to indicate a problem exists. In particular, you may be surprised how often sheets are not changed between guests and that drinking glasses are merely wiped with used bath towels by housekeeping staff. Car hire companies should be more specific about cleaning efforts and identify the individual vehicle areas being cleaned . . . and how.



*Delta Clean includes fogging of all aircraft with disinfectant.*

Delta has introduced a branded promise to ensure better sanitation. "Delta Clean" is positioned as a continuing commitment. This includes "disinfecting high-touch areas customers care most about being clean, like tray tables, seat-back entertainment screens, arm rests and seat-back pockets."<sup>4</sup> Operations crew may delay flight departures to request a cleaning crew return to the aircraft for additional cleaning.

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<sup>4</sup> "Delta Clean' delivers new standard of airline cleanliness, now and always" press release dated 30 March 2020 at Delta.com.



This is a big promise, and the visibility of it will ensure scrutiny by travelers and journalists. My inbox has been stuffed with assurances of enhanced cleaning methods by other airlines, hotel brands, and car hire companies. The image on this page provides a visible example of the changes made by a Sixt location. Delta seems unique in its effort to create a brand identity for its efforts. It will help align employees to “think clean” as they do their jobs. This will only work if an effort is supported internally. The news of disciplinary action for allowing a dirty plane, or recognition for a job-well-done for an employee who delays a flight for cleaning will spread quickly in the organization.

Buy-on-board food practices must also be addressed. I ordered a hamburger off the cart of a US airline last fall. The flight attendant handed me a sandwich wrapped in foil paper along with a condiment packet which provided ketchup, mustard, and a tiny napkin. Think for a moment about the unattractiveness of this presentation. There’s no plate, no plastic knife for spreading condiments, and no method to clean your hands. There certainly is a lack of empathy in the design of this service. In the future consumers will give this lack of sanitation low scores.

Customers have been conditioned through a lifetime of broken promises to expect all of this is just a marketing ploy. Companies that prove otherwise will find themselves on top. We should all find it curious why much of this activity represents new initiatives, and has not been standard operating practice all along.



Visual evidence of “cleaner” at a Sixt car hire location in Indianapolis. Photo credit: Phil Spink

#### **4. Consumers will expect low prices, and low prices will stimulate traffic**

Everyone, with few exceptions, will focus on frugality during and after the pandemic. The wealthy have seen their investment values crumble and will naturally feel pinched. For middle- and lower-income consumers, the pandemic has immediate financial effect. Business travel will be limited to meet essential needs. Two factors will influence consumer spending. First, the collapse of demand, and the desire by suppliers to build traffic, will make low prices the prevalent means of promotion. Secondly, consumers have been trained to expect low prices during economic difficulties. Unfortunately for suppliers, this effectively “doubles” the need to deliver robust discounts.

Pushing hard on a la carte fees in a post-pandemic world will be problematic for the reasons described above. Expect regulators, reporters, and consumers to be sensitive to any attempt to boost revenue by increasing fees. “Airlines boost bag fees after receiving government bail-outs” is a headline the industry should seek to prevent. This requires a new level of empathy. Consumer spending will be fragile. They will assess the overall cost of a trip to include the ticket price, plus all fees, and the hotel rate. Having mentioned hotels, it would be a very good time for innkeepers to do away with the dreaded resort fees that have been forced upon consumers in the past few years.

## 5. Government investment will have strings attached

The airline industry has always lamented its high visibility with regulators and the news media. Coverage of new pricing policies, the delay of flights during major weather events, and the visibility of passenger handling mistakes through social media, are a regular source of angst for senior executives, public relations departments, and frontline employees. Yes, there have been decades of what is perceived as unfair scrutiny on the airline industry.

In this specific event, the airline industry should be grateful to be in the spotlight. The prior visibility of the industry's shortcomings has now transformed into the visual spectacle of empty check-in counters and ramp areas stuffed with parked aircraft. This has placed airlines as early and specifically identified recipients of major government support. The list of programs providing outright operating grants, loans, and deferred airport expenses grows with every passing day. Taken together, this activity will save the airline industry from complete ruin. We should be very grateful for this, and other industries not specifically included will be jealous.

Consumers will also be very aware of this and alert to any bad behavior. Quite naturally, politicians and regulators will deploy this as leverage to cure the real and perceived sins of the airline industry. This will also apply to other sectors in the travel business that receive government support. 2020 and 2021 will be years in which news of any executive bonus payouts, to include stock options, will be met with howls of anger. When airlines recover, it will be due to the support of consumers, hard work of employees, nimble managers, and assistance provided by governments. Airline management teams must carefully balance very necessary revenue (and cost reduction) initiatives against public scrutiny of fairness.

## 6. Change fees will be even more unpopular

Many in today's airline business might not be aware of this, but change fees and non-refundable fares are relatively new pricing policies. Back in 1985 American Airlines introduced Ultimate Supersaver fares with discounts up to 70 percent.<sup>5</sup> News of the fare cuts sent airline stocks into a tailspin.

In my role then as pricing manager for Midwest Express Airlines this day still creates a vivid memory. I presented top management a table of American's new fares, our operating expense per passenger, and the residual dollar amounts – which all were negative. The collective management response was, "This is a disaster for us, but we gotta match them." American introduced the fares as a tool to win back passengers from low cost carriers, which were expanding rapidly at the time.



American introduced Ultimate Supersavers with a television campaign in 1985. Here is a screenshot from the ad which describes the fares as, "The biggest revolution in travel since the invention of the wheel."

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<sup>5</sup> "Major Airlines Play Cutthroat with Fares" *Chicago Tribune* article dated 18 January 1985.

American’s management likely agreed to the discounts subject to a major caveat: Ultimate Supersavers would have stringent rules regarding changes and cancellations. According to the *Chicago Tribune*, “For the first time on a broad scale, ticket-buyers who change plans will be penalized. Once the Ultimate Supersaver ticket is bought, 25 percent of the price will be nonrefundable.” In effect, you could fly on a “full service airline” at “low fare airline” prices if you agreed to not “break the deal” by changing your plans. The resulting pushback by consumers was truly punishing for reservation agents and airport customer service staff. My days were quickly filled writing responses to angry customers because we felt it necessary to enforce the rules. I truly disliked that period in my career.

Thirty-five years later these policies continue to exist largely out of misguided tradition. That’s a bold statement that will undoubtedly make me unpopular among some in the airline business. But allow me to offer a defense with evidence. Southwest Airlines is among the most profitable airlines in the world, and has never charged change or cancellation fees. Southwest has combined this policy with a record of profitability that is the envy of the airline industry; so it is possible.

Southwest does sell non-refundable fares. However, a cancellation made at least 10 minutes before departure is required (a very modest requirement). The refund is issued in the form of travel funds which expire one year from the date of original ticket purchase. The airline offers an extended expiration during the pandemic.

**Transfparency**<sup>®</sup> [Trans-fair-uhn-see] n.

1. Philosophy in which Customers are treated honestly and fairly, and low fares actually stay low—no unexpected bag fees, change fees, or hidden fees.

Low fares. No hidden fees.

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**Low fares. No hidden fees.**

We're all about being open and honest with Customers and making sure pesky fees stay away from our low fares.

\$ 0 1st & 2nd Checked bags<sup>1</sup>    \$ 0 Change fee<sup>2</sup>    \$ 0 Live TV<sup>3</sup>

**That's Transfparency.**<sup>®</sup>

<sup>1</sup>First and second checked bags. Weight and size limits apply. <sup>2</sup>Fare differences may apply. <sup>3</sup>Limited time. Where available.

*Southwest Airlines promotes no change fees, and other unique features, under the brand name of “Transfparency.”*

For the global airline industry, this genie is already out of the bottle. In response to the pandemic, airlines all over the world have opened the floodgates of flexibility. Changes can be made without fees, with refunds issued as cash or travel credit. Airlines are not alone, with hotels, vacation rental, and car hire companies waiving cancellation fees for pre-paid and non-changeable bookings. For consumers, this is a welcome change during a time of great uncertainty. Going forward, one thing is certain, the feeling of “uncertainty” will continue for the foreseeable future. When travel companies feel compelled by finances to reinstitute change fees, the market will not react kindly . . . and neither will regulators and politicians.

Wizz Air has introduced an attractive policy to encourage consumers to request a travel credit rather than a refund to a credit or debit card. For flight suspensions made by Wizz Air, the airline will automatically refund 120% of the original fare as travel credit for bookings made on Wizzair.com and the mobile app. Passengers may opt for a 100% refund to the original form of payment. This innovation undoubtedly pleases many passengers while preserving cash for the airline.

## 7. A portion of business travel will never return

Most of us are now proficient in the skill of conducting business online from our homes. It's also true that we can't wait to rejoin the physical world of having in-person contact with others. Shelter-in-home restrictions encourage us to enhance contact with family and friends through applications such as Zoom and a large monitor creates a better experience. But don't look for this to replace leisure travel. Even the largest of screens can't replace the sight, taste, and feel of a vacation destination. Technology is not a substitute for "being there" to visit parents, children, and friends.

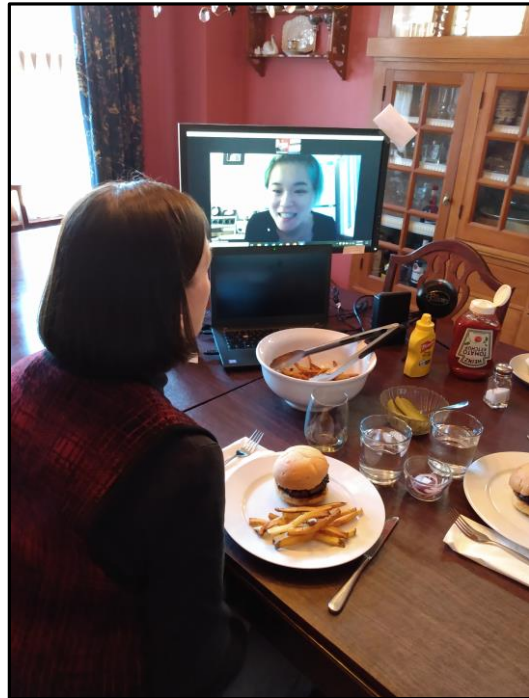
Some business travel will be replaced by technology because people have adapted to remote meetings. While leisure travel represents days of enjoyment, the core value of a business trip might literally be a one-hour meeting. Ben Baldanza, who was the CEO of Spirit Airlines for eleven years, predicts a 5 to 10 percent long term reduction. This seems a reasonable guess. In an email exchange, he says shorter meetings between a couple of people could easily be replaced by meeting online, whereas sales calls and factory visits almost always require travel to the site.

National Car Rental conducted a survey of 995 US-based business travelers in November 2019.<sup>6</sup>

Among the respondents, 81 percent believe business travel "helps them build key relationships they otherwise couldn't without business travel." That's a strong endorsement for the power of "being there." The survey also found 81 percent blend leisure and business purposes into the same trip. This "dual purpose" travel creates twice the reason for someone to take a trip and will help sustain overall travel activity.

## 8. Google will be distracted by other opportunities

The travel industry has been concerned Alphabet, Inc., otherwise known as Google, would eventually dominate the travel booking business through Google Flights or Maps. This could occur at the moment a search is conducted and circumvent a consumer linking to booking sites operated by airlines, hotels, vacation rentals, car hire companies, and even online travel agents. Another method of capture could be tied to the dominance of Gmail which delivers millions of supplier booking confirmations to consumer inboxes every day. Google could act as a travel gateway by directing consumers in much the same way travel agents and global distribution systems have done in the past. I believe the pandemic has reduced the likelihood of this occurring as Google seeks more immediate opportunities in other industries.



*Thursday nights in the Sorensen household feature dinner with daughter Annika courtesy of Zoom; but this doesn't compare to the real thing. Yes, the menu was hamburgers from the outdoor grill.*

<sup>6</sup> "2020 State of Business Travel Survey Fact Sheet" reviewed 04 April 2020 at NationalCar.com.

Where to begin? First off, Google has found itself at the center of data exchange during the pandemic. Google provides online tools that connect users, such as Hangouts, Hangouts Meet, and Duo. It's a confusing array of services and it's difficult for the uninitiated to sort it all out. Hangouts Meet is the enterprise-only product and is a popular choice for online educational efforts during the pandemic. My wife is a first grade teacher and Hangouts Meet has become the official method to connect with her students. Imagine, millions of schoolchildren worldwide are connecting with teachers via Hangouts Meet. Somehow, Google is amassing tremendous intelligence from this global event.

Google is also working with public health officials to use its vast collection of data to track the movement of people during the pandemic. The information is delivered courtesy of the location setting on a mobile phone. The company is posting information on travel patterns for more than 130 countries.<sup>7</sup> Below is the listing for Greater London which includes these location categories: 1) grocery & pharmacy, 2) parks, 3) residential, 4) retail & recreation, 5) transit stations, and 6) workplaces. In a single glance, public safety administrators can determine if people are staying home from work. These efforts are a global display of Google's capabilities and will not be forgotten by potential customers after the pandemic passes.



Google is watching. The baseline in this 29 March 2020 COVID-19 Community Mobility Report is for the 5-week period of 03 January – 06 February, 2020.

Google's opportunities in the travel industry are pale by comparison. Our industry no longer represents an opportunity for quick profits. In addition, the task of selling travel requires direct customer service support; this has never been an area of strength for Google. Contrast all of this with the vast funds that will flow into the areas of online education and public safety during the next 5 years, and you have an answer. Google is not motivated to conquer the travel industry.

<sup>7</sup> Results observed at [google.com/covid19/mobility](https://www.google.com/covid19/mobility) on 05 April 2020.

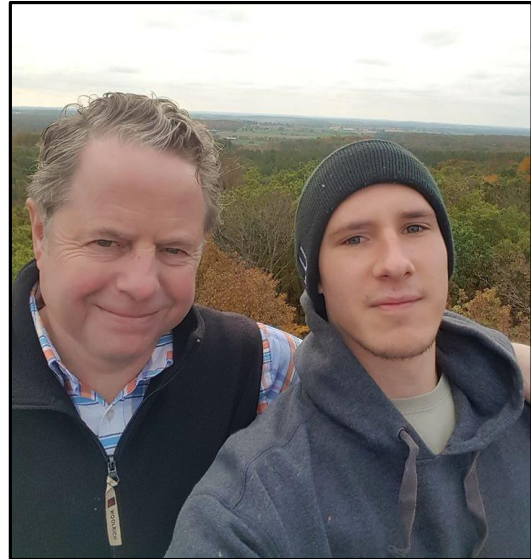
## “It’ll be OK”

This report has been challenging to write because it imagines a future that is very different from the past and present. There is a lot to digest and the changes we are facing are scary and unknown. John Heimlich, the chief economist at Airlines for America, recently remarked to me, “It’s like we are driving in the fog.” These are wise words from a wise person.

I want to bookend this report with positive commentary and introduce my son’s twin brother Anton. He is known by his friends for repeating a mantra, “It’ll be okay.” Two declarations from the beginning of this report are repeated here: Travel is an essential element of being human, and travel will return again. These truths define the certainty of the travel industry’s recovery. There is another element I will present to close this report.

Self-care and mental health are paramount. Anton has struggled with mental health and addiction since adolescence. He is in a great place today, which includes being clean, sober and attending college. His career future will likely involve humane shelters, dogs, and a variety of God’s creatures. Anton has taught me the value of reaching out for help when I went through very difficult times in 2018. He has also taught me you can’t control everything that happens to you, but you can control how you respond.

Beyond the immediate health crisis, and the economic crisis, there will be a mental health crisis. Be gentle with yourself, be gentle with others, and rely on someone with whom you can talk through issues. These will be times that challenge our souls. Please know we will get through this as a global family and as a travel industry family.



*Jay and Anton on top of the world at the Parnell observation tower in Kettle Moraine State Forest, Wisconsin.*

*Alaska*



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**"IdeaWorksCompany helped us sharpen our game, and offer choice to our guests."**

*"Alaska Airlines leads the way in offering technology that takes the hassle out of air travel and delighting our guests. One way we do that is by offering choice. Jay Sorensen worked with our cross-functional team from marketing, product, finance, customer service, pricing, and planning to understand benchmark methods used by the best airlines around the globe. With Jay's help, we've sharpened our game."*

**Toni Freeberg, Director of Distribution & Ancillary Strategy, Alaska Airlines**

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