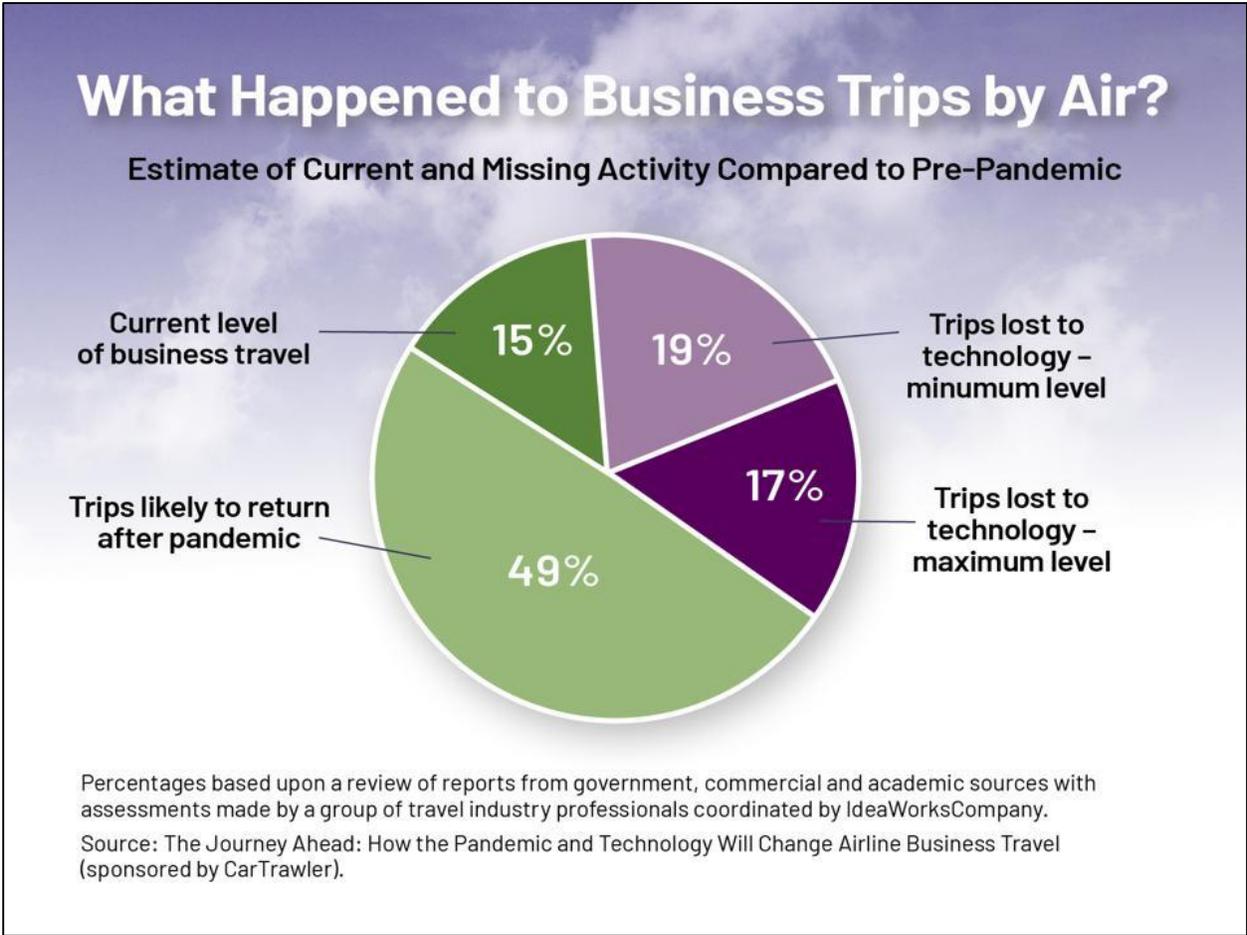


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By Ben Baldanza

Up To 36% Of Airline Business Travel Won't Return After Covid Pandemic Ends, Study Estimates

This article is based upon a report issued by IdeaWorksCompany.



A new study by IdeaWorks and reported by the Wall Street Journal is the first detailed look at the long-term impacts Covid-19 could have on business travel. I, along with three other travel professionals, designed the study, conducted the research, and reached out to others for comments. Its conclusions are eye-opening: that between 19% and 36% of airlines' business traffic base will not return to the skies.

The study breaks down the reasons people have traveled for business, assesses the effects of technology, work at home changes and overall risk tolerance, and validates this with a wide range of industry and travel experts. As a result, this study is robust and more complete than any done since the pandemic began.

The four largest U.S. airlines should take note — and all airlines will be affected in some ways if this estimate proves to be accurate.

Multiple Reasons For Business Travel

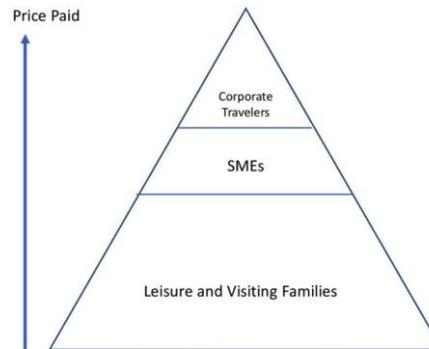
The study determined the reasons people travel by air for business, and then used data sources to size each category as a percentage of the total. In September, United CEO Scott Kirby said, “I think it may take a year or two until you get back, but we’re firmly in the camp that believes business demand is going to come back.” He stepped back a bit from this a month later, but like others he may have been thinking about business travel in too limited a way. I have heard some industry people say things like “As soon as a business loses a million dollar client, they’ll be back on a plane to repair the relationship.” This may be true, but travel to support sales and revenue generation is just 25% of the total business travel population. Intra-company meetings make up a surprising 20% of all trips, and 5% are even people who commute by air for their job.

By looking at the multiple reasons that people travel, this study was able to better assess the reasons it may or may not return. This could be because of technologies like Zoom and Microsoft Teams, but also could be because more people will work at home or some may have changed their personal risk profile. Since people travel for different reasons, it is logical to assume that their approach to future travel would be affected in different ways. Consider a commuter who has flown every week from a home in Florida to a job in NY, for example. Going forward, they may still make this trip but will they make it as often? If the company is more comfortable with technology and more workers are at home anyway, would an every week trip still be necessary? The point is that for each category, it’s not as if it is all or nothing. Yes, people will again travel for business reasons but not at the rate they used to

Using this idea and testing it with multiple industry-knowledgeable people, the study concludes that between 19% and 36% of the total business traffic base will not return to the skies. This is based on ranges for each category of business travel, and others may disagree with the ranges for any of the categories. But looked at this way, it is clear that the industry will lose some business travel.

What The Study Implies For The Big Four U.S. Airlines

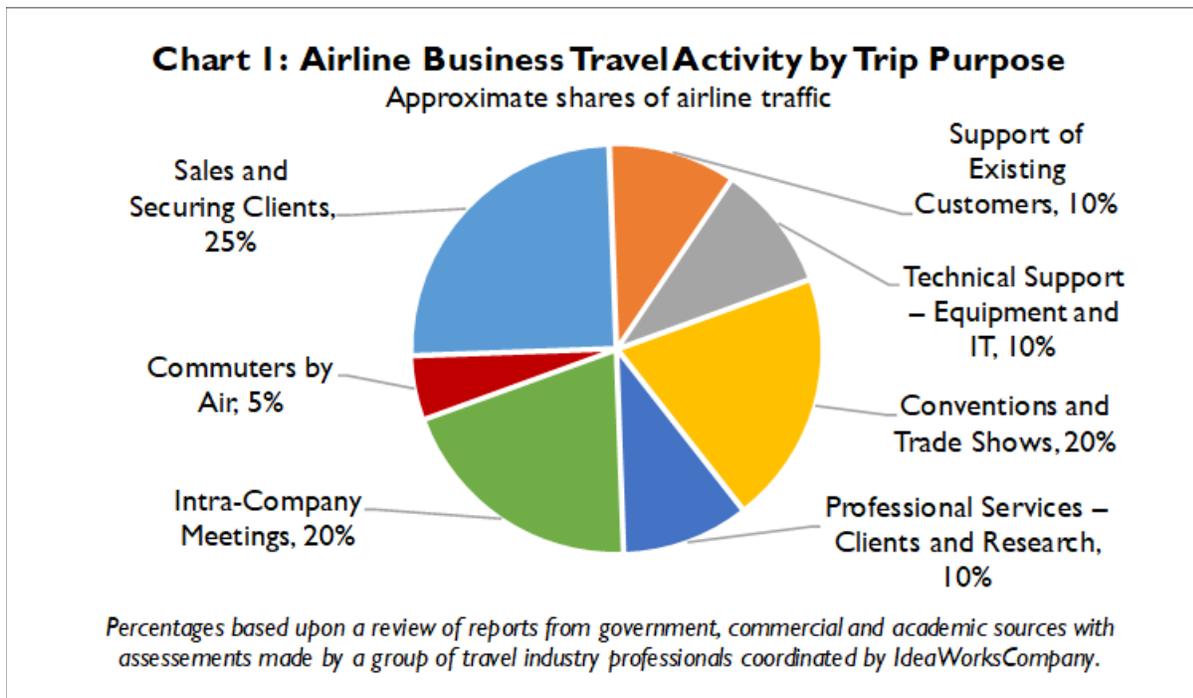
American, Delta, and United carry most of the corporate business travel in the United States. It is an important part of their business and it affects the way their business is structured. In an attempt to win this business, these airlines configure their seating in certain ways, own or lease real estate to service these people on the ground, have sales teams to call on businesses and travel agents, use disparate distribution strategies, have varied and often complicated policies that treat customers in different ways and this drives technology and training costs. Southwest, the outlier in the big four in a way, carries a lot of business travel too but they carry small and medium size businesses, often called SMEs. The SMEs behave a bit more like leisure customers in that they are more price sensitive but still end up paying more than true discretionary travelers. Southwest wins most of this business because of their dense schedule with many frequencies per day among large cities, reliable service, and ease of use with no change fees and no baggage fees.



Corporate travelers pay the highest fares but represent the smallest number of total travelers. DRAWN BY BEN BALDANZA

If corporate business doesn't all return as this study suggests, the three largest airlines will look to carry more SME traffic since that still pays more than leisure travelers. You've already seen this start to occur, with United's cancellation of change fees and the quick match by Delta and American. These airlines no longer want to give Southwest that advantage to capture this kind of traffic. So then, what does Southwest do? Well, maybe make a play for more corporate traffic, further hurting the big three, or maybe they carry more leisure travelers. But all four airlines will have their traffic bases affected, and this means that other changes must occur as well. As the study points out, airlines will need to adjust to carrying more leisure travelers. This may affect the size of their fleet, how many seats they put on the airplanes, how they distribute their product, how they use airport real estate, what their frequent flier program looks like, and more.

Interestingly, based on insight alone Bill Gates recently predicted that 50% of business travel won't return and that many more people will work from home going forward.



Other Takeaways From The Study

Airlines have had to reinvent themselves in the past. Changes in security after 9/11, changes in distribution with the internet, and more have required airlines, and many other businesses, to evolve to an ever-changing world. The current challenge has big implications for the size and structure of the US airlines. Much of the competition among airlines has been for corporate business travelers, and this will not change. If this becomes a smaller piece of the total airline revenue opportunity, then the changes that need to be made are significant. It also means that lower cost airlines are better positioned than the Big Four because they already know how to make money on leisure customers and don't have the expensive infrastructure in place to attract the higher fare paying corporate traveler.

The study ends with a checklist for airlines to consider in their transformation. This includes things like embracing more ancillary fees, re-thinking elite loyalty, and more. It is a good list focused on how a changing customer mix will drive product and network changes. Also, though, airlines must think about further cost containment. Airlines that have built their company to attract corporate travelers often don't realize how this effort affects every line of their P&L. By carefully reconsidering everything they do, airlines can lower their unit cost of production and put themselves in a position where they can earn positive returns based on a higher mix of leisure travelers.

Here's one more crazy idea. Years ago, when threatened by the growth of online travel agents like Travelocity, the airlines banded together and created Orbitz as a competitor. In addition to changing how much they fly, where they fly and how they sell, why not band together again and compete in the virtual world of business travel too? Imagine

earning loyalty points for each Zoom business call, or better integration of hybrid meetings where some participants fly in and others attend virtually. Are airlines in the airplane business or the people business, after all?