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For corporate travel, a long recovery ahead

Business travel is critical to many travel providers but will take a long time to return to previous levels after the COVID-19 pandemic. Here's what the players that depend on it need to know.

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When the COVID-19 pandemic halted travel around the globe, business travelers had to pivot quickly from in-person meetings and events to virtual platforms. As the pandemic continues and travel-industry players look ahead for a rebound, our research shows that the postcrisis return will take years and that business travel will return at a slower pace than leisure travel.

In this article, we examine the role of corporate travel, and how the industry has recovered after previous disruptions; the segments that may return first, and how and why they will differ; and the segments that may be permanently replaced by technology. We also explore travel patterns and event recovery in China, the first major market to resume travel, and see how other major markets on varying timelines of pandemic recovery are faring. Finally, we highlight key actions that could help travel players in an undoubtedly lengthy recovery ahead. In future articles, we will take a deeper look at the timeline and shape of the recovery curve for corporate travel.

Business travel is critical—and volatile

In 2018, business-travel spending exceeded $1.4 trillion—21.4 percent of the global travel and hospitality sector.[1] More than half of business travel is concentrated in two economies, China and the United States. Business travel encompasses transient travel and travel for meetings, incentives, conferences, and events (MICE), from large-group offsite gatherings to industry-wide exhibitions.

Corporate travel is significant for airlines and hotels not only in traffic but in profitability. While some travel providers have limited exposure to business travel (ultra-low-cost carriers, for example), it's a critical driver of profitability for many major carriers. Because corporate travelers are more willing to purchase higher class or refundable fares, they can drive between 55 and 75 percent of profit for top airlines but account for as few as 10 percent of passengers.[2] Similarly, some convention-focused hotels (some hotels in Manhattan, for example), depend nearly entirely on corporate travelers for their occupancy, while other resorts in vacation destinations are likely to be unaffected by reduced corporate demand.

Historically, business travel has been more volatile and slower to recover than leisure travel after economic downturns and other disruptions to travel patterns (Exhibit 1). During the 2008–09 global recession, international business travel from the United States declined more than 13 percent, compared with a decline of just 7 percent for international leisure travel from the United States. And although international leisure travel fully recovered in just two years, international business travel didn't fully rebound to prerecession levels for five years.

Given the volatility of business-travel patterns on top of significant modern technological and connectivity advancements, the economic disruption from the COVID-19 pandemic will have critical implications for the rebound of business travel—and indicates a long road ahead for the sector.

Business travel will eventually return—but in phases

When economies around the world shut down because of the COVID-19 pandemic, most large corporations instituted sweeping restrictions on travel and set high thresholds for exceptions. By April 2020, US airline capacity declined about 70 percent from that in 2019, a decline nearly four times greater than seen after the September 11, 2001, attacks and six times greater than seen after the 2008–09 financial crisis.

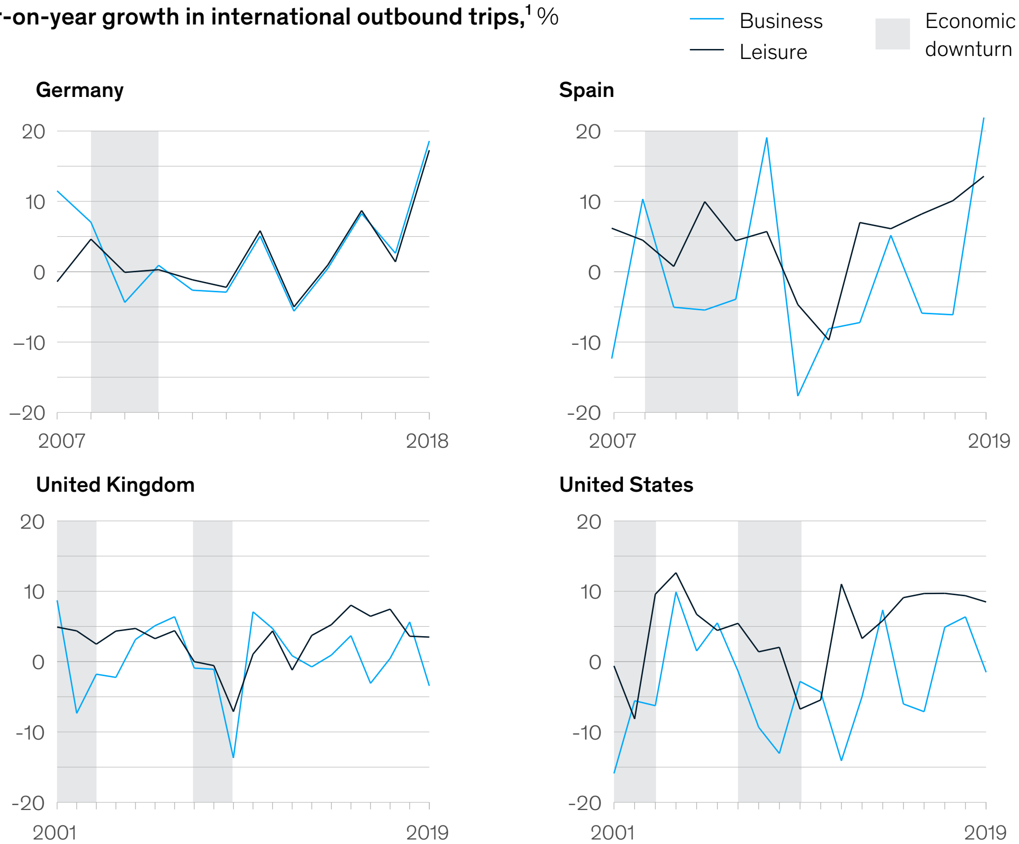
Once companies and their employees are prepared to return to the use of airports and hotels, our research indicates that they will do so in phases.[3] Global travel managers and directors told us

[1] *Global economic impact & trends 2020*, World Travel & Tourism Council, June 2020, wttc.org.
[2] Jane L. Levere, "Best guess on when business travel will recover? It could be years," *New York Times*, July 13, 2020, nytimes.com.
[3] Our team interviewed global travel managers in around a dozen companies, all large business-travel buyers, between June 23, 2020, and July 14, 2020.

Exhibit 1

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

Year-on-year growth in international outbound trips,[1] %



[1]All values as reported from official local statistics, except for Germany where the business vs leisure split from Euromonitor is applied to total outbound volumes.
Source: Euromonitor; INE; National Travel & Tourism Office, International Trade Administration, US Department of Commerce; Office for National Statistics; Organisation for Economic Co-operation and Development; Subdirección General de Conocimiento y Estudios Turísticos, Instituto de Turismo de España – Turespaña; UN World Tourism Organization

that they are closely monitoring local indicators of public health and government regulations, vendors' health and safety policies, and employees' willingness to travel. All three areas can help inform decisions on easing travel-policy restrictions. Several interviewees indicated a need to institute one to three months of buffer time on top of any government guidance to ensure safety.

Travel planners also identified the segments of business travel that are likely to return first, as determined by the *length* and *purpose* of a trip and the *sector* in which travelers work (Exhibit 2). Importantly, even those travel segments likely to return first are on a slow, long timeline for recovery, subject to geographical considerations (such as stabilization of COVID-19 outbreaks and governments' readiness to open up travel).

Regional and domestic business travel will return first

Looking first at the distance of business travel, regional and domestic trips will likely see a return before international travel does. According to a Global Business Travel Association survey of its member organizations, companies are twice as likely to have halted international travel as have halted domestic travel as of July 2020.[4] Within domestic travel, trips that can happen in personal or rental vehicles may replace short regional flights until companies' comfort with sending employees via airplanes increases.

Travel managers with operations in Asia–Pacific say they have begun to see a slight uptick in domestic travel in countries where outbreaks have stabilized (for example, one organization we interviewed noted that domestic China travel was at 70 to 80 percent of prepandemic levels as of June) but that it's nowhere near a full return to scale in any region.

International travel will take longer to rebound because of the complexity of government regulations, mandatory quarantines, and the high risk of fast-changing policies. In Asia, to help facilitate economic development, some governments (such as Malaysia and Singapore) are exploring the creation of business-travel corridors under strict protocols that allow exceptions to quarantine measures.

Business travel for in-person sales and client meetings will return first

Examining next the purpose for travel, other than for mission-critical use cases (such as supply-

Exhibit 2

Business travel will return in phases, spurred by proximity, reason for travel, and sector.

Resumption of activities by phase

Earlier recovery

Proximity	Travel reason	Sector
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
International air travel abiding by government regula-tions and restrictions	Industry conferences, trade shows, exhibitions, and events	Healthcare, education, and professional services

Later recovery

Source: Interviews with travel managers conducted between June 22 and July 9, 2020; McKinsey analysis

[4] "2020 coronavirus poll: July 16, 2020," Global Business Travel Association, July 2020, gbta.org.

Sales-focused organizations expressed an urgency to return to face-to-face meetings, with the understanding that doing so will require both parties to be comfortable with the travel required.

chain-related travel that have continued throughout the pandemic), travel for sales and client-related meetings is most likely to be among the first to return as domestic travel resumes and more travel is permitted, according to those we interviewed.

Sales-focused organizations expressed an urgency to return to face-to-face meetings, with the understanding that doing so will require both parties to be comfortable with the travel required. Whether client offices will reopen to workers and allow guests will be a major indicator of the likelihood of that type of travel returning. Other interviewees expressed a need to keep up with their competitors: once peers begin traveling for sales meetings or pitches, companies will face increased pressure to return to travel to win business among key customers.

The timeline for travel for internal in-person meetings to resume is longer, with higher levels of scrutiny on what is considered business critical and can't be accommodated with technology. Travel to interact with physical assets—data centers and IT infrastructure—will take priority. But economic constraints across industries, especially those hit hardest by the pandemic's economic disruption, will decimate internal travel as budgets get disproportionately cut. Travel for internal MICE and other off-site gatherings may not return until well into 2021 or later. And some travel for internal purposes will be permanently replaced by virtual meetings and collaboration.

Business travel for major industry events will most likely be the last to return, as it requires a higher degree of confidence in public safety. Although conferences and trade shows are critical networking opportunities and difficult to conduct virtually, they are also high-risk, given the number of attendees, which can range from several hundred to more than 100,000. When surveyed about what measures will most boost confidence in business-travel bookings for major MICE, US travel planners ranked the availability of a COVID-19 vaccine highest, above stable-public-health indicators and lifted government restrictions (Exhibit 3).

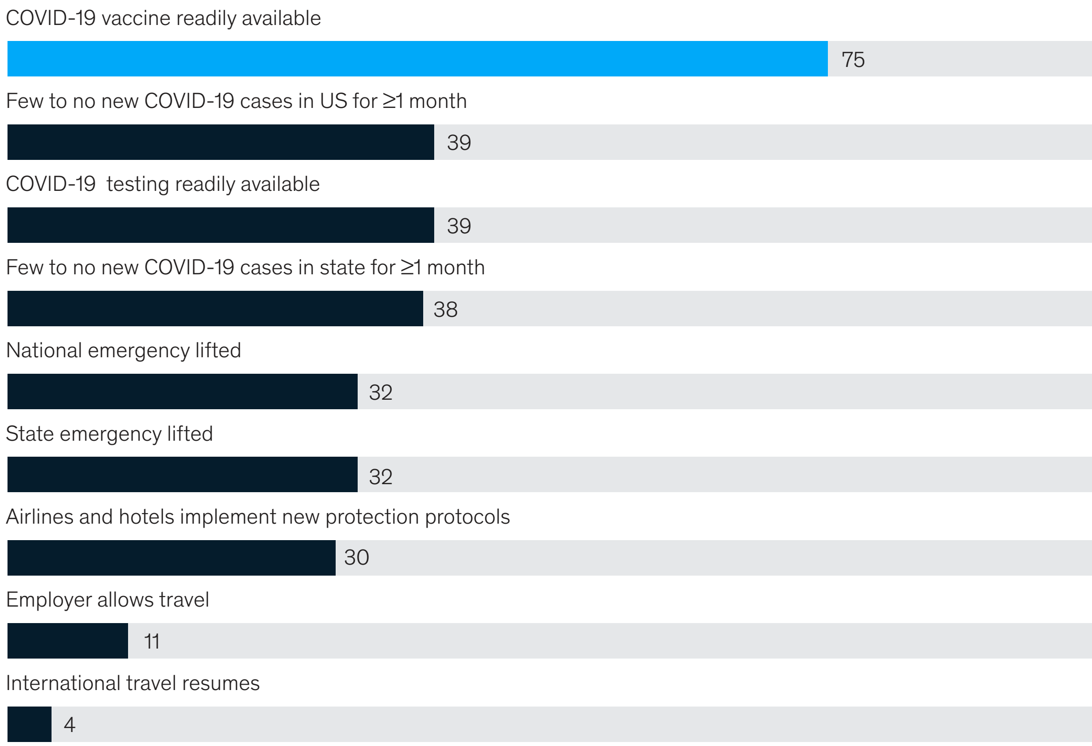
Once events do resume, they will look different. Sales-oriented conferences and trade-show exhibitions may be the first to return to in-person formats. But many events will offer virtual, hybrid, or multilocal models with abbreviated in-person schedules, and they will move from destination cities to regional industry hubs. Venues will need to be modified to allow physical distancing.

In China and South Korea, major domestic automotive and construction trade shows hosted more than 40,000 attendees as early as the end of April 2020, when positive COVID-19 cases were fewer than 50 per day in each country. The Hunan Auto Show, which opened April 30, drew a crowd of around 60,000 attendees and instituted health and safety requirements, including temperature checks,

Exhibit 3

COVID-19 vaccines, testing, and low spread will likely bolster confidence for meetings, incentives, conferences, and exhibition events.

US travel planners' top indicators for confidence in booking, May 2020, % of responses[1]



[1]Question: What indicators would give you more confidence in booking [event types]? For this question, 40 respondents provided answers for each event category they typically book; n = 56.
Source: McKinsey US Travel Planner Survey, powered by GLG, May 2020

mandatory wearing of masks and gloves, and physical distancing throughout the event.

The hardest-hit sectors will be the last to resume corporate travel

Sector, too, will play a significant role in determining the trajectory of business-travel return. Industries use business travel for different purposes, and their ability to replace it effectively with technology varies. Additionally, while all industries were affected by the COVID-19 crisis, some sectors (such as energy and retail) were hit harder than others 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. Comparing business-travel dynamics by industry in China prior to the COVID-19 pandemic and during the early travel rebound shows that those sectors rebounded sooner than the rest of the market did (Exhibit 4). Meanwhile, service and knowledge sectors (such as science and technology research) in China lagged behind in returning to business travel but indicated more ability to replace travel with technology.

If China's still-nascent recovery is indicative of how sectors will return to travel, then other regions will probably see a slower return, based on their industrial mix. Europe and the United States have a higher proportion of business-travel spend concentrated in professional and service sectors and less in the industrial sectors that are showing early resilience in China (Exhibit 5).

How travel providers can prepare

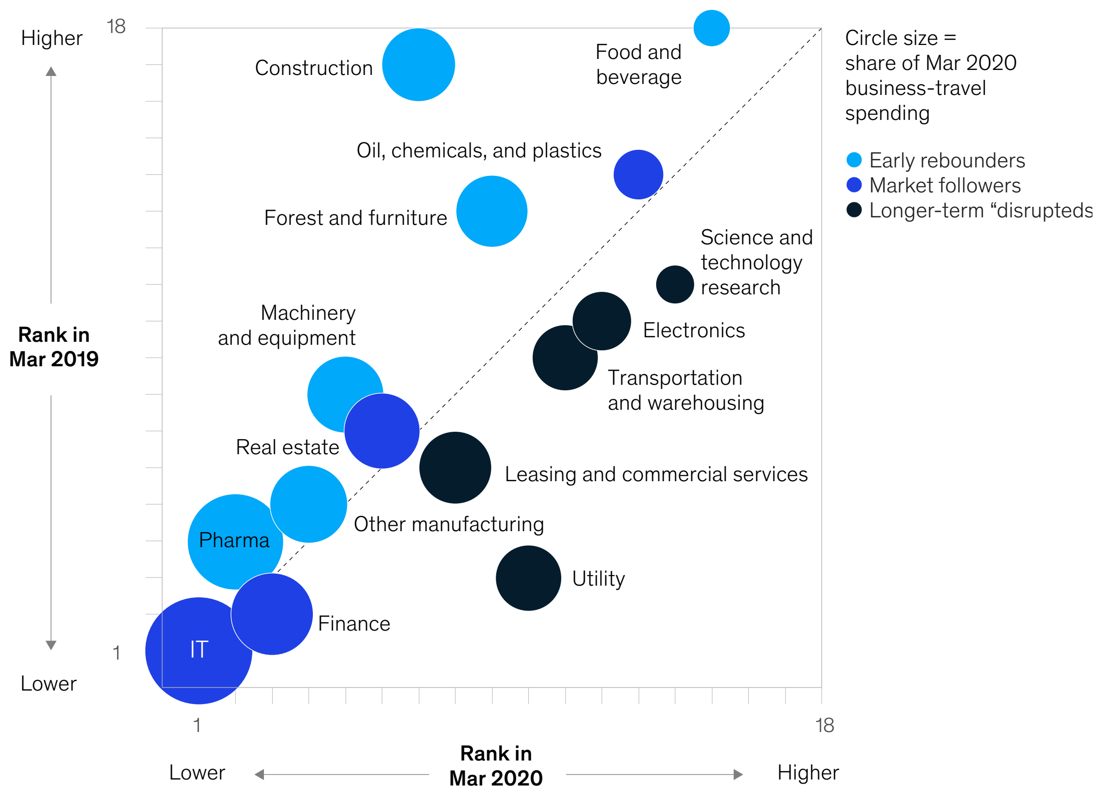
Business travel has a long, multiyear recovery ahead. Travel players that depend on it need to act now and act quickly to weather the storm. Since the global outlook on travel is changing at an unprecedented pace, the critical first step is to develop a deep understanding of when different segments will return. To inform decision making, industry players will need a painstakingly granular, data-backed, flexible perspective on how travel will return across key customers and use cases.

To achieve that perspective, industry leaders should connect directly with their top customers' relevant

Exhibit 4

Business-travel recovery will vary across sectors.

China's change in business-travel spending by sector,[1] Mar 2019—Mar 2020

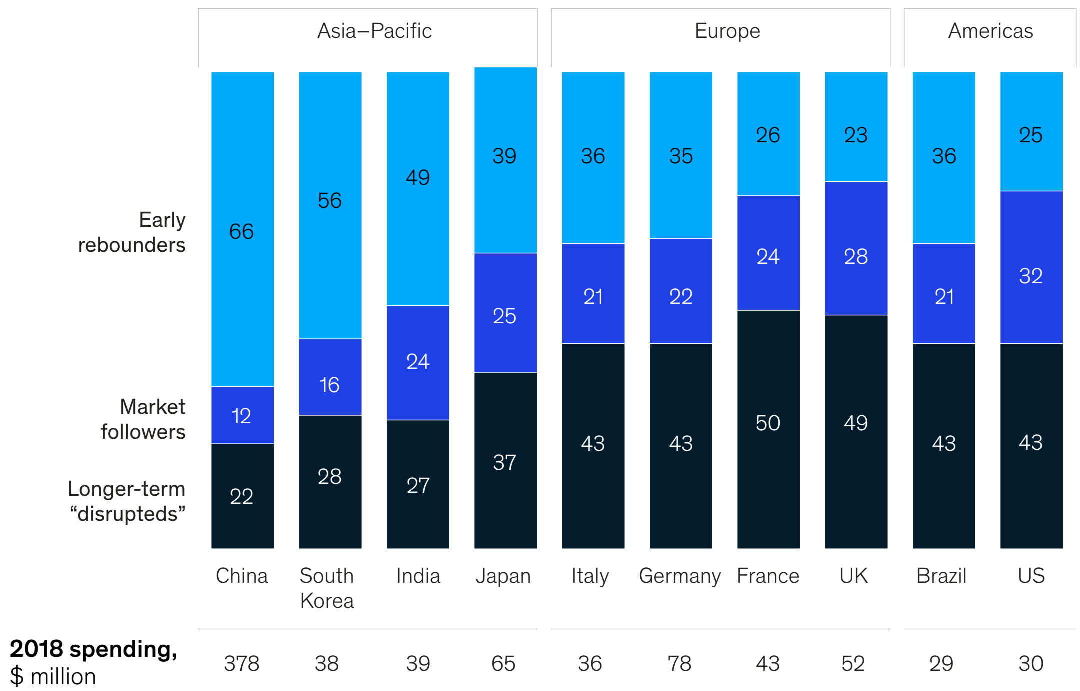


[1]Top sectors by Mar 2020 rankings; not exhaustive.
Source: *2019–2020 business travel management market white paper,* ctrip.com, April 23, 2020

Exhibit 5

Business travel in the Americas and Europe may be slower to return than in other areas because of economic composition.

Top 10 business travel markets, 2018 spending by sector group, %



Note: Figures may not sum to 100%, because of rounding.
Source: *2019-2020 business travel management market white paper*, ctrip.com, April 23, 2020; *GBTA BTI outlook annual global report & forecast: Prospects for global business travel 2019-2023*, August 2019, hub.gbta.org

decision makers rather than engage through the procurement channels in which they may have stronger relationships today. Decision makers hold critical information that can feed assumptions on the timeline for travel recovery and offer deeper insights on customers' future needs.

Business-travel players must evaluate the economics and pivot where needed. Airlines, for example, may choose to shift their business-class pricing and marketing to appeal to high-end leisure customers. Hotel operators may choose not to operate all their facilities or amenities or perhaps keep entire properties closed until demand returns. Trade associations and event planners, too, must pivot, bracing for a slow return to travel for in-person events or investing in technology to create high-quality virtual experiences to generate revenue. Alternatively, players may realize that they need to seek new revenue streams to survive. For instance, hospitality companies may choose to repurpose event and meeting spaces as shared-workspace options for companies that have reduced capacity at their own office sites.

As the business-travel sector does recover, its providers must modify operations and policies to accommodate new customer needs. They should overinvest to ensure 100 percent compliance with health and safety measures and seek global accreditations. Proper execution will make or break customer confidence at a time when traveler reluctance is high. Hotels and airlines must innovate the customer experience specifically for the business traveler. Airlines should evaluate loyalty-program benefits (for example, future business travelers might prefer upgrades to empty rows over upgrades to premium seats). Hotels can reevaluate amenity offerings by partnering with digital players in the food-service and fitness spaces.

Last, business-travel players should shift their commercial models to accommodate disruption. With limited resources and a slow recovery, travel companies must ensure lean, efficient models in the near term without sacrificing long-term capabilities. They must identify opportunities for cross-industry collaboration to minimize losses through resource sharing, when permitted by regulators. MICE sales cycles, in particular, are long—from six to 18 months or longer. Hotel chains and event spaces will need to maintain frontline sellers to stimulate long-term demand but may need to centralize or share resources across properties and adjust incentives and targets. Many industry players have announced deep organizational restructuring, which may prompt a resegmentation or reallocation of resources against changing priorities.

The COVID-19 pandemic has presented an unprecedented challenge to the entire business-travel sector. Companies that are agile and keep a pulse on customer needs will emerge as leaders in the postcrisis recovery.

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