THE TRAVEL INDUSTRY TURNED UPSIDE DOWN

INSIGHTS, ANALYSIS AND ACTIONS FOR TRAVEL EXECUTIVES

Skift RESEARCH

In Partnership With

McKinsey & Company

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EXECUTIVE SUMMARY

Navigating the COVID-19 pandemic, for many players in the travel industry, has been like sailing into a hurricane. Six months in, many are trying to right themselves and realizing that their navigational charts are no longer adequate.

Although the travel industry is no stranger to hardship and has been seriously damaged by the pandemic, we have already seen strong leadership actions that are keeping companies and their people above water while remaining focused on long-term growth. Many players have acted quickly to retain customer goodwill, tap new sources of liquidity, and work effectively with unions to agree on voluntary redundancy programs. We have also seen innovation and a focus on customer experience. These examples illustrate the travel industry's strength that will help it chart a way forward through these challenging times.

KEY INSIGHTS OF THE REPORT

To see how the industry has been affected by COVID-19 and how it might thrive in the future, we have synthesized ongoing Skift and McKinsey analyses and interviewed travel executives and major corporate travel buyers. In so doing, we observed a few themes that perhaps run counter to intuition.

First, we see signs of latent demand for travel. Customers are interested in and willing to travel again when they are allowed to do so, even before a vaccine is available at scale. China—which, as of the time of writing, has effectively controlled the virus spread—is seeing domestic recovery in both the leisure and business travel segments. Europe, led by Germany, shows encouraging first signs of travel demand recovery. Other geographies, including the United States, have not yet effectively controlled the spread of the virus, but even so, we see a considerable amount of searches and advance bookings.

This brings us to our second insight: travelers are keen to travel but are restrained in the leisure space by the inability to do anything meaningful at the destination, due to necessary public health measures and safety precautions, such as quarantines, closures, and other restrictions. Similarly, many business travelers seem keen to fly again but may be limited by corporate travel policies and companies' understandable focus on their duty-of-care obligations to employees.

Relatedly, the working-from-anywhere trend has the potential to blur permanently the lines between leisure and business travel. This leads to our third finding, which is the surge in short-term vacation rentals. Perhaps we will look back at this period as an inflection point when vacation rentals became mainstream. In fact, we are already observing mitigation efforts by hotels.

Fourth, nonprice factors have become more important to customers. The industry needs to cover other terrain before "demand stimulating" its way out of the crisis, and instead restore traveler confidence. Customers need to be comfortable with all the touchpoints in their journey, so the travel industry is only as strong as its weakest link.

> **We see signs of latent demand for travel. Customers are interested in and willing to travel again when they are allowed to do so, even before a vaccine is available at scale.**

> **The working-from-anywhere trend has the potential to blur permanently the lines between leisure and business travel.**

A final insight relates to the data underlying decisions. Self-reported sentiments are easy to gather but may not accurately reflect true preferences or actual behavior, especially in the depth of a crisis. For this reason, travel companies cannot rely only on stated preferences; they need to improve the way they keep a pulse of travelers' actions through leading indicators.

WHAT WE RECOMMEND

This report culminates with a set of four critical actions for travel companies to take, regardless of sector. With these four actions, we believe, travel companies can emerge from this period not just intact, but better than before.

First, travel companies should seek to understand their customers as microsegments, not monoliths. Travel is, after all, deeply personal. Second, travel companies should widen their view of what constitutes the customer journey and design the next set of thoughtful customer-experience interventions. Third, companies should design new, perhaps unconventional partnerships that restore travelers' confidence and set this global, fragmented, capital-intensive industry on track to financial sustainability. Lastly, travel companies should seize this reset moment to embrace and preserve their crisis-induced agility and nimbleness for the long trip ahead.

While the coming months bring with it a lot of uncertainty, opportunities remain for those who can make sense of the noise and seize the reset moment accordingly. Whatever your interest in the industry—from investor to concerned travel enthusiast—this report tells you all you need to know about the state of travel: the roadblock it hit and how players can find their way to recovery.

INTRODUCTION: TRAVEL'S UNPRECEDENTED TURBULENCE

Most individuals never imagined that 2020 would bring one of the worst public-health crises in modern history. The COVID-19 pandemic is foremost a medical and humanitarian crisis, responsible for 941,000 deaths and 29.9 million cases at the time of writing[1]. Governments, private industry, and health professionals around the globe have mobilized to address this challenge, treat patients, and search for a vaccine.

To limit the spread of coronavirus, governments closed down large swaths of their economies on a scale never seen before. The result has been declines in gross domestic product (GDP) and unemployment levels last seen during the Great Depression of 1929. And that is just a measure of the broad economy; few industries have been harder hit than travel.

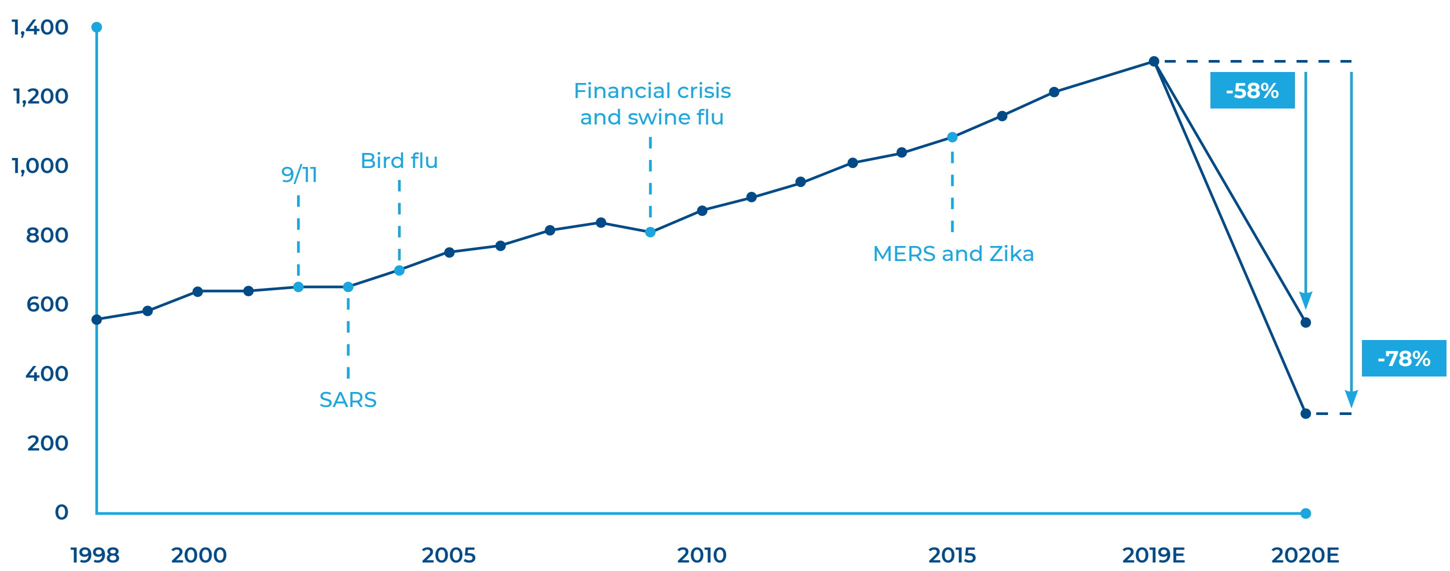
In just a matter of weeks, more than six decades of progress in travel were rolled back. The launch of the Boeing 707 in 1958 had marked the start of the Jet Age and the beginning of mass tourism. Jet aircraft and the rise of the modern visa system made international travel so commonplace one could almost take it for granted. Then, in response to a virus, international travel in 2020 was effectively cut to zero. The world openness score, a measure of open travel between countries by the Passport Index,[2] found that international mobility decreased by 65 percent due to COVID-19, taking that measure to historical lows.

Over the past decades, travel saw consistent growth even when financial crises and pandemics affected the global economy. Today's situation is different. Scenarios by the UN World Tourism Organization

Travel has grown consistently through crises until now.

EXHIBIT 1

International tourist arrivals worldwide with 2020 Scenarios, millions



Source: World Bank, UN World Tourism Organization (UNWTO), Skift Research estimates. Data as of August 2020

> **Over the past decades, travel saw consistent growth even when financial crises and pandemics affected the global economy. Today's situation is different.**

(UNWTO) for 2020 international tourist arrivals show a full-year decline of between 58 and 78 percent (Exhibit 1).[3] McKinsey COVID-19 global tourism recovery scenarios show a 2020 decline of 35 to 48 percent in terms of global tourism expenditures lost, versus 2019. That translates to the top 10 tourism markets losing $1.4 trillion to $1.9 trillion in travel spend, in one year. How the industry will recover from this is highly reliant on governments' continued approach to tackling the virus and on success in finding a vaccine.

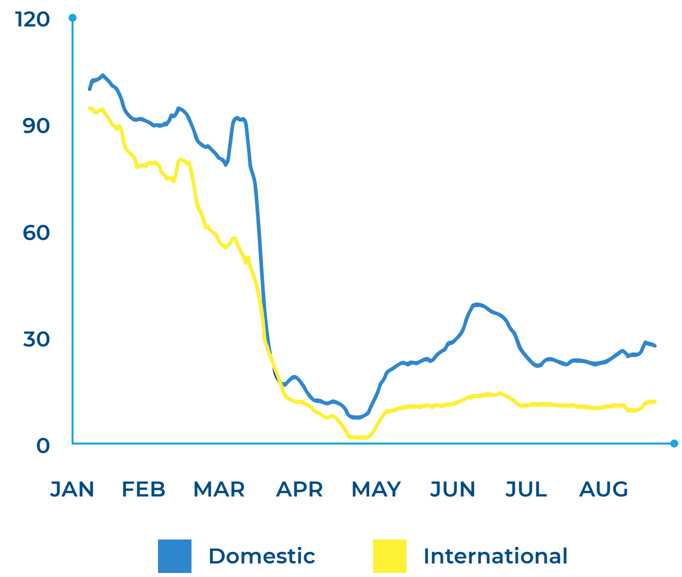
Domestic travel also has suffered. While domestic travel sometimes is touted as the saving grace for the travel industry in a time when many countries' borders are closed, strict lockdown measures severely affected this travel segment as well. Several countries have seen a larger traveler base benefiting from domestic, often drive-to options. But to use the United States as an example, booking data from Adara show that domestic travel bookings have fallen significantly short of being a true substitute to reach pre-COVID-19 travel levels (Exhibit 2).

Unsurprisingly, these declines in bookings are hitting the travel industry hard. Unemployment has soared as travel companies across the spectrum have furloughed employees. Some airlines have temporarily shut down routes or all their operations, while others declared bankruptcy. Many hotels closed as necessary public health measures such as lockdown restrictions were put in place around the globe. Numerous properties remain closed, and many more expect they will never reopen.

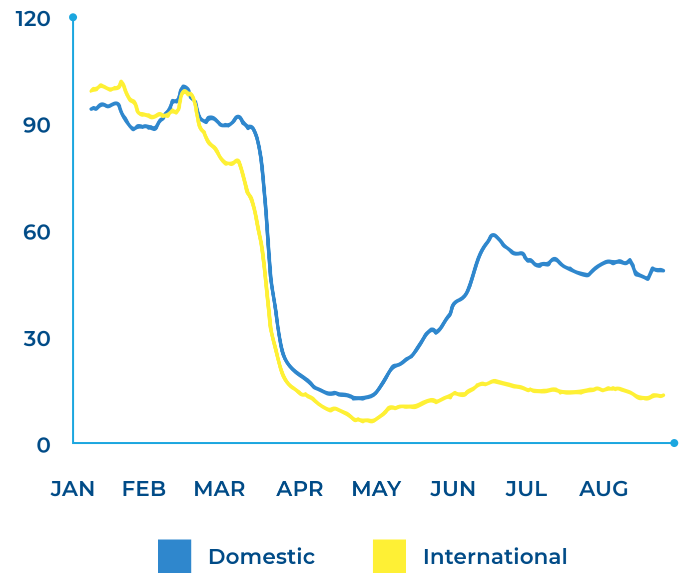
While experiencing recovery, US domestic travel bookings have fallen short of making up for travel levels seen pre-COVID-19.

EXHIBIT 2

Flight bookings by US residents,
7-day rolling average, indexed (Jan 2 = 100)



Hotel bookings by US residents,
7-day rolling average, indexed (Jan 2 = 100)



Source: Adara

1 TRAVEL SECTORS: HEALTH, RISKS, AND STRENGTHS

While the entire travel industry has been hard-hit by COVID-19, some sectors have felt more impact than others. Airlines and cruises are among the hardest hit, while vacation rentals and online travel agencies have fared relatively better. This chapter explores the health, risks, and strengths of the key travel sectors: airlines, hotels, vacation rentals, tours and activities, online travel agencies, car rentals and ridesharing, and cruise.

> **Airlines and cruises are among the hardest hit, while vacation rentals and online travel agencies have fared relatively better.**

AIRLINES

The airline sector is one of the hardest hit, despite government support. Most airlines are consistently reporting losses, and some have become insolvent. Air travel is not expected to reach pre-COVID-19 levels globally until 2024, though a faster recovery is possible in Asia.

Airline revenues have plummeted

Two-thirds of the world's aircraft fleet has been parked, and 18 airlines have filed for bankruptcy in a matter of months.[4] The global airline industry is estimated to lose $315 billion in passenger revenue in 2020.[5] For context, the industry experienced a $70 billion drop in 2009. Airlines have been losing approximately $60 billion of cash in just the second quarter of 2020, compared with a full-year operating profit of $44 billion in all of 2019[6].

Only three airlines—China Airlines, Korean Air, and Asiana Airlines—reported profits in the second quarter, due to their reliance on cargo. All other airlines saw major slumps in performance. Compared with the prior year, Southwest Airlines saw Q2 2020 revenues falling by 83 percent. Delta Airlines reported an adjusted pretax loss of $3.9 billion, which excludes $3.2 billion of "items directly related to the impact of COVID-19," including fleet restructuring, equity investment write-downs, and the benefit of the US CARES Act grant recognized in the quarter. Compared with the prior year, Delta's adjusted Q2 revenue declined 91 percent as system capacity dropped by 85 percent. United Airlines indicated the company had been losing $40 million cash per day, although it anticipates this to improve to $25 million during the third quarter.[7]

European airlines didn't fare better. Lufthansa registered a year-over-year revenue slump of 89 percent, revenues for Air France/KLM dropped by 82 percent, or $6.6 billion compared with the second quarter of 2019, and International Airlines Group

> **Two-thirds of the world's aircraft fleet has been parked, and 18 airlines have filed for bankruptcy in a matter of months.**

(IAG—owner of British Airways and Iberia amongst others) saw revenues decline by 88 percent.[8] Airlines have been hard hit by mass cancellations of flights and, under European Union law, were required to provide passengers with full refunds. In late April, many countries changed their legislation to allow airlines to offer vouchers instead.

Governments have offered relief money — sometimes with strings attached

Globally, governments have provided the airline industry with aid totaling $123 billion to keep companies afloat.[9] This cash is much needed but covers only about a fifth of 2019 revenues. And about half of that aid, $67 billion, comes in the form of loans or other liabilities that will ultimately need to be repaid with interest.[10] In short, the airline industry still has a substantial hole from which it needs to dig out.

A growing amount of government support comes with specific conditions, which have the potential to alter the face of the airline industry over the coming years and decades. Remember the growing flygskam (flight shame) movement, hailing from Scandinavia, before the pandemic hit? Climate change has been a growing topic in a society highly reliant on fossil-fuel-burning air travel. Before the pandemic, we saw some airlines increase their focus on environmental policies. For example, KLM suggested that travelers use alternative forms of transport for short-distance trips, and JetBlue announced intentions to offset carbon-dioxide emissions from jet fuel for all domestic flights by the end of 2020.[11] Just offsetting their carbon might no longer be enough for airlines, though.

The French government, for example, provided airplane manufacturer Airbus, national carrier Air France, and major French parts suppliers a €15 billion support package on the condition that these companies ramp up investments in low-emission aircraft (e.g., hydrogen, electric). While other airlines have received direct government investment, loans, and loan guarantees without such conditions,[12] we can expect the pandemic to be a catalyst for innovation in the airline space.

The outlook is a slow recovery

Will the pandemic have any lasting effects on the industry beyond a thinned-out competitive landscape? Airlines that rely on smaller planes and have fewer international routes will likely benefit early on. In the United States particularly, major airport hubs will see early recovery, although full recovery might be slowest at major hubs if intercontinental traffic remains affected.

> **Air travel demand recovery back to 2019 levels will likely not take place until 2024 globally.**

McKinsey COVID-19 global air traffic demand scenarios suggest a slow recovery. In one of the baseline scenarios, demand could be down 66 percent for 2020 and 47 percent for 2021, compared to 2019. Air travel demand recovery back to 2019 levels will likely not take place until 2024 globally—in line with the latest International Air Transport Association (IATA) forecasts.[13] Recovery might be led by Asia–Pacific, which could recover in 2023, whereas travel within North America and Europe might reach precrisis levels the following year. Even in an optimistic scenario (virus is effectively contained, and economic policy response is moderately effective), full air demand recovery is not expected before 2022.

Initially, the winner will be the consumer, because air fares will remain low as airlines struggle to fill up planes—something we have already seen in China, where air tickets were going for the price of a coffee.[14] In the long term, we might see the opposite. Decreased competition, the burden of paying back government loans, and potential health-related operational measures could push prices up.

HOTELS

The hotel sector has seen revenue declines more than four times greater than during the previous two crises combined. Many hotels have seen considerable workforce reductions and furloughs, and many were forced to close their doors, either temporarily or even permanently. Hotel demand may not reach pre-COVID-19 levels until 2023, while revenue per available room may not recover until 2024. Overall, economy offerings, leisure resorts, and larger chains may see the fastest recoveries.

> **Hotel demand may not reach pre-COVID-19 levels until 2023.**

Financial and job losses are widespread

Like airlines, hotels have been hard hit by COVID-19. According to a survey conducted by the American Hotel and Lodging Association (AHLA), nine out of ten US hotels have laid off or furloughed staff,[15] and more than 8,000 hotels could be forced to close.[16] Data from OTA Insight shows that 62 percent of hotels in New York City that were operating before the pandemic are currently operating, with 13 percent permanently closed and the rest accepting bookings for later this year. In London, 80 percent of hotels have reopened; at the lowest point, in May, only 33 percent of hotels were accepting bookings. Asia shows a slightly better picture, with 86 percent of hotels in Shanghai having reopened and 92 percent of hotels operating in Hong Kong.

Hotels have shed an overwhelming amount of the total travel jobs lost so far. By the end of July, the US accommodation industry saw 791,000 fewer jobs than the same time last year, a 35 percent drop compared with July 2019.[17]

In April, the trough month for hotel performance to date, just one in four US hotel rooms were full, and revenue per available room (RevPAR) declined 80 percent year-over-year to a meager $18.[18] In comparison, in the months following the 9/11 attacks, RevPAR declined by 21 percent.[19] Since then, occupancy and average daily room rate (ADR) have slowly picked up, resulting in a US-wide RevPAR of $48 for the month of July, still 52 percent lower than performance a year earlier.

For the full year 2020, STR and Tourism Economics expect US RevPAR to decline by 52 percent.[20] Similarly, McKinsey's US hotel demand scenarios anticipate RevPAR declines between 44 and 47 percent for 2020, compared to 2019. That compares with a 17 percent drop in RevPAR in 2009 as a result of the global financial crisis.

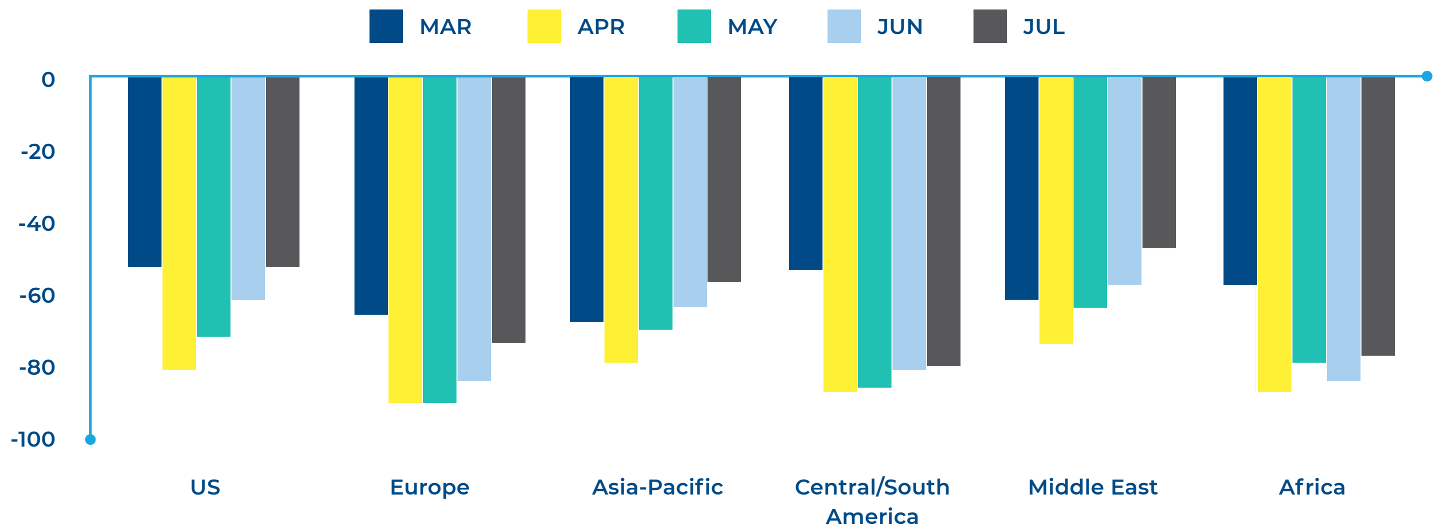
While each market will have its own region-specific recovery path, April appears to have been the worst month of the year (Exhibit 3). All regions have only marginally recovered and are tracking monthly RevPAR declines of 60 to 80 percent. A full recovery will take years. According to STR, demand won't return to pre-COVID-19 levels until 2023, with ADR and RevPAR expected to take until at least 2024 to reach 2019 levels.

> **In April, the trough month for hotel performance to date, just one in four US hotel rooms were full.**

The slowdown in demand for hotel rooms is evident in revenue declines.

EXHIBIT 3

Revenue per available room, year-over-year change, by region, %



Source: STR, August 2020

Translating these figures to room revenue, this means that the US hotel industry stands to lose $95 billion in 2020. To put that in perspective, US room revenue fell by $4 billion in the 2000–2002 contraction and by $15 billion in 2009, a combined loss of $19 billion. It has become a common refrain that this current crisis is worse for the travel industry than 9/11 and the global financial crisis combined. But these numbers put that statement into context. The scale of the damage from COVID-19 is more than four times as large as what US hotels experienced during the last two crises combined.

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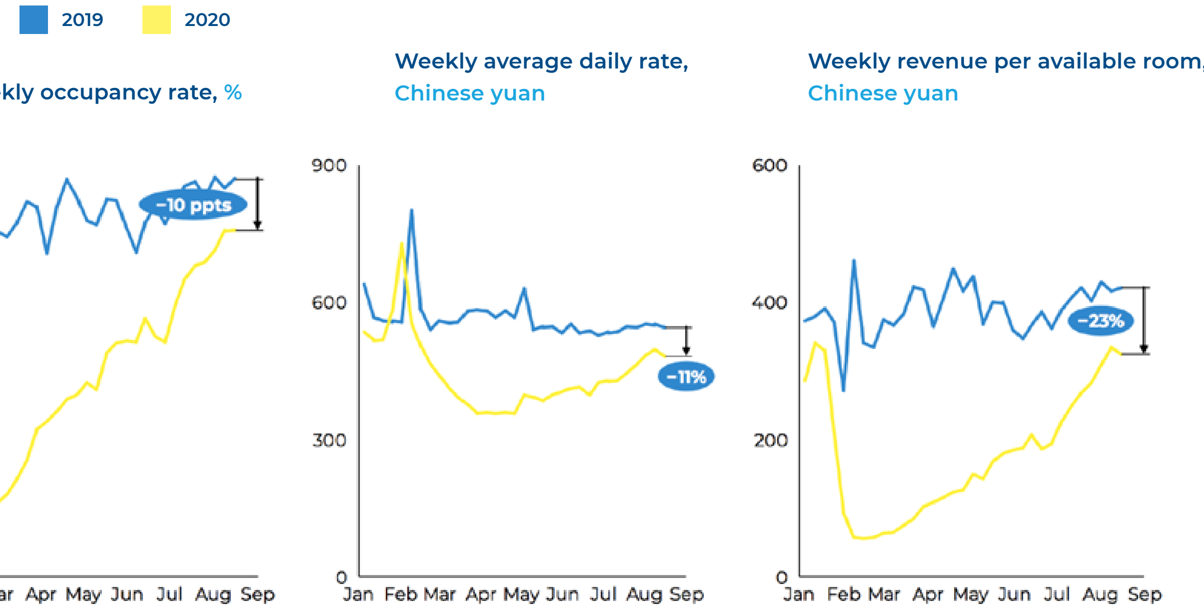
Relative to other regions, the United States has some of the best performance, thanks to its strong domestic traveler base and limited lockdown restrictions. The international picture of hotel performance looks dismal, although China has experienced good recovery. Occupancy, ADR, and RevPAR see continuous improvement in China, implying the demand recovery is steady (Exhibit 4). Premium hotels—and therefore also ADR—are catching up with lower midscale and economy hotels, driven by strong leisure demand for summer vacation and recovery of domestic business travel.

The advantage may be with those that have scale or cater to specific niches

The large chains are in the best position to come out of this stronger. Many were forced to make staff cuts at the head office, but their reliance on franchise and management fees means they have an already streamlined business with little capital expenditure (they don't own the hotel buildings) or operational expenditure in the form of hotel staff wages.

Chinese hotel indicators continue to narrow the gap, supported by leisure demand in summer and recovery of domestic business travel.

EXHIBIT 4



Source: STR, September 2020

Of course, hotel chains are reliant on a healthy business climate for hotel owners. Several hotel chains have made working with hotel owners and other partners a top priority, to ensure they have the financial strength to maintain ownership of the hotels, maintain the product quality, and can continue to operate.

Desperate to fill rooms, independents are forced to hand over more market share to online travel agencies or attach themselves to a flag. As during the 2008 financial crisis, we expect to see a purge of independents, despite more tools available to hoteliers to go at it independently. History has shown that the big tend to get bigger during periods of economic crisis.

Chris Nassetta, CEO of Hilton, echoes the importance of scale to endure a crisis like COVID-19. Nassetta told us, “There was always going to be all sorts of different sizes of players. But I do think there are some unique advantages to scale in terms of a network effect that you can create by having more price points, different types of products, geographic locations to serve customers, which creates a network effect and allows you to capture a greater share of wallet.”

Not only size matters, though. Certain hotel segments will perform better than others. Leisure resorts, for example, have already shown a strong uptick in demand in China, with Club Med registering increases in occupancy and daily room rates over the summer, culminating in 88 percent occupancy in the first half of August[21].

Likewise, in the US many budget and economy properties have performed better than luxury properties.[22] That’s in part because economy hotels are better able to tap segments of demand that remain relatively healthy despite travel restrictions, including truck drivers and extended-stay guests. As fewer of these properties were forced to close, and as more people opt to travel by car, these properties will continue to benefit in the foreseeable future.

As we discuss in the next section, the slowdown in demand for hotel rooms has benefited vacation rentals. The pressure by vacation rentals on the hotel industry is not new but might now be intensified.

Over the past years, we have already seen hotel chains introducing more soft brands—hotels having a franchise affiliation while primarily relying on individual brand identity—and millennial-oriented brands to shake off their cookie-cutter image. Brands like Moxy by Marriott and Tru by Hilton offer smaller rooms but have a greater focus on communal spaces, including spaces to work and relax. Marriott more directly dipped its toe into the vacation-rental waters with the launch of Marriott Homes and Villas. Expect more serious efforts from hotel chains to tap into changing traveler demands.

VACATION RENTALS

Much of the market for vacation rentals—particularly those catering to roomier properties closer to nature—have fared significantly better than hotels. Despite an early slump in revenues, occupancy has already returned to pre-COVID-19 levels in many countries.

A rapid rebound outside of cities

While hotel demand has declined sharply during the pandemic and has yet to recover, vacation and short-term rentals have fared better. However, the sector is a tale of two halves. Overall numbers are positive, with whole properties in secluded destinations performing especially well as people escape cities and find places to spend time with their family. Rentals are inherently better suited for social distancing, providing fewer common areas where guests are forced to mingle with other travelers and staff, as they would in hotels. Rentals in urban destinations, however, are less well situated to cater to these shifting demands, so they have felt much of the same hardship as hotels.

That said, the topline numbers look good. According to a study by STR and AirDNA, a short-term rental data provider, average RevPAR was down by 65 percent for hotels in June 2020 but down by only 5 percent for short-term rentals in the same month.[23] Data from Transparent, another provider of short-term-rental data, shows occupancy rates returning to near pre-COVID-19 levels by the end of June in countries including France, and Germany, and the United States (Exhibit 5).

Much of the market for vacation rentals—particularly those catering to roomier properties closer to nature—have fared significantly better than hotels.

This relatively positive performance by vacation rentals meant that Vrbo, the vacation rental brand of Expedia Group, became what Expedia called “the largest contributor to the improved booking trends” registered by the company during May and June. The year-over-year declines in gross bookings, excluding cancellations, moderated to 45% in June compared to a decline of 85% in the second half of March and in April.[24]

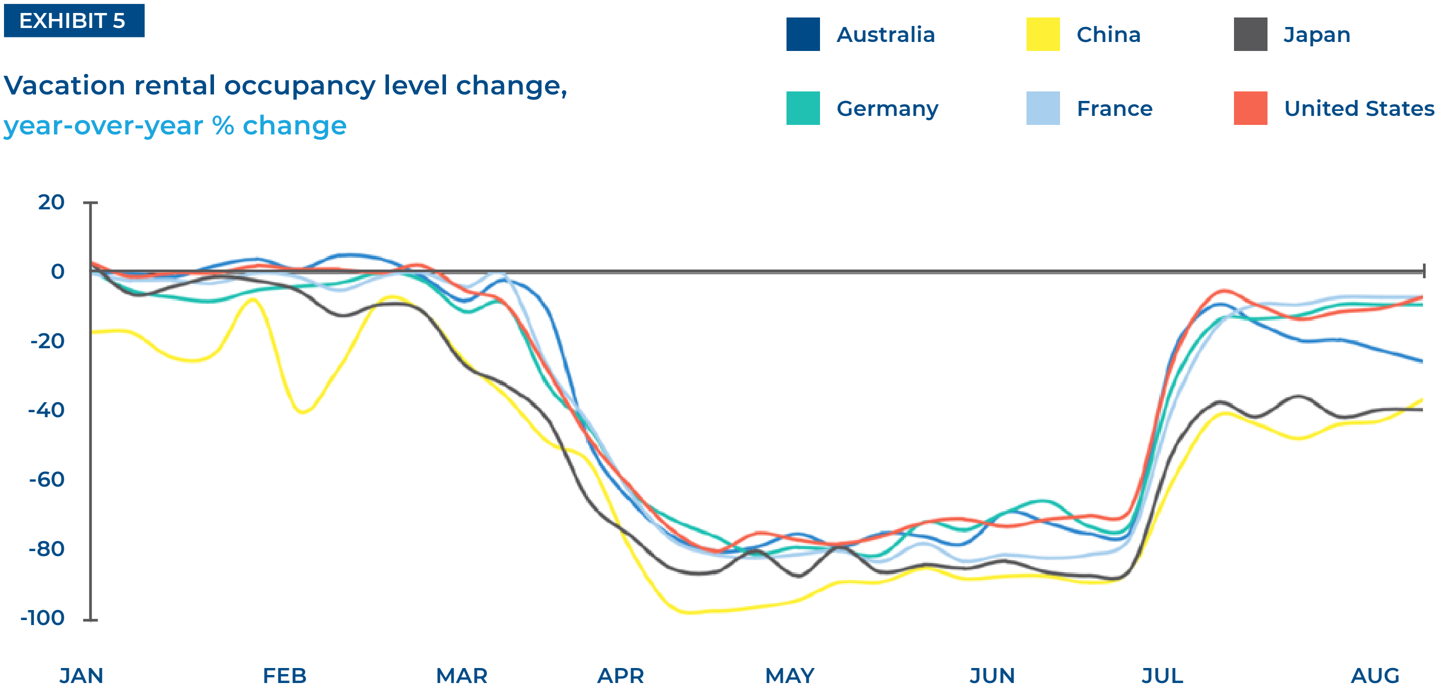
But the story is not all positives. One business model in the vacation-rental space has particularly suffered: the master-lease model, where short-term rental management companies sign multiyear lease contracts with building owners, often with guaranteed-payment clauses. As demand for their often-urban rentals dried up, management companies faltered on making their contract payments. For example, Stay Alfred was forced to cease trading, and players like Sonder and Lyric had to downsize their payroll and expansion plans significantly.

Airbnb, which also heavily relies on urban markets, was forced to raise $2 billion in debt to get through the pandemic. In May, the company announced it was reducing its workforce by 25 percent.[25] However,

Vacation rentals have seen a substantial rebound since July.

EXHIBIT 5

Vacation rental occupancy level change, year-over-year % change



Source: Transparent

as booking figures recovered significantly over more recent months, Airbnb privately filed to go public in August.[26]

Growth but with uncertainty

A burning question is whether vacation rentals can maintain this leg up over hotels. Technavio's Global Vacation Rental Market 2020–2024 report from May 2020 estimates a compound annual growth rate of 7 percent over the next five years,[27] but estimates like these come with a high degree of uncertainty. No doubt, if health fears continue to drag on, the vacation-rental market will be in a good position to continue to outperform hotels.

With demand less of a problem for vacation rentals than for hotels, supply will likely increase as well, particularly if consumers' primary sources of income have been affected by the crisis. This is a time of reckoning for platforms and property managers, who need to show their value to homeowners as the sector continues to professionalize. In particular, larger property managers, like Vacasa, need to convince homeowners that their distribution expertise and technology are better than the local knowledge of smaller competitors.

Matt Roberts, CEO of Vacasa, is only too aware of this. He told us that one of his top priorities is "deepening our relationships with homeowners." He emphasized that he wants his team's communications to provide industry insights for homeowners. Along with speed and empathy, these stakeholders want actionable intelligence about the market they are investing in. Roberts has been pushing Vacasa to share industry data and launch new software tools for homeowners so that his business can add immediate value for its suppliers during this stressful time.

This pandemic and the mounting evidence that the vacation-rental sector has been the best positioned to weather the storm will likely attract more professional owners and investors.

TOURS AND ACTIVITIES

The tour-operator sector has seen bookings decline by 85 percent year-over-year. This challenge largely stems from the sector's focus on group travel, which is largely being avoided, given the nature of COVID-19 transmission. One cause for optimism is that the sector has seen one of the highest growth rates of venture-capital investment in travel, implying strong post-pandemic confidence in the sector.

Global revenue losses threaten a shakeout

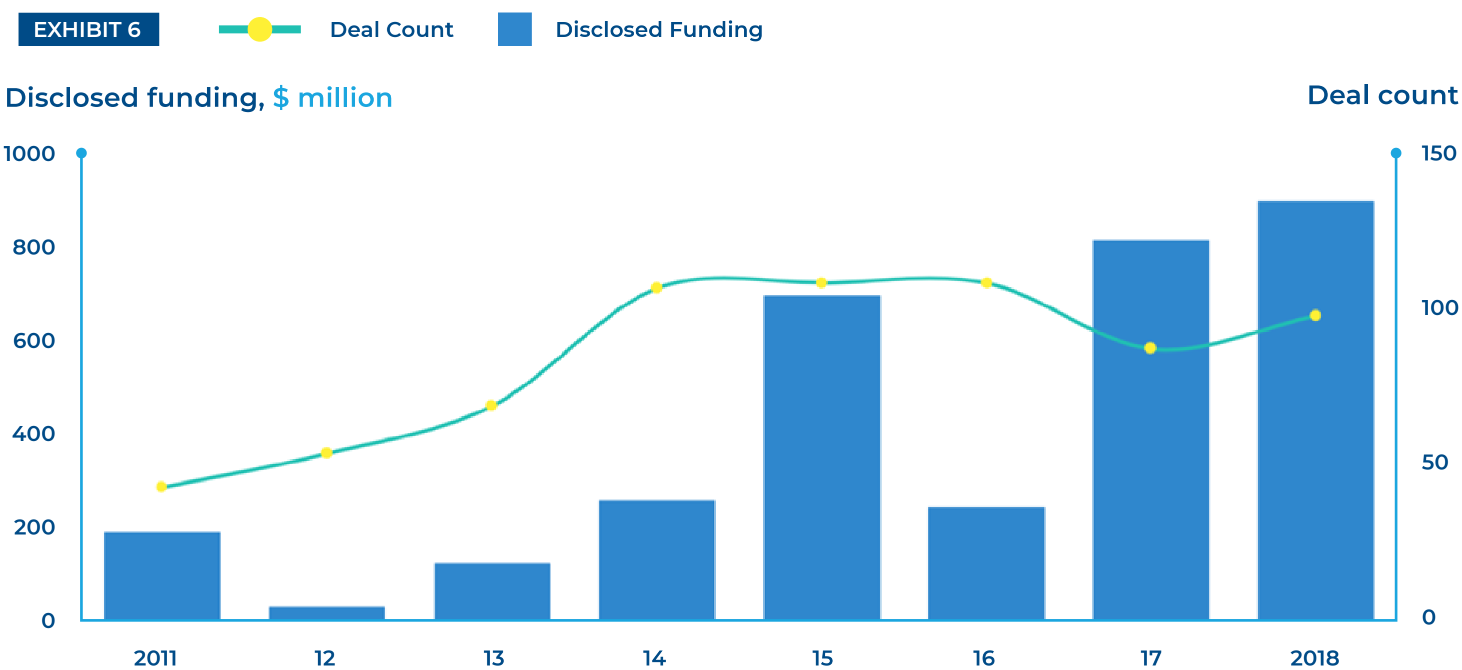
The tours-and-activities sector is the third largest in the travel industry after flights and accommodations, accounting for around one-tenth of global travel revenue and growing.[28] According to Arival, the whole sector, consisting of one million operators, was valued at $254 billion for 2019.[29]

The nature of traveling with groups has made the sector one of the hardest hit by COVID-19. A survey of nearly 1,200 tour operators around the world in April revealed that the average year-to-date bookings declined 85 percent relative to 2019. Respondents projected the full-year bookings decline to reach 73 percent.[30]

Brett Tollman, CEO of The Travel Corporation (TTC), had this to say about the gravity of the business loss: "A more powerful lesson has been, we thought our business was well diversified across the many countries that we operate and sell in, and we thought, across our different travel styles, that we had a business that could survive, or not survive, but keep operating in any kind of scenario. And obviously, a global pandemic has shown us that that's not the case."

As the sector is known for being one of the most fragmented, with numerous small operators, it is likely that many will not last through the pandemic.

Global tours and activities was attracting significant venture capital interest before COVID-19.



Source: Crunchbase, Skift Research. Data as of February 2019
Includes companies tagged as Travel and Tourism primarily, and secondarily with business descriptions including "activities," "destinations," or "tours."

> **Tours and activities has been one of the fastest-growing categories for venture-capital investment in all of travel.**

Demand will likely return

The tours-and-activities sector has been garnering a lot of attention in the last few years. On the one hand, several tour operators collapsed, offering lessons in the ability to address changing traveler behavior and preferences. On the other hand, the sector has undergone tremendous growth, driven by the rising consumer appetite for experience and the growth of online distribution platforms that make it easy to find the often fragmented activities.

As Skift Research reported, tours and activities has been one of the fastest-growing categories for venture-capital investment in all of travel. Companies in this category raised $935 million in 2018 and $850 million in 2017 (Exhibit 6). This made the sector the third-most-invested travel sector in 2018, behind only accommodations and transportation. We believe that people will again feel safe to travel in groups, and then the demand will come back.

ONLINE TRAVEL AGENCIES (OTAS)

While online travel agencies globally have faced unprecedented hardship and considerable workforce reductions, this sector is faring better than other travel sectors, largely as a result of its variable cost structure.

The biggest losses so far in a young sector

Online travel has lived through two past recessions—the tech-bubble crash and the global financial crisis—but it has never before seen anything like the COVID-19 pandemic. Globally, second quarter 2020 revenues from the 20 largest publicly traded online booking sites and other distribution intermediaries show an overall decline of about $14 billion, or a −82 percent year-on-year change. Based on the most recent data, Skift estimates that for the full year 2020, online travel agencies could lose as much as $190 billion worth of gross bookings.

Reasons for optimism

Despite the hits to gross bookings and revenues, major OTAs have some reason to be optimistic. Wall Street analysts have consistent growth expectations for online travel intermediaries, while the masses similarly see these players in a positive light. Trip.com's stock price has been recovering since late March, rising to 25 percent below its January 2020 level. Similarly, for Booking Holdings, which had lost half of its market capitalization by late March, has since recovered to about 15 percent below January 2020 levels.

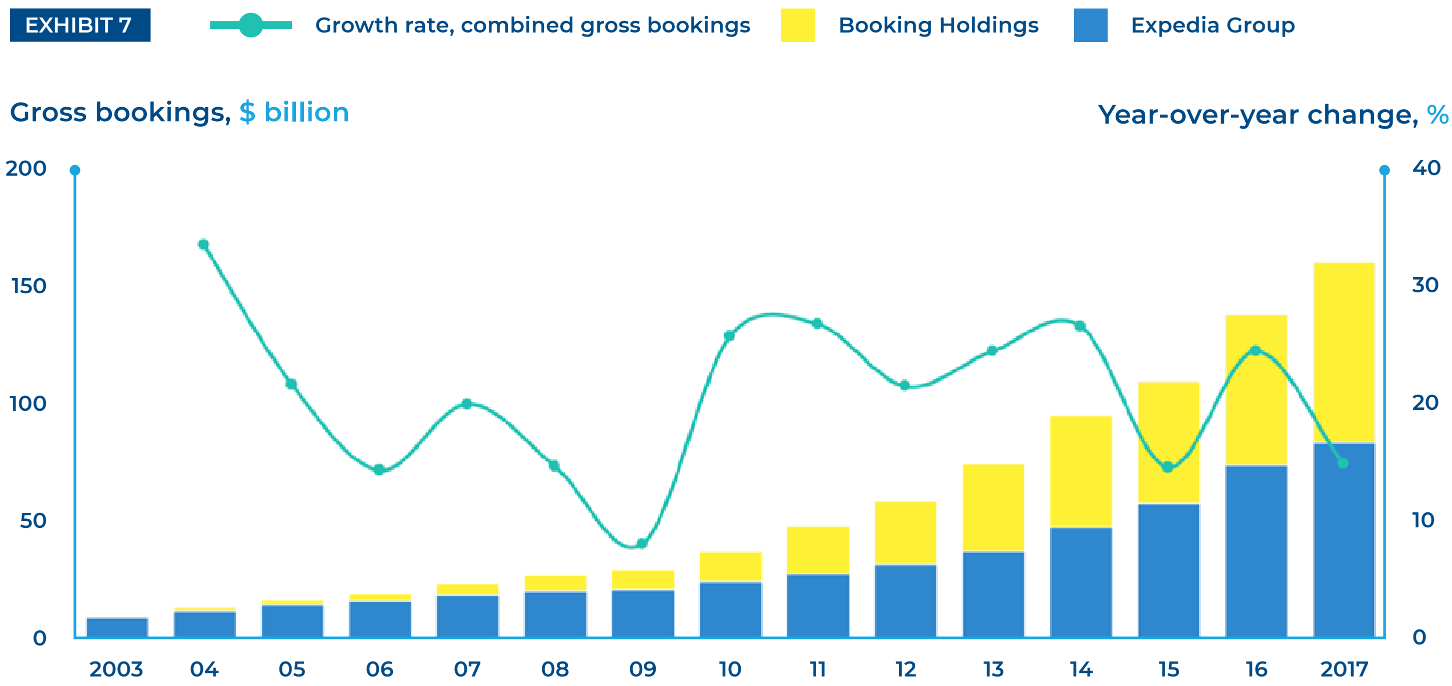
The major OTAs have been here before, as they were forced to deal with the financial crisis of 2008. Although much less far-reaching and impactful, that downturn still resulted in significant changes in consumer demand that required a response from travel companies.

Online booking sites were some of the few businesses anywhere, let alone in the travel sector, to grow throughout the global financial crisis. Expedia Group and Booking Holdings increased their combined worldwide gross bookings from $25 billion precrisis to $31 billion by 2009, in the depths of the recession (Exhibit 7). The only real sign of the times can be found in the deceleration of their growth rates, going from a 21 percent pace in 2007 to a still-solid 9 percent gain in 2009. Since that time, Expedia Group and Booking Holdings have grown to become two of the most valuable companies in the travel industry.

As a sector, online travel agencies have the advantage of distribution scale, customer loyalty, marketing, and suppliers. In addition, the crisis might see a

Online booking sites thrived even during the Global Financial Crisis.

EXHIBIT 7



Source: Skift Research based on company filings, May 2020

flight-to-quality phenomenon where new business development skews toward being affiliated with a well-established brand, and existing hoteliers want to switch sides. Those that don't switch to branded flags will likely be pushed toward building an even deeper relationship with their distribution partners. We have previously seen the big get bigger during crises, and that pattern seems likely to repeat itself in 2020 and beyond.

Online travel agencies also have highly variable cost structures, which allow them to respond quickly to market downturns and preserve profitability better than other industries. Take sales and marketing expenses, for instance. This line item is fully variable, so when Expedia Group saw its Q2 2020 revenues fall by 82 percent year-over-year, it was able to respond with an identical 82 percent cut to sales and marketing. At Booking Holdings, too, revenues fell 84 percent, so it cut sales and marketing costs by 79 percent.

While many travel businesses reduced staff and marketing, the key difference is that these account for practically all of an OTA's operational expenses, and few costs are fixed (mostly headquarters and corporate staff). In 2019, sales and marketing accounted for 61 percent of operating expenses at Booking Holdings and 51 percent at Expedia Group. Personnel costs represented just under a quarter of Booking Holdings operating costs in 2019. In contrast, marketing, commissions, and other selling expenses represented less than 5 percent of Delta Airlines' operating expenses in 2019.

> **Online travel agencies also have highly variable cost structures, which allow them to respond quickly to market downturns and preserve profitability better than other industries.**

The resulting cost structure will likely help OTAs return to financial sustainability quickly once demand picks up. And because of their size and costs structures, the OTAs will likely lose less than other sectors and return to growth faster.

Consider MakeMyTrip, India's leading OTA. India was one of the later waves of countries to experience the coronavirus but then has experienced one of the largest and fastest-growing outbreaks in the world.[31] As a result, MakeMyTrip was relatively unscathed during the first three months of the year but saw a devastating 98 percent drop-off in gross bookings from April through June 2020. Its recovery also looks unique to India: its travel platform recorded a rise in long-distance intercity taxi bookings, a product not readily available in other parts of the world.

That is not to say that travel distribution companies have escaped challenges. They have another major player to contend with: Google. Skift Research estimates that the travel industry spent as much as $16 billion on Google advertising in 2019, with Expedia Group and Booking Holdings by far the largest contributors. As OTAs likely increase their market share coming out of this crisis, they will focus on improving brand recognition to reduce their reliance on traffic through Google. In addition, building on the high-volume but transactional business today, OTAs have opportunities to turn themselves into a true one-stop travel shopping platform and increase customer loyalty.

> **Lyft and Uber have seen ridership reduced by 70 to 80 percent since the pandemic began.**

CAR RENTALS AND RIDESHARING

Car-rental and ridesharing companies have been hard hit by COVID-19. In response, car-rental companies are offloading hundreds of thousands of vehicles, while ridesharing companies have been slashing their workforces. Meal- and grocery-delivery businesses have offset some of the decline in ridesharing.

Car rentals are suffering from excess fleet

The car-rental industry is another hard-hit travel sector, largely stemming from close revenue ties to airports, the source of two-thirds of car-rental revenues. The remaining revenues primarily come from insurance companies for use after accidents, a revenue stream that is also down substantially, given that fewer customers have been on the road.[32]

Most car-rental players have responded to decreased demand by offloading excess cars and cutting back on new car purchases. Others have been forced to file for bankruptcy protection. Hertz filed for Chapter 11 bankruptcy protection in May 2020. As part of the $650 million deal with creditors, Hertz needs to offload more than 180,000 leased cars, representing approximately 40 percent of its fleet, before 2021.[33]

Ridesharing services carry fewer riders but more food

On the ridesharing side, which is at the periphery of the travel industry but an important contributor to last-mile transportation offerings, Lyft and Uber have seen ridership reduced by 70 to 80 percent since the pandemic began. This led Uber to report a $1.8 billion loss during the second quarter.[34] During that same period, Lyft lost $0.4 billion.[35] Both companies have also cut considerable portions of their workforces, with Uber letting go 14 percent of employees and Lyft letting go 17 percent. Singapore-based Grab cut staff by 5 percent.

Many rideshare companies have meanwhile focused on food delivery, but pockets of recovery in ridesharing are evident. While rides in top US markets are still down between 50 and 85 percent, some markets, including those in Europe, are down only 35 percent. In other markets, including Hong Kong and New Zealand, ridership has actually increased over pre-pandemic numbers.[36]

In a unique convergence of the rideshare and car-rental industries, in August Lyft and Sixt have announced a partnership to make Sixt's fleet available through the car-rental tab in the Lyft app. Sixt will likely benefit from Lyft's demand algorithms, customer-engagement capabilities, and a new channel with less commission compared with the OTAs to which they had given a lot of volume. Additionally, Lyft gets a ready supply of vehicles from a company that has the expertise to run the complicated operation of buying, selling, maintaining, and relocating thousands of moving assets daily. Avis and Uber have partnered to provide a similar solution for Uber drivers.[37] While these are good business model adaptations, they will require consumer and driver confidence to return.

Disruption ahead

Between car-rental, ridesharing, and other parties (for example, car manufacturers, tech companies), mobility will likely enter a new phase of partnerships and disruption as pre-pandemic momentum gets amplified by COVID-19 consequences. Car ownership has been declining in most major markets for many years now, but with increased worries of taking public transport, this might be reversed. In contrast, the COVID-19 silver lining of less congestion, quieter streets, and reduced air pollution could result in a harder push toward more environmentally friendly transportation alternatives.

CRUISE

The cruise industry is among the hardest-hit travel sectors, despite its loyal customer base. Despite measures to reduce costs, cruise lines are consuming substantial cash with little to no revenue-generating cruises in service. Furthermore, while forward bookings and rebookings were initially strong, that tide has since turned, as it has become less clear when sailings will resume at scale.

> **Without much government assistance, cruise companies are raising capital, reducing operating expenses, seeking new forms of revenue, and delaying arrivals of new vessels while selling older ships.**

Fear evaporated demand this year

Cruise lines have a loyal customer base, but onboard virus-outbreaks and subsequent media coverage have undoubtedly damaged the sector's image. After decades of steadily rising demand, the global cruise industry was a $42 billion-sector in 2019.[38] However, since COVID-19 hit, cruise company revenues have all but evaporated and despite working hard to temporarily reduce costs, they are consuming substantial cash. For Carnival Corporation, for example, this amounted to $650 million of cash a month. At Royal Caribbean Cruises, the number is between $250 million and $290 million.[39]

Cruise lines are contending with suspended operations

Without much government assistance, cruise companies are raising capital, reducing operating expenses, seeking new forms of revenue, and delaying arrivals of new vessels while selling older ships.

While US cruise companies did not qualify for federal assistance under the CARES Act, some companies are receiving government assistance elsewhere. In the United Kingdom, as part of the COVID-19 Corporate Financing Facility, Carnival has received £25 million ($31 million), while Royal Caribbean received £300 million ($375 million).[40]

In July, Carnival Corporation announced plans to sell 15 ships while also reducing its workforce based in Florida, California, and Washington by 50 percent through a combination of furloughs and permanent headcount reduction.[41] In April, Royal Caribbean permanently reduced its US workforce by 26 percent, representing more than 5,000 jobs. In addition, Celebrity Cruises, Crystal Cruises, Lindblad Expeditions, Princess, Ritz-Carlton, Virgin Voyages, and several river lines have all postponed inaugural sailings for new ships.

"A few high-profile on-board outbreaks could depress demand for the entire industry for months, and every month matters at this point."

Other cruise lines have managed to pivot and find other revenue streams. In April, Star Cruises, a brand of Genting Hong Kong, signed a contract with the Singapore government for temporary housing of foreign workers who have recovered from COVID-19 in two ships. In addition, many have launched customer-engagement efforts, like the digital platform Viking.tv, which features cultural content and video experiences.

With many of their destinations, particularly in the Caribbean, being very reliant on cruise passengers, cruise ships are likely to find willing ears for a return to harbor dockings. At the same time, these small island nations might be in a stronger negotiating position now to demand a better dispersion of the economic benefits, while reducing negative impacts on the local environment.

A need for transformation

Without a doubt, a major transformation challenge lies ahead, and no cruise company will want to ignore it. True, forward bookings are up, but a significant part of them are rebookings. Initially, 50 to 75 percent of travelers whose cruises were canceled in 2020 chose to accept credits toward future cruises rather than refunds. As cruises continue to be canceled and postponed, however, more travelers may opt for refunds rather than credits. While rebookings have already contributed to a 15 percent increase in 2021 cruise bookings relative to 2019, it will be important for cruise lines to start delivering on their schedules.

There are also positive examples. In late July, Dream Cruises (a Genting Hong Kong brand) resumed Taiwan sailings at 50 percent occupancy due to government restrictions. Occupancy has risen to 96 percent after a few weeks of operations.[42] Since late June, several vessels have restarted cruises out of ports in Europe, including one of the biggest cruise ships in the world, MSC Grandiosa, without recording a single case of COVID-19 on board.

In these early recovery stages, however, future success is less about any particular brand resuming safely and more about the sector overall being able to regain consumer confidence. A few high-profile on-board outbreaks could depress demand for the entire industry for months, and every month matters at this point. Several cruise lines have already gone into bankruptcy, and more could follow if demand remains depressed. There is no question that the industry will come out of this crisis looking very different from when it went in.

2 TRAVEL SEGMENTS: LEISURE AND BUSINESS TRAVEL TAKE DIFFERENT PATHS

When COVID-19 hit the world, the travel industry's two main segments, leisure and business travel, followed different paths for their response. For leisure, the initial wave of travel movement mainly happened among people escaping the epicenters of COVID-19 outbreak. For business travel, pivoting to virtual quickly became the norm. Six months in, the divergence between the two segments continues.

LEISURE TRAVEL

After the global financial crisis, leisure was the first segment to recover, while business travel was slow to return. In late 2009, for instance, Marriott saw the return of weekend occupancy rates far outpacing weekday occupancies.[43] By many accounts, this trend is likely to recur this time around.

When we asked travel executives if they think there will be any fundamental shifts in consumer travel when the COVID-19 pandemic subsides, the unanimous answer was that there are likely no major changes in the long term. For instance, Keith Barr, CEO of InterContinental Hotels Group (IHG), said, "I think that people will revert back to their traditional behavior. So long as this isn't protracted, like we're dealing with the virus for four or five years where behavior fundamentally changes too. So I don't think it's going to radically change." Similarly, Steve Kaufer of TripAdvisor stated, "I can't possibly put real numbers on it, but the notion that it will fundamentally change, no. Not at all—I mean, not because of this pandemic."

However, whether and how consumers will travel in the short term will fluctuate, contingent upon safety concerns, travel restrictions, and government policies. Keeping an eye on these short-term changes in behavior and capturing the associated demands are crucial to maintain business growth and prepare for the long-term recovery.

Nearby vacations are the main driver in the near term

Skift Research runs a monthly US travel tracker, which polls more than 1,000 Americans every month to examine the travel penetration rates and detailed travel behavior of the US population. This effort began in January 2020, which has allowed a study of how consumer travel behavior has changed due to COVID-19. While the survey only takes a pulse of the US consumer, the trends captured in the survey extend to the broader travel market outside the United States, as we've seen from various third-party research and data.

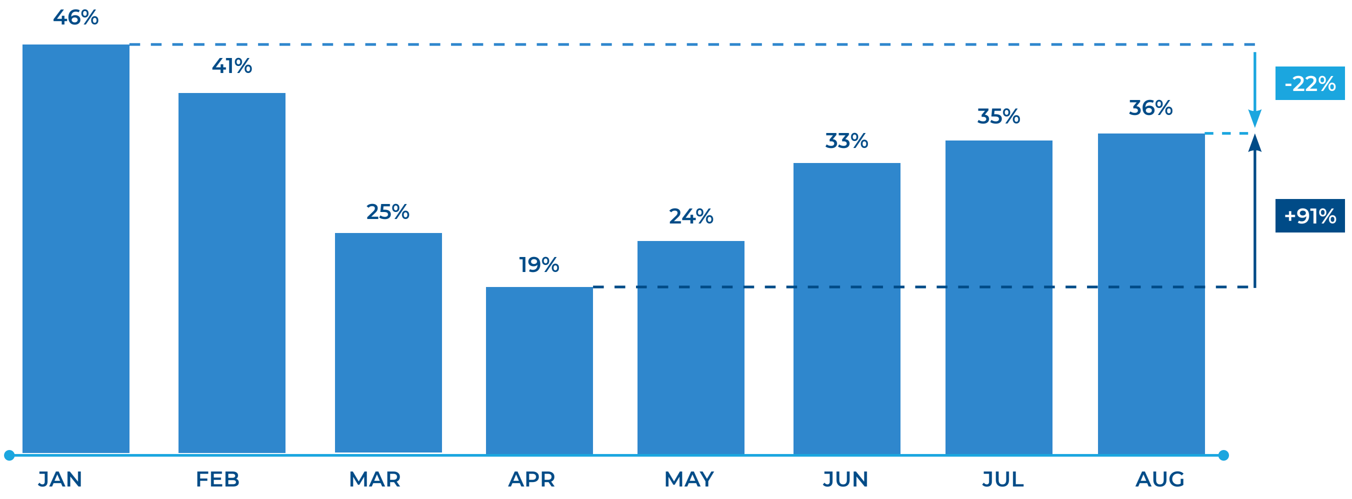
After dipping to its lowest point, 19 percent, in April 2020, the share of Americans saying they traveled in August rose to 36 percent—a significant recovery although still 22 percent less than the rate at the beginning of the year (Exhibit 8). Among the trips taken in August, 82 percent were for personal purposes, and 19 percent were for business purposes. In China, which is ahead of the curve for pandemic recovery, more than 70 percent of McKinsey COVID-19 travel sentiment survey respondents in August said they expect to take their next leisure trip before the end of 2020, mostly during the Chinese National Day holiday in October.

When the pandemic started, all travel was suddenly stalled, except trips that might be regarded as essential travel. This initially included escaping the epicenters of the virus outbreaks. In the United States, at the height of the rising cases in April, 48 percent

After a dip in early spring, Americans have begun traveling again.

EXHIBIT 8

% of US population who traveled, Jan–Aug 2020

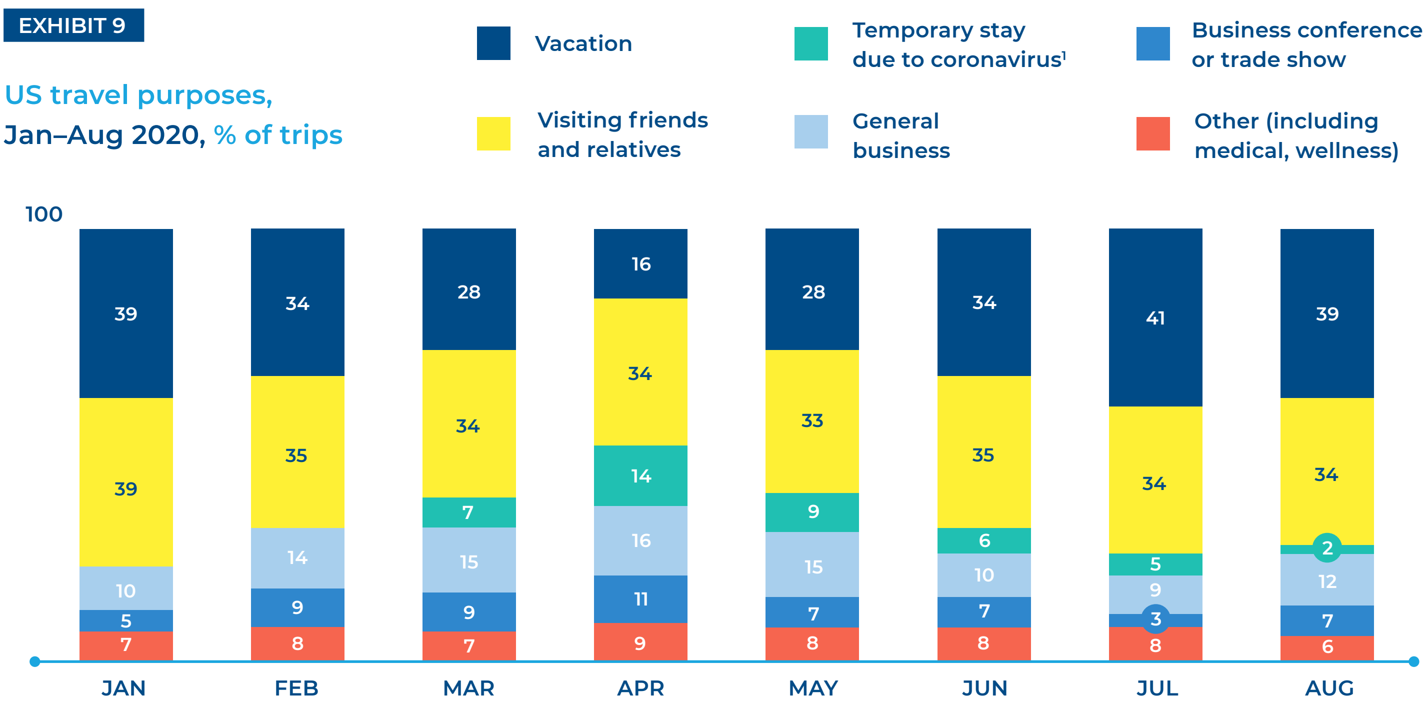


Source: Skift Research, September 2020, n=1,002

At the height of rising COVID-19 cases in April, 48 percent of US trips were to visit friends and relatives or to stay in a safer place.

EXHIBIT 9

US travel purposes, Jan–Aug 2020, % of trips



1. "To stay in a safer place than where I live because of the coronavirus" or "To stay with or near my family because of the coronavirus"

Source: Skift Research, September 2020, n=1,002 of trips were either to visit friends and relatives or to stay in a safer place (Exhibit 9). A recent leisure-travel survey across five countries confirmed that looking into the rest of 2020, visiting friends and relatives will likely be the most important driver for leisure trips[44].

When people did finally resume vacationing, the safety concerns induced them to stay local and drive to destinations instead of flying. In February, before COVID-19 hit the United States, 30 percent of all personal trips involved at least one flight. The number dropped to 9 percent in April and has remained fairly stable for the past few months (Exhibit 10), implying that the crisis for the airline sector might be severe and long.

In the medium to long run, the family-vacation segment will likely continue to be the engine propelling demand for leisure travel. Travel players could attract this core segment by structuring product offerings that cater to their preference for small-scale or self-guided tours in scenic outdoor spots, health and wellness programs, and family-oriented activities.

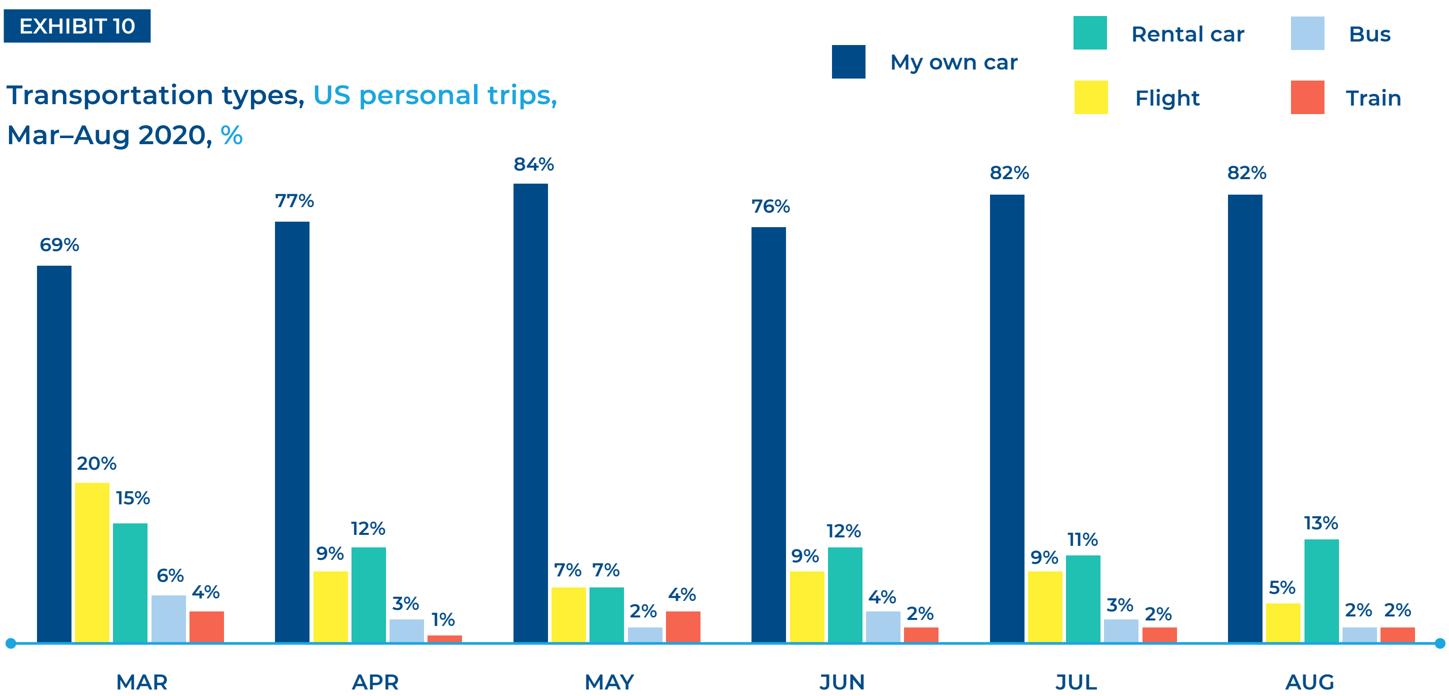
Within this segment, we believe that travel close to home will be the first to return. The US travel appetite for domestic destinations versus overseas locations was already high before the outbreak of the coronavirus, averaging 70 to 80 percent of search volume. Since June, that figure has increased to more than 90 percent. Additionally, more Americans are traveling within their home states.

Even when international travel is booked, there is a desire to travel to destinations with high proximity, according to recent McKinsey analysis of data provided by trivago (data on searches largely for leisure travel but also some unmanaged business travel). For example, the top destinations of interest in the United States are Mexico, Canada, the Dominican Republic, Puerto Rico, and Cuba, which together

The share of personal trips involving at least one flight dropped to 9 percent in April and has remained fairly stable for the past few months.

EXHIBIT 10

Transportation types, US personal trips, Mar–Aug 2020, %



Source: Skift Research, September 2020, n=1,002 have replaced European destinations. While those five countries accounted for approximately 7 percent of all searches during January to July 2019, they made up 13 percent of all searches during April to July 2020.

In China, the ongoing travel sentiment survey, using data from up to late August at this point, shows a similar, steady preference for domestic trips. As work and leisure in the local city have recovered to normal levels, interest in short- and long-haul domestic leisure showed significant increases relative to May. This is driven by a growing perception that domestic trips, whether occurring "today" or "one month from now," are safe (Exhibit 11). Such trips are currently perceived as "basically safe" (4 on scale in which 1 represents "not safe, avoid traveling" and 5 represents "completely safe, behave as usual"). Powered by this improved perception of safety and restored belief that incomes will be stable in the near term, the first-to-return travelers remain likely to be in large part young families. As of recent, also retired elderly travelers see themselves taking a trip soon.

Drive-to will also propel recovery

The preference to keep travel distances short dovetails with a rise in road trips, especially since the car offers the perceived safety benefit of a private space (Exhibit 12). Among Americans polled in Skift Research's July travel tracker, 67 percent said their first trip since the beginning of the pandemic would be by car, a figure that has been consistent since April. The travel sentiment survey confirms the same for Chinese travelers, who are planning self-guided or self-drive activities with families.

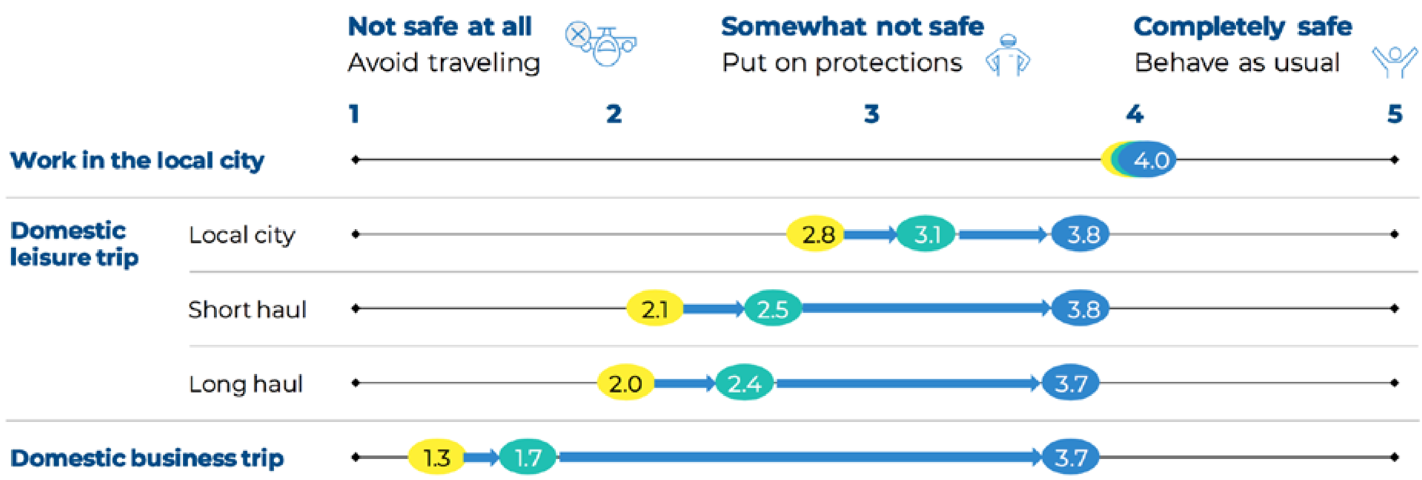
Data from IATA Air Travel Pulse shows a similar pattern. European air-travel bookings this summer were lower for countries also easily accessible by other means of transport (e.g., Austria, Croatia, and Switzerland), versus Greece and Norway seeing the highest flight-booking recovery relative to 2019, also reinforced by relatively low infection rates.

In China, respondents in August had returned to considering domestic trips "basically safe."

EXHIBIT 11

How safe do you feel for travel in the coming 1 month?
Mean score, by date of response

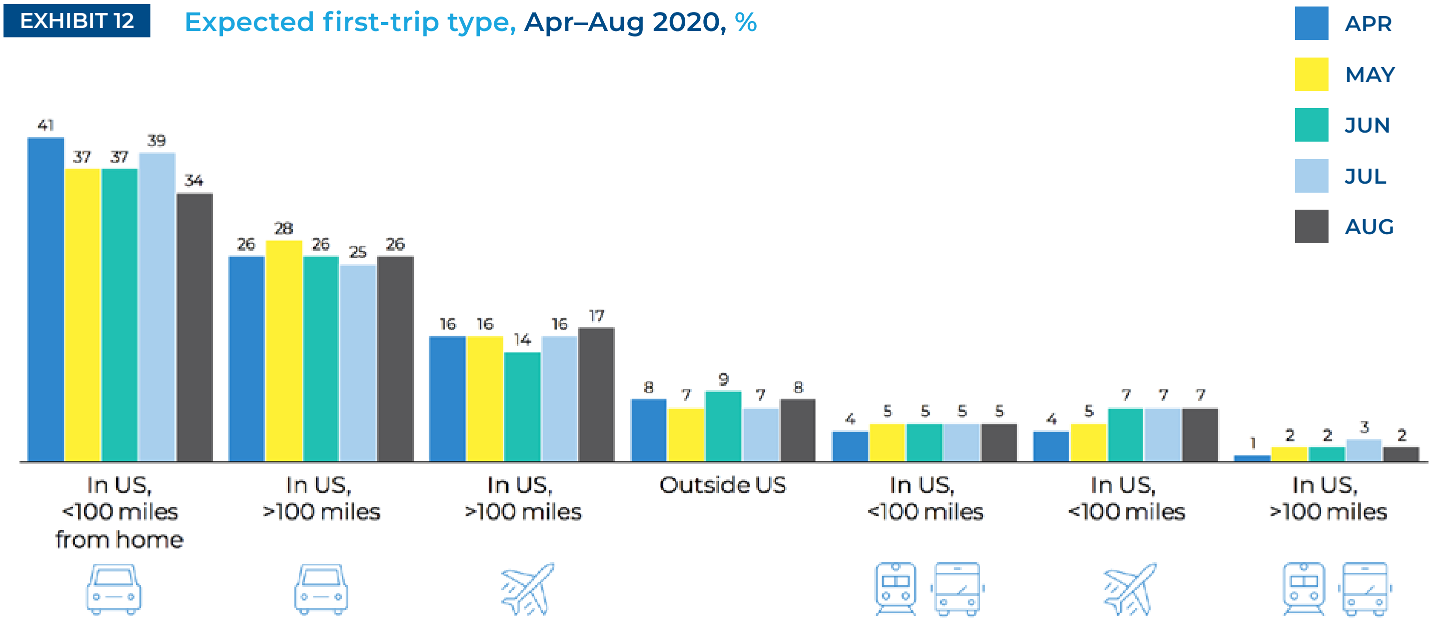
Mean score in April about travel in May
Mean score in May about travel in June
Mean score in August about travel in September



Source: McKinsey COVID-19 Travel Sentiment Survey China, August 2020, n=1,532

Americans expect that when they travel, it will be by car.

EXHIBIT 12 Expected first-trip type, Apr–Aug 2020, %



Source: Skift Research, September 2020, n=1,002

Outdoor travel on the rise

Data from trivago confirm that the largest ten US city destinations lost domestic-traveler attention, helping to bring alternative destinations into the consideration space. While the top ten claimed a 22 percent share of click-outs in January through March, this decreased by 32 percent to a 15 percent share in April. By the end of July, most city destinations were still hovering around 30 to 40 percent of March 2020 levels (Exhibit 13).

Outdoor scenic travel, has seen a quicker recovery across the world, likely building on ease of social distancing. We expect to see continued growth in this segment post-COVID-19. As Matt Roberts, CEO of Vacasa predicts, “I think this notion of space is a big one, and I think it’s going to be one of those enduring things. I think people are also discovering more of the benefits of being outside and incorporating outside travel.”

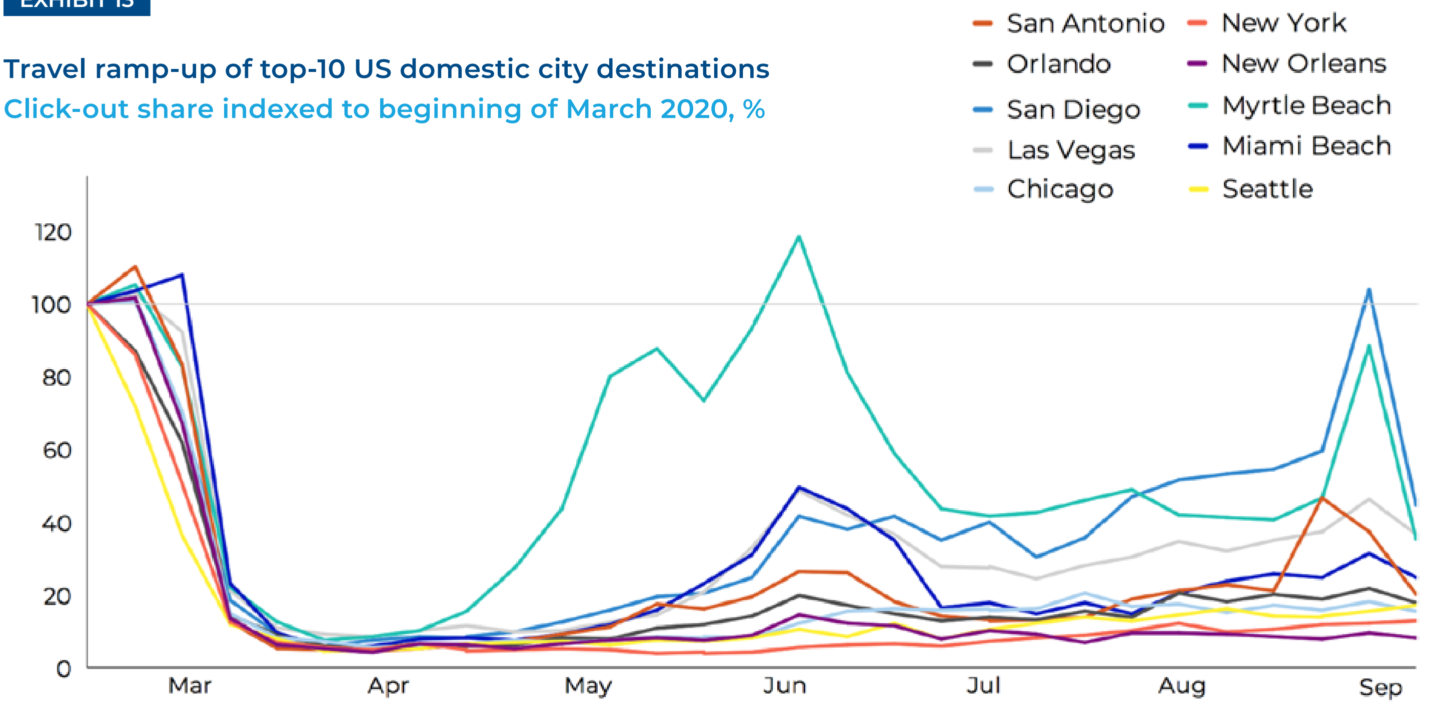
A recent analysis based on data provided through the World Travel and Tourism Council (WTTC) Travel Demand Recovery Dashboard (a proprietary tool tracking travel sentiment and demand, developed with support from McKinsey) confirms adventure travel has seen the largest recovery. While all travel segments declined across the world, there has been a

Matt Roberts, CEO of Vacasa predicts, “I think this notion of space is a big one, and I think it’s going to be one of those enduring things. I think people are also discovering more of the benefits of being outside and incorporating outside travel.”

The top ten US cities lost traveler attention and brought alternative destinations into the consideration space.

EXHIBIT 13

Travel ramp-up of top-10 US domestic city destinations
Click-out share indexed to beginning of March 2020, %

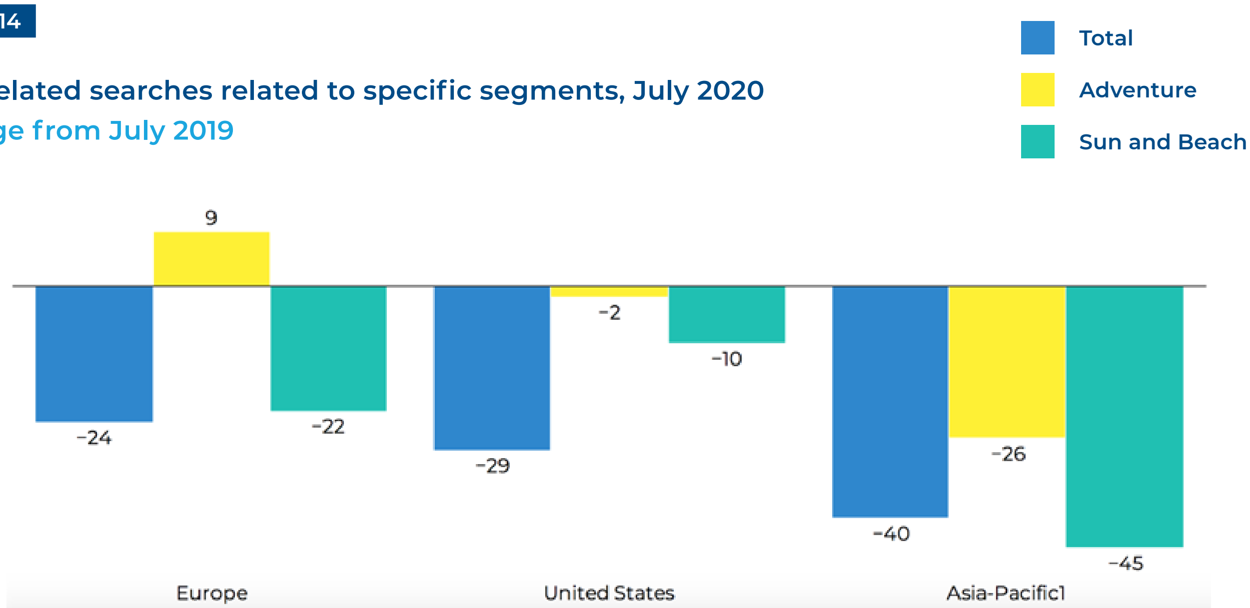


Source: McKinsey analysis based on trivago data

Interest in adventure travel shows the largest recovery, led by Europe.

EXHIBIT 14

Travel-related searches related to specific segments, July 2020
% change from July 2019



1. Not including China

Source: WTTC Travel Demand Recovery Dashboard, in partnership with McKinsey

Compared with 2019, Chinese travelers in 2020 chose outdoor summer destinations, especially in western China.

EXHIBIT 15

Top 10 travel destinations for summer vacation

Source: Trip.com 2020 cross province travel report, Trip.com 2019 summer travel forecast report

recent recovery of interest in adventure-related travel, led by Europe. In Europe, adventure-travel interest even surpassed 2019 levels, suggesting substitution of other forms of travel. In the United States, "sun and beach" mimics the adventure category, suggesting similar association with social distancing (Exhibit 14). In China, outdoor scenic, foodie, and family-themed sites are the preferred types of trips, according to the

> **In Europe, adventure-travel interest even surpassed 2019 levels.**

travel sentiment survey.[45] While small-group tours, guided tours, and cruises have started to show signs of recovery since May, most of these trips will likely be self-guided.

Outdoor adventures, activities common among families in the West but until recently less popular with Chinese travelers, could start gaining traction in China as well. COVID-19 has been shown to accelerate this trend, as vacationers desire to travel to less densely populated areas. Trip.com's 2020 Cross Province Travel Report shows a noticeable increase in visits to remote destinations known for low population density and outdoor activities. All of the top three destinations are far away from metropolitans like Beijing or Shanghai and famous for nature scenery (Exhibit 15). The destination market is highly correlated to the COVID-19 infection rate: nine out of the top ten destination provinces have infection rates below the national average.

> **Long-term planning is out the window, with health advice and travel restrictions changing on a seemingly daily basis.**

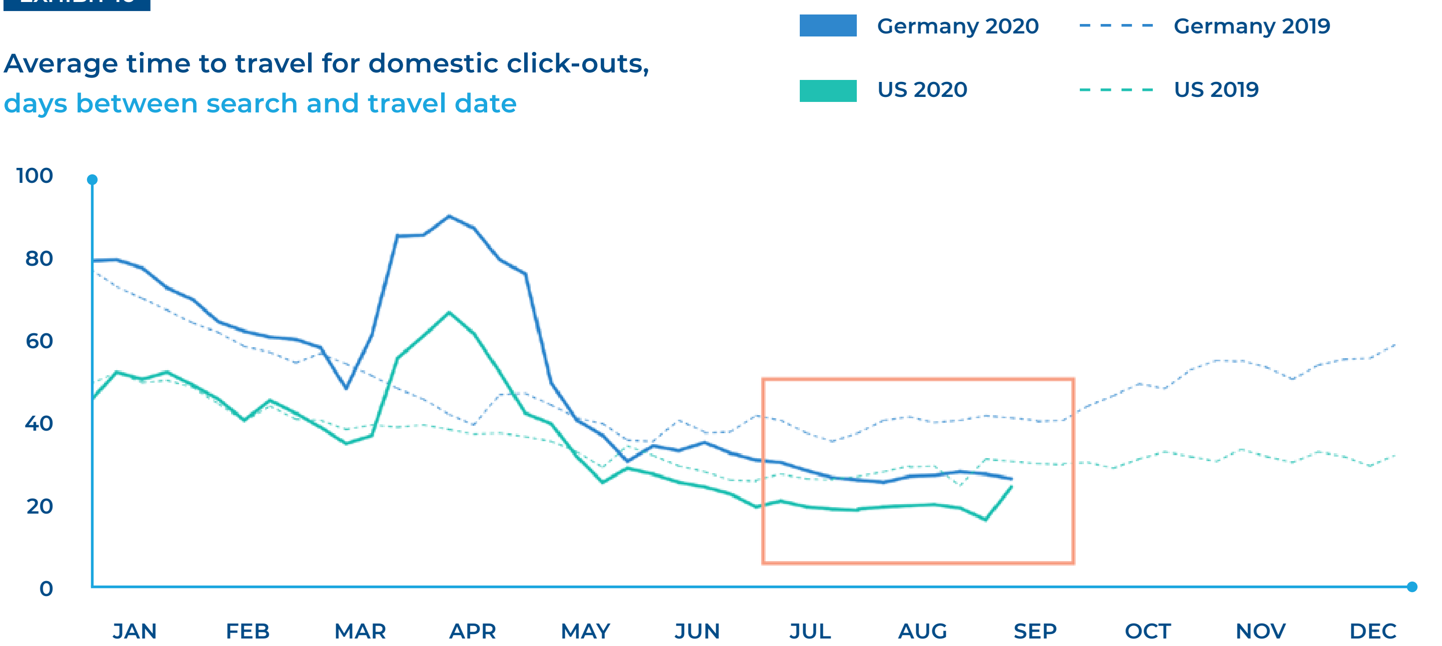
Shortened booking windows

The booking window—the time between the initial search and the travel date—has compressed considerably. An analysis on the booking window for Germany and the United States shows how it has shrunk and is now below last year's average (Exhibit 16). Long-term planning is out the window, with health advice and travel restrictions changing on a seemingly daily basis. And with more travelers choosing to vacation closer to home and drive themselves, there is less need to book far in advance.

Time of travel is moving closer to search date, due to COVID-19 uncertainty and travel restrictions.

EXHIBIT 16

Average time to travel for domestic click-outs, days between search and travel date



Source: McKinsey analysis based on trivago data

There was a clear peak in the booking window in March and April, but it was likely a reaction to understanding the extent of the impact of COVID-19. As this became clear, people began rebooking vacations for 2021 or later in 2020.

Nonprice factors have become more important in travel decisions

To respond to these changing consumer behaviors, travel companies have experimented with pricing, which has seen much greater fluctuation in the past few months than during the same period last year. But price is not the most important factor right now. While it was the most important search criterion in April, price was the least important factor in July, and instead distance (from home) became much more important (Exhibit 17). This finding is backed up by Skift Research survey findings that, when respondents were asked whether discount pricing had an impact on their booking behavior, consistently less than 10 percent said it did.

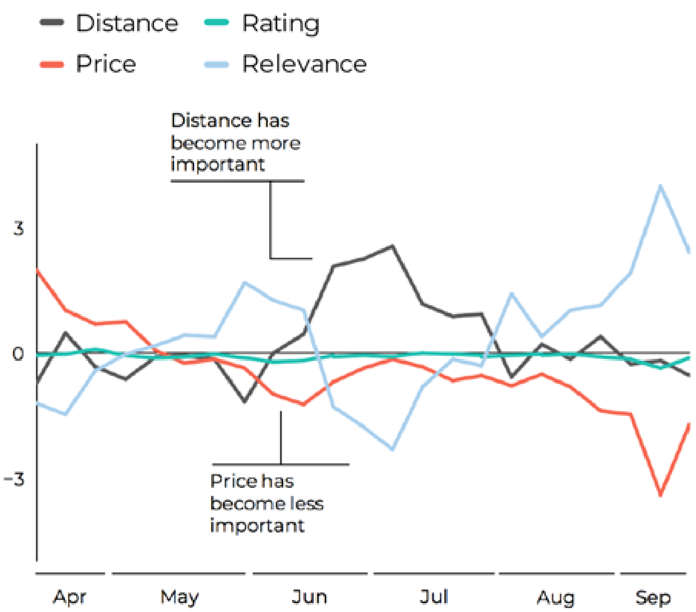
> “Price was the least important factor in July, and instead distance (from home) became much more important.”

In the United States, suppliers have noticed that this overall willingness-to-pay remained stable, as evidenced by their retention of (display) pricing levels versus last year’s. While Exhibit 17 shows a US example, Germany tells a different story. Willingness-to-pay curves have been similar, but offered prices dropped significantly, especially as city destinations were trying to find ways to capitalize on demand when as outdoor destinations were getting overcrowded.

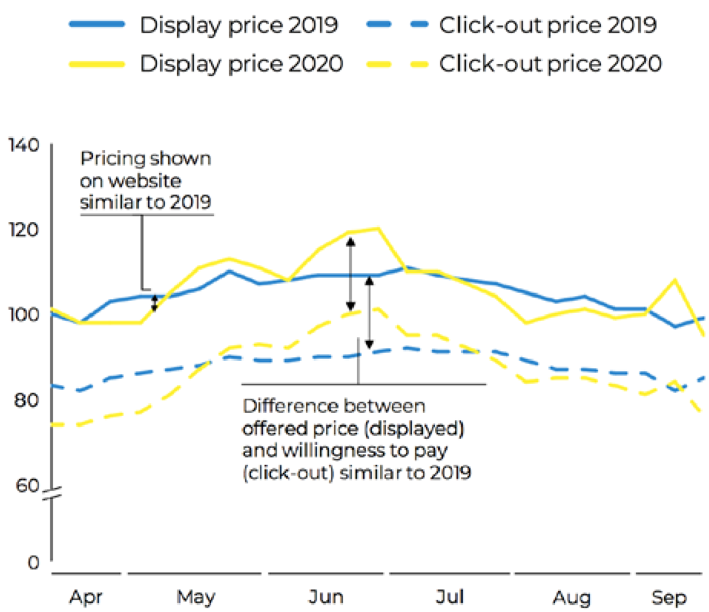
Nonprice factors have become more important in travel decisions.

EXHIBIT 17

Share of sorting criteria (US only), year-over-year change, percentage points



Displayed and click-out prices (US only), indexed to April 2019



Source: McKinsey analysis based on trivago data

BUSINESS TRAVEL

When the COVID-19 pandemic halted travel around the globe, organizations quickly converted in-person meetings and events to virtual platforms. As the pandemic continues and travel-industry players look ahead for a rebound, the postcrisis return will take years.

A crucial profit source

Business travel is significant for airlines and hotels, not only in terms of volume, but particularly in terms of profitability. Business travel in recent years has represented 15 to 20 percent of global travel and hospitality.[46] In 2018, business travel spending exceeded $1.4 trillion, with more than half concentrated in two economies, China and the United States.[47] And while some travel providers have limited exposure to business travel, it is a critical driver of profitability for others. Business travelers purchase higher-class or refundable fares, so they can drive 55 to 75 percent of profit for major airlines while accounting for only 10 percent of passengers.[48] Seventy percent of all global revenue for high-end hotel chains comes from business travel,[49] and some convention-focused hotels depend nearly entirely on business travelers for their occupancy.

Business-travel recovery historically has been slow

During previous economic downturns, business travel tends to be affected more severely, and the current crisis is no different. Business travel has historically been more volatile and slower to recover than leisure travel after economic downturns and other disruptions to travel patterns. During the 2008–09 global recession, international business travel from the United States declined more than 8 percent, compared with a decline of just 2 percent for international leisure travel from the United States

(Exhibit 18). And although international leisure travel fully recovered in just two years, international business travel didn't fully rebound to pre-recession levels for five years.

> **Business travelers purchase higher-class or refundable fares, so they can drive 55 to 75 percent of profit for major airlines while accounting for only 10 percent of passengers.**

Nonessential travel remains stalled

When the pandemic started, many companies quickly adjusted and put in place policies and measures to avoid travel for the purposes of work. Since May, IATA has been surveying a growing set of corporate travel buyers (70 of them in August) with global, predominantly multinational companies. Switching to virtual conference tools and work-from-home arrangements has led to a diminished need to travel.

All respondents still have travel restrictions in effect, most on nonessential travel (Exhibit 19). In late summer, some companies adjusted their travel restrictions to reflect perceived risk in specific countries, rather than suspending all domestic or international travel.

In their Q2 2020 earnings calls, US carriers shared pessimistic numbers—most saw over 90 percent reduction in business travel—with no signs of a rebound and "ice age" expectations. Most airlines are in close contact with corporate travel partners and awaiting signs of budding life. China tells a different story, where business travel is gradually returning. Most corporate travel policies are no longer restricting domestic travel. Late July, some companies saw travel activity back at around 80 percent of 2019 levels. As a more recent data point, in September China business travel sentiment—measured by average expected upcoming trips in a certain period—was also at 80 percent of 2019 levels.[50]

Companies are progressively thinking more conservatively about the return of travel activity: in August, 62 percent of IATA corporate-travel survey respondents expected to see travel starting to recover sometime in the next six months. In June, this was 92 percent. Meanwhile, the key indicators companies weigh in decisions about returning to travel have remained the same over time. The factors considered most are easing of government-imposed travel restrictions, medical evidence of pandemic recovery, and resumption of normal connectivity by airlines. The related sources of value that travel companies can use to encourage corporate-travel buyers include ticket flexibility, and ancillaries such as security fast lanes and spaced seating (Exhibit 20).

> **Business travel has historically been more volatile and slower to recover than leisure travel after economic downturns.**

Large global companies, which drive the most profitability across travel segments, have reduced travel expenses the most significantly as a result of the COVID-19 crisis. And they are the ones that might take the longest to resume travel. As one travel management executive of a global consumer-product company pointed out in our interview, bigger companies need to have a very thorough governance structure in place to protect their employees. With safety and security concerns increased manifold due to the current pandemic, decisions to restart travel at a significant scale will require equally thorough processes and take a long time.

After a recession, business travel is more volatile and slower to recover than leisure travel.

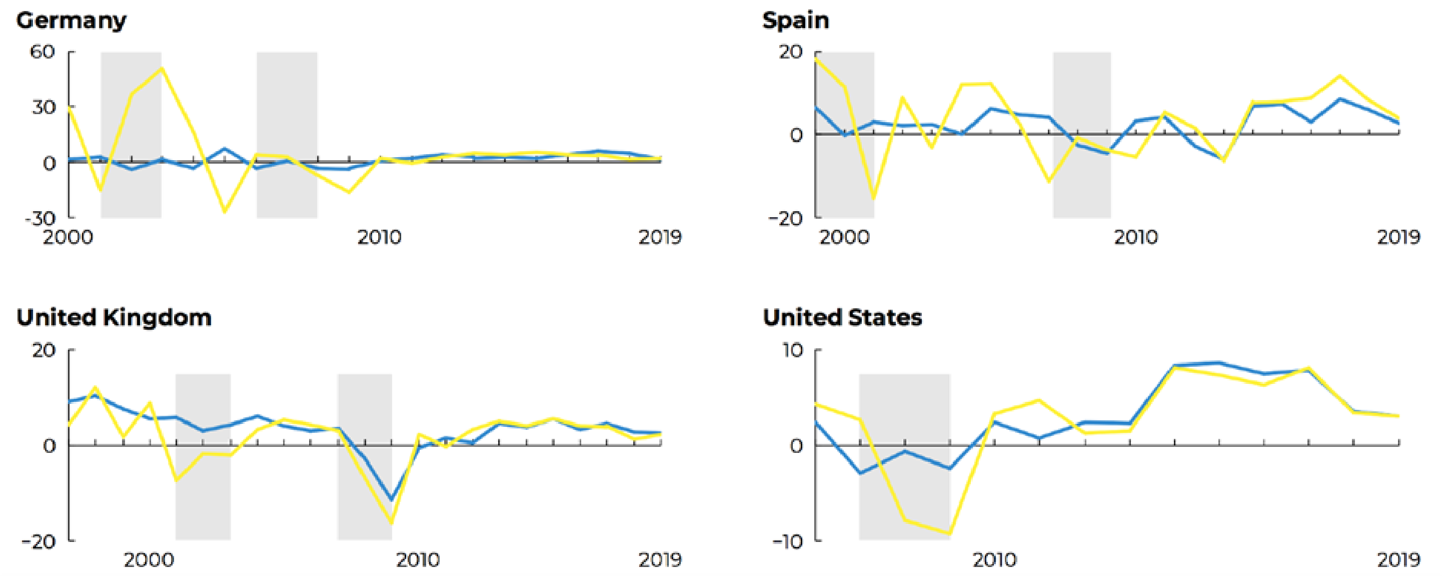
EXHIBIT 18

Year-on-year change in international outbound travel, %

Economic downturn

Leisure

Business



Source: National statistics offices, UN World Tourism Organization, McKinsey analysis

Corporate travel restrictions remained in place in August.

EXHIBIT 19

Travel restrictions currently in place % of respondents

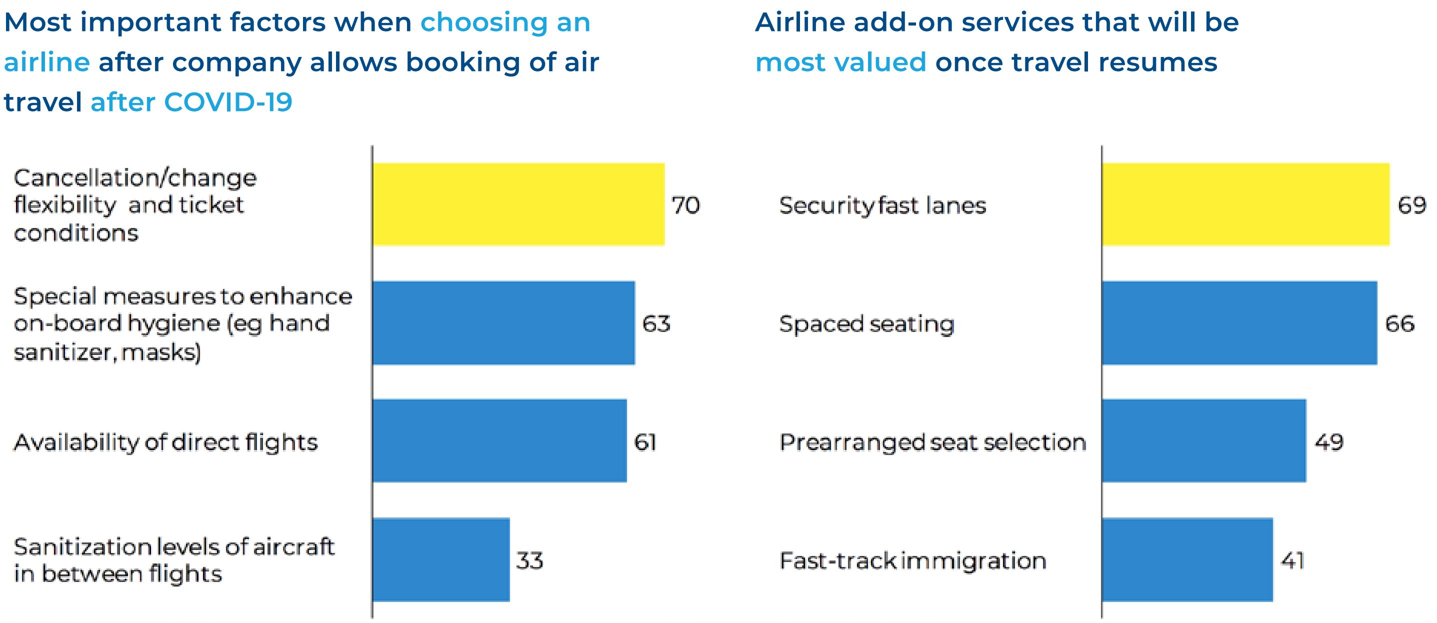
- Suspend all nonessential travel
- Suspend all nonessential international travel
- Suspend all travel
- Suspend all international travel
- Suspend international travel to specific risky countries
- No suspension of any travel
- Other

Source: IATA COVID-19 relief: Corporate Travel Management Survey, August 2020, n=70

Factors cited as influencing corporate-travel decisions signal a continuing conservative outlook for business travel.

EXHIBIT 20

% of participants identifying factor as among the 3 most important



Source: IATA COVID-19 relief: Corporate Travel Management Survey, August 2020, n=70

Some spending will return over the next one to two years

While it is hard to estimate the scale of cuts in travel spending at companies, we interviewed several travel managers at companies representing various industry sectors. The interviews suggest that travel spending by many large global companies is at 5 to 15 percent of spending during the same time in 2019, and many companies still completely ban business travel. It's likely that by the end of 2020, spending will reach 20 to 25 percent of pre-COVID-19 levels. The consensus is that by the end of 2021, at best, spending will come up to 50 percent of 2019 levels.

The IATA survey showed similar results. Two-thirds of corporate-travel buyers indicated that their companies were planning 25 to 75 percent of business-as-usual travel for 2021 (Exhibit 21). This may change, however, as the COVID-19 situation evolves.

Roads to recovery vary by proximity, travel reason, and sector

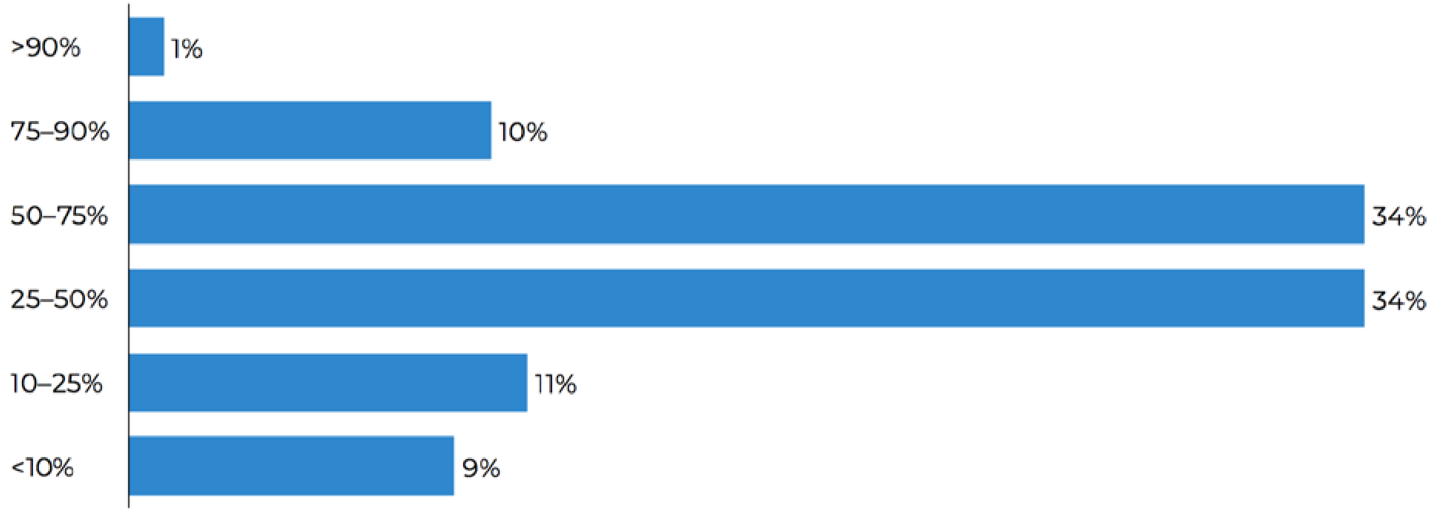
Based on recent McKinsey research, we believe business travel recovery will vary by proximity to the destination, reason for the trip, and industry sector (Exhibit 22).[51]

Regional and domestic trips will likely see a return before international travel does. Travel managers with operations in Asia–Pacific say they have begun to see an uptick in domestic travel in countries where outbreaks have stabilized. International travel will take longer to rebound because of the complexity of government regulations, mandatory quarantines, and the high risk of fast-changing policies. As an example, Asia–Pacific business travel bubbles, or green lanes, have had a faltering start and are logistically complicated. Key challenges include airport infrastructure and procedures, traveler limitations due to tracking, and insufficient flight connectivity.

In August, nearly seven in ten corporate travel buyers indicated that travel in 2021 will be 25 to 75 percent of business-as-usual travel.

EXHIBIT 21

Percentage of corporate travel, vs a normal period, corporate travel planners expect for 2021, % of respondents



Source: IATA COVID-19 relief: Corporate Travel Management Survey, August 2020, n=70

Resumption of business travel is expected to vary by proximity of destination, reason for travel, and industry sector.

EXHIBIT 22

	Proximity	Travel reason	Sector
Earlier recovery	Regional travel that can be completed in a personal or rented vehicle	In-person sales or client meetings and essential business operations	Manufacturing, pharmaceuticals, and construction
	Domestic travel by air or train	Internal meetings, training programs, and other small-group gatherings	Tech, real estate, finance, and energy
Later recovery	International air travel abiding by government regulations and restrictions	Industry conferences, trade shows, exhibitions, and events	Healthcare, education, and professional services

Source: McKinsey analysis, based on travel manager interviews (June, July 2020)

Other than for mission-critical use cases (such as supply-chain-related travel), travel for sales and client-related meetings is most likely to be among the first to return. We might see a catalyst acceleration at some point, as companies will face increased pressure to win business among key customers after peers begin traveling again. Travel for internal meetings, incentives, events, and other off-site gatherings may not return until well into 2021 or later. And some travel for internal purposes might be permanently replaced by virtual meetings and collaboration.

> **Travel for sales and client-related meetings is most likely to be among the first to return.**

Travel for major industry events and conferences might be the last to return, as it requires a higher degree of confidence in public safety. As of the end of August, nearly 4,000 fairs and exhibitions worldwide have been postponed or already cancelled due to the COVID-19 crisis[52]. Although conferences and trade shows are critical networking opportunities and difficult to conduct virtually, they also involve high risk, given the number of attendees, which can range from several hundred to more than 100,000. Several major events in Asia have taken place, but at half their pre-COVID-19 attendance levels and with strict health protocols.

Industry differences reflect variations in financial strength and the need for on-site work. While the COVID-19 pandemic affected all industries, some (such as energy and retail) were hit harder and may face more budget constraints, which could slow their pace of travel recovery. Industrial and production-oriented sectors (such as construction, real estate, machinery and equipment makers, and pharmaceuticals) may lead in the return to business travel. Meanwhile, service and knowledge sectors (such as science and technology research) might take longer to return to pre-COVID-19 levels of business travel and might face higher risk of replacing travel with technology.

Business travel will eventually return at scale

When corporate policies allow for travel to resume, caution may persist. Many travel players insinuate a long rebound ahead or steady-state reductions in nonessential travel as travel managers focus on budget constraints, effective deployment of technology, environmental awareness, and risk concerns.

While generally thought of as business-critical, in-person B2B sales meetings might not return in material ways until 2021. In a McKinsey survey among 600 US B2B companies in late July, 48 percent of respondents expected to have in-person sales meetings again in 2021. Even then, 62 percent expected to have less than 50 percent of interactions in-person—even when their sales force is capable of having in-person meetings again.

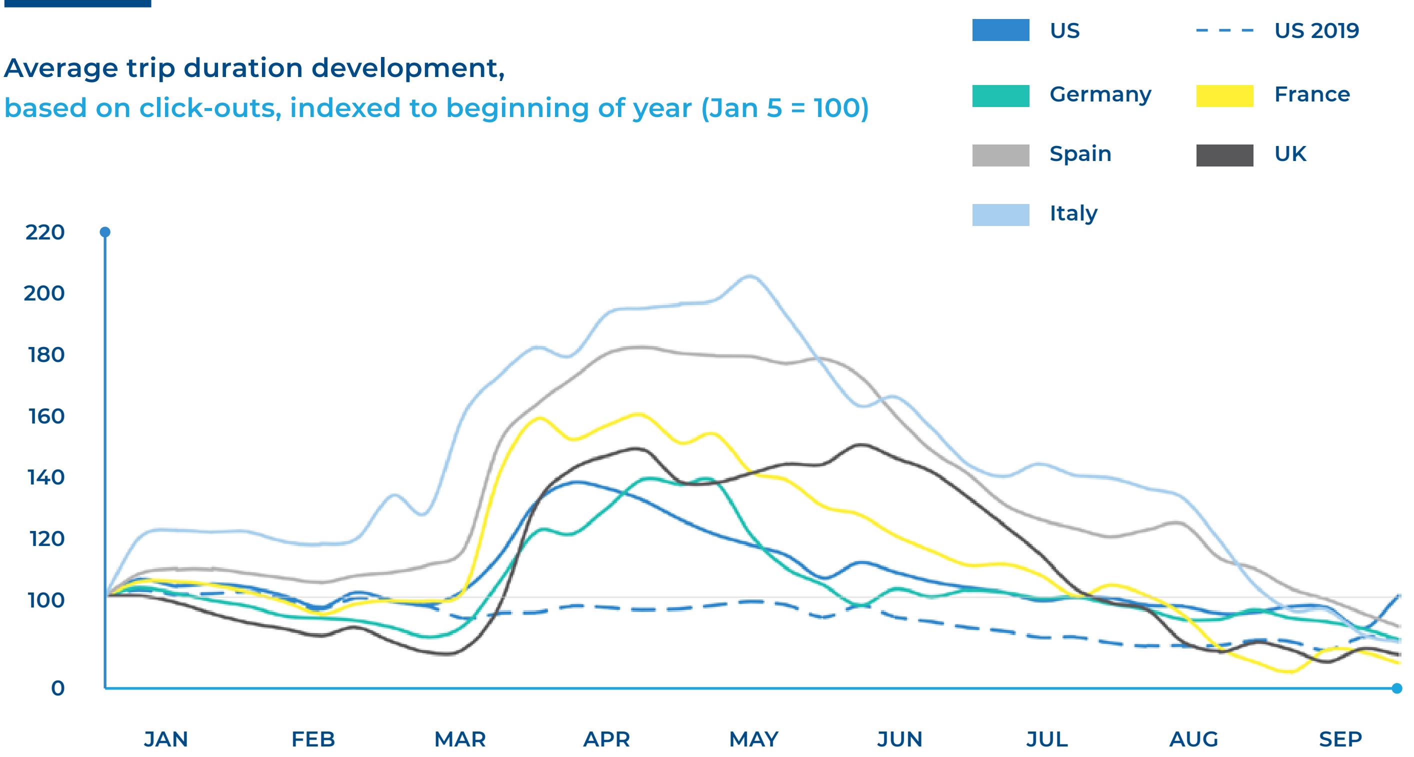
Similarly, sustainability professionals at 100 global businesses expect that their company's overseas travel in the next two to three years will significantly come down compared to pre-COVID-19 levels.[53] This could mean a potential decline in international business trips of up to 40 percent. In Europe, short haul trips might be impacted meaningfully as employers commit to virtual and high-speed-rail alternatives.[54]

However, travel company executives and corporate travel buyers that we've spoken with maintain a positive outlook on the long-term health of business travel. Business travel will return "at scale" although perhaps never to the levels observed in 2019. The main reason for positivity is the same as that explaining

Average trip duration increased during the pandemic.

EXHIBIT 23

Average trip duration development,
based on click-outs, indexed to beginning of year (Jan 5 = 100)



Source: McKinsey analysis based on trivago data

the renewal of leisure travel: fundamentally, people need to interact with others. For business travel, that means being present with clients, colleagues, and the rest of the business world.

While some forms of travel might be eliminated, that will not change the fundamentals. In addition, economic growth might generate new demand for business travel, which will make up for the lost spend. As Chris Nassetta of Hilton stressed when describing his outlook on the future, "An internal meeting will happen by Zoom or WebEx ... instead of getting on planes and staying in hotels. ... But there'll be other forms of travel and needs that come up, that [...] create opportunities for people to travel for different things that they [previously] weren't traveling for. The net result will be, in two or three years, [...] very similar."

WILL THE DISTINCTION BETWEEN LEISURE AND BUSINESS TRAVEL STILL MATTER?

Digital nomads and bleisure travel predate COVID-19. However, the pandemic and the rise of remote work seems to accelerate the growth of digital nomads, and will likely further blur the lines between business and leisure travel.

Many professionals have moved or experimented with leaving behind expensive urban centers in favor of locations with lower costs or more outdoor recreation. Evidence that people have been looking for other places to stay and work include data showing that the average trip duration has spiked during lockdowns (Exhibit 23).

In 2015, Pieter Levels, the founder of Nomad List, a popular website that catalogs the best places to live and work remotely, predicted that by 2035 there would be one billion nomads worldwide. Many people thought that was a wild prediction, but the number seems more realistic with the dynamics of the pandemic now.

> **Travel for major industry events and conferences might be the last to return.**

Several travel executives called out a trend they expect to evolve from the way it was in the past, and that is the further blurring of travel between leisure and business. The idea of working from home will transform into working from anywhere, something corporate travel managers will need to prepare for. Many company travel policies and travel management companies were ill equipped to deal with the growing bleisure push over the past years, and working from anywhere will require new forms of flexibility.

Tapping into rising digital nomad trend

Destinations decimated by the loss of tourism revenues are tapping into digital nomads as an attractive market segment. After the government of Barbados announced its plan to welcome remote workers, many other destinations, including Georgia, Bermuda, and Estonia, followed suit.

The trend could provide an opportunity for hotels, especially those that rely heavily on corporate travelers for their total or weekday occupancy. While the route back to pre-COVID-19 levels for business travel will be long, hotels tend to have prime real estate, which can be used for remote workers. A host of hotels, including Accor, are starting to offer their hotel rooms as day offices for remote workers. Hyatt, meanwhile, is promoting its Work from Hyatt packages.

Undoubtedly, short-term rentals and extended stays will have more competitive advantages in capturing the digital-nomad trend, especially the long-term remote workers. However, hotels could compete by offering unique services and amenities that cater to the pain points associated with being remote by utilizing hotel spaces that competitors like short-term rentals lack. For instance, hotels could offer onsite day-care services or schooling programs. Hotel incubators could support start-ups by offering financial support, access to hotel infrastructure, and a work space—something Marriott has done in the past.

> **The pandemic and the rise of remote work seems to accelerate the growth of digital nomads, and will likely further blur the lines between business and leisure travel.**

3 WHEN WILL TRAVEL RECOVER? FORECASTS AND INDICATORS

The COVID-19 pandemic is the greatest challenge the modern travel industry has ever faced. It is uniquely punishing global tourism because it works against the industry on two fronts. On the purely economic front, the recession it caused would have brought a slowdown in traveler activity. But COVID-19 combines this business downturn with health and safety precautions—including lockdowns, airline capacity reductions, physical distancing, and more—that directly restrict people's ability to travel. Under those never-before-experienced conditions, it is difficult to forecast a timeline for recovery.

SCENARIOS SUGGEST GLOBAL TOURISM RECOVERY BY 2023–2024

To tackle the forecasting challenge, McKinsey Global Institute in partnership with Oxford Economics put together a framework to model how two sides of the crisis—the economic and the public-health factors—could jointly have an impact on the economy[55]. We represent this as a matrix with the effectiveness of the public-health response on one axis and the economic policy response on the other (Exhibit 24). Each axis has three possible outcomes (worse, moderate, and better), so the result is a nine-scenario framework for describing potential COVID-19 outcomes.

Since March, McKinsey has been modeling four global tourism recovery scenarios that leverage this framework. Tourism will progress through four stages: a crisis period, a pandemic recovery, an economic recovery, and finally a new normal. While some sectors return to precrisis conditions in the new normal, others will remain affected by secular shifts in consumer behavior and preferences.

The four scenarios, ordered by the share of executive respondents who selected the scenario as most likely outcome for the world economy (July 2020):

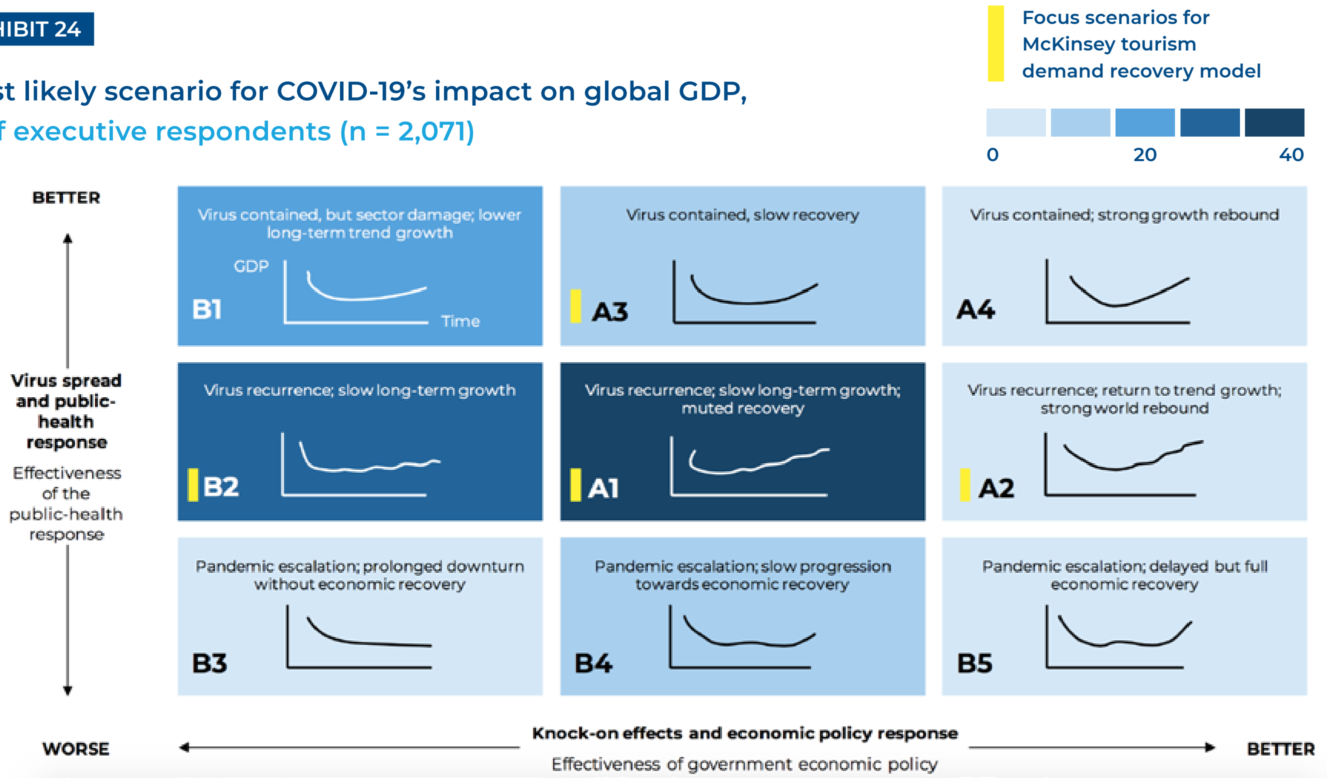
- *Muted Recovery*
(scenario A1, moderate health and moderate economic response). With partially effective public-health and economic-policy interventions, the return to pre-crisis levels of GDP, income, and corporate earnings will take time.
- *Slow Long-Term Growth*
(B2, moderate health and worse economic response). Public-health interventions are partially effective but do not prevent virus recurrences, and economic-policy interventions are insufficient. As opposed to the Slow Recovery scenario, in which travel eventually recovers, this scenario sees a long-term impairment of travel's growth potential.
- *Slow Recovery*
(A3, better health and moderate economic response). The virus is effectively contained, but because economic responses are only partially effective, growth returns slowly to pre-crisis levels.
- *Strong Rebound*
(A2, moderate health and better economic response). Effective interventions will help effectuate a return to trend growth.

> **"Tourism will progress through four stages: a crisis period, a pandemic recovery, an economic recovery, and finally a new normal."**

A look at possible scenarios for the economic impact of the COVID-19 crisis.

EXHIBIT 24

Most likely scenario for COVID-19's impact on global GDP, % of executive respondents (n = 2,071)

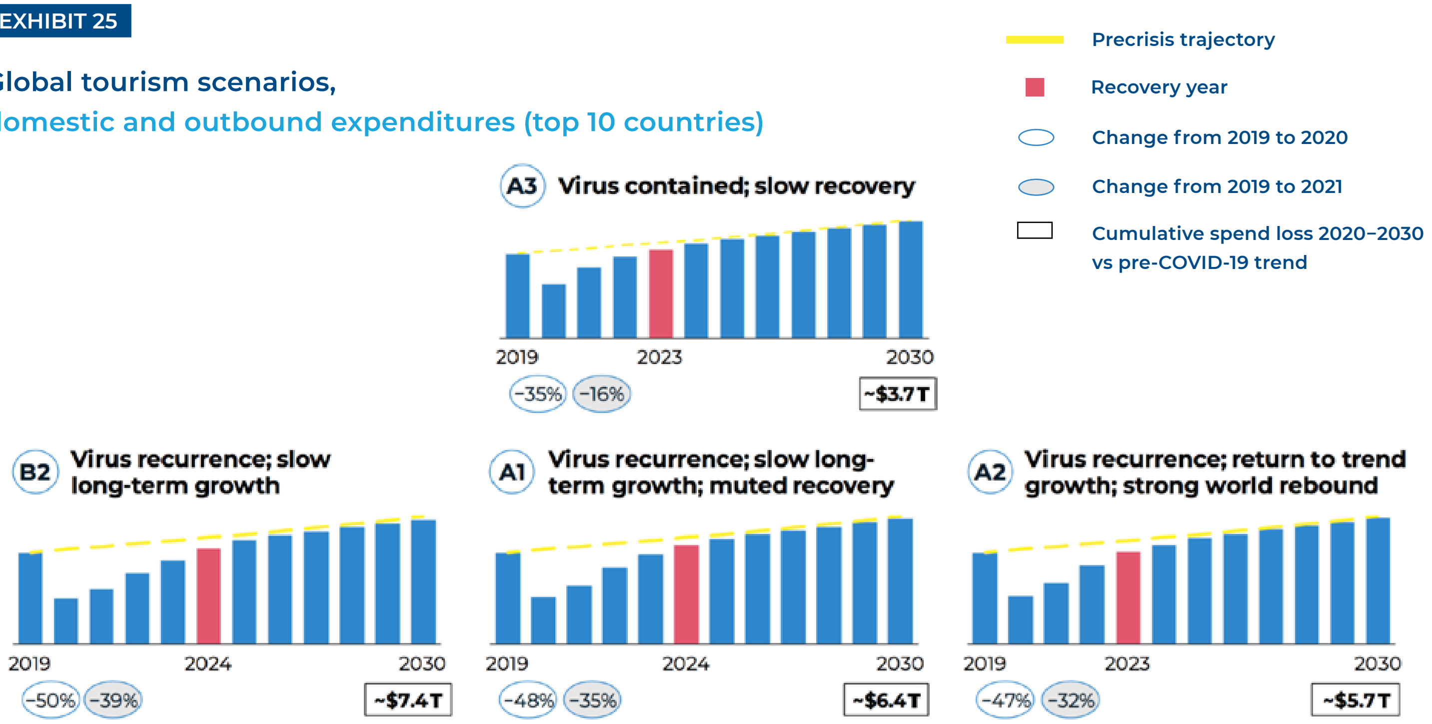


Source: McKinsey analysis, in partnership with Oxford Economics

Global tourism scenarios suggest a potentially slow recovery.

EXHIBIT 25

Global tourism scenarios, domestic and outbound expenditures (top 10 countries)



Source: McKinsey COVID-19 Global Tourism Recovery Scenarios, September 2020

> **Even in a more optimistic scenario, the top 10 countries (measured by domestic and outbound tourism spend 2019) might lose $3.7 trillion in cumulative 2020–2030 tourism spend.**

Based on a combination of macroeconomic and travel-specific indicators, the scenarios show a dramatic loss for the travel industry (Exhibit 25). Recovery back to 2019 tourism spend levels is not expected before 2023. In the scenario most executives currently expect as most likely globally (A1), the damage could be $6.4 trillion in lost spend. This baseline scenario assumes continued mobility restrictions—for example, social distancing, lockdowns—due to virus resurgence, and substantial timeframes for governments maintaining travel bans. Partially effective economic policy interventions help offset some of the economic impact of COVID-19, but macroeconomic recovery would still be slow and U-shaped. Finally, this scenario assumes many travelers remain emotionally resistant to travel for a longer timeframe – and some changes in travel becoming permanent (particularly business travel being partially replaced by communication technology).

Even in a more optimistic scenario (A3), the top 10 countries (measured by domestic and outbound tourism spend 2019) might lose $3.7 trillion in cumulative 2020–2030 tourism spend. This scenario assumes minimal virus resurgence beyond the first wave, effective government stimulus and interventions, rapid lift of travel restrictions, few lasting travel behavior changes, and effective yield stimulation driving a demand ramp-up similar to past crises. In a more pessimistic case, the damage might be $7.4 trillion—mostly driven by slower long-term macroeconomic growth (B2). Like other travel industry outlooks, these scenarios are more sobering than earlier modeling had suggested (see sidebar, *"More optimistic early scenarios were adjusted over time"*).

MORE OPTIMISTIC EARLY SCENARIOS WERE ADJUSTED OVER TIME

For many industry bodies and industry followers, modeling the impact of COVID-19 has been a sobering project, as additional knowledge has pushed early estimates in a negative direction. Expectations going into 2020 were that it would be a challenging year for profitability in European and North American lodging, due to flattening utilization and lack of operator pricing power. In January, STR expected exactly zero percent growth in US RevPAR, the lowest such forecast since the recession in 2009. The tourism outlook for other regions looked generally brighter, however, and global airline passenger demand—measured in revenue passenger kilometers (RPK)—was expected to grow 4.1 percent in 2020, in line with the year before.[56]

In line with macroeconomic outlooks, industry-generated demand-recovery models suffered from initial optimism bias and were adjusted downward (Exhibit 26). In February, ICAO was one of the first to publish pandemic-related travel outlooks and started covering air-travel impact for China, Iran, Korea, and Mongolia. In early March, it started including Italy, Japan, and Singapore. Looking at Q1 2020 impacts only at this point, it projected capacity reduction between 19 percent (Italy) and 43 percent (China).

In March, many realized that what was ahead would be worse than the 2001 and 2009 economic downturns combined. Uncertainty around the depth and breadth of the unfolding crisis led to a need for flexible projection models from the get-go. Nevertheless, models had to rely on precrisis data, rough estimates on the current demand trajectory (e.g., leveraging unconventional sources like TSA data and carrier capacity announcements), and industry lessons from past crises.

Most models included an optimistically biased scenario that expected travel to dip only temporarily and recover rather swiftly, without substantial changes in underlying demand drivers. STR adjusted their 2020 US RevPAR outlook significantly from 0 percent to −51 percent, for example, but it did still anticipate that the market would "begin to regain its footing this summer." At the time, most industry experts and executives anticipated an optimistic scenario,[57] while more pessimistic scenarios became the current default.

In April, global international passenger capacity experienced an unprecedented 94 percent reduction.[58] As of May 18, 100 percent of all world destinations had travel restrictions in place. Macroeconomic forecasts became both bleaker and more solid in terms of scope (time horizon, geographical coverage, and granularity). As a result, forecasts published in May reflected often a downgraded outlook.

By early summer, macroeconomic outlook updates and actuals of economic indicators and travel demand started to become available to improve scenario modeling. An important realization that kicked in at this point was the structural impact on business travel[59], which was reflected in the projections. On the positive side, expectations around virus-control timing (i.e., availability of vaccines) were firmed up by epidemiology experts.[60]

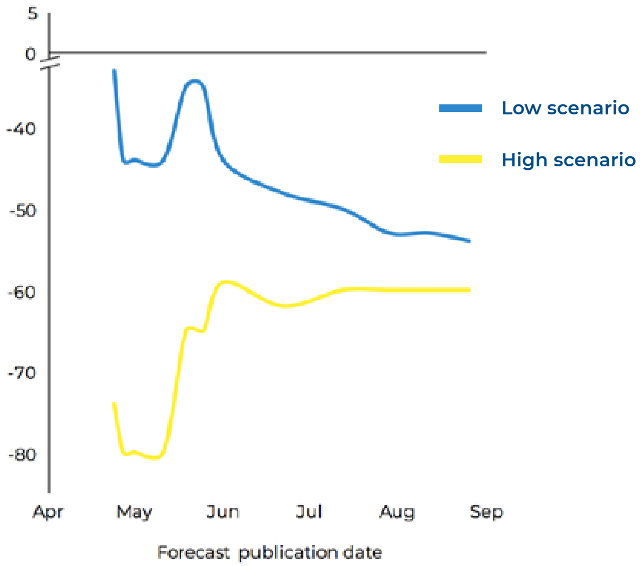
June-published forecasts generally reflect a sentiment that the worst might be behind us, based on slight upticks in (domestic) demand here and there. For example, STR improved their forecast slightly for 2020 but at the same time acknowledged a lengthening path to recovery. ICAO actually downgraded slightly, as international estimates were continuously under cloudy sky (though domestic estimates went up in some regions), to a decline of roughly 50 to 60 percent decline in world total passengers in 2020.

In July, the industry largely looked back on a June month that had been somewhat optimistic. For example, several US destinations were operating at more than 40 percent hotel occupancy, but that was driven by leisure and particularly drive-to segments. Business travel, conferences, group travel and cruises vanished; international travel has been diminished. As a result, 2020 forecasts in August were relatively stable, expecting a 50 to 60 percent hit across global airline and US hotel revenue metrics versus 2019. Outlooks for 2021 and beyond have again generally worsened.

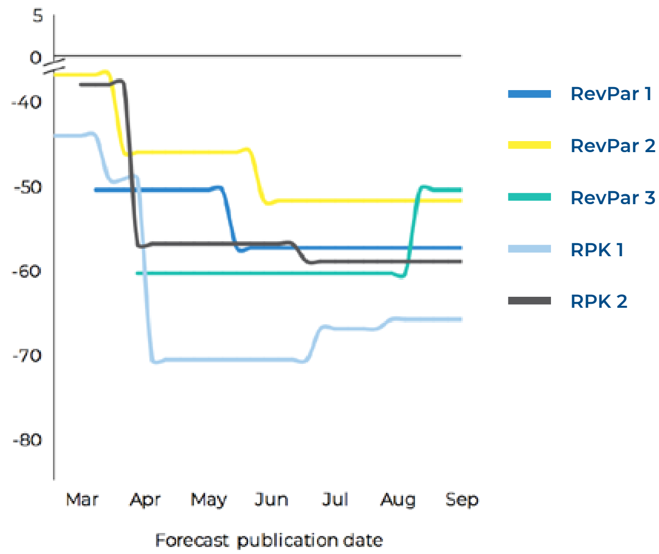
The travel demand recovery outlook has worsened over time.

EXHIBIT 26

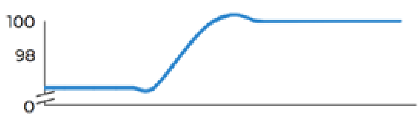
International air-passenger traffic change year-over-year, 2020 vs 2019, %



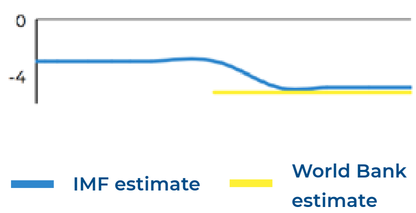
US hotel RevPar / global air-traffic RPK change year-over-year, 2020 vs 2019, %



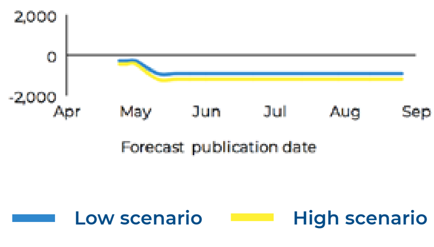
Worldwide destinations having travel restrictions, %



World GDP contraction 2020, %



International tourism receipts decline 2020, $ billion

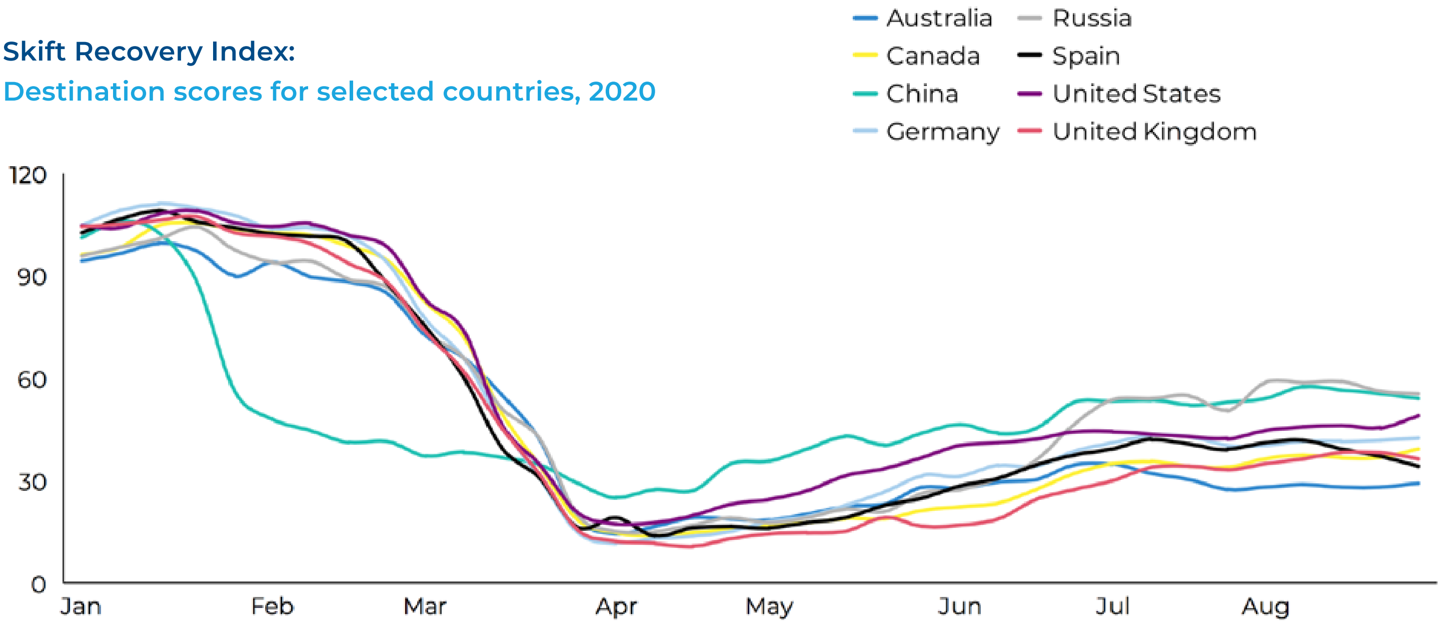


Source: ICAO, STR, CBRE, McKinsey air and hotel demand scenarios, WTO, IMF, World Bank, McKinsey analysis

Variations emerge in country-by-country recovery indexes.

EXHIBIT 27

Skift Recovery Index:
Destination scores for selected countries, 2020

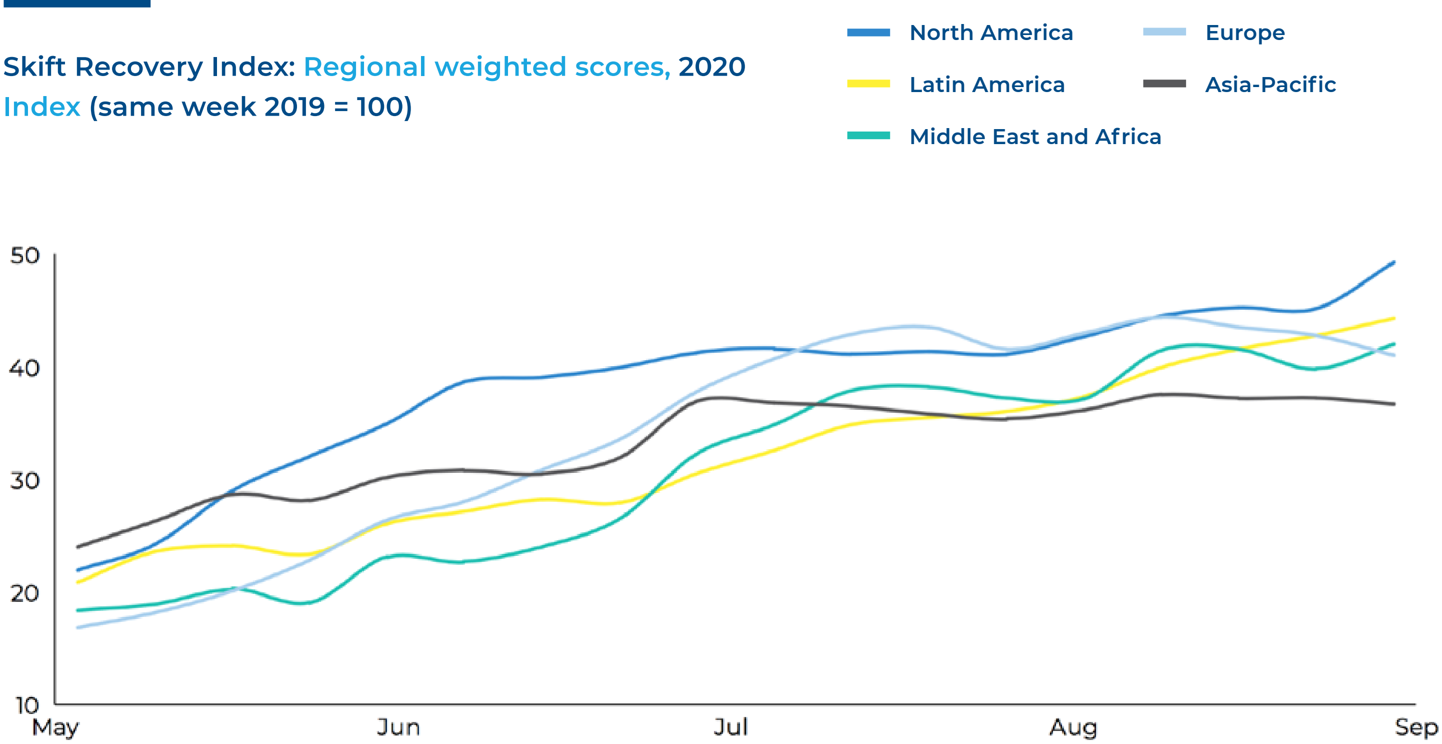


Source: Skift Research

Viewed at the level of major regions, the recovery is gradually trending upward.

EXHIBIT 28

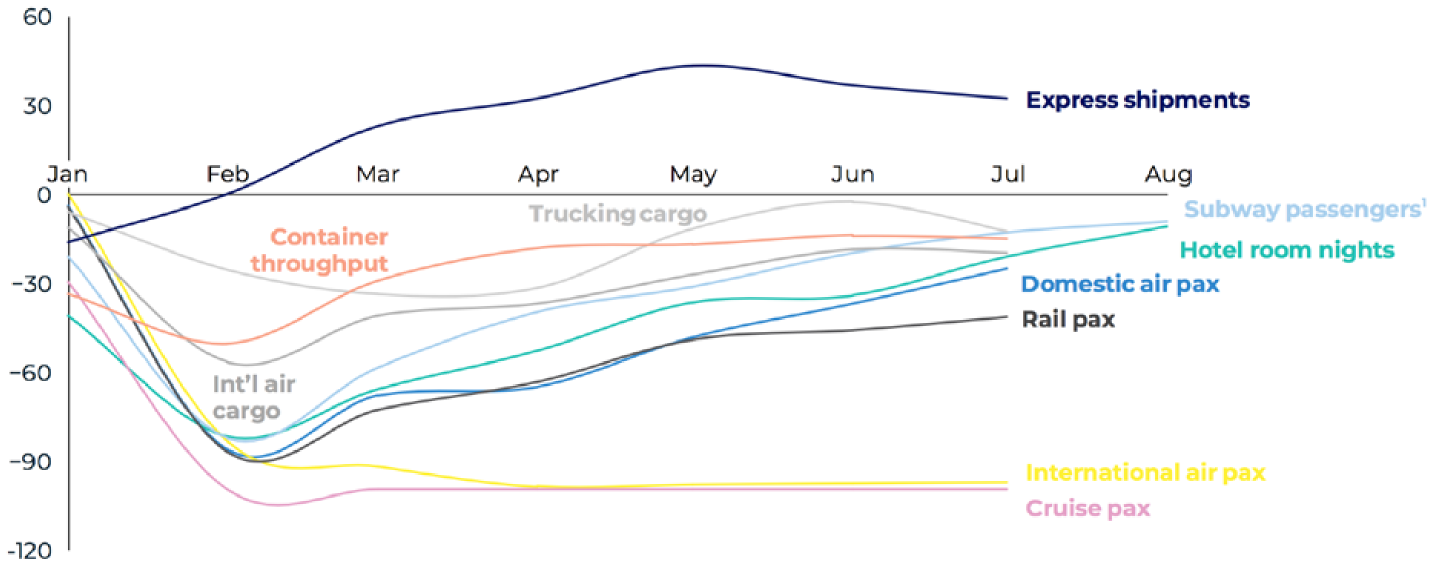
Skift Recovery Index: Regional weighted scores, 2020 Index (same week 2019 = 100)



Source: Skift Research

China's strong recovery in travel and logistics is accompanied by caution about reopening to international travel.

EXHIBIT 29 **Recovery rate by travel and logistics subsectors in Mainland China, year-over-year change, 2020 over 2019, %**



1. Based on Shanghai, Guangzhou, and Chengdu.

Source: Ministry of Transport, STR, WIND, airline monthly fillings, McKinsey analysis

RECOVERY WILL LOOK VERY DIFFERENT FROM ONE GEOGRAPHY TO ANOTHER

Global tourism spend might recover back to 2019 levels between 2023 and 2024, depending on effectiveness of public-health measures and economic policy interventions. But this hides pockets of country-specific strengths and weakness. Early recovery signals vary greatly across regions, with many of the differences likely attributable to national- and state-level health responses, as well as the tourism infrastructure in place to support more domestic travelers.

The resulting zig-zag pattern of the travel industry's recovery in each country is apparent in Skift's Recovery Index, proprietary metrics that track the pace of travel recovery in real time (Exhibit 27). The index scores are calculated based on countries as destinations for inbound measures of a set of leading and trailing indicators, including traveler intent in the form of website visits and searches, future bookings, actual achieved occupancies, revenues, and cancellations.

At a regional level, we are seeing the strongest performance in North America, mainly due to a strong domestic-travel response in the United States (Exhibit 28). At the bottom end, Asia–Pacific is struggling most, despite China tracking as one of the best countries in our 22-country coverage. Thailand, Singapore, and Hong Kong are heavily reliant on international visitors and continue to have strict travel restrictions, which means that tourism has come to a near standstill. India has a stronger domestic market but is seeing new COVID-19 cases rise rapidly since the beginning of July with no sign of it slowing down. Not only did governments have differing levels of effectiveness in responding to the health and economic crisis, but each country's tourism economy is built differently. Both of these factors will play into the distinct recovery patterns that will emerge. The macroeconomic impact will be driven by virus spread and response, coupled with economic fundamentals.

> **Americans' travel appetite is strongly correlated with COVID-19 case numbers; as cases rise, searches for vacation accommodations and air-travel ticketing decline.**

Several country-specific drivers that will have an impact on travel spend recovery are attractiveness of domestic destinations, dependence on air travel, health standards, importance of business travel, and sustainability awareness. Domestic and driving-based travel will recover faster than international or air travel (see sidebar *"What if domestic tourism is the new normal?"*). Leisure travel will recover faster than business travel. Other factors, including health and insurance standards and ongoing sustainability awareness play a role as well.

An overview of early recovery insights and McKinsey COVID-19 global tourism recovery scenario estimates for the top 4 countries (based on 2019 tourism spend), below.

United States

The US travel market might recover back to 2019 levels by 2024–2025. But based on the six months of data available at this point, we do see a bifurcation of the United States from other regions. The large and prolonged impact of COVID-19, the loose correlation between disease prevalence and plans for reopening[61] as well as high unemployment, might hamper recovery. Americans' travel appetite is strongly correlated with COVID-19 case numbers; as cases rise, searches for vacation accommodations and air-travel ticketing decline. The United States has a strong domestic market, but travelers are often dependent on air travel. In aggregate, cumulative US tourism spend loss 2020–2030 versus precrisis trajectory might be approximately $1.0–2.1 trillion.

China

China could recover faster. As mentioned earlier, China is getting close to recovery for domestic travel. Optimism around a return to normalcy improved over the summer, as 74 percent of respondents to the August edition of the McKinsey COVID-19 China travel sentiment survey said it would take less than three months for their lives to return to normal. By August, hotel room nights and domestic air capacity were both close to pre-COVID-19 levels (Exhibit 29).

Strict lockdowns, social distancing, and tech-enabled tracking resulted in comparably low COVID-19 case counts[62], despite high visibility. Long-term, strong economic fundamentals could help drive a quick recovery in disposable income, which has historically supported strong growth in outbound travel. China has an attractive domestic tourism market built on rich cultural heritage that will likely support a fast rebound, especially if outbound travel largely becomes redirected domestically. Yet China will might remain closed for longer on international travel in or out, afraid of reimporting the virus and undoing its hard work.[63] Based on the latest scenarios, full recovery could happen by 2022–2023. In aggregate, China's 2020–2030 cumulative tourism expenditure loss versus its strong precrisis trajectory (approximately 5-6 percent annual growth) might be about $1.7–2.9 trillion.

WHAT IF DOMESTIC TOURISM IS THE NEW NORMAL?

The current preference for domestic travel raises the question of whether it will become a long-term trend. To consider the impact of that possibility, Skift Research analyzed tourism flows in major markets to understand how they might be affected if the new normal is for tourism to be primarily domestic.[66] To simplify, the analysis set all inbound tourism receipts (i.e., tourism exports) to zero and substituted outbound expenditures (i.e., tourism imports), the idea being that outbound travel dollars will be redirected to domestic spending and inbound travel dollars are on hold.

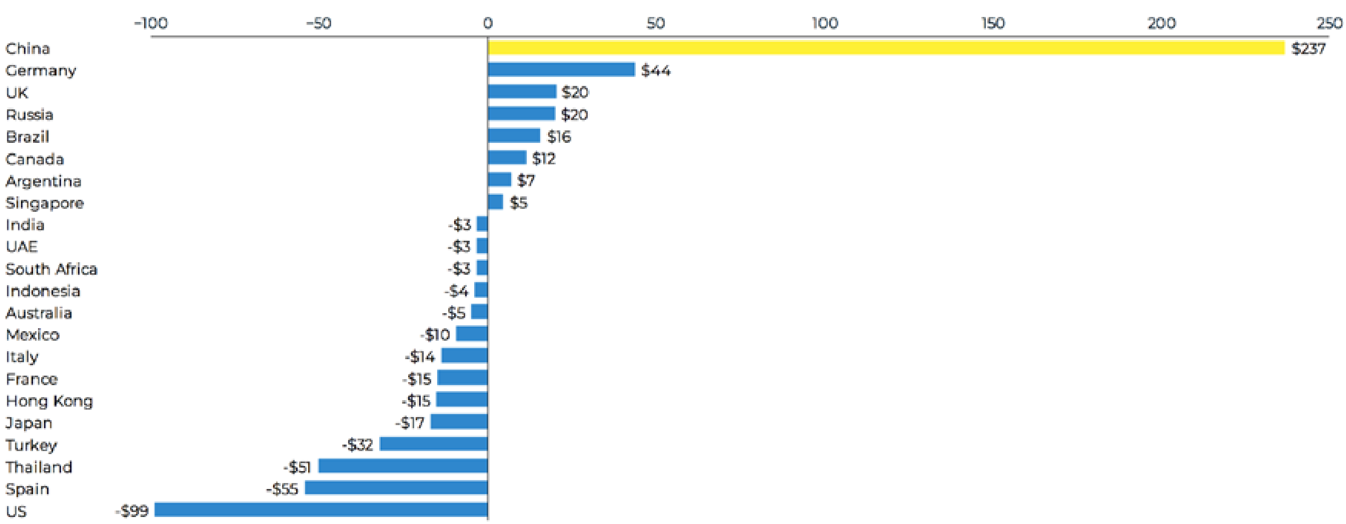
In practice, a new normal is likely to be less extreme, because spending per outbound trip tends to be anywhere from twice to five times as much as for domestic travel, domestic trips tend to be shorter and have different group sizes, and far from all international trips will be redirected internally. Additionally, many national borders have started opening up to select countries, so international travel may not be fully zeroed out.

An exercise of this nature gives us a sense of which countries have the most latent potential for an early recovery in travel, and which will face the steepest uphill battles, and can inform travel businesses when making decisions on which markets to focus their efforts on, and which not.

When comparing total in-country spending (inbound plus domestic) with total resident spending (outbound plus domestic), we can establish how much spending each country stands to win or lose if all outbound travel is canceled and converted to domestic travel. In this new normal, China stands to win the most, with Germany, the United Kingdom, and Russia also in strong positions (Exhibit 30). The United States stands to lose the most in real-dollar terms, followed by Spain and Thailand.

China could be the big winner if tourism becomes mainly domestic.

EXHIBIT 30 Difference in travel spending if tourism becomes mainly domestic, $ billion



Source: Skift Research from UNWTO, NTTO, BEA, USTA, World Bank, and own estimates. Data are for FY 2018

Germany

Like other markets with historically strong travel demand, Germany has rebounded relatively well. Its virus containment strategy has likely contributed to lower COVID-19 case counts than in most European countries.[64] Strong economic fundamentals are likely to drive growth, with travel expenditures recovering by 2022–2023. Travel is expected to rebound quickly, building on efficient and high-quality land-based transportation infrastructure and good land links with open borders across eight neighboring countries. That said, a strong focus on corporate and personal carbon footprints could depress air travel in the coming years. In aggregate, McKinsey's tourism recovery scenarios suggest that Germany's cumulative 2020–2030 tourism expenditure loss versus precrisis trajectory could be about $210–550 billion.

Japan

Japan could achieve precrisis travel-expenditure levels by 2024–2025 by specifically building on strong fundamentals in the domestic market. The public health measures have resulted in low contagion so far.[65] This should allow domestic travel to rebound quickly, building on a strong domestic value proposition (including a rich cultural heritage, natural-resource diversity, and best-in-class land-transport infrastructure). However, outbound travel is unlikely to recover before 2025, due to sluggish economic growth and a high dependence on long-haul air travel for foreign destinations. The inbound market might also take time to recover, given its heavy reliance on China and China's reluctance to open up for international travel. Another challenge: Japan has historically shown a high affinity with group travel, which is far less attractive under current conditions. In aggregate, Japan's cumulative 2020–2030 tourism expenditure loss versus precrisis trajectory could be roughly $120-230 billion.

TRENDING TOWARD A SCENARIO IN WHICH FULL RECOVERY WILL TAKE TIME

Most governments' economic interventions have been swift and effective, largely ruling out the first column of McKinsey scenarios (scenarios B1–B3 in Exhibit 24),[67] which contemplate long-lived and self-reinforcing recessions.

But when it comes to containing the spread of the virus, countries have been less consistent. Practically all major economies have experimented with the use of necessary public health measures and safety precautions, such as quarantines and lockdowns on a scale never before envisioned.

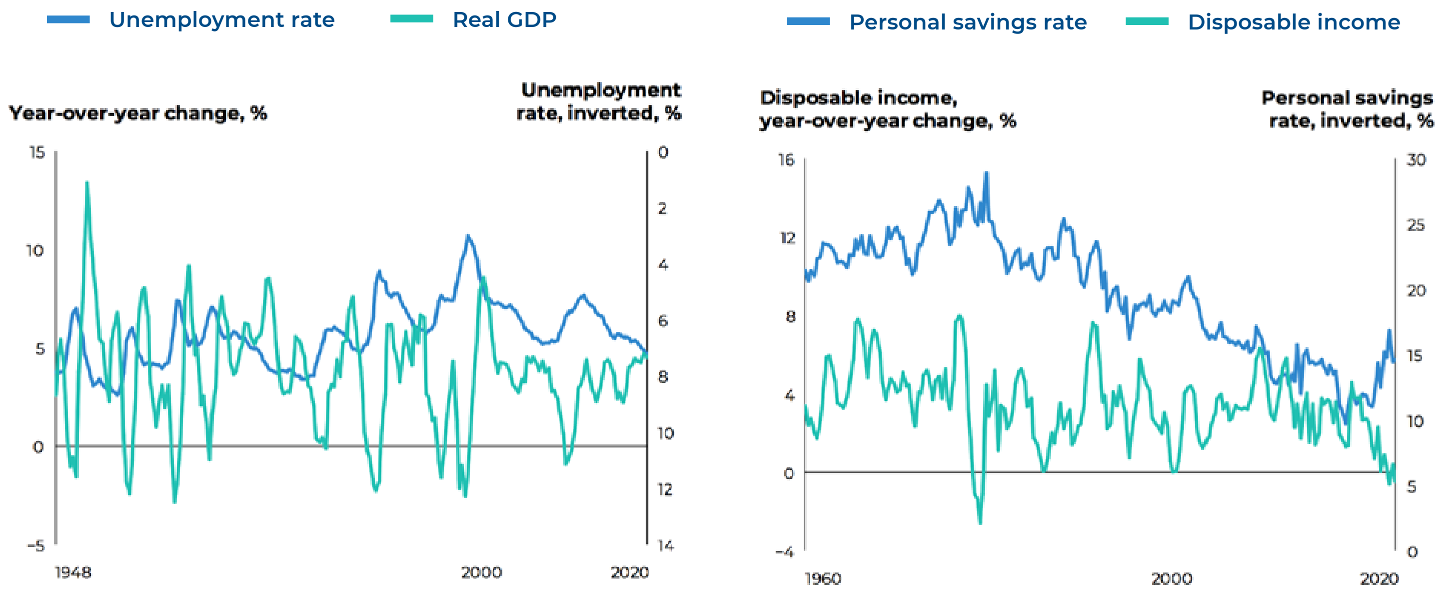
The economic impact of these public-health tools is without precedent, leading to sometimes confusing and contradictory data readings. For instance, in the United States, GDP and unemployment reached their worst readings since the 1929 Great Depression at the same time that Americans saw their largest ever increases in savings and disposable income (Exhibit 31). The same pattern holds true in Europe, which saw its GDP drop by an annualized 40 percent from the first to the second quarter,[68] while at the same time, sentiment among German businesses rose for the third month in a row.[69]

The conflicting data are explained by the governmental and behavioral changes that unfolded since the virus outbreak. Consumers have been forced to cut back on large pockets of spending in areas like dining out or fuel for the daily commute. At the same time, governments have stepped in to provide consumers with direct stimulus in the form of enhanced unemployment benefits and tax rebates. Governments have also intervened on the corporate side to provide subsidies for companies that maintain staffing levels despite closures. In addition, the travel industry has been specifically targeted—with, for example, governments pumping $123 billion into the global airline industry (Exhibit 32).

US virus outbreak and public-health response so far had mixed — and dramatic — economic impacts.

EXHIBIT 31

Some US economic data were worst ever ... ... while other data reaches record highs

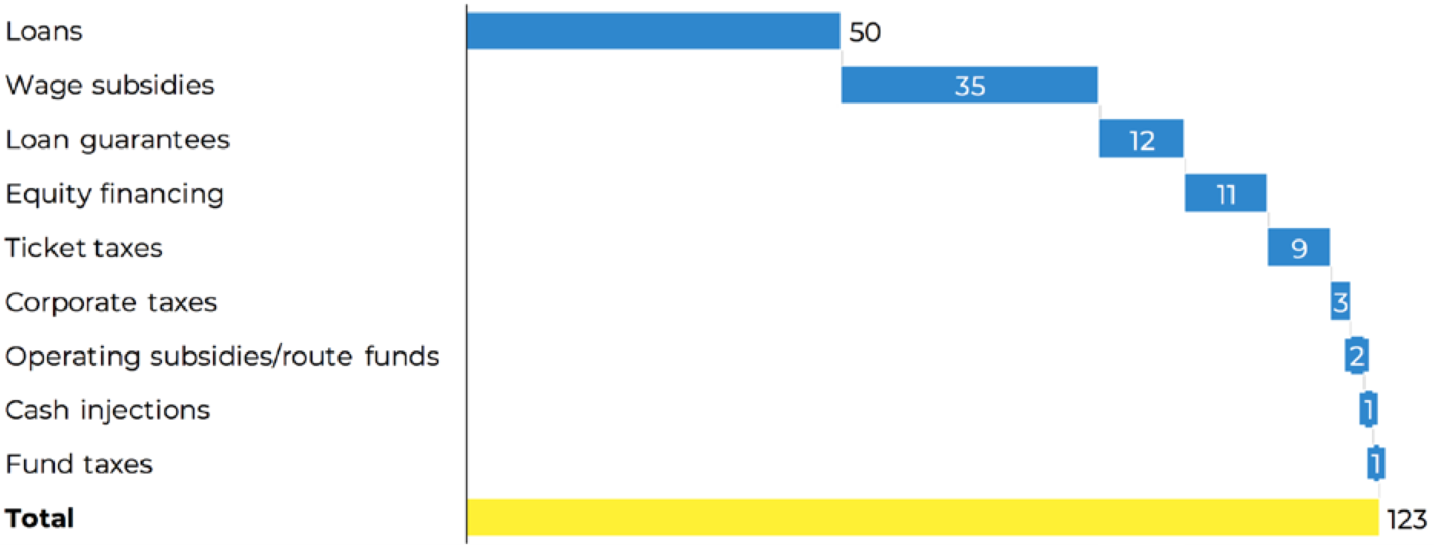


Source: Federal Reserve Economic Data

Governments have provided $123 billion of cash, helping keep the airlines in business.

EXHIBIT 32

Government aid made available to airlines due to COVID-19, by type, $ billion

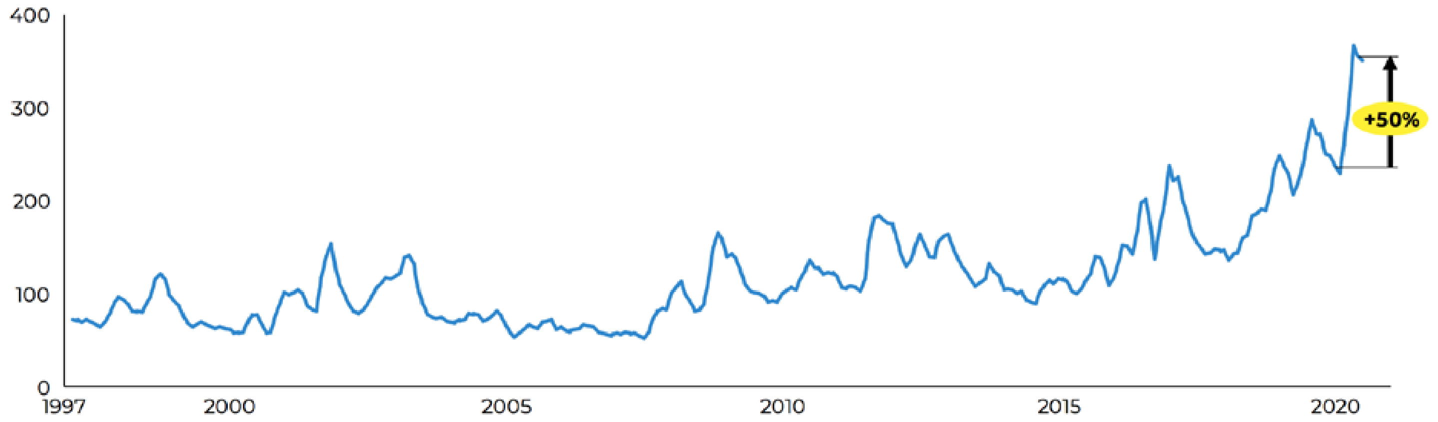


Source: IATA Economics using public information and data from SRS Analyser, DDS, FightRadar 24, TTBS, ACIC, Platts, Airline Analyst, annual reports. Government measures included up to May 15, 2020

Uncertainty about economic policy has reached new heights.

EXHIBIT 33

Global Economic Policy Uncertainty Index
3-month moving average



Source: Policyuncertainty.com, August 2020

These government interventions are happening around the globe, including in China, which announced a $500 billion package.[70] The United States is estimated to spend as much as 12 percent of its projected 2020 GDP on stimulus. The European Union announced a groundbreaking €1.8 trillion fiscal package.[71] These economic interventions have been mostly successful in helping companies survive, keeping the financial markets stable and boosting consumer confidence, but it is unclear how long governmental support can be maintained at these levels. Consequently, the combination of short-term economic boosts and mixed health prospects muddles the long-term view. What comes next is unknown, as is shown by the extremely high levels of uncertainty in global economic policies in the last decade (Exhibit 33).[72]

Global executives seem to agree, and their overall expectations suggest growing caution and uncertainty. Their views on the COVID-19 recovery have become less favorable, particularly in North America and developing markets.[73] McKinsey has been conducting a global survey of executive sentiment on the economy, and in the July 2020 survey, leaders predominantly chose Muted Recovery (scenario A1) as the most likely scenario. For the second-most-cited scenario, however, Slow Long-Term Growth (B2) has replaced the more optimistic Slow Recovery (A3) to describe both the world economy and the economy of the country where the respondent is located.

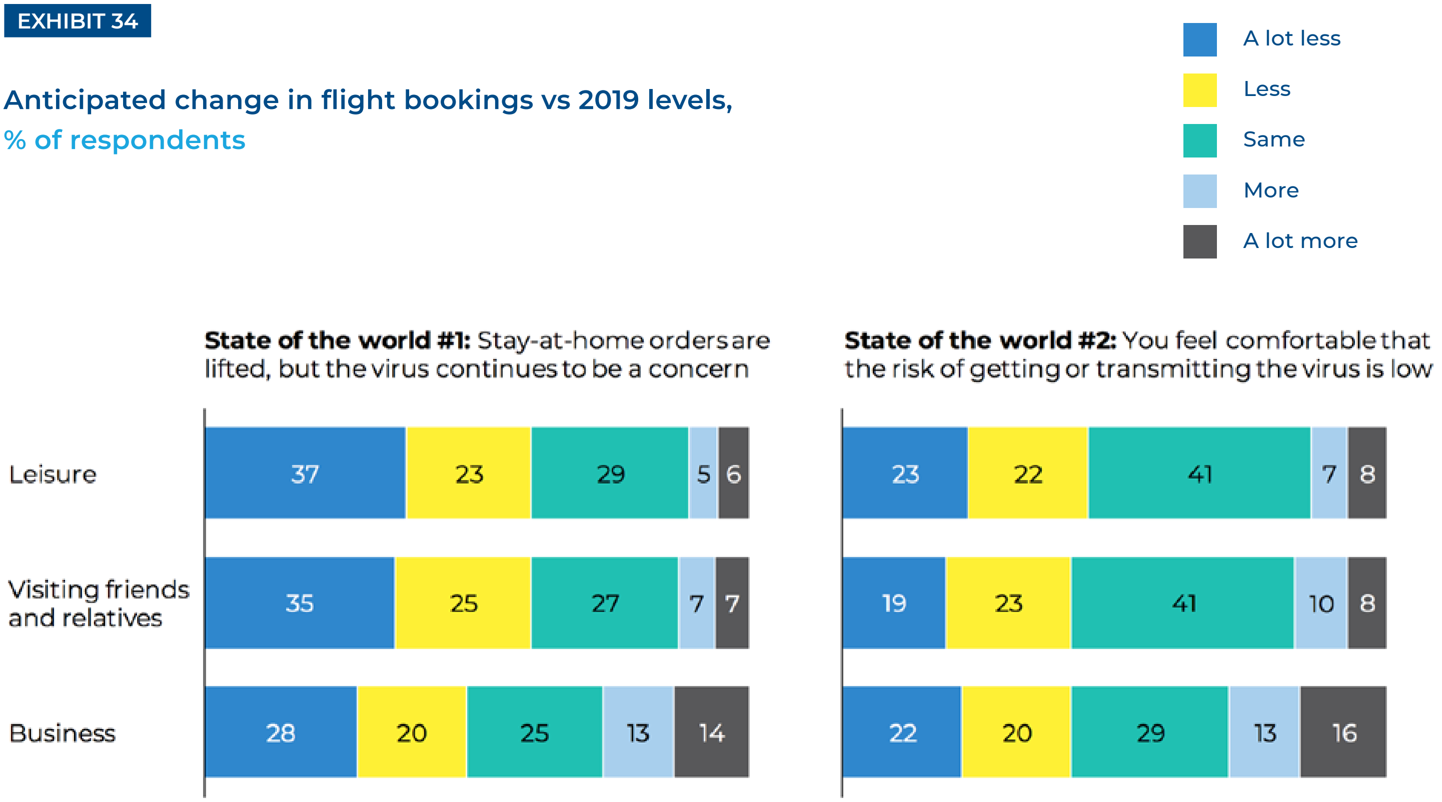
The concern is particularly pressing for travel. If consumers see a boost in savings, they can still shop online, even in lockdown. In fact, e-commerce retail sales grew 45 percent year-over-year in the second quarter of 2020. But travel requires a physical experience, and most travelers will not hit the road until they feel safe, regardless of their economic position.

Overall, the economic and health data tell us that we are trending toward a scenario where a full recovery is possible but will take time. Importantly, the speed at which communities gain control over the virus spread will largely determine recovery options. Uncertainty surrounding COVID-19 has paralyzed

Up to half of US travelers say they are willing to travel, especially business travelers—even when the virus is still a threat.

EXHIBIT 34

Anticipated change in flight bookings vs 2019 levels,
% of respondents



Source: Joint airline / McKinsey US domestic-travel sentiment survey, Spring 2020, leisure n=832, VFR n=618, business n=405

previously normal activity, and eliminating that uncertainty is essential to restart growth. Given how each country is responding differently, we should expect a rather uneven recovery with some regions coming back online much faster than others.

CAUSE FOR OPTIMISM? TRAVEL COULD PARTLY RECOVER EVEN BEFORE A VACCINE

One question industry players ask when weighing the likelihood of scenarios is whether a persistent fear of traveling will prevent travel from recovering before a vaccine is widely available. Signals suggest pessimism about travel demand ahead of at-scale vaccine availability could be exaggerated. Anxiety is understandable, but sizable pockets of demand might come back before the rollout of a vaccine.

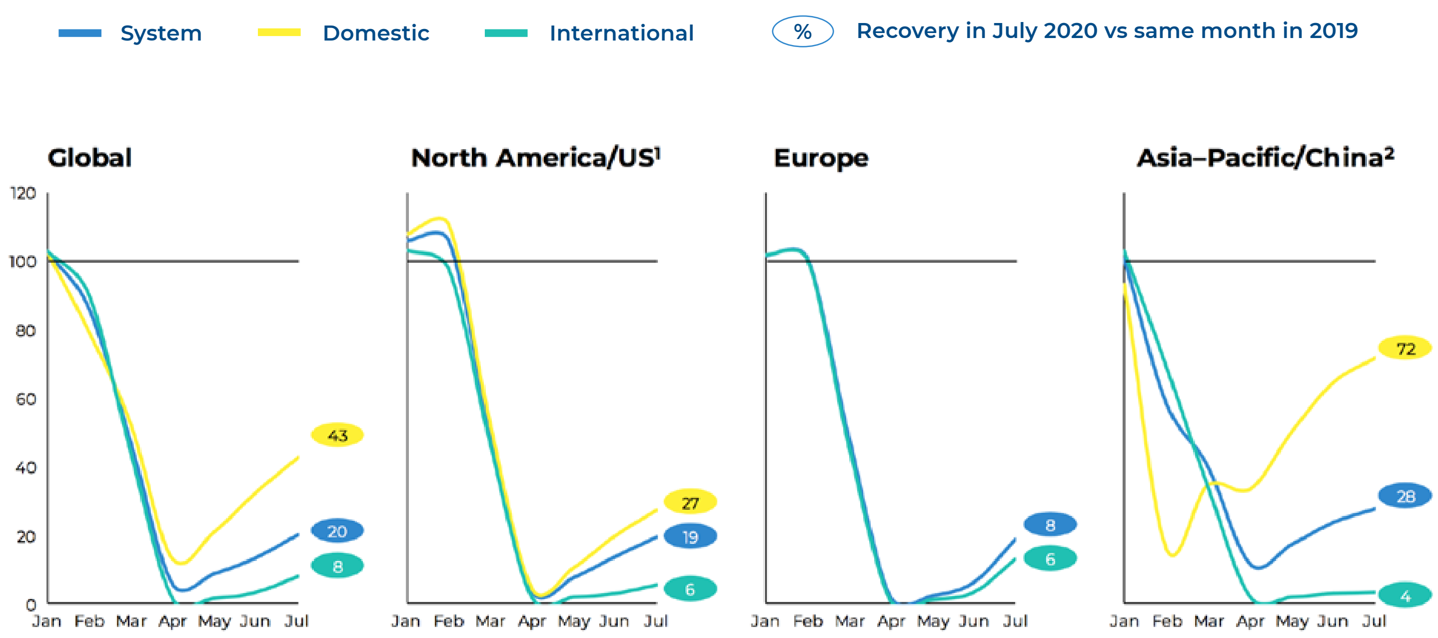
There is significant latent demand, both business and leisure, that can be unlocked in scenarios if regions get COVID-19 case counts under control. Various factors, if they emerge and persist, might have a significant positive impact.

Potential virus outbreak control, pre-vaccine

Vaccine developers and government officials are currently reporting timelines for potential emergency use of vaccine candidates between the fourth quarter of 2020 and the first quarter of 2021.[74] However, therapeutics may bolster confidence ahead of a vaccine. In addition, an unusually large proportion of infected people—estimated in August at about 40 percent—have no symptoms.[75] In case new research confirms theories that a segment of

In July, domestic Chinese demand was well on track to recovery, whereas other regions are trailing far behind.

EXHIBIT 35 **Year-on-year change in Revenue Passenger Kilometers (RPKs) vs same month 2019, %**



1. Domestic = US; system and international = North America.
2. Domestic = China; system and international = Asia–Pacific region.
Source: IATA, McKinsey analysis

the world's population may have partial protection thanks to memory T cells from other coronaviruses and childhood vaccines, the glass might be half full, and we might be able to anticipate a faster-than-expected travel recovery. Additional ways we could get back to a sense of normalcy include improved understanding of transmission risks, improved treatment protocols, effective testing, case isolation and lockdown approaches, and perhaps even the virus mutating itself out of existence.

Loosening of restrictions on activities

Leisure demand is likely restrained by the inability to do anything meaningful at destination. In a recent travel sentiment survey, 40 to 50 percent of travelers indicated they are willing to travel even when the virus is still a threat (Exhibit 34).[76] The fact that many fewer are actually traveling might be explained by the inability to enjoy activities indoors and with other people. In other words, travelers are willing to travel but might expect to sit idle at destination because of restrictions. When and if restrictions are eased, demand could therefore surge by 20 to 30 percentage points—up from current 20-percent-range levels of US air-travel demand, compared to 2019.

Evidence for this can be found in China, specifically in responses to travel sentiment survey mentioned earlier. When asked about the desired destination of their next trip, nearly a third of respondents in August chose outbound destinations, compared with 23 percent in April. Both response rates are equivalent to much more than the actual number of outbound trips happening; 5 percent of respondents had gone on an outbound leisure trip in the two weeks before participating in the survey. Chinese travelers would like to go on outbound trips again, but they are likely limited by travel restrictions and the (resulting) perceived lack of safety at the moment.

Willingness to travel for business

Business travelers seem keen to travel but may be limited by corporate travel policies and companies' understandable focus on their duty-of-care obligations to employees. Even when the virus continues to be a concern, though stay-at-home orders have been lifted, 52 percent of US business travelers say they expect to travel the same amount as or more than they did in 2019 (Exhibit 34). When respondents assume that the risk of getting and/or transmitting the virus is low, this figure increases to 58 percent.

Europe as the bellwether for recovery?

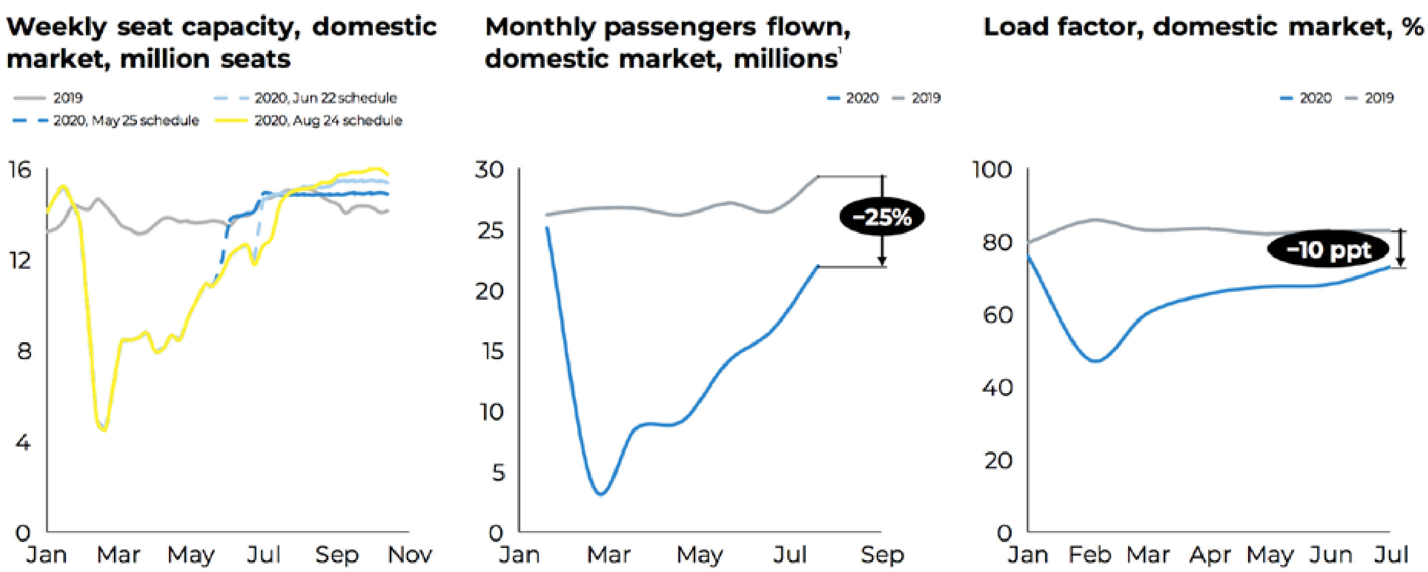
Compared to other regions China's recovery so far is, of course, another positive indicator (Exhibit 35). Domestic capacity in China has surpassed 2019 levels since late August—the first time since the outbreak (Exhibit 36). The strong centralized virus outbreak response may have led to a rapid return of domestic demand, back to 72 percent of 2019 levels in July. Many argue, however, that this context limits generalizability to the rest of the world.

Europe might be the bellwether for the sector because the region seems to strike a balance in the extent to which both the virus response and travel restrictions are coordinated. Most Asian countries were able to contain the virus spread, but they did so with strict blanket restrictions and an efficient tracing system, both of which have not been in place in most other countries. The United States, in contrast, has had a patchwork response, with varying levels of restrictions and varying levels of public adherence to them. Europe has been somewhere in between, with strict lockdowns that were relatively short-term and a largely standardized approach to coming out of lockdown.

The recent summer months have shown that Europeans are definitely willing to travel, domestically

Domestic air-travel capacity in China surpassed 2019 levels in late August, while demand recovered to 75 percent.

EXHIBIT 36

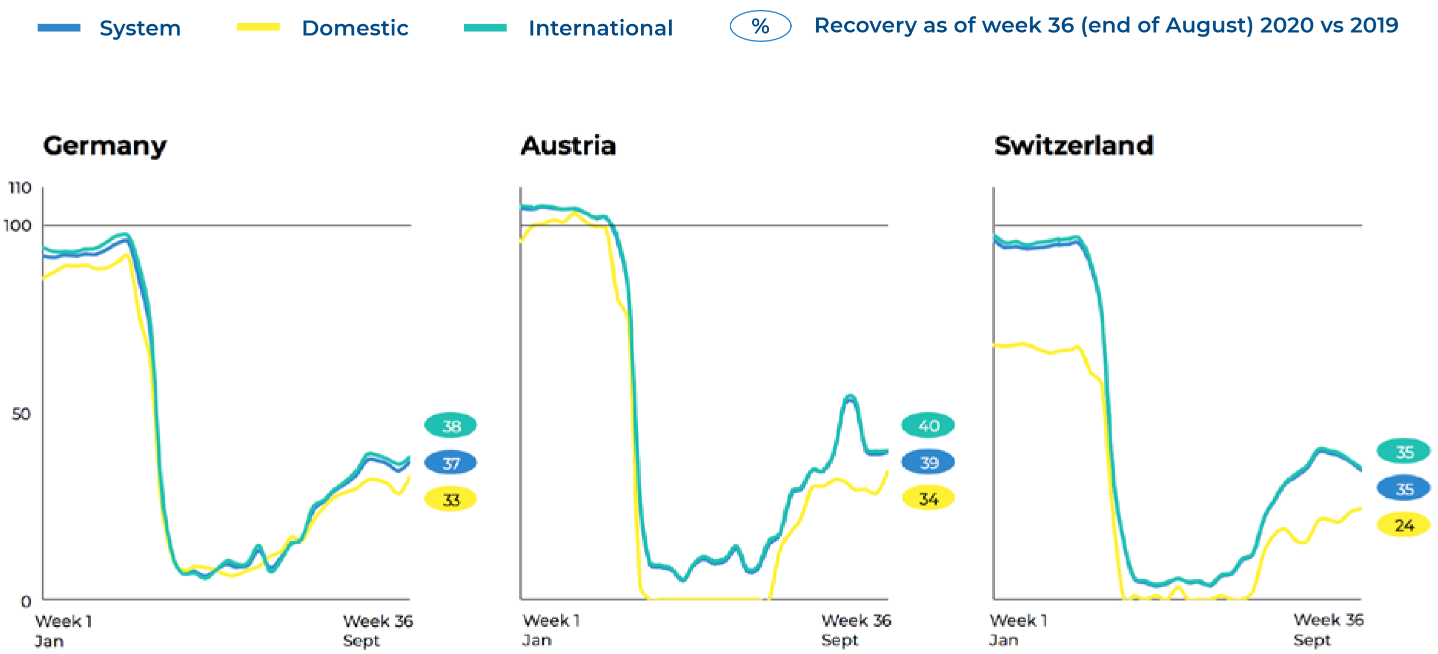


1. Total number of passengers flown by Air China, China Eastern, and China Southern group, which account for ~85% of total market.

Source: OAG, airline monthly fillings, McKinsey analysis

European countries show steady recovery through the summer of 2020.

EXHIBIT 37 Year-over-year change in scheduled flights vs same week last year, %



Source: OAG filing per August 31, 2020, McKinsey analysis

and regionally. Many countries benefited from gains in domestic travel, although it is different in nature from inbound travel. Scheduled flight capacity, both international—mostly within Europe at the moment—and domestic, has shown steady recovery (Exhibit 37).

Several countries have implemented highly visible measures like hospitality quality marks, marketing campaigns, safety guidelines, and financial aid. For example, Icelandic residents received a domestic travel voucher[77], while Germany ran three different marketing campaigns during summer.[78] While actual tourism spend data on the full summer of 2020 has not yet been fully published, the verdict could indeed be that in some European countries the growth in domestic travel spend outweighed the loss in international inbound. While city destinations are hit hard and hotel occupancies are lagging, the rest outperforms. Of course, as the Western Hemisphere is headed into the winter season, the optimism from recent literally sunny times will likely be tempered.

Rebuilding confidence to book

The industry has a role to play itself to boost traveler confidence but should also look for ways to encourage effective travel-restriction protocols and rapid coronavirus testing.

As the industry slowly settles on what effects are temporary and which will be permanent, it will have to be on active standby: ready to reinstate connectivity and activities at the destination proactively, while boosting traveler confidence by taking industry-wide precautions that instill trust and stability. IHG's CEO Keith Barr asserted, "The [travel] industry is only strong as the weakest link. So we have to collectively

> **"The [travel] industry is only strong as the weakest link. So we have to collectively show customers and our colleagues that we can operate in a safe environment in COVID, and to do it responsibly and thoughtfully."**

show customers and our colleagues that we can operate in a safe environment in COVID, and to do it responsibly and thoughtfully."

European governments have shown the willingness to boost travel by implementing travel corridors and travel-safe lists, while at the same time not shying away from taking countries off these lists at short notice. This has resulted in grief for many travelers and travel companies, but at the same time, the establishment of these lists has boosted international (especially intra-Europe) travel above any levels expected a few months ago.

Finally, rapid, accurate, and noninvasive coronavirus testing might well become the next stepping-stone for short-term recovery, as testing technologies are moving fast. Already, cruise ships putting testing labs on their ships, and airports and airlines are continuously improving their rapid testing capabilities for travelers and employees. Indeed, in a May 2020 survey, 39 percent of US-based corporate event planners indicated testing readily available would give more confidence in booking.[79] Talk of a health passport has slightly diminished but might be a future option as well to boost particularly business travel.

> **Rapid, accurate, and noninvasive coronavirus testing might well become the next stepping-stone for short-term recovery.**

4 GROW YOUR WAY OUT OF THE CRISIS: FOUR ACTIONS FOR TRAVEL COMPANIES

As we have shown in our assessment of the travel industry and in our recovery scenarios, the consensus is that travel will come back again—but gradually and along paths that vary by sector, segment and geography. As the industry moves slowly toward a full recovery, some significant shakeups will necessarily occur in the travel supply side. How can travel companies endure this pandemic intact and grow out of it stronger? This chapter offers ways of growing out of the crisis, drawn from numerous case studies, best practices, and our conversations with leading global travel executives.

The pandemic has reinforced two industry fundamentals around travel. First, travel is deeply personal, offering unique experiences to customers with different preferences. Second, each experience is truly an end-to-end journey, not a series of isolated events. Thus, the objective for travel companies is to integrate these fundamentals into their business strategies and their tactics for sustainable growth.

We propose four actions to grow your way out of this crisis (Exhibit 38). First and foremost, travel companies must seek to understand their customers as microsegments, not monoliths. Doing so guides successful customer experience interventions and new partnership plays. Second, travel companies should design the next set of thoughtful customer-experience interventions across the journey. Third, travel companies should design partnerships that restore traveler confidence and get this global, fragmented, capital-intensive industry on track to financial sustainability. Last, travel companies should seize this reset moment to preserve some of the nimble ways of working.

> “How can travel companies endure this pandemic intact and grow out of it stronger?”

UNDERSTAND YOUR CUSTOMERS AS MICROSEGMENTS, NOT MONOLITHS

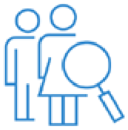
Personalization done at scale, is especially relevant for the travel industry, as each travel experience is unique. As Steve Kaufer, CEO of TripAdvisor, observes, “Travel inspiration is really hard. It’s very personalized. What may inspire you may be really trivial to me.”

Today, most travel companies view their customer base in five to ten broadly conceived segments, such as vacationing families, emerging professionals, and the budget weekender. Some have a slightly more granular understanding—say, distinguishing the frequent from the occasional and the mixed-with-pleasure corporate traveler.

Doing so requires moving beyond basic demographics or trip purpose and instead seeking to understand each traveler—their behaviors and expectations—to provide a personalized experience. Many traveler expectations are set by industries outside the travel industry. And while many travel companies had efforts underway to deepen their understanding of their customers, it is critical that these efforts be prioritized and accelerated rather than pushed to the side. More importantly, travel companies need to toss out many of their pre-COVID-19 customer lenses and invest in understanding customers’ new perspectives and behaviors. This will enable them to find the most effective ways to meet their customer needs and therefore capture the available demand.

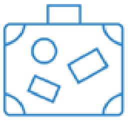
Travel companies can grow their way out of the crisis through four actions.

EXHIBIT 38



Listen to your customers

Unlock microsegment-level insight into changing behaviors and preferences, to power personalized experiences.

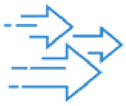


Make it better, not just safer

Design thoughtful customer-experience interventions that solve both preexisting and COVID-19-induced pain points.

Expand your horizons

Build partnerships that restore traveler confidence and build a stronger travel ecosystem.



Stay nimble beyond the crisis

Preserve your crisis-induced agility by rewiring key functions, decision making, day- to-day execution and talent allocation.

Developing microsegments to create a personal experience

The notion of microsegmentation—grouping consumers into small segments or even specific individuals and targeting them with more precise messaging based on behavioral patterns and needs—is not new. However, this approach to customer targeting has not yet been widely implemented by the travel industry.

In this new world order, however, travel companies will need to stimulate and capture the little demand that exists. Messages and promotions for example will therefore have to be relevant given the behavior that specific consumers have developed during the pandemic. Has a traveler flown yet? Stayed in a hotel yet? Left their home state yet? Are they nervous to do so? What are their biggest concerns? A given traveler may one week be nervous to fly and the next week be open to it after hearing from several friends about recent travel experiences.

The travel sector still has some catching up to do. Leading retail and e-commerce players have long role-modeled truly data-driven commercial organizations. Significant changes occur in a shift from monolithic customer segments to microsegments (Exhibit 39). Microsegmentation looks different in terms of the number of segments, the type of data leveraged, and how the resulting insight is used.

Microsegment-level customer understanding can rapidly improve initial demand recovery efforts (see sidebar *"How an airline developed microsegments and put them to use"*). More generally, we see three ways in which microsegmentation creates value emerging from the COVID-19 crisis:

- *Forecasting demand*: powering predictive demand models
- *Stimulating demand and growing customer lifetime value:* tailoring customer-experience interventions, from promotions to service delivery
- *Informing commercial strategy:* creating novel insights for planning, product and pricing decisions

Broader data platforms

Most organizations will find they initially have mostly booking-related attributes to work with, but even then, various statistics and data science techniques will help unlock new insight. A practical

Moving toward microsegments can create lasting, personal customer relationships.

EXHIBIT 39

FROM MONOLITHS	TO MICROSEGMENTS
5–10 segments, often flavors of leisure, corporate, and visiting friends and relatives	Thousands of specific segments, eg, "digital nomads longing for adventure on the weekend" and "Geneva-based affluent snowbirds with a second home in Malaga"
Based on select attributes such as travel purpose and demographics	Based on a rich set of booking and behavioral features, such as life stage and brand engagement level
Mostly static	Segments change on a continuous basis, as customers are members of multiple microsegments
Informs promotions and brand strategy	Microsegments are relevant to specific use cases, not generic across all use cases

Source: McKinsey Travel, Logistics & Transport Infrastructure Practice

way to enhance booking data is often to connect readily available data sets like web-page navigation and mobile-app usage. For example, if web-page navigation data—or clickstream data—shows that price has become less important to certain customers, certain microsegment messaging can be tailored to focus less on price and more on other features such as safety, comfort, or destination appeal.

To supercharge microsegment insights for multiple use cases, companies need a "data cube" foundation, a data-protection-law-compliant commercial data platform that is well structured and cleansed. It houses internal and external data sets:

- *Internal data,* such as bookings, searches, website clickstream activity, mobile app usage, loyalty, customer service, operations and feedback data.

- *External data,* such as search engine and meta-search activity, global distribution system (GDS) search and booking volumes, competitive intelligence—such as pricing, schedules, website and app analytics—and COVID-19 related data, such as travel restrictions, event and mobility data.

Adding leading sources of insight to forecast demand

Now more than ever, it is critical for the travel industry to understand travelers, and their rapidly changing sentiments, more deeply. Reflecting on what is on travel executives' minds, Marriott's Sorenson said, "I think over the course of the balance of 2020, and certainly into 2021 and 2022 and probably 2023 for that matter, an awful lot of our priority is going to make sure we are understanding where the growing demand is coming from [and] how do we capture that demand."

We know that the pandemic trajectory and macroeconomic indicators are the core drivers of demand recovery. But those data provide little granularity and can often conflict. How best then to keep a pulse on travel demand recovery? While consumer sentiment can help guide hypotheses, self-reported preferences might be different from revealed preferences, especially at the depth of a crisis. Rather than trusting sentiment data, in addition to tracking search and booking volumes at the microsegment-level, several leading indicators can help pinpoint recovery.

HOW AN AIRLINE DEVELOPED MICROSEGMENTS AND PUT THEM TO USE

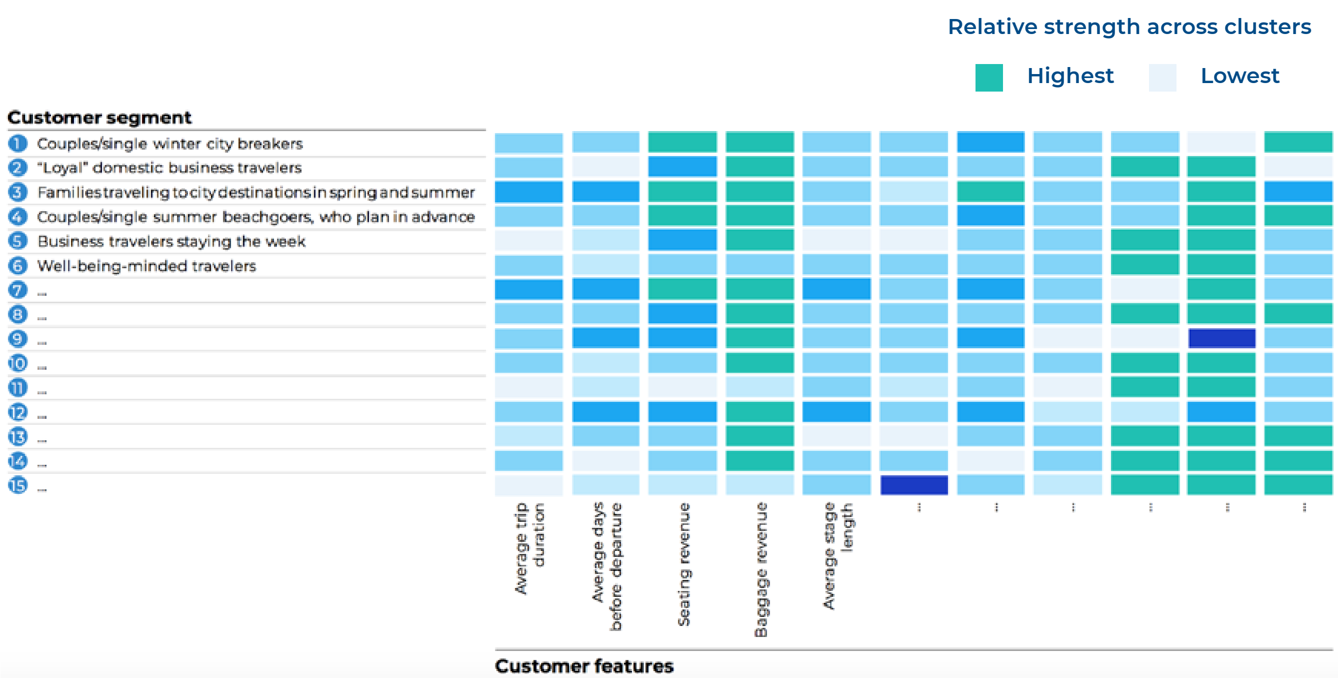
As the pandemic started spreading, a European airline combined machine learning and data discovery to generate insights most relevant to immediate demand recovery. While this may be an airline example, the process is for the most part applicable to other travel sectors as well.

With three years' worth of anonymized reservations data, data scientists identified what distinguishes customers from each other. Patterns in seasonality, booking composition, destination, and ancillary purchases served as a basis for a new segmentation model.

Machine-learning software ingested the massive amount of data to identify the kinds of features that would be significant. Starting with hundreds of features (simple fields like “home airport” as well as calculated attributes like “days since last beach trip” and inferred attributes like “favorite summer destination”), a technique called principal component analysis helped narrow down the relevant features to include in the actual segmentation. In this case, correlation dropped significantly after feature 21. Based on these 21 features, a mix of supervised and unsupervised learning, human insight and tuning created 15 customer segments, which the team labeled

Even with limited data, machine-learning models can develop meaningful customer segments.

EXHIBIT 40 Example of customer segmentation with a machine-learning model



Source: McKinsey Travel, Logistics & Transport Infrastructure Practice

to make them readily identifiable for business decisions (Exhibit 40). The segmentation model is often refreshed to capture COVID-19-related changes in customer preferences.

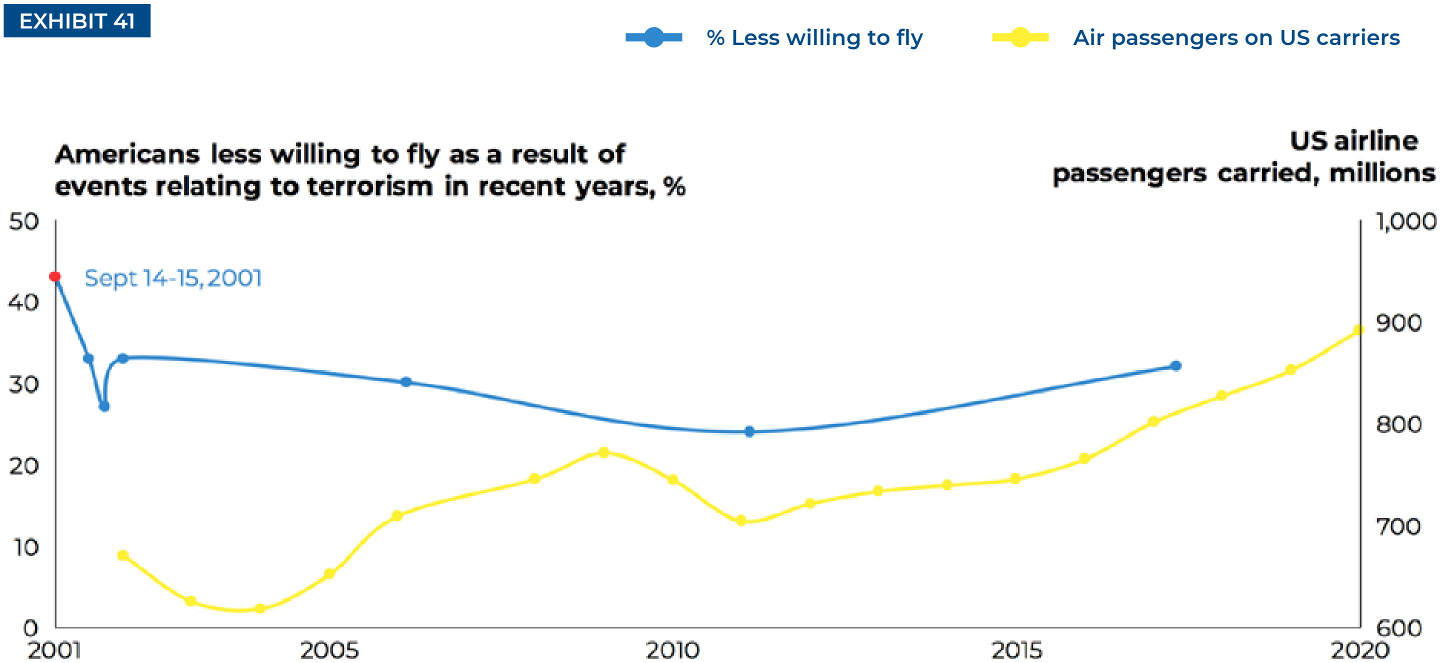
The exercise has quickly set up the airline for best-available insights, powering a suite of AI-enabled tools that help track, stimulate and capture returning demand. The microsegments serve two immediate revenue-recovery use cases:

- *Demand-recovery dashboards.* Anomaly-detection models monitoring aggregated search and booking-data can flag significant trend shifts. By tracking microsegment-level patterns, these models can help predict the markets most likely to recover next.

- *Tailored messaging and offers.* A campaign engine can deploy tailored promotions and track how microsegments react (e.g., through reinforcement learning). For example, couples who normally go on beach vacations, might now be interested a domestic beach trip offer for a travel date next year. Leading marketing organizations actually deploy these analytics-driven microcampaigns daily, evaluate the results immediately, and fine-tune campaigns the following day.

Post-9/11, Americans reported being less willing to fly, while actual passenger numbers recovered steadily.

EXHIBIT 41



Source: Skift Research, Gallup, Department of Transportation

More than just sentiment

Using sentiment surveys as leading indicators of demand recovery can be tricky. Historical evidence shows that traditional customer surveying can be biased when conducted in the depths of a major crisis. Days after 9/11, Gallup conducted a poll in which 43 percent of Americans said terrorism made them less likely to fly on an airplane.[80] This predicted the immediate collapse in air travel that followed those attacks but told us very little about medium- or long-term travel behavior (Exhibit 41). Within months of the initial poll, traveler sentiment in response to the same question had already shifted significantly.

Layering in leading indicators

Microsegment-level insight into searches and bookings is a starting point for understanding how demand is materializing. But to anticipate demand better, new—often publicly available—sources need to be pulled in.

To identify which forward-looking indicators can best predict demand recovery from the COVID-19 crisis and inform decision making, McKinsey started assessing public data sources in mid–2020. The effort initially focused on China, which experienced the crisis and recovery first and has many publicly available data sources. By applying AI tools, this effort identified variables indicative of domestic air-travel recovery.

Many different variables can help explain air-travel demand and therefore power demand forecasting models. The following indicators were particularly relevant:

- *COVID-19 spread indicators,* such as confirmed-case counts, recovered-case counts
- *Sentiment indicators,* including specific Baidu search terms, such as “city lockdown,” “taxi,” “quarantine,” and “C-Trip” (a major travel website)

Relative importance of indicators changes based on country and prediction window.

EXHIBIT 42

US: 0-week lag correlation matrix

	COVID-19 sentiment	Mobility	Economic sentiment	Flight interest	Travel interest	Ticketing activity
COVID-19 sentiment	1.00					
Mobility	−0.60	1.00				
Economic sentiment	−0.51	0.40	1.00			
Flight interest	0.07	0.67	−0.06	1.00		
Travel interest	0.10	0.57	0.30	0.81	1.00	
Ticketing activity	−0.32	0.88	0.03	0.78	0.48	1.00

Adjusted R-squared: .953

Germany: 2-week lag correlation matrix

	COVID-19 sentiment	Mobility	Economic sentiment	Flight interest	Travel interest	Ticketing activity
COVID-19 sentiment	1.00					
Mobility	−0.74	1.00				
Economic sentiment	−0.40	0.69	1.00			
Flight interest	−0.23	0.52	0.85	1.00		
Travel interest	−0.34	0.54	0.77	0.94	1.00	
Ticketing activity	−0.50	0.41	0.80	0.74	0.76	1.00

Adjusted R-squared: .898

Source: McKinsey analysis based on IATA Air Travel Pulse data

- *Mobility indicators,* including air quality, weekend and weekday traffic congestion, travel restrictions, usage of other types of transportation
- *Economic-activity indicators,* including price of crude oil, stock exchange index, foreign-exchange rate

The more frequent the data, the better: daily or near-real-time data are generally more indicative, although weekly taxi app usage data and the monthly OECD-reported business confidence index were exceptions. Also, the more local the data, the better. As an example, local high-speed train passenger volumes were a great leading indicator for Shanghai air-travel departures.

The data sources identified as being indicative of air-travel demand seem indeed to be largely the right ones. Using actual ticketing data from IATA Air Travel Pulse—a dashboard designed in partnership with McKinsey that provides the travel industry with a current and comprehensive view of travel demand and indications of recovery[81]—McKinsey looked at how helpful leading indicators have been so far in predicting ticketing levels. Based on January through mid–August 2020 data, there were strong relationships and a strong ability to predict rebound at various prediction windows—zero to four weeks. At any given lag, the combination of these variables explains the majority of the variation in ticketing.

The relative importance of variables changes based on the time horizon. For instance, a one-week prediction window model ("I want to predict ticketing levels one week from now") would likely include more sentiment and mobility indicators. Travel interest and flight interest show strong significance across prediction windows consistently. Mobility is strongest at up to one week out and becomes less indicative as the prediction window increases. Economic indicators start to become significant one week out and beyond. While COVID-19 sentiment is relevant, it's less relevant than others and mostly in the one- to two-week prediction window.

Different indicators matter in different regions. In France, for example, COVID-19 sentiment has consistently been helpful in explaining subsequent air-travel ticketing activity, but not in Japan, where flight interest is consistently significant, or in Canada, where economic sentiment has been a significant indicator across prediction windows.

Different countries have different lead and lag times. In the United States, for example, the set of sample indicators is best at predicting "in the moment" with zero lag (Exhibit 42). Here, 95 percent of the variation in ticketing can be explained, mostly by COVID-19 sentiment, mobility, and interest in travel and flights. This implies that if people are on the move again, they have also gone back to thinking about flying and buying those flights more or less immediately.

In Germany, a model with a two-week prediction window is most powerful: 90 percent of the variation is explained by the selected leading indicators. This implies that travelers take about two weeks to move on from a restored sense of normalcy (in the sense of getting back to shopping or going to a restaurant) to actually buying a flight ticket. The most significant variables in Germany have been COVID-19 sentiment, mobility, and economic sentiment—surprisingly, not travel and flight interest.

Tailoring customer-experience interventions

With a granular pulse on demand recovery, the next step is to stimulate and capture the little demand out there as effectively as possible. More than ever, promotional offers need to resonate with customers. Similarly, every aspect of the booking and traveling experience needs to feel relevant and genuine. To this end, instead of relying on surveys, companies should layer in behavioral insights from design research. Predictive insight from the resulting comprehensive view of the customer will drive conversion, customer lifetime value and customer satisfaction—at each step of the journey.

Surveys are not enough

One of the requirements for understanding customers at a personal level is to listen to customers more. Alex Alt, the senior vice president and general manager of Oracle Hospitality, said, "I think understanding and listening has been a lesson learned in my team [from] serving thousands of customers and tens of thousands of properties globally."

However, marketers have long acknowledged that relying on market research and surveys to deliver deep consumer understanding is no longer sufficient (Exhibit 43). So what data should be used to build the next set of meaningful customer-experience (CX) interventions?

Actually, user-driven companies are observing customer behavior and doing ethnographic and design research to gather "thick" data, in addition to "big" data. While a survey tells a company what is happening in hindsight, this type of design research method provides more leading data. Because designers and ethnographic researchers spend time talking to customers about their expectations across industries, they're able to identify entirely new opportunities to serve those customers. Similarly, since designers use prototypes to test ideas with researchers, they're able to see how customers will respond to new efforts and de-risk the likelihood they'll succeed. In fact, survey-only based techniques have several downsides, including that they capture only a limited portion of the customer voice (e.g., stated, versus revealed preferences), and that they tend to be lagging, ambiguous, and unfocused.

Companies use this ethnographic data to develop insights and test them in fast cycles. Yet, a 2018 study found that over 40 percent of the companies surveyed still were not talking to their end users during development of new products and services.[82] Customers and end users should be deeply involved in testing, which is the key to derisking development. The companies that test with users and bring user-centered insights and methods into their strategic decision-making frequently excel at other effective methods (thinking cross-functionally, in end-to-end journeys). Those companies that excel have historically outperformed their peers nearly 2x, across industries.

Reliance on survey-based techniques has resulted in several limitations to customer-experience (CX) transformation.

EXHIBIT 43 **% of respondents who answered 'strongly agree'**

Limited	Reactive	Ambiguous	Unfocused
7%	**25%**	**16%**	**4%**
of the customer voice is shared with CX leaders	of CX leaders believe surveys provide timely insights	of CX leaders believe surveys are granular enough to act on	of CX leaders believe surveys enable them to calculate the ROI of a decision

Source: McKinsey Customer Experience Executive Leadership Survey 2020 n=260 customer-experience leaders across 14 industries

> **User-driven companies are observing customer behavior and doing ethnographic and design research to gather "thick" data, in addition to "big" data.**

Eventually, an optimal approach to deeper listening is to create a comprehensive, microsegment-level customer view by combining transactional data, operational data, ethnographic data, real-time listening, surveys, and other first- and third-party data. Then you add a "fourth dimension" (4-D) of predictive insight. This fourth dimension drives CX strategy and day-to-day decision-making around for example promotions or disruption recovery (see sidebar *"Airline example: putting 4-D customer insight to use"*).

Additional commercial use cases

As a granular and up-to-date source of insight, microsegmentation can eventually serve many more commercial use cases. It can help companies better pinpoint and understand underserved segments like the "forgotten middle" of individual business travelers or high-end leisure travelers. In an airline context for example, changing patterns in customer habits and archetypes can inform network design. Pricing of ancillaries can be optimized for take rates, with proper A/B testing across segments. Product and customer experience teams can adjust cabin layouts and customer communications.

By implementing predictive engines to measure and act on demand recovery and customer experience, players throughout the travel value chain can harness data to improve each customer's experience.

DESIGN THE NEXT SET OF THOUGHTFUL CUSTOMER-EXPERIENCE INTERVENTIONS

The value of well-designed and executed customer-experience tactics cannot be understated. A McKinsey survey found that good CX can lead to a 20 percent improvement in experience satisfaction, a 20 percent lower cost to serve, a 15 percent increase in revenue through retention and acquisition, and a 30 percent increase in employee engagement.[83] As a result, for the past three years, 73 percent of senior executives have recognized customer experience as a top organization priority. Additionally, companies who excel in customer experience suffer less and rebound stronger during difficult economic times such as these (Exhibit 45).

> **Good CX can lead to a 20 percent improvement in experience satisfaction, a 20 percent lower cost to serve, a 15 percent increase in revenue through retention and acquisition, and a 30 percent increase in employee engagement.**

By harnessing the insights from customer microsegments, travel companies can design the next set of interventions across the customer journey that solve both COVID-19-induced pain points and preexisting pain points while generating return on investment (ROI) quickly.

AIRLINE EXAMPLE:
PUTTING 4-D CUSTOMER INSIGHT TO USE

A leading US airline recently completed the build of a first-of-its-kind CX action-and-insights engine, powered by advanced data and analytics. Its purpose is to drive near-real-time, return-on-investment (ROI)-focused decision making for CX strategy and daily management. It creates a comprehensive 3-D customer view, and adds a "fourth dimension" (4-D) of predictive insight. The approach involved three steps:

- *Take on a successful data-and-analytics transformation.* The airline aggregated various customer and operational data sources to establish the data-cube foundation

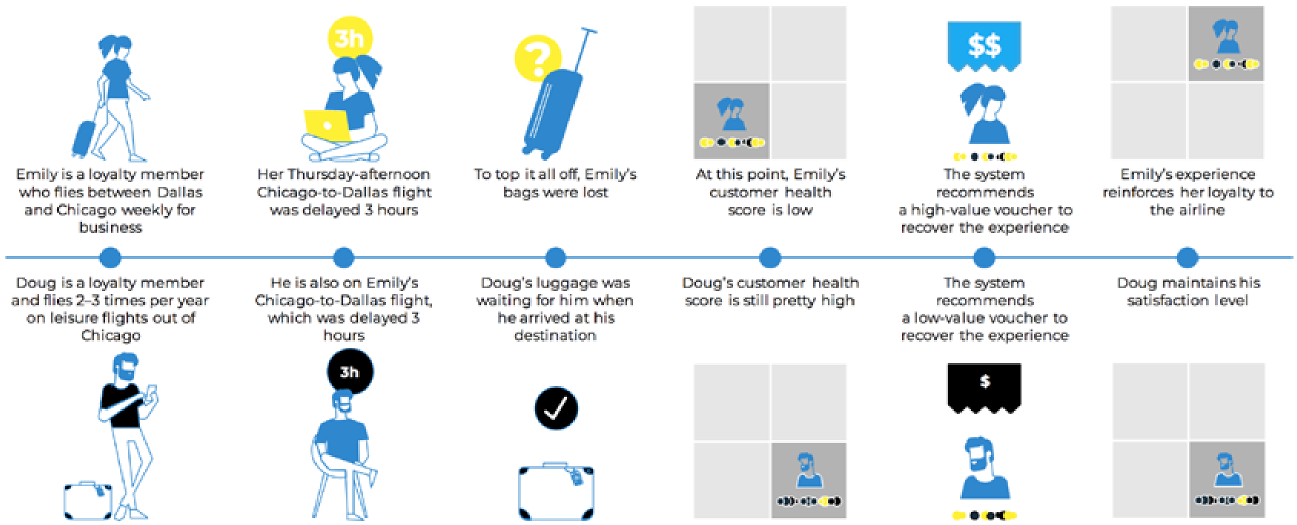
- *Model a predictive scoring system.* The system utilized multiple machine-learning techniques that study the relationships between key journey features, sentiment, and loyalty to determine which data are important to health and revenue outcomes for 100 percent of customers

- *Operationalize the system for action.* The company went live with an API-enabled optimization model for the first use case—determining next best-action recommendations at the microsegment-level to maximize customer and revenue outcomes when remediating flight disruptions

Powerful insights emerge and tailored actions can be taken when traditional data points turn into real insight and relevant, microsegment-level interventions (Exhibit 44).

Real-time customer data and analytics enables tailored actions to recover when customers experience delays.

EXHIBIT 44 Example use case based on the greatest predicted value generation



Source: McKinsey Travel, Logistics & Transport Infrastructure Practice

Customer-experience leaders suffer less and rebound stronger from recession.

EXHIBIT 45 **Total returns to shareholders of customer experience (CX) leaders and laggards**[1]
% by quarter

1. Comparison of total shareholder returns for publicly traded companies ranking in the top 10 of Forrester's CX Performance Index for 2007–2009
Source: Forrester Customer Experience Performance Index 2007–2009, McKinsey analysis

Broaden your view of the customer journey

Before travel companies can implement CX interventions along the customer journey, they must clearly understand where the customer journey begins and ends. For most travel companies, the customer journey no longer begins when a customer makes a booking or shows up to begin a trip. Rather, it begins much earlier, when customers ask themselves, "Is it safe or enjoyable to travel right now, or should I just stay home?"

One of the fundamentals we have heard over and over in our interviews is that travel is an end-to-end journey and experience, not a series of isolated moments. In the words of Taimur Khan, the vice president and general manager for travel, transportation, and hospitality at Salesforce, "I do feel that this COVID-19 crisis is accelerating the need for the end-to-end journey, because we are now holding any travel provider we've purchased from—not for what they do to me at that hotel—I'm holding them responsible for what's happening at the airport; I'm holding them responsible for what the rules are in that surrounding city."

Solve preexisting and COVID-19-induced pain points

As many travel companies move from immediate crisis management and protocol implementation to looking forward, it is important to remember that traveler journeys had many pain points before COVID-19. For example, looking at the hotel customer journey, even before COVID-19, many customers experienced pain points during booking, check-in, and check-out processes (Exhibit 46).

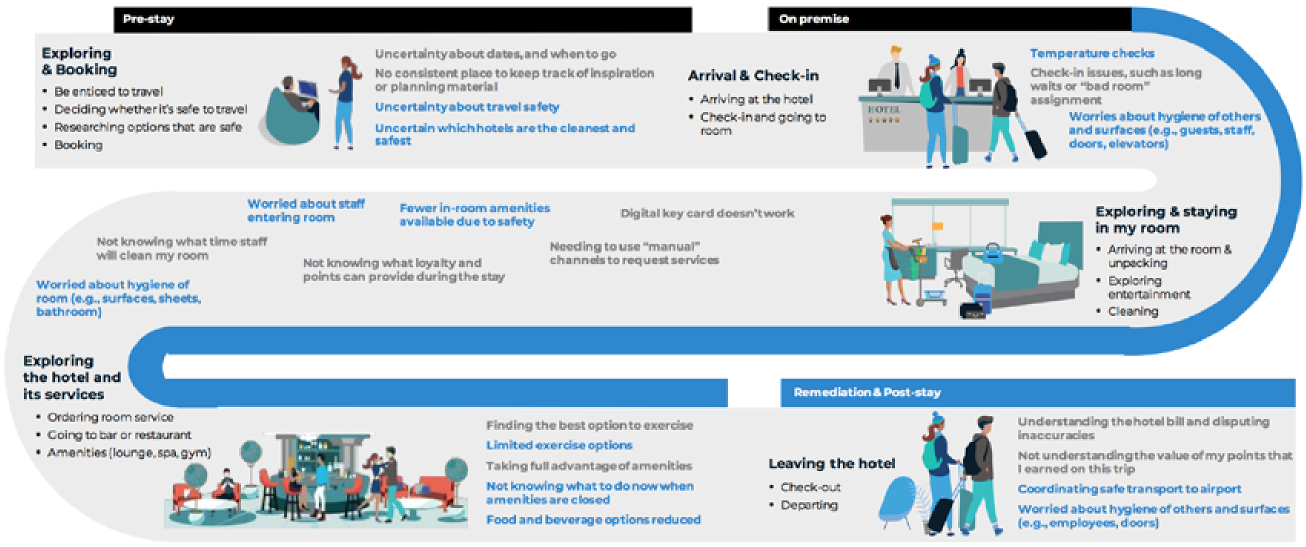
While booking travel, customers are hesitant to pull the trigger because they are unsure if they should book direct or with an OTA, if they were getting the best deal, or if reality will measure up to the photos on the hotel website. When plans change, customers are often disappointed to learn they've purchased nonrefundable rates. Customers may need to wait in long check-in lines, and they may be disappointed to see their room is not what they expected. Housekeeping comes at unpredictable times—sometimes even when customers have asked not to have the service.

Hotel guests will likely experience preexisting pain points plus newly created COVID-19-driven pain points.

EXHIBIT 46

Preexisting pain point

Pain point caused by COVID-19



Source: McKinsey Travel, Logistics & Transport Infrastructure Practice

At the same time, different parts of the journey matter now. COVID-19 has added a new layer of pain points across the customer journey. Customers are unsure if it is safe to travel or what the world will look like when their trip arrives. They may be fearful of common areas, as well as staff and other guests. On top of the cleanliness concerns, they don't receive services and amenities that companies took away to minimize contact.

Indeed, we are seeing new moments of the customer journey become incredibly important at driving conversion. Until the pandemic, customers might not have cared too much about how intuitive the refund process was. Now, the return or refund process has become a new battleground for competing brands looking to attract customers. Brand loyalty shifts when customers shift what they expect and care about.

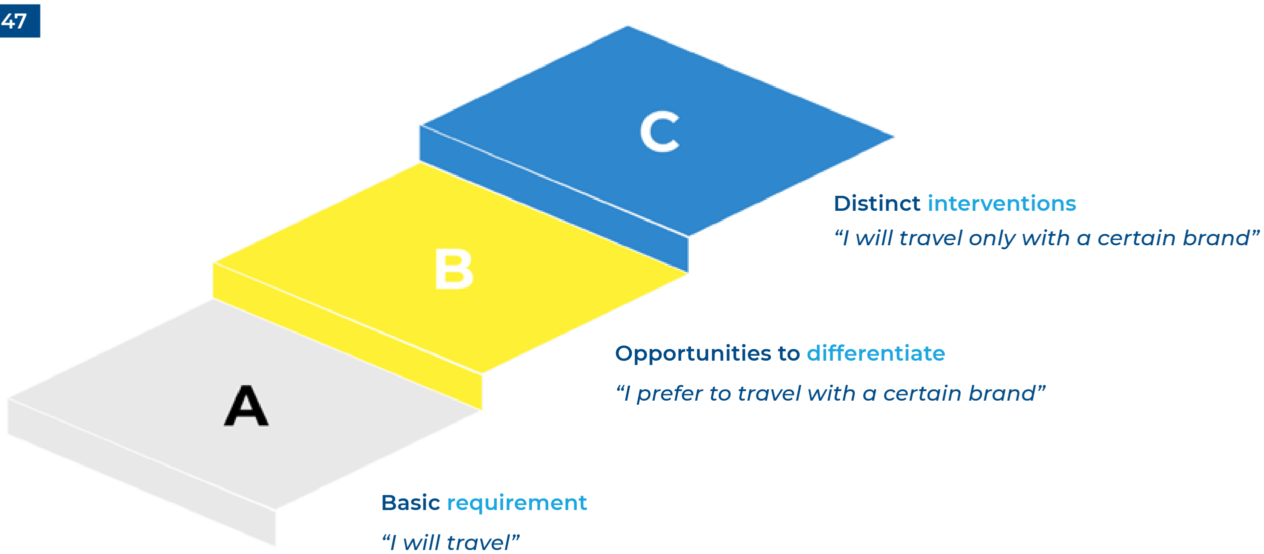
Travel companies are off to a good start—but are only scratching the surface

While nearly every travel company has introduced new hygiene and safety measures in response to COVID-19, only some players are taking this opportunity to create differentiated and distinctive interventions that build customer loyalty (Exhibit 47).[84]

In the hotel space, many hotels are doing away with the antiquated check-in process, allowing customers to go directly to their rooms with keyless entry. Hyatt, for example, offers meditation exercises, in-room spa kits, QR-based food menus and knock-and-go room service options. Another opportunity to "make it better, not just safer" is in hotel housekeeping services. For instance, while it is necessary to adjust for safety concerns, revised protocols can also reduce environmental impact (such as through less-frequent laundering of sheets during each stay), decrease cost, and give guests more flexibility (by letting them choose their own housekeeping schedule).

Travel companies are off to a good start—but are only scratching the surface.

EXHIBIT 47



One COVID-19 pain point is that many hotels are not suitable for longer stays. One Dubai hotel, Vida Emirates Hills, sought to solve this pain point through the recent introduction of "Long Stays at the Hills," which is targeting digital nomads by offering monthly rates. The package includes food and beverage discounts, laundry packages, access to coworking space, and private fridge access. The hotel is positioning itself as a better alternative to a yearlong lease at an apartment without amenities.[85]

In the airline space, we've seen mostly a focus on cabin-cleaning procedures. Recently, several airlines have eliminated change fees to varying degrees. However, opportunities exist to further simplify the anxiety-producing booking and preparing-my-trip process, simplifying fare structures and adding further flexibility.

Car-rental companies can allow customers to arrange contactless car rentals that not only are safer but also free customers from waiting at the customer-service counter. Silvercar by Audi, for example, drops off rental cars at the customer's location of choice.

In the vacation-rental sector, Airbnb pleased guests by providing a seamless refund process, reminding the industry it is not just what happens on site, during a flight, on the cruise or in the vehicle that matters—the booking and follow-up processes are important as well.

What the next set of thoughtful interventions could look like

As travel companies look forward, they should prioritize solutions that address both pre-COVID-19 and COVID-19-induced pain points. Solutions with broader visions for differentiation may also be funded more easily as these go beyond "emergency resolution" efforts.

Given the cash-strapped position of many travel companies, we are proposing realistic, high-ROI options. To determine if an idea is likely to deliver "high ROI," travel organizations should ask themselves four key questions. If the answer is no to any one of these, then it is likely not a high-ROI solution. The more yes answers an idea receives, the more it should be considered.

1. Will we generate immediate revenue or cut costs? Ultimately, all solutions need to be measured and quantified to see if these can create financial ROI by either generating more revenue or cutting cost.

2. Will we improve the customer experience? While immediate cash is important, in the end it is about customer lifetime value (CLV). Travel companies should see CLV as growing or shrinking with every touchpoint, even before the initial customer booking. For example, while rebooking assurance might put immediate revenue at risk, the propensity for that customer to rebook and become a much more loyal customer with repeat purchases grows.

3. Will we improve the employee experience? Many solutions will provide a safer and easier employee experience, enabling the staff to focus on service delivery and customer touchpoints that matter.

4. Will we leverage an "asset-light" solution? To keep the "investment" side of the ROI equation under control, travel companies should target asset-light solutions. Many of these will be digital in nature or training-based adjustments to a process that had grown clumsy anyway.

How might we reimagine the customer experience with high-ROI, thoughtful touches along the customer journey?

EXHIBIT 48

While booking a hotel for a weekend getaway, a customer is excited to find a new set of user-friendly, customizable features, including a "close to home" filter for properties within driving distance and a "name your own flexibility" option.

When it is time to check in, the customer is pleased to find that in-person check in has been replaced with a quick, fun, digital process that even allows selection of a welcome cocktail and enables customization of high vs. low touch service from hotel staff.

The next morning, the guest is excited to see that in lieu of the standard breakfast buffet, the hotel has added food & beverage coupons to their digital wallet for well-rated local coffee houses and eateries.

Source: McKinsey Travel, Logistics & Transport Infrastructure Practice

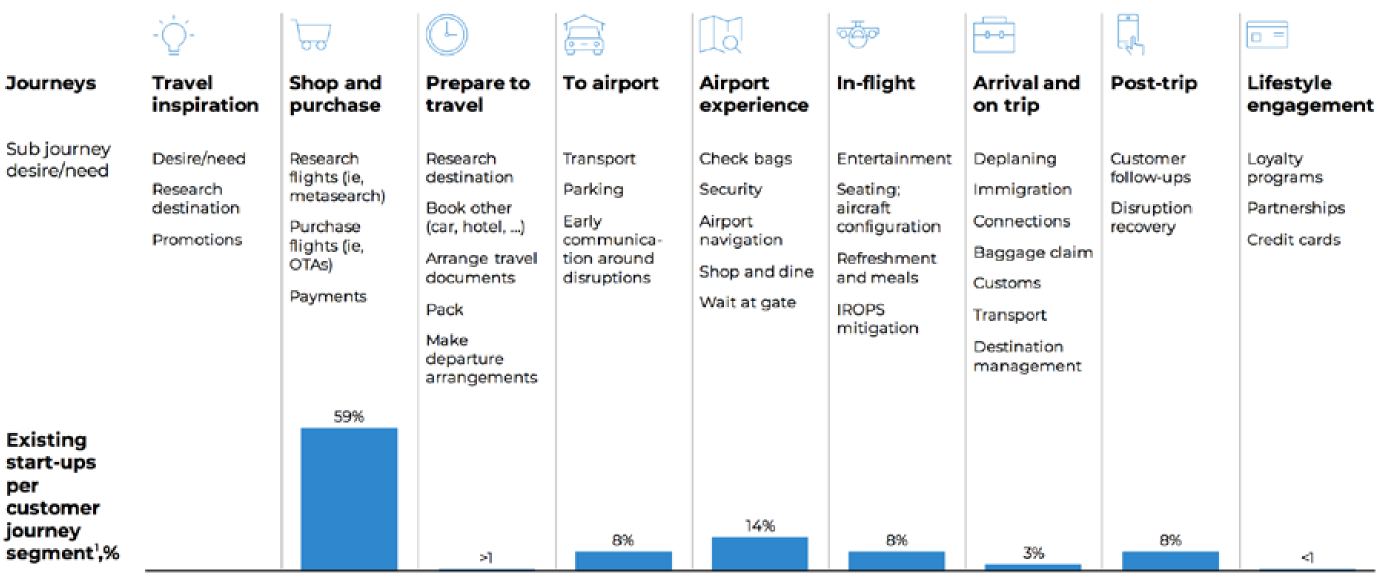
RETHINKING SHOPPING AND BOOKING

Today, customers are more self-servicing and demand variety, transparency and flexibility. For airlines, these desires have vast potential for disruption in the shopping and purchasing phase of the customer journey. Customers are overwhelmed by the different fare classes, not sure whether to book direct or with an OTA, and are unclear about what portions of their trip should be booked ahead of time. Already pre-COVID-19, about 60 percent of travel-tech start-ups have been focusing on this specific subset of the customer journey (Exhibit 49).

Advances in metasearch have been and will continue to provide new levels of transparency including, for the airline example, customer reviews for individual routes and individual planes and statistics on punctuality. This transparency shifts the selection power toward the customer. With start-ups and tech players seeking to disrupt, using product curation, capacity reselling and one-stop-shop capabilities, travel providers should focus on ramping up direct-channel capabilities. Control over the booking experience will allow travel suppliers to tailor the experience, ensure that customers are aware of relevant upsell and cross-sell opportunities, and foster brand loyalty.

The most disruption potential is in customization and digitization of selecting and purchasing a flight ticket.

EXHIBIT 49



1. Approximation from analysis of ~180 airline-related start-ups.

Source: Pitchbook, McKinsey analysis

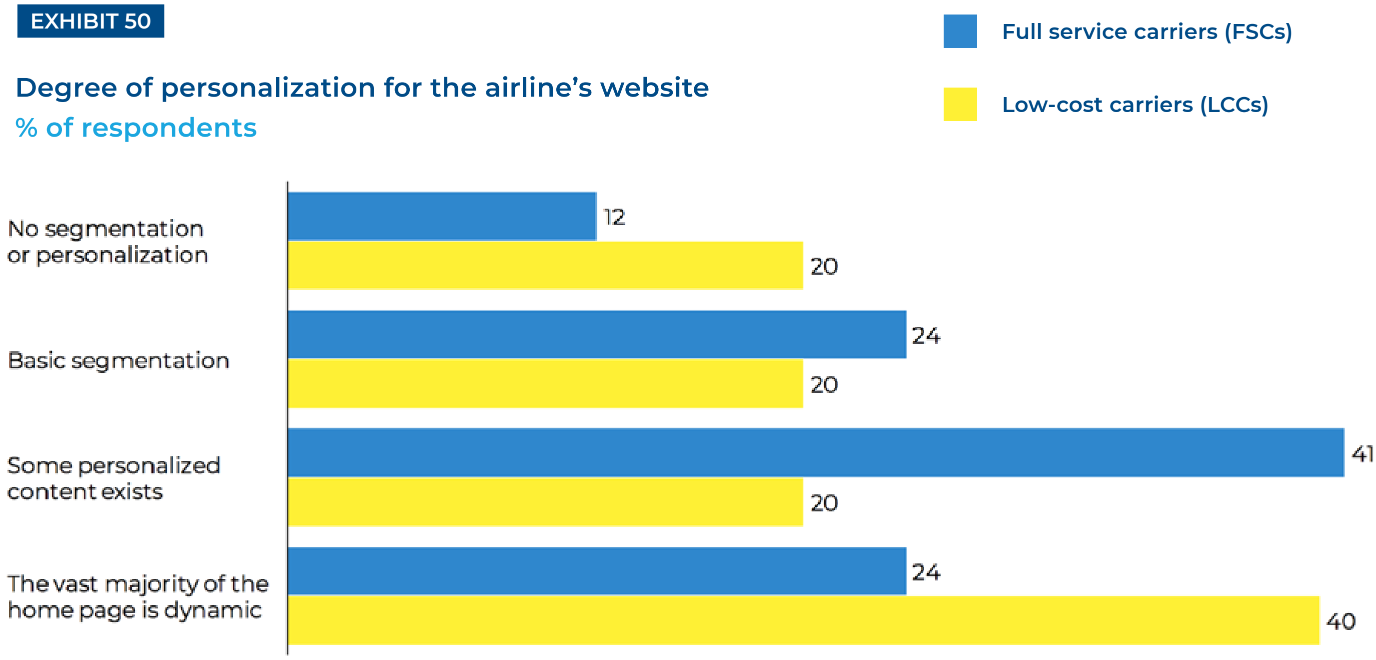
Travel providers are early to this journey, with ample room to innovate and differentiate. A recent airline merchandising capabilities survey indicated that 40 percent of low-cost carriers have made meaningful progress, with most of their website modules and content tailored based on A/B testing and customer-data-driven personalization (Exhibit 50).[86] Two-thirds of full-service carriers have "basic segmentation" (showing two or three offers based on rudimentary business rules, such as loyalty member or anonymous user) or "some personalized content" (recommendations based on purchasing history) in place.

Leading retail, e-commerce and online travel players seize every opportunity to grow a customer's lifetime value, by prioritizing direct channels and stepping up digital tactics executed by a dedicated cross-functional merchandising team. They have also developed a playbook that consists of 7 next-generation moves that can serve as helpful inspiration for reimagining the inspiration and booking experience (Exhibit 51). These players first of all have created modular websites to serve personalized content widgets that include deal-based offering. Next, their merchandising experience is engaging through immersive content, intuitive and seamless across channels. Lastly, highly customizable offers and nudging tactics successfully encourage customers to book.

Airlines have begun personalizing their websites, with much room to gain a distinctive advantage.

EXHIBIT 50

Degree of personalization for the airline's website
% of respondents



Source: McKinsey global airline merchandising capabilities survey, July 2020, n=27, 65% FSC, 35% LCC

The playbook from merchandising leaders consists of next-generation moves along seven themes.

EXHIBIT 51

KEY MERCHANDISING THEMES	WHAT "NEXT GENERATION" MEANS
1 GRID-BASED LAYOUT TO SERVE PERSONALIZED MODULES	Creating a tailored path and content experience based on everything that is known about the customer
2 DEALS	Packaging and presenting offerings in new ways to encourage a value-seeking customer to convert
3 IMMERSIVE CONTENT	Curating content that inspires customers (including "take me away" inspiration); providing eye-catching product details; clearly laying out relevant operational messaging
4 INTUITIVE SEARCH	Offering search functionality that helps customers find what they are looking for in a simple way with quick-configure options
5 OMNICHANNEL EXPERIENCE	Providing seamless extensions of airline.com into other channels (eg, picking up search where you left off, sharing itineraries, post-purchase upsell offers)
6 CUSTOMIZED OFFER	Making highly customizable offers (e.g. itinerary-less booking and name-your-price flexibility, bidding for up- and cross-sell products, and overbooking volunteering)
7 BEHAVIORAL NUDGING	Deploying behavioral-psychology tactics to encourage customers to book by reinforcing confidence and reducing anxiety and choice overload

Source: McKinsey Travel, Logistics & Transport Infrastructure Practice,
based on 20+ interviews with merchandising leaders at consumer retail, e-commerce, and travel technology players

Travel companies should continue to find opportunities for thoughtful, high-ROI interventions that will surprise and delight customers. We've imagined what a hotel journey might look like with a set of compelling yet pragmatic interventions (Exhibit 48), across the booking stage (also see sidebar *"Rethinking shopping and booking"*), arrival process and the stay itself.

Most solutions will be digital

Profound changes in the way customers research and purchase travel products and services digitally have long been under way. In 2019, 40 percent of US travelers used their smartphone to book travel. In addition, 90 percent of travelers were influenced by online reviews.[87]

Recent trends in reaction to COVID-19 are implying an increasing shift to mobile and digital. Consumers and businesses have vaulted five years forward in digital adoption in a matter of around eight weeks.[88] As the pandemic has spread, customer behaviors and preferred interactions have changed significantly. These behaviors will continue to shift, but the uptick in the use of digital services is here to stay. Fully 75 percent of people using digital channels for the first time indicate they will continue to use them when things return to "normal."[89]

Millennials and higher-income households are currently leading the shift toward online purchasing, as well as the trial and adoption of digital technologies, including entertainment streaming, gaming, and online fitness. Meanwhile, travel companies are creatively exploring new digital-media channels to engage customers from their couches. While many travel players use social media and video platforms, some Asian travel companies are successfully leveraging influencers, livestreams, or virtual-reality / augmented-reality tours[90]. The way in which travel is booked and managed through 'super apps' like WeChat, might have application beyond China.

But even the less digital-savvy customers are becoming more digital. COVID-19 has accelerated the digitization of everyday life for most consumers, from grocery delivery to traditional e-commerce. For travel companies, this means that the average customer's digital savviness has risen during the pandemic. To succeed in this new environment, companies will need to ensure that their digital channels live up to ever higher expectations.

Keith Barr of IHG observed that "customers … have gotten more digitally savvy in the last six months than ever before." He gave an example of how older generations that might have remained stuck in their analog ways of doing things have been forced to adapt to digital practices because of coronavirus lockdowns. "We have to continue to accelerate our investments in technology and step-change the utilization of technology as a company."

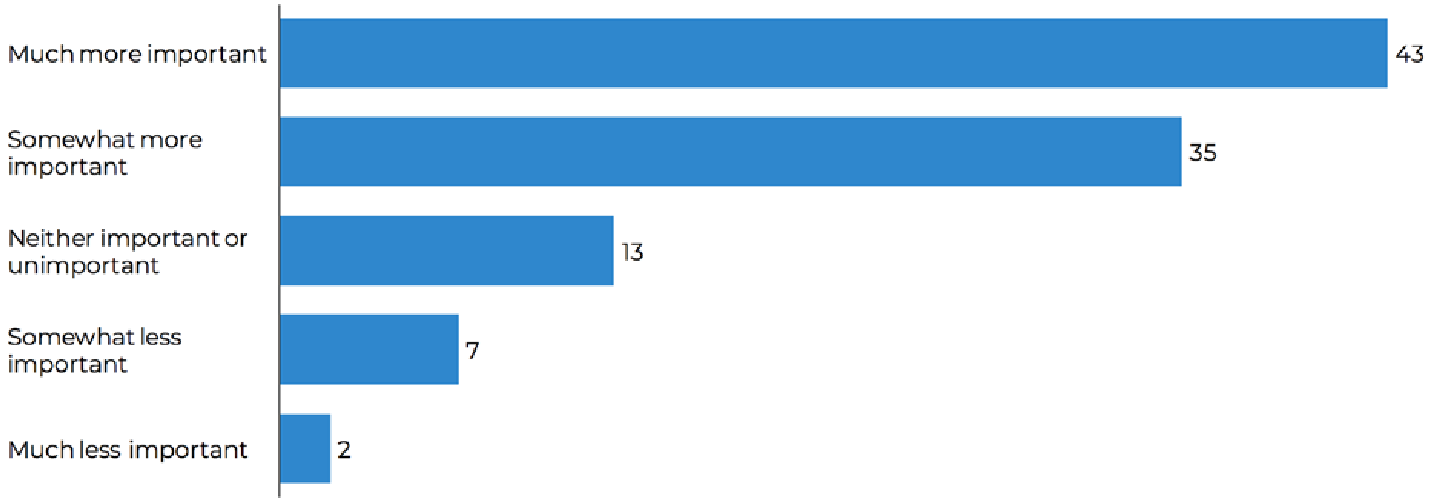
Even in these times, travel leaders are finding ways to continue focusing here. According to a recent Skift survey, nearly 80 percent of respondents say proceeding with digital-transformation activities in light of COVID-19 is more important (Exhibit 52).[91] As an example, one Latin American airline began a technology transformation in late 2019, focusing on the end-to-end passenger experience. Half a year into the pandemic, this transformation is the only one left standing out of many strategic innovations previously under way.

Investing in digital is the primary way that the travel businesses we spoke with are planning to grow again following COVID-19. As James Thornton, CEO of Intrepid Travel, emphasized, "For Intrepid, that will mean accelerating our domestic travel through further product innovation. It will mean greater technology enhancements, as we look to put digital at the core of what we're trying to do." Similarly, Matt Roberts of Vacasa stated that tech investment is one of the big priorities in the next few months: "We think that technology is going to play an important role in this, the way that we deliver value and services going

Travel organizations recognize the importance of proceeding with digital transformations, despite COVID-19.

EXHIBIT 52

How important is it for your travel organization to proceed with its preexisting digital transformation activities in light of COVID-19?, % of respondents



Source: Skift-AWS "The 2020 Digital Transformation Report" August 2020

forward—in particular, where we can apply those to some of the needs in this pandemic environment, like keyless entry, housekeeping, field apps that allow for really thorough checklist approaches to cleaning standards, those types of things."

EXPAND YOUR VIEW OF THE ECOSYSTEM

As we stressed in the beginning of this chapter, one big revelation of the pandemic is the intricate connectedness and interdependence between different travel sectors and between travel and other industries. No travel sector or company could truly recover without the recovery of the entire travel ecosystem. In the short term, we believe travel companies would be well-served investing in and empowering the broader ecosystem to help the industry reboot. In the long term, we believe strategic ecosystem plays can provide a source of competitive advantage to travel companies and collectively position the industry for sustainable growth.

We're all in this together: Reopening

In many ways, COVID-19 has brought the travel industry together to a degree that few other moments in history have ever done. One area of agreement among travel executives is the sense of industry responsibility for tackling the reopening thoughtfully. Alex Alt of Oracle Hospitality said that "the different players in the travel ecosystem have to work together … for us to reach the full potential recovery." A global travel recovery requires coordinated efforts at many levels.

Sources of ratings and standards.

Many travel stakeholders are already working together to speed up safe recovery through standardization of protocols. For instance, WTTC and its member travel organizations have established a global program to help travelers identify organizations meeting public-health standards. The

WTTC provides governments and companies with standardized health and hygiene protocols, and participating organizations may display a global safety stamp, so travelers recognize travel providers who adopt those protocols.

While WTTC has been successful in setting up safety protocols and advocating for government compliance and support, no universally acknowledged safety-rating standard exists. The evolving scientific knowledge about the virus and a myriad of recommendations from various parties, including governments, the medical world, and media, make this undertaking extremely challenging. In the absence of a single set of standards, industry leaders could add their voices to efforts pursuing a faster but safe travel recovery—for instance, rapid and widespread testing, introduction of health passports, and other ideas.

> **Alex Alt of Oracle Hospitality said that "the different players in the travel ecosystem have to work together ... for us to reach the full potential recovery."**

A process for coordinated reopening for tourism.
Tourism bodies can reinforce their value proposition to both public- and private-sector tourism players by taking on an integral role in reopening. While travel is stalled, they can support local tour operators and other essential tourism functions by working with global operators to coordinate incoming flows, availability of lodging, and activities, thereby drawing travelers to the destination. In anticipating and perhaps accelerating reopening, we see four roles for ambitious tourism boards:

- *Stimulate going fully contactless,* especially in settings where governments already have committed to a goal of going paperless. This is easier to enforce in destinations where a few very large players provide most of the travel services.

- *Develop reassuring propositions,* such as government-backed travel insurance, or promotion of local medical facilities to provide ease of mind.

- *Tackle the longer-term horizon head-on* by reinvigorating innovative collaboration models (for example, nerve centers that bring together teams to support industry observation, relaunch, communications, financials) and facilitating ways to increase financial sustainability of smaller hotels and attractions (for example,buy-back funds, potentially as public-private partnerships).

- *Rethink target segments and distribution channels.* For example, tourism authorities could tap into new source markets, long-term stays or the long neglected domestic traveller. Tourism authorities may also play a more proactive role in distribution. For example, a tourism exchange platform could help local tourism suppliers connect to distributors around the world, helping bridge the gap between especially smaller operators and today's digitally savvy end user.

Partnerships to fuel recovery.
Intrepid's Thornton said, "The travel industry needs to exercise a better level of transparency and vulnerability with one another." As companies await material recovery, they might, for the mutual benefit of enduring these difficult financial times, consider whether opportunities for group economics exist. For instance, can local suppliers pool available resources? Can there be more cross-sector partnerships that provide an opportunity for ongoing engagement between customers and their favorite brands? An example would be an airline partnering with a company that rents recreational vehicles. Many

of the airline's customers, for fear of flying, might be interested in renting RVs to visit national parks. The airline company could market RV rentals to its customers by offering the ability to earn loyalty miles when renting an RV, in exchange for a share of the rental revenue.

Teaming up for lasting collaboration

In the longer term, competitors could stretch their thinking into more lasting collaboration—ideally aligned with new and emerging business models.

Codeshare partnerships that deliver a truly seamless experience. On the day of travel, passengers switching between partner flights often need to exit security to transfer between terminals. The passenger bears responsibility for making it on time, and a missed plane requires buying a new ticket—a difficult and expensive process. Furthermore, different policies exist, so qualifying for free checked bags with one airline doesn't mean getting it waived through the other airline.

Airlines can explore ways to integrate beyond the network, schedule, and fares—addressing significant customer pain points. Likewise, other travel sectors could benefit from deeper branding and CX integration. For example, a global hotel chain alliance with a boutique chain would be able to surpass expectations if it offers customer benefits beyond the booking stage (using loyalty points, one portal) into the actual travel experience.

Pooled management of core assets and functions. The thought experiment of shifting fleet (and crew) globally to better accommodate regional seasonality has quickly become less theoretical to airlines, as global fleet expansion halted and players reconsider fleet options more radically.

Along the same lines, companies could consider alliances around management of procured spend. In 2001, Marriott International, Hyatt, Accor, ClubCorp, and IHG launched a joint venture to facilitate an online marketplace for hotels and their key suppliers. In 16 years, Avendra grew to nearly $5 billion in annual managed spend for some 8,500 hospitality locations. While Avendra at that point was acquired by a supply services company, the alliance spirit might be inspire hospitality and other travel sectors.

Big Tech partnerships. Given their massive user bases, deep analytics capabilities and customer engagement know-how, potential partnerships with big tech companies like Google and Amazon could fundamentally stretch today's business models.

Google's interest in the travel industry is likely twofold. First, travel is one of the, if not the, largest spenders on Google Ads. Second—and more importantly, as travel is an integral activity of their average user, the company has improved its own travel tools over time, effectively making a play for the same space as OTAs.

Google has been entering the travel market slowly. Flights and Hotels have been around since 2011 as metasearch products. In 2016 Google enabled the option to book. Today, it offers a suite of planning and booking tools including vacation rentals and destination activities. Based on Google's history so far, one may safely assume it will get better and better, deeper and deeper in travel.

Some travel players might be contemplating a future model where their entire shopping, booking and trip experience would be "serviced" by Google—effectively retaining just a static, no-nonsense website of their own. Even if used for a subset of offers, like last-minutes, that experience might be so seamless and unified that it would be game changing.

Along the same lines, Amazon is an e-commerce leader, and their merchandising capabilities, understanding of buying behavior, and customer engagement techniques like the one-click purchase are unrivaled at this point. Amazon has dabbled in travel, offering domestic flight tickets in India since 2019. There are currently no reported signs of further ambitions, but most travel players are not ignoring this possibility.

M&A is back on the table, in creative shapes and forms

Several sectors might experience a new wave of consolidation. Travel players came into this crisis with stronger and with weaker balance sheets. Some will emerge stronger, some weaker, and some will look different. Because of the different conditions in which everyone came into this, the comparative difference in the impact of COVID-19, and cheap financing opportunities, we expect some big M&A deals that will reshape the industry.

As just one example, OTAs might consider moves across the value chain. Suppliers have long been working to limit their dependency on the desirable volumes OTAs provide a gateway to. In this new world order, though, OTAs might be stretching their thinking in finding ways to secure room inventory (or airplane seats and cars, for that matter). Effectively splitting the commission, independent hotel owners might also get better returns from using an OTA brand for their hotel. With marketing and revenue management in the hands of the OTA, the operator can focus on guest service delivery. OTAs would gain full control over pricing and display, and can leverage their analytics capabilities. We might see moves that seemed too farfetched until recent times.

Meanwhile, global private-equity firms have an unprecedented $1.5 trillion in dry powder capital available for deals in struggling sectors, such as the travel industry.[92] Larger travel players might already be on the lookout for opportunities to team up with private equity and roll up small suppliers or travel technology start-ups.

Complementary, not competitive

Some of these ideas are unusual in suggesting that companies seek other stances than outcompeting rivals during the pandemic recovery. Rather than outcleaning and outcompeting one another at a benefit to no one, the travel industry needs to identify opportunities for complementary, collaborative ecosystem plays that help get the industry back on track. Instead of doing the minimum and seeing what happens, travel has the choice to declare what must be done systemically versus independently. Getting past the fact that working together is better, travel protocols including rapid testing, safety standards and health passports need an industry champion to lead the way and for others to rally behind. The same holds true for keeping the industry focused on sustainable ways of travel (see sidebar *"Sustainable tourism: Building the future of travel together"*).

True, there are complexities in teaming up—legacy systems, fragmented ownership structure in hospitality, to name two. But now is the time to think in new ways to establish bigger, bolder relationships.

> **"Rather than outcleaning and outcompeting one another at a benefit to no one, the travel industry needs to identify opportunities for complementary, collaborative ecosystem plays that help get the industry back on track."**

SUSTAINABLE TOURISM: BUILDING THE FUTURE OF TRAVEL TOGETHER

While most of the attention of the travel industry is currently focused on getting through COVID-19, travel companies should not lose sight of pre-COVID-19 focus areas—sustainability in particular. COVID-19 has provided countless examples of how changes in our behavior can make a huge impact on climate change. A study in April found that global carbon dioxide emissions fell 10 to 30 percent as the world sheltered in place and businesses operated at a reduced capacity.[93] We have all experienced or seen stories of cities without smog for the first time in decades and rare wildlife sightings when tourists disappeared.

Travel, while essential for human connection and recreation, is a big contributor to the climate crisis. As reported by the Environment and Energy Study Institute (EESI), aviation produced 2.4 percent of total global CO2 emissions in 2018. While "this may seem like a relatively small amount, consider that if global commercial aviation were a country, the industry would rank number six in the world between Japan and Germany."[94]

Additionally, consumers are increasingly aware of the climate issues associated with travel, and they demand solutions. For instance, in a 2019 McKinsey CleanSky survey of travelers, 54 percent were "really worried" about climate change, 40 percent said flying was a major contributor to their personal carbon footprint, and 53 percent said aviation should "definitely become carbon neutral" in the future.

This industry reboot is a great opportunity for travel companies and destinations to work together and set up strategies to build a more sustainable tourism industry. Many travel executives are doing exactly that. Brett Tollman, CEO of TTC, reiterated his determination to continue the company's sustainability effort despite the current challenges: "TTC is working on becoming a carbon-neutral company within the next five years. So we already had a plan for that. I would say it's slightly accelerated it. [We're] sticking on our plan and our path to be a more responsible travel company as we go forward."

James Thornton told us that it's the travel industry's responsibility to lead the consumers to travel sensibly: "If we don't change the way in which we travel, in 30 or 40 years, there will be no vaccine for climate change. And as a result, travel companies will not have this fantastic resource, which is the earth, and then the wonderful communities within it to go off and share with everyone. I think we have a responsibility as an industry to change the way in which we travel and to then influence the way in which consumers are going to travel."

"This industry reboot is a great opportunity for travel companies and destinations to work together and set up strategies to build a more sustainable tourism industry."

SUSTAIN YOUR CRISIS-INDUCED AGILITY

While COVID-19 wreaked havoc on the world we once knew, it has also brought a whole new sense of nimbleness and agility. Arne Sorenson, Marriott's chief executive, stated that in the first six months of COVID-19, "we had to move with speed and in the face of uncertainty in a way that we never anticipated before." Many travel executives are thinking of ways to embrace and preserve the best of this reset moment. Here are some ideas for a pragmatic guidebook:

- *Organizational design:* rewire core functions to break down cross-functional silos
- *Agility:* enforce rapid decision and learning cycles
- *Lean:* be ready to scale back up, as nimbly as you can
- *Talent:* assign your top talent to top priorities

Rewire core functions to break down cross-functional silos

Incumbent companies, in particular, can seize this moment to move away from siloed functions, which do not take advantage of cross-functional coordination. While any travel player could benefit from rethinking the design of core functions, the below uses an airline setting to bring the idea to life.

Time to throw out your commercial playbook

The time to reimagine the typical commercial function was yesterday. In many organizations, the collection of planning, pricing, revenue management, marketing, sales, distribution, e-commerce, personalization, and loyalty teams often struggles with competing priorities. These competing objectives often result in a commercial function that tends to be rigid and paradoxically unstable.

Taking an airline example, before the COVID-19 outbreak commercial teams were already facing increasingly ambiguous demand drivers, more unpredictable demand signals, and ever-increasing network complexity. These factors pose an optimization game with a constantly moving target, which is obsolete the minute a schedule is published.

Upstream, the network planning team has spent weeks or months building a capacity plan, designing or adapting the network, planning a schedule, and assigning aircraft. On a day-to-day basis, revenue management then fills up the planes maximizing willingness-to-pay capture, while separately the pricing team makes sure the sticker prices are proportionate.

Once the booking period starts, after months of sequential steps, the benefits of sticking to the original network plan and schedule are evident, rather than making last-minute tweaks. At 500 flights per day, 15 booking classes and—let's say—changes made 60 days before departure, that is about 0.5 million booking limits at stake. In addition, one can easily imagine how changes to the schedule post-booking lead to unhappy customers. In fact, in the current paradigm, one of the characteristics of a strong commercial function is being able to resist close-in changes that create churn, and instead optimize given constraints.

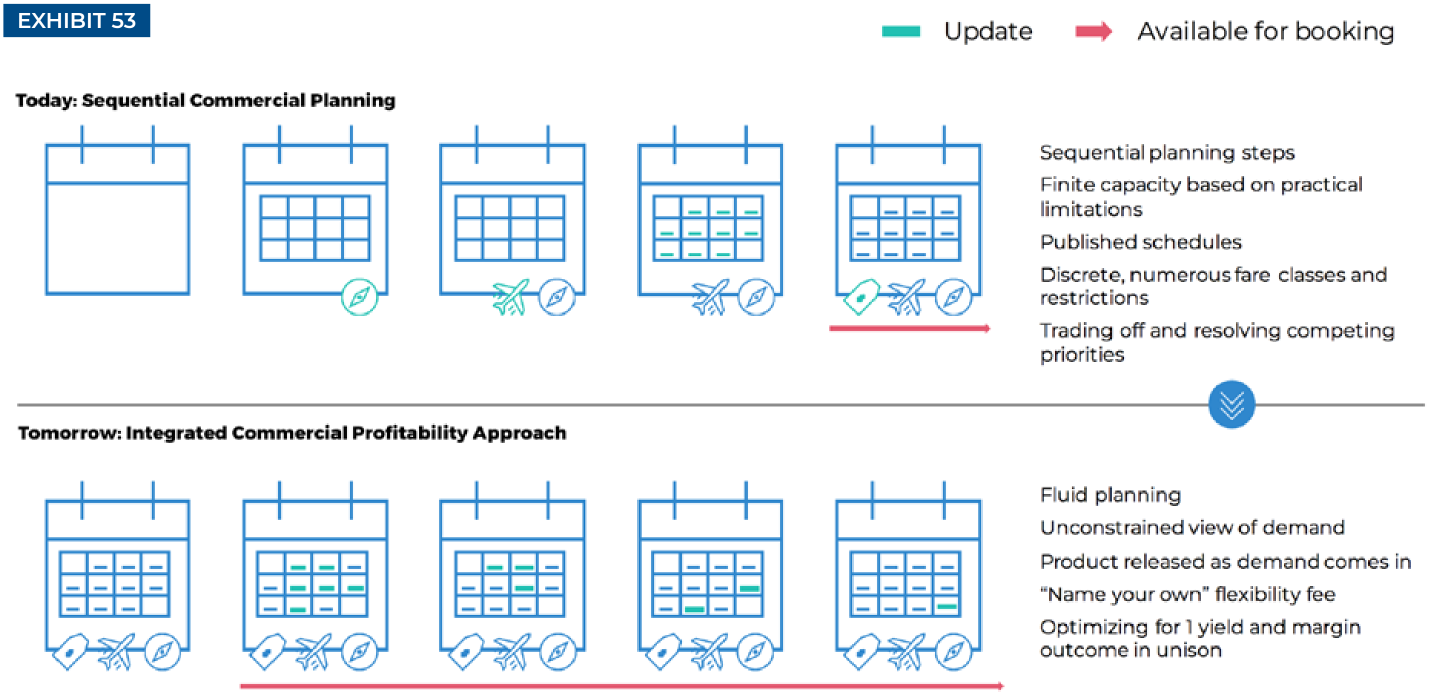
While this sounds conceptual, the problem is real. Revenue management can only produce against inventory that is for sale—rather than demand available in the market—leading to missed revenue opportunities and internal disputes.

An integrated commercial profitability approach

A completely rewired commercial function would no longer have a flight capacity plan that is based on practical limitations like gate availability, staff availability and minimum yield thresholds. Instead, commercial planning would start with an unconstrained, granular view of customer demand.

An integrated commercial profitability approach starts with an unconstrained view of customer demand.

EXHIBIT 53



Source: McKinsey Travel, Logistics & Transport Infrastructure Practice

Demand forecasting would be based on internal and external data feeds, gauging what demand exists at what price. A deep understanding of the customer uncovers who is taking a flight because it's the first flight out, versus those who chose it because of the schedule frequency, versus those who booked it because it's the cheapest. In other words—like retailers do continuously—the goal is to assess willingness-to-pay, effectively creating a demand curve showing what customer demand is addressable at each price point.

This view would be dynamic in order to assess various scenarios—like hub connections. The curve is also competition-adjusted, to account for what you know and surmise about competitors' operations. The result is an origin-destination heatmap indicating revenue opportunities. Layering in operational parameters, such as turnaround efficiency, this results in a single view of capacity, network, and inventory (Exhibit 53).

Capacity remains fluid because the shift is also customer-facing, enabled by more flexible product offering—for example "itinerary-less bookings". The airline can release product as demand comes in, since a London-to-Paris (any airport) booking for October 3 between 7 and 11 am, only requires actual flight assignment 48 hours in advance. This booking concept allows airlines to hold off on scheduling and pricing 30 or so percent of capacity until closer to departure.

Enablers

In the end, the biggest shift is forcing a single optimum across the commercial function: a single key performance indicator combining a yield and margin outcome that transcends the individual teams, including "downstream" distribution and loyalty groups. This way, pricing and capacity decisions are coordinated and undisputed.

Of course, "downstream" teams also have to become more flexible in order to capture value from integrated commercial planning. In the airline example, crew scheduling is one illustration of a complex, rigid process that would require significant change. That said, it starts with no longer accepting that seats are a perishable good. Even in the context of managing finite capacity, selling out of cheap fares should prompt a suggestion to customers who already booked, with a discount for a trip a day later.

> **Necessitated by the crisis, travel companies have, perhaps unknowingly, adopted trademarks of agile organizations.**

Lastly, the pivot also requires a distribution model that maintains inventory using price bands at any point of time. Rather than static fare class buckets, these bands are based on the airline's willingness-to-supply: there is no point in selling a $7 New York–to–Asia flight, even if that is the customer's willingness-to-pay.

Given the resulting diminished day-to-day churn, the commercial function can focus obsessively on understanding and adapting to customer demand. Moving away from siloed and sequential processes, a more integrated and data-driven commercial approach can set a new standard for core functions across travel organizations.

Enforce rapid decision and learning cycles

As IHG's Barr points out, "There's no playbook for managing a pandemic." As a result, travel companies have been forced to react swiftly and not let perfection be the enemy of progress. Necessitated by the crisis, travel companies have, perhaps unknowingly, adopted trademarks of agile organizations. For example, the uncertainty makes much of the traditional budgeting process useless, as budgets become outdated before they are even completed.

Organizational agility is not a new concept. In fact, back in 1943, Lockheed Martin established its Skunkworks to drive a radically new approach to aircraft development and manufacturing. A team of engineers, planners, technicians, and aviators was brought together in the Nevada desert, united behind absolute clarity of purpose, and empowered to get stuff done. And they did: they designed and built the XP-80—the first jet fighter used by the US Air Force and a major project of its time—from a standing start in just 143 days.

Until recently, less than 25 percent of travel, transport, and logistics companies had agility transformations under way to establish step-change improvements across customer centricity, productivity, employee engagement, decision-making quality, and time to market.[95] Contrast that with the 70 percent of large retail companies who considered agile a top-three priority and the more than 40 percent of retail companies who had organization-wide agile transformations in progress.

Historically, many travel companies have instead followed traditional rigid processes that involve detailed planning and design phases but little testing and few opportunities to incorporate learnings. This was for good reason: designing for efficiency and stability versus speed and flexibility is important with traveler safety and global operations in mind.

Yet the travel industry has recently proven it works—and learned a few lessons:

- *Prioritization works.* The sudden rise of existential topics often meant more dedicated focus, less multitasking, and the elimination of unnecessary activities. The pandemic has seen the large-scale deployment of fast, agile teams, which are small, focused cross-functional teams working together toward a common set of mission-critical objectives. This requires constant clarity on what needs to get done by whom, and when, as well as an absolute commitment to execution excellence.

- *Decisions were sound despite being made during periods of uncertainty and with imperfect information.* The commonly held assumption that "we can have good decisions or fast ones, but not both" is flawed. The pandemic has shown that it is possible to make decisions faster without breaking the business. In practice, this means fewer decision makers in fewer meetings, less detailed preparation for each meeting, and less huddling up after the meeting to have the real conversation. Instead, quickly identifying and testing hypotheses replaces lengthy decision cycles with learning and quick insight. Holding just-in-time, fit-for-purpose decision meetings (e.g., planning and resource allocation on a quarterly instead of annual basis) not only is faster but also makes the organization more flexible.

- *Hierarchy is overrated.* A flatter organization has more people taking action and fewer people feeding the beast of bureaucracy through briefing each other, reporting, and seeking approvals. Leaner, flatter structures will allow the organization to respond quickly to emerging challenges and opportunities.

As we get to the marathon part of this crisis, the question becomes how to hold on to this perhaps newfound muscle. Three concrete leadership actions can effectively role model agility:

- *Ask* a small team to 'swarm' the highest priority
- *Incentivize* speed-of-learning versus performance
- *Give* a team full autonomy to move swiftly in accomplishing its mission

While these are tactical suggestions, research has shown agile companies have 1.5x higher likelihood of overperforming their competitors financially in the long run.[96] Preserving these ways of working can therefore help travel players chart their path back to financial health.

Be ready to scale back up, as nimbly as you can

Many players faced the painful need to make headcount reductions, rightsize their asset base, and transition fixed costs to variable costs wherever possible. In the future, travel will likely remain a margin play. Three levers ensure the organization stays nimble when business picks back up.

Making automation a strategic priority

Many travel organizations will need to rapidly reinvent processes that previously required physical touchpoints or documents, to support contactless servicing capabilities. The goal will be to rethink an outcome that eliminates at least 30 percent of error-prone, bothersome, low-value manual interventions from hundreds of day-to-day processes by relying on automation and digitization.

The use of automation is growing. A McKinsey survey conducted just before the pandemic hit found that two-thirds of organizations are at least piloting the automation of business processes in one or more business units or functions, compared with 57 percent two years ago.[97]

The research includes highlights particularly relevant to travel companies, by zooming in on what smaller companies do. Maybe similar to travel companies, smaller companies are less likely to have automated any of their processes, but interestingly those that have done so are seeing a higher success rate than larger organizations. Sixty-five percent of respondents at smaller companies report success with automation, compared with 55 percent at large organizations. Those successful smaller organizations get three elements right consistently:

- *Considering the entire organization* under the scope of automation efforts. This also has the benefit of being able to adopt solutions that are already used by other business units or for other products.

- *Leaders' understanding of automation program costs* also distinguishes successful companies. More than half of respondents at these companies say their leaders clearly understand the total costs, compared with one in five at other companies.

- *Taking a tactical approach* and setting tangible objectives for automation initiatives also is significant. Fifty-five percent of successful companies have established KPIs to track the impact of automation efforts, compared with 37 percent at other companies.

Working through technical debt

In the 1960s, airlines were one of the most technologically advanced sectors. More than half a century later, some of the same systems are still in place. Travel incumbents are often stuck with highly customized, clumsy legacy technology that does not adequately support business needs.

With diminished traffic and transaction volumes and therefore less urgency to get that next big promotion live, technology teams should invest their time now to overcome technical debt and work their respective technology backlogs. The resulting simplified technology stack will support quick iterations, higher deployment velocity, and resiliency going forward.

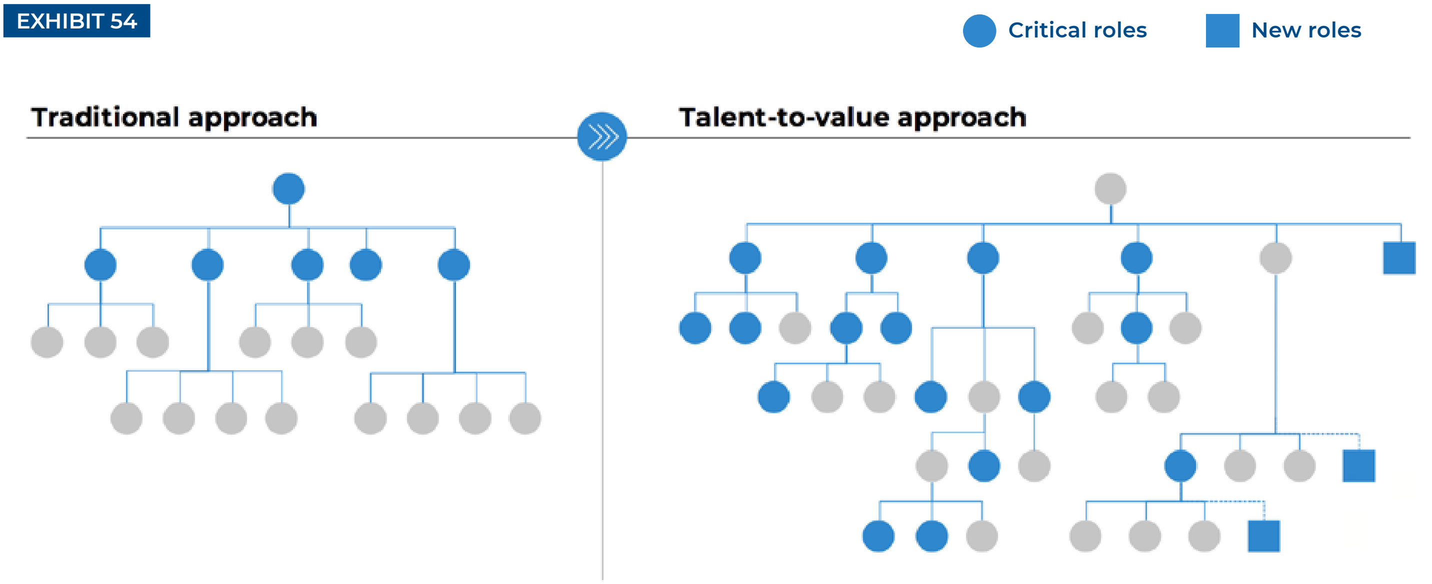
More broadly speaking, IT's priorities should explicitly include efforts to take out cost. This means adjusting the IT cost structure to new demand levels and reinvesting the freed-up resources into customer-facing digital solutions and critical operational technology, first and foremost. Companies can also dedicate some of the savings to modernizing selectively the technology stack and software-development tooling, which reduces complexity and therefore cost going forward. Getting this balance between digital solutions and cost reduction right is important, since new revenue-generating functionality will also result in new run cost to incorporate in budgets. For this reason, during the global financial crisis, a major Gulf carrier explicitly focused on cost take-out initiatives. This also included working more with a network of partners when taking on the full scale of a project investment could not be justified.

Re-baselining productivity

With diminished daily work volumes, business teams should also use this time to streamline every process they can. Apart from automation, teams can radically simplify, combine or standardize tasks—to the point where they settle in a much more effective day-to-day. It could mean creating training videos to quickly bring new hires up to speed, or redoing a cross-functional budget coordination process that has become bulky. It could also mean centralizing similar marketing execution tasks across locations, or disposing of obsolete / excess inventory, and consolidating real estate footprint. When demand comes back, travel companies should have more business processes in place that scale well. This way, growing revenue and customers does not require a linear increase in resources, preserving productivity wins and improving employee experience. With a simpler operating model, travel companies will stand a better chance of a financially sustainable future.

When talent is linked to value, critical roles can be at any level of the organization.

EXHIBIT 54



Source: McKinsey

ASSIGN YOUR TOP TALENT TO TOP PRIORITIES

Many travel organizations have been forced to reduce the size of their workforce, given massive (sometimes 80 to 90 percent) revenue declines. Additionally, many remaining employees may feel uncertain about their job security and may be tempted by other industries that can offer more stability. Despite these pressures, travel companies have responded quickly, worked with labor unions to develop mutually agreed-upon redundancy programs, and pursued creative solutions such as job sharing and talent-exchange platforms. Some travel companies, for example, helped operations crew transition to e-commerce warehouses or food-industry distribution centers, via a talent marketplace.

Despite this deep and continuing organizational restructuring, talent strategy needs to remain a top priority for travel companies. The primary step to developing a strong talent strategy is to link talent to value. Contrary to traditional thinking, critical roles and value are not defined by hierarchy, but rather based on creating and enabling value. Critical roles can be found at many levels (Exhibit 54).

> **"The primary step to developing a strong talent strategy is to link talent to value."**

In focusing on talent to value, leadership deploys the best people to the critical roles to ensure that priorities are met. This process involves four steps:

1. Understand the value agenda. The first step in linking talent to value is to get under the hood of a company's ambitions and targets—for example, organic growth, technology and analytics, M&A, and cost efficiencies—and make them measurable.

2. Identify and clarify critical roles. Identify the critical 2 percent of roles that have an outsized impact on the company's success. Typically about 25 roles contribute to half of the value at stake, and many are not the traditional roles companies would have suspected prior to this exercise. At times, high-priority roles might be surprising; they have included the chief legal officer, an account manager for a key customer, and a director role specifically aligned to a growth area.

3. Match talent to roles. Assess fit, and match talent based on each role's requirements, including experience, skills, and knowledge. At one logistics company, the vice president of maintenance was identified as one of the key roles. Historically, this role was staffed based on technical competency and project-management experience. The talent-to-value analysis showed that, in fact, a data-driven bias and profound understanding of maintenance analytics were skills necessary for this role.

4. Operationalize and mobilize. Linking talent to value is not a process that stops when roles are identified and matched to the appropriate top talent. To garner the expected value, organizations should close the gaps in the talent system in service of the value agenda by prioritizing coaching and development, rigorous performance management, and succession.

Effectively deploying talent to value can be a source of competitive advantage. Given the volatility and uncertainty of the travel industry during the current crisis, travel companies will need to reassess talent to value more frequently as priorities shift rapidly.

From surveying 600 companies, McKinsey found the talent-related practice most predictive of winning against competitors was frequent reallocation of high performers to the most critical strategic priorities. In fact, the relatively fast talent reallocators were 2.2 times more likely to outperform their competitors on total shareholder returns than the shower talent reallocators.[98]

To help with this, travel executives should consider how they can remove red tape to enable quick talent shuffling. An HR leadership team might meet monthly to identify trends and needs across business units—for example, the lag of digital fluency. They should also identify creative opportunities for reskilling employees. For example, after the pandemic start several companies reskilled "idle" teams, such as recruiting, to support other teams, such as customer service.

But importantly, travel executives need to consider how to protect against losing talent to other industries. Top talent, both top management and specialized practitioners, are leaving the industry in light of its uncertain future, which doesn't bode well for the changes the industry needs to undertake. While companies spend substantial time thinking about their customer journeys, they don't think in the same way about employee journeys. Three ideas have potential to help. One is for managers to engage in regular conversations with each employee to set priorities jointly in a changing environment; annual "set it and forget it" goal setting was already becoming less relevant. The second idea is to invest in coaching skills—which is even more critical when workers are remote. Finally, companies should celebrate the broad range of "good" performance, while also recognizing truly distinctive and lagging performance.[99]

To accomplish the actions we have put forward in this report, travel companies must now more than ever retain their best talent and empower them to handle the top priorities. This also holds true for frontline staff—a travel organization's secret weapon. In a service business, employees make or break a customer's experience. Travel companies should consider training frontline employees differently, focusing on authenticity, empathy, and de-escalation, particularly in a time when many people may be scared to be exposed to the virus while working. Doing so can amplify a sense of human connectedness for customers and employees alike.

WHO WILL COME OUT AHEAD?

Keith Barr told us he asks himself, "How do you actually come out of this a stronger business than you entered into it?" Travel is at a crossroads. Six months into the pandemic, with it showing no signs of slowing down and the threat of an ever-widening economic recession, the hardest-hit travel industry will continue to struggle for a long time.

Staying relevant and achieving sustainable growth through this unprecedented global crisis requires disruptive thinking, being agile and bold in turning challenges into opportunities. While making it through the first six months of the pandemic has been the main priority of travel executives, now is the time to begin looking forward and determining how best to grow your way out of the crisis. Now is the time to be bold—to think bigger and more innovatively given the industry's reset.

At a time when so much is uncertain, we must latch on to what we know. First, humans are social animals, and we want to see each other and see the world. Second, while it may look quite different on the other end, the travel industry will get through this challenging time. There may be a new balance of power, and the lineup of operators will have changed, but there will be a travel industry. Third, the traveler experience will be different, in ways we don't yet know. And lastly, the travel industry is at a crossroads, an inflection point—a period when reinventing and reimagining are necessary.

Travel is about anticipation. Excitement for upcoming travel has now been replaced with anxiety and uncertainty. Travel companies must find ways to build anticipation again. One revelation of the pandemic is the intricate interdependence of the travel sectors and of travel and other industries. One can run the safest hotel in the world, with robust procedures to ensure employees and guests are guarded from infection, but occupancy will not see improvement if people feel that flying is unsafe, local government requires quarantines, or if neighborhood restaurants are closed. The notion that travel is an end-to-end experience is exposed to the core. A faster travel recovery calls for a cohesive and concerted industry effort. As Brett Tollman, CEO of TTC, commented, "Together we fly; together we fail. So we either do it right for our future, or we won't."

Can the travel industry and leaders in the travel business emerge from this global pandemic better and stronger? Can the future of travel be more aspiring, more influential to our collective effort of a better world? We believe these goals can all be achieved, through self-reflection and acting on lessons learned from this pandemic, centering on building a people-focused business and a connected travel ecosystem.

> **Keith Barr told us he asks himself, "How do you actually come out of this a stronger business than you entered into it?"**

The economic crisis spurred by COVID-19 has, among other things surfaced the crucial role of travel in the global economy and in our human and societal needs. Travel companies carry the responsibilities of protecting the health and safety of people—their employees, their customers, and the communities in which they operate. When we asked the executives of leading travel companies, "What are your short-term and long-term priorities:" all of them pointed to this focus on people. Hilton's Chris Nassetta said it plainly: "We're a people business. We're a business of people serving people, period, end of story." Finding solutions to make sure consumers can travel safely again will have a huge impact on the sustainability of companies, the career opportunities of employees, and ability of travelers to see the world and connect face-to-face.

As Arne Sorenson said, "We will travel again."

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