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Airline Comments On Business Travel Encouraging, But Ignore Some Realities

IdeaWorksCompany contributed information to this article - - see italics.

During the recent airlines earnings calls, leadership at the four largest U.S. airlines all focused on the return of business travel. Each airline spoke optimistically on this, pointing out the nice surge in leisure travel and stated comments from businesses intending to return people to offices after more than a year of working from home. Nothing could be better for the airline industry than for this to be true, but simple confirmation bias tends to have us more heavily weight data points that support our view.

A deeper look suggests that while business travel certainly is on the up-swing, getting all of this important, higher-paying demographic back in the air may have some challenges. Going back to the office helps, more vaccines help, and more local and federal relaxation of limits helps too. But there are five reasons that getting all the way back may take several years at least.

Not All Business Travel Is The Same

People travel for business for a number of reasons. Often, when people think of business travel, they equate this to sales calls or relationship building. This is a common and important reason, and represents the single largest category of pre-pandemic travel according to an IdeaworksCompany report. Yet, this category still accounts for only 35% of business travel. This is the amount that best aligns with people going to back into offices and with companies trying to re-build relationships with their customers.

The same report shows that trade shows and conventions make up another 20% of the travel, as do intra-company meetings. The balance comes from professional services, IT/technical services, and commuting by air. The likelihood that each type of business traveler will return at the same rates is small. All of some categories may return in 2022, but it doesn't seem likely that everything will. Return to offices, something highlighted by all four airlines, is not especially correlated with running trade shows and people wanting to attend them, for example.

It Takes Two To Tango

Corporate business travel, the group that is the least elastic and pays the highest airline fares, refers to travel where the people flying aren't paying for the tickets themselves — the company buys the tickets. This kind of travel often cannot be decided by the individual traveler. The company must agree to pay for the ticket and the corresponding hotel and other travel expenses. Many businesses have been affected by the pandemic, and some of these are in major cost-cutting mode because their own revenues have been impaired. Because of this, it is likely that at least some companies will limit travel for some time to save their own expenses.

The category most at risk for this is the intra-company category. It seems logical that a company willing to send out sales people to win or retain business might still be reluctant to send employees out to see their peers only. Video has been working for that and probably could suffice for a while. If this category were cut in half, 10% of all business travel would be lost for a few years at least even while others may return more quickly. When it takes three to four leisure travelers to create the same revenue as one corporate traveler, a cut-back in only this category could have significant impact on the largest U.S. airlines.

What People Say Isn't Always What They Do

Companies that base their decisions on what people say tend not to do as well as those that closely watch what people actually do. Formally, this is called stated vs. revealed preference - people basically say what they want to happen but often don't behave that way when it comes to paying.

The airlines quoted surveys on intent to travel and return to offices, and while these are encouraging about how business leaders may be thinking, what matters is that their employees actually start flying again. Unrelated to the pandemic, the end of year is often a time when companies cut back on travel as they look to make their year-end numbers. This fall could have a lot of noise in the data because a lackluster business travel return this fall may be hard to perfectly qualify.

Changes In Work Could Mean Changes In Travel

How the pandemic will affect longer-term work patterns is not yet revealed. The concept of a hybrid office is talked about more regularly, and multiple leaders on TV have spoken of saving rental expense by permanently reducing office space because of more work-at-home flexibility. In fact, one of the most sought-after benefits now is not pay or even health insurance but the ability to work from home at least some of time.

The future office may surprise us all, and this may have impacts on how companies think about travel as well. As companies experiment, especially when labor is in tight supply, and learn more about what works and what doesn't, we should only expect that experimentation with travel will be done as well. Yes, many will claim Zoom-fatigue but still may prefer this some of the time instead of hopping a plane for a day or two away from family.

Views Of Personal Risk Many Have Changed

The biggest unknown factor in determining a return to business travel is how individuals will feel about it, and what sway they will have within their companies to affect travel policies. The faster-than-expected quick return of leisure travel is encouraging, because at least some of these leisure travelers are also business travelers in another part of their lives. A friend in New York told me recently that he used to fly to London for a single meeting, and that he never considered that risky behavior. But he continued to say that now he felt this risk wasn't worth it for one meeting, while still confident he would travel for multiple meetings.

What happens when employees prefer a video meeting to traveling? It is likely that in some cases the answer will be to still travel because it is deemed essential, but maybe not in every case. If there are CFOs looking to limit travel to save expenses and at least some employees may encourage a reduction in their own travel, then surveys on travel intent may not fully be realized.

It's A Matter Of Time

Just like every cost is variable in the long-run, at some point there will be more people traveling for business than traveled before the pandemic. The real issue is how long this will take and what happens between now and then. Will the largest U.S. airlines who are most dependent on this travel be forced to shrink, or even reconfigure their aircraft with fewer business class seats, or can they make up the difference with enough leisure travelers? In the meantime, airlines with cost structures better suited to make money on lower fares will continue to expand and likely permanently gain some share as a result. The business traveler can't return fast enough, at least as far as American, Delta, Southwest, and United are concerned. But these airlines need to look at all the data they can, not just quote the points that support the most optimistic scenario.