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Ready for check-in?

How the travel industry can cope with
COVID-19-triggered shifts in demand patterns



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COVID-19-triggered shifts in demand patterns

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In light of the fast-changing environment, we would like to highlight that all data represented throughout the document was finalized on July 5, 2020.

Introduction and key messages

With the opening of borders and the relaxation of travel restrictions in most of Europe in mid-June, we are seeing an initial restart of the travel industry. Hotels are reopening, and airlines are resuming flights on a reduced but regular schedule. Majorca, one of the most popular destinations for German vacationers, is allowing a limited number of German tourists as a part of its reopening “trial run.”

The restart of travel after the COVID-19 lockdown raises many questions: What are the post-lockdown consumer trends shaping the industry? What will the changes in consumer behavior entail for major tourism players and stakeholders? What are the near-term and long-term business risks and opportunities for individual industry players? History has shown that following an economic crisis, tourism eventually returns to its precrisis way of operating. Given that the current economic crisis was precipitated by a public health crisis, might we see changes to the industry that persist long into the future?

These myriad open questions reveal the intense uncertainty associated with both what post-COVID-19 vacation travel patterns will look like and how companies in the industry, such as public tourism authorities or accommodation and transportation providers, should respond to the changing tourism landscape.

Our already available reports bring together lessons learned from other countries, [especially China](#), analyze scenarios for the [recovery of US hotel occupancy](#), and together with IATA (International Air Transport Association), provide ways to [track and understand demand recovery](#).

In this report, we draw upon the insights from our proprietary travel dashboard developed in partnership with trivago (Text Box 1). We identify and quantify key emerging travel trends, discuss their impact on vacation travel patterns, and provide guidance on how travel industry players can utilize data insights to manage the resulting situations. There is no doubt about the uncertainty within the industry and the limited data transparency available to understand demand development. At the same time, the travel industry needs to look beyond the challenge and see the opportunity. As previous market structures are now in motion, travel players can and need to combine new market and customer insights to understand short-term demand and supply changes. By doing so, travel players can create innovative offers and shape the new normal of a thriving travel industry – potentially impacting the future operating models of many travel players such as tourism agencies, hospitality players, and airlines.

Text Box 1

Proprietary travel dashboard – how the insights are derived

Our analysis of the hospitality market, both for domestic and international travel, identifies key trends in travelers' preferences, plans, and behaviors. Broadly speaking, we are using the hospitality market as a proxy for the travel market as a whole. Additionally, a newly developed model creates transparency on potential misalignments between the current demand for and the objective attractiveness of a destination.

The analysis is based on comprehensive, anonymized data from trivago as well as publicly available data sources. Trivago provided comprehensive search data as well as click-out data (redirections from trivago to websites where the travelers can book). The data mainly covers January 2019 to July 5, 2020, to allow for a substantial analysis of pre-COVID-19 conditions, the situation during lockdown, and the environment as regions begin to reopen, while considering potential impact due to seasonality.

To support successful decision making, two major prerequisites have to be fulfilled: First, data quality – data has to be complete, relevant, and comprehensive – and second, data currentness – observations of constantly fluctuating COVID-19-related events have to be updated with high frequency.

Drawing on the German travel market as an example, our research yielded the following key insights that will be explained in more detail in the following sections:

- **Overall, German tourists' appetite for travel is returning**, with higher demand for domestic seaside destinations than in previous years – driven by international travel restrictions and a sense of safety traveling closer to home.
- **Travelers are sensitive to even slight changes in the pandemic situation:** Changes in travel restrictions, the opening and closing of individual regions, and recent occasions of virus resurgence have an immediate impact on consumer sentiment, travel-related searches and booking behavior.
- **While at the peak of the crisis, summer vacations were postponed to later in the season, we are currently seeing an increase in last-minute bookings**, with the share of vacation rentals remaining significantly higher than before the pandemic.
- **Overall, demand for European destinations is recovering**, even for those destinations that experienced a high number of COVID-19 cases. By contrast, recovery of demand for destinations outside Europe is still slow, potentially due to travel restrictions.

“As there has been a fundamental shift in the industry and a permanent change in how we travel, what the travel experience will look like post-crisis is still unclear. Every industry participant needs to continuously understand current developments and implications for their business to support decision-making processes – especially as this crisis will forever change the structure of future global travel.”

— Axel Hefer, Managing Director and Chief Executive Officer at trivago

I. Eight trends are shaping the post-COVID-19 travel market

While there are several individual anecdotes and even more opinions about how the crisis has shaped the travel market, data and empirical evidence has been limited so far. This is an opportunity for travel players to utilize new perspectives in understanding market demand, traveler preferences, and segmentation, and include new data sources in their commercial decision making.

Observations from recovering travel markets give travel players a head start. We chose Germany as a reference point due to its position as the largest European and third-largest global international travel market, and the fact that its metrics are commonly seen as leading the recovery curve. However, the underlying data points are changing on a daily basis and are highly influenced by external factors such as announcements or availability. As travel players need to make an informed decision in the midst of continuous market movements, a well-structured approach to analyzing and interpreting the situation is required (see next chapter).

Currently, eight key and, in part, mutually reinforcing trends that have emerged during the COVID-19 crisis can be observed.

1. Travelers are showing increasing appetite for and confidence in travel

Declining COVID-19 case numbers and public travel announcements are driving increases in both search volume and click-outs per search. During the lockdown, travel-related search volume dropped to approximately 10 percent of the prepandemic volume and actual click-outs (redirections to provider

websites) dropped even more sharply. Today, the search volume is up to 60 percent of where it was at the beginning of the year, and the ratio of click-outs to searches has been fully restored.

2. Domestic travel is outperforming international travel for the first time

Historically, travel-related search volume from January to July favored international destinations, with search volume for those being approximately 27 percent higher than for domestic destinations. The earlier opening of the domestic market while international restrictions remained has reversed this trend, giving domestic travel the lead (June 2020: approximately 36 percent higher demand for domestic travel than for international travel) (Exhibit 1). The recovering international share of search volume (16 percentage points since May) indicates that travel beyond borders is rebounding as restrictions outside of Germany begin to relax as well.

3. Last-minute bookings are gaining in importance

Potentially due to the uncertain epidemiological situation at the peak of the crisis (i.e., April to May), travelers had been planning both their domestic and international travel for later in the summer. The lifting of restrictions, which went into effect on June 15 for European countries, however, seems to have resulted in an increase in last-minute bookings. This year's share of June and early-July travel bookings with a start date within 30 days after booking has exceeded the respective share of June and July 2019 bookings by 7 percent.

4. German travelers are sticking to their favorite pre-COVID-19 destinations abroad

Two of Germany's neighbors, Austria and the Netherlands, are among the most popular international destinations as travel resumes. Search volumes and conversion rates for both countries have been growing since May. This may be due to the ease and perceived relative safety of travel to these countries. Specifically, these countries are close enough to travel to by car in a time of limited flights, and traveling by car could be perceived as presenting a lower infection risk than flying. Nevertheless, German travelers' current list of top vacation destinations extends well beyond the border and even includes countries severely hit by COVID-19 such as Italy, Spain, and France.

5. Travelers are turning to German seaside alternatives

Among domestic destinations, the attractiveness of Germany's coastal regions (Mecklenburg-Western Pomerania, Schleswig Holstein) has increased significantly. Along with mountain and other nature-focused regions, domestic coastal destinations have been considerably more in demand since the outbreak of the crisis. In absolute terms, Bavaria (both mountain and city regions) remained the most popular destination in Germany throughout the crisis. City destinations (for example, Hamburg and Berlin) and regions with a high population density (for example, North Rhine-Westphalia) showed less relative search volume during the crisis – possibly driven by the reduction in business travel. June and early-July figures are showing the first signs of recovery for domestic city destinations.

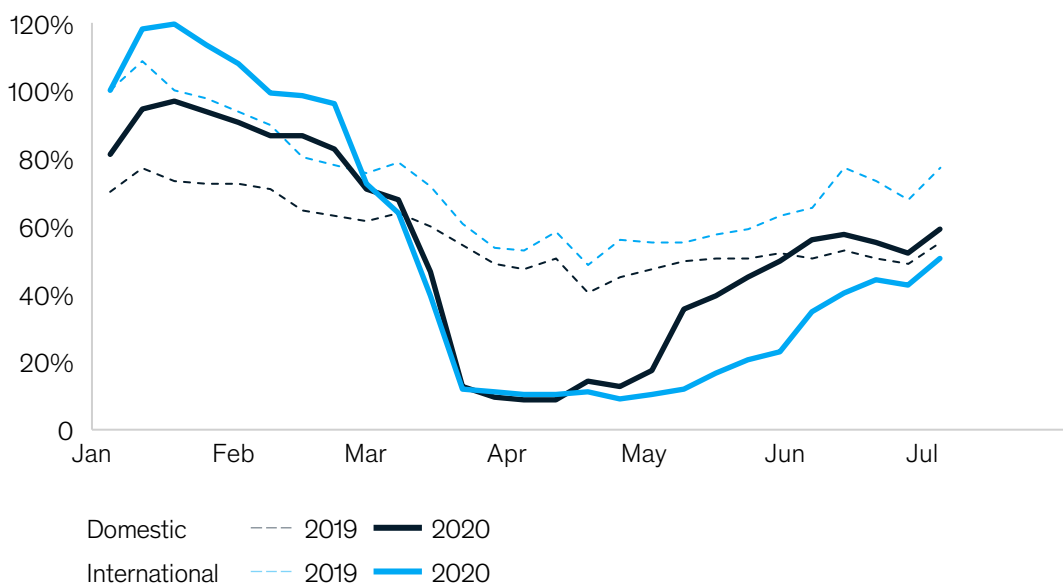
Exhibit 1

Domestic and international markets were almost equally hit – with domestic search volumes ramping up faster

Domestic and international search volume

Percent of international beginning-of-year value

Weekly development



Domestic and international data as of July 5, 2020

Source: trivago; McKinsey

6. Longer trips are gaining in popularity

The rate of recovery varied significantly by duration of trip (Exhibit 2). Specifically, demand for longer trips (over seven days) has not only recovered but has exceeded precrisis levels. Demand for one- to two-day travel, despite a dramatic recovery since May, still sits at around 63 percent of where it was at the beginning of 2020. Considering the financial impact of the crisis, it is possible that travelers are choosing to skip weekend getaways in favor of longer summer vacations with their families. Moreover, it could be that if people are willing to take the risk of traveling, they might as well make the most of it on a longer trip. At the same time, (unmanaged) business travel (typically lasting one to two days) was severely impacted, and most companies are still restricting work-related travel.

7. Demand for vacation homes nearly doubled during the crisis

The total demand for vacation rentals increased during the crisis, up approximately 78 percent from March 2020 to its peak in May (Exhibit 3). For domestic travel, the demand even more than doubled during its peak in May 2020 versus March 2020. We saw the overall share of vacation rentals

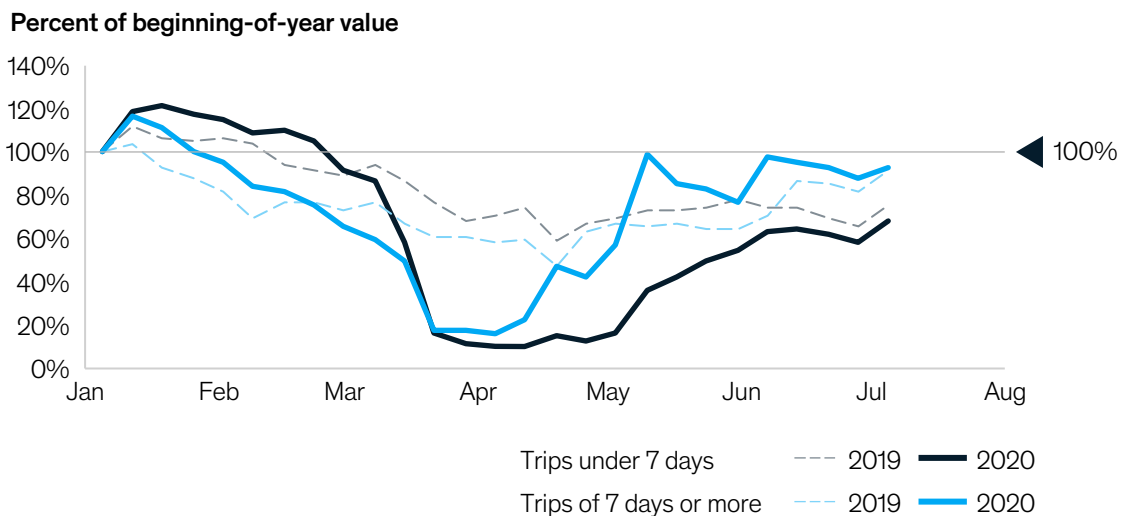
begin to decline in June as many hotels resumed operation, but the share remains significantly higher than it was pre-crisis. It is possible that travelers feel more comfortable in vacation rentals due to their smaller property size compared to hotels. Vacation rentals also impose fewer COVID-19-related restrictions than hotels. Travelers may not want to be constrained by allocated time slots for breakfast that limit the number of guests in dining areas or the closure of certain on-site facilities or amenities.

“Domestic and neighboring international travel gained unprecedented market share during the last few months. If destinations and local travel providers play this out smartly, it is reasonable to assume that the crisis will have lasting impact on the travel flows. Why shouldn’t travelers consider domestic seaside alternatives in the future?”

— Axel Hefer, Managing Director and Chief Executive Officer at trivago

Exhibit 2

Trips of 7 days or more recovered fastest – even exceeding 2019 levels in the same period



Preliminary – domestic data as of July 5, 2020
Source: trivago; McKinsey

8. Despite a drop in prices, travelers' willingness to pay for nature-oriented destinations remained almost unchanged

By analyzing price development since March, it can be determined that although travelers were mostly offered lower prices, they were still willing to pay 2019-level prices or higher for mountain, coastal, and other nature-oriented destinations. By contrast, travelers headed to city destinations, which are more dependent on a mix of business and leisure travel, were more price sensitive. These travelers paid less than they did last year (Exhibit 4).

“With corona and the uncertainty of health and sanitation measures, travelers today want accommodations that offer them the best of two worlds: the predictability and comfort of a hotel and the relaxed coziness of an apartment where they may have their own entrance, clean the place themselves, and not worry about being around too many people. We see this as a trend for the foreseeable future.”

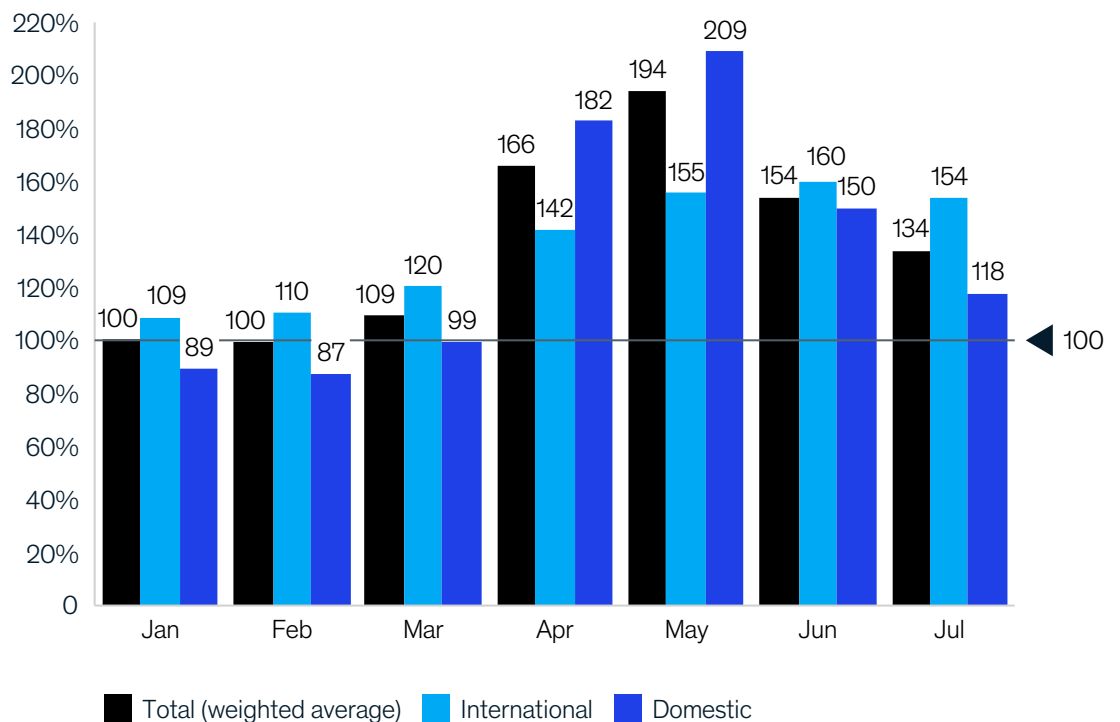
— Axel Hefer, Managing Director and Chief Executive Officer at trivago

Exhibit 3

Demand for vacation rentals significantly increased during the crisis, with reversing trends

Share of vacation rentals based on domestic/international click-outs

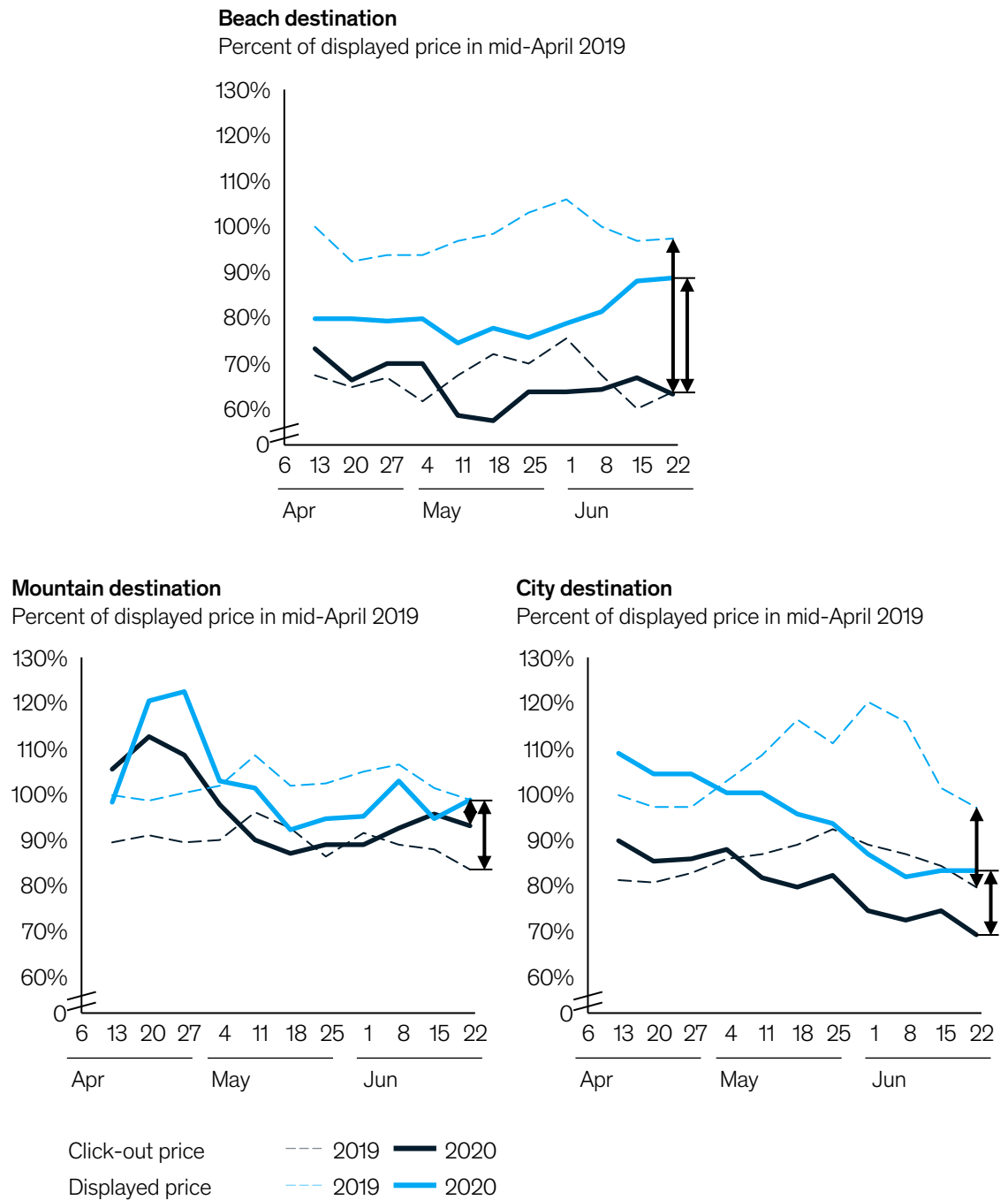
Percent of total's beginning-of-year value



Data as of July 5, 2020
Source: trivago; McKinsey

For nature-related destinations, travelers' willingness to pay remains almost unchanged compared to last year

Click-out and displayed prices for selected beach, mountain, and city destinations



Data as of June 21, 2020
Source: trivago; McKinsey

II. The destination attractiveness score provides travel-player-specific insights

COVID-19 is forcing all travel players to confront dynamically changing new realities. Every industry participant thus needs to regularly (re)consider how to incorporate the latest trends and new characteristics into their existing decision-making processes. Only then will they be able to make informed decisions and use the crisis as an opportunity. Depending on the type of player they are, each participant will face distinct challenges and have a unique set of options for action:

Cities, tourism offices, and destination management companies need to manage demand to balance potential safety risks of increased travel against the need for local tourism income.

Airlines, bus operators, train operators, and car rental companies need to understand demand origin and destination pairs to ramp up capacity smartly and adjust customer engagement, offers, and pricing to win against alternative providers.

Hotels (branded/unbranded), vacation homes, and alternative accommodation providers need to decide on capacity ramp-up/-down as well as change/adjust their product offerings (including pricing and marketing) to influence destination attractiveness.

Travel intermediaries (online/local) and tour operators need to decide which destinations they could advise their customers on, including potential alternatives, and take more targeted marketing measures.

Travel retail companies, such as airport or train station retail stores, need to decide which outlets to operate under which protocols and potentially adjust the products and offers in light of a changing audience.

Local activity providers, such as tour operators, restaurants, sights, and attractions need to decide on whether and how to open up, including what operations will look like if they do reopen in terms of scale, capacity, requirements, etc. Additionally, they need to create more targeted marketing measures for the strongest tourism source markets.

In order to address the previously mentioned challenges in an unstable and less predictable environment, our proprietary destination attractiveness score (DAS) model (Text Box 2) allows us to weigh travelers' perceptions of a vacation destination (current demand) against the current objective features and characteristics of that destination (current attractiveness). This allows us to understand how demand might develop going forward. The DAS enables a wide range of insights, including understanding demand origin for a specific destination that can inform decisions to ramp up capacity accordingly, adjust pricing to manage demand, or balance potential safety risks. By utilizing these insights, travel players can ask and answer relevant questions and take appropriate actions to succeed in the current situation.

Deep dive: Destination attractiveness score (DAS) matrix overview

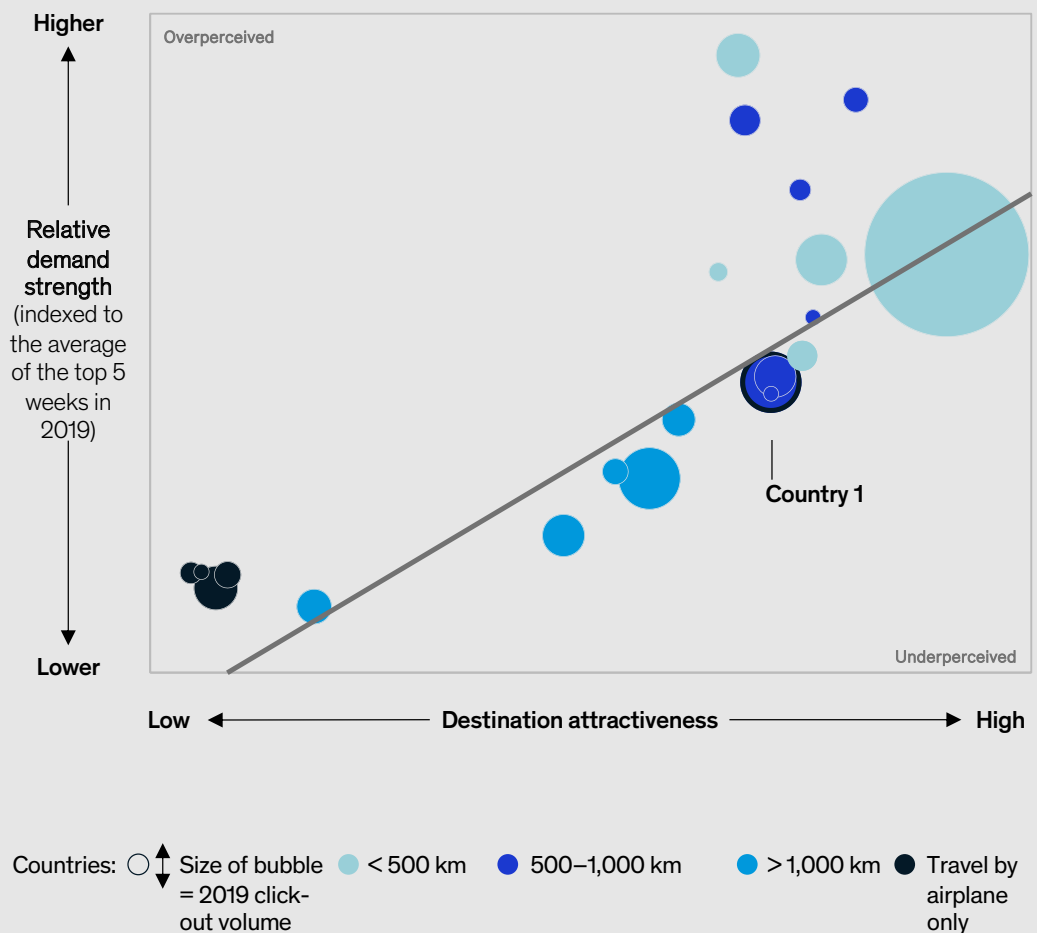
The DAS model combines current demand recovery for a vacation destination with the objective attractiveness of that destination (Exhibit 5):

- **Current demand recovery** is measured by comparing today's demand to the demand of last year's top five weeks.
- **Current attractiveness** is calculated through a destination attractiveness score, which is an analysis of the destination along six dimensions (see overview on next page):

Exhibit 5

DAS matrix

Mapping based on traveler demand and destination attractiveness



Source: trivago; McKinsey



Historical attractiveness

How attractive was the destination before the crisis? Historical attractiveness represents the popularity of a destination over time.



Activities and attractions

What activities does the destination offer and to what extent are they affected by restrictions? If activities or attractions that drive people to a certain destination are suspended or closed, the main reason to travel to that destination is gone.



Accommodation

What does the accommodation capacity at a destination look like, and how many hotel alternatives are offered? Not only is sufficient accommodation capacity essential, market trends (Section 1) show a growing demand for alternative accommodations, making alternative accommodations as important as hotels.



Transportation

How convenient is it for travelers to get to the destination? The availability, ease, and cost of transportation from a traveler's origin is a driver of how attractive the destination might be.



Epidemiological analysis

Do travelers consider the destination safe (in terms of health-related aspects and infrastructure) and would they feel comfortable traveling there? The health and safety reputation of the destination will impact its attractiveness.



Travel restrictions

Which travel restrictions do travelers have to deal with (e.g., entry allowance, quarantine) by going to the vacation destination? A completely closed border will clearly remove a destination from consideration, but extra burdens and conditions (e.g., quarantine or negative COVID-19 test result requirements) can also keep travelers from considering a destination.

To illustrate how the insights can be applied in practice, three use cases present specific findings and case studies of how individual industry participants can manage or leverage the situation for one specific destination. Given the restrictions of the scope of this publication as well as the individual situations/characteristics of organizations, we only outline potential decisions and approaches but do not provide a specific recommendation for action.

Travel players looking to implement any of these potential measures should know that the insights from the dashboard are critical but not sufficient on their own. It is equally important that players link those insights to additional points of knowledge – including internal information

and other data sources – to ensure the most comprehensive insights.

Exhibit 6 shows how two travel destinations compare from a German traveler's perspective. The DAS covers both short-distance destinations (for example, Italy, Spain, the Netherlands, and Croatia) as well as long-distance ones (for example, Thailand, the US, or the UAE).

Country 1 is in close proximity to Germany and a member of the European Union. It is a traditionally popular holiday vacation for German travelers. Country 1 reported a relatively high number of COVID-19 cases at the peak of the crisis, but the incidence of infection has since declined significantly.

Exhibit 6

Country 1 evaluated according to DAS dimensions

Country 1 compared to Country 2, DAS index

Attractiveness		Country 1	Country 2 – as reference	
1	Historical attractiveness	0.74	0.57	High
2	Activities and attractions	0.80	0.83	
3	Accommodation	0.52	0.52	
4	Transportation	0.70	0.98	
5	Epidemiological analysis	0.80	0.78	
6	Travel restrictions	No	No	
	Current relative demand strength	0.30	0.7	Low

Dimensions with significant differences between Country 1 and Country 2

Source: McKinsey



Case Study 1: Implications for a national tourism association

Based on the DAS, tourism associations can compare destinations. In the given example, traveler demand for Country 1 lags behind that for Country 2, largely because of the difference in transportation scores between the two destinations (see Exhibit 6). The weaker demand is especially interesting when considering that Country 1's historical attractiveness is significantly higher than that of Country 2. A tourism association might be advised to seek improvements in transportation as part of its mission to boost traveler demand.

Challenge 1 **Actively manage demand to match current attractiveness while ensuring no disproportionate increase in COVID-19 cases**

Potential measures:

Boost positive press coverage. Country 1 was severely hit by COVID-19 and the situation was intensely covered by the press. Country 1 has since made substantial progress in controlling the infection rate, but travelers might believe that the health crisis reported on in the past is the current reality.

Increase promotion. Advertisements across various media could promote the destination and explicitly address residual fears or concerns of travelers by highlighting the progress that has been made as well as the measures that the country is taking, for example, hygiene protocols, to ensure the safety of tourists.

Leverage travel sales and distribution partners. A national tourism association can also work with travel agencies and other players in the value chain to offer monetary incentives via, for example, special offers or bundles for travelers.

Challenge 2 **Address the current transportation constraints and thus increase overall destination attractiveness**

Potential measures:

Enter into dialogue with airlines. Conversations with airlines could potentially lead to an increase in flight capacity. By also working with airports, tourism associations can help ensure that travelers' experiences just before and right after their flights are also smooth.

Promote alternative modes of travel. Until concerns related to air travel subside, tourism associations can work with relevant agencies and companies to incentivize travel either by car (for example, by reducing tolls or parking fees) or by bus or train (for example, by subsidizing tickets or increasing frequency).



Case Study 2: Implications for an airline

For airlines, the McKinsey and IATA Air Travel Pulse dashboard already provides highly relevant insights related to COVID-19 and capacity developments. The DAS matrix complements those insights with additional demand indicators (Exhibit 7). As such, airlines could benefit from information regarding travelers' origin cities, check-in dates, lengths of stay, and development of willingness to pay. This can be examined in view of different travel origins. Analyzing such developments could strongly support decisions related to origin and destination (O&D) capacities as well as pricing and marketing campaigns.

Challenge 1 Utilize destination insights to increase pricing and overall profitability

Potential measures:

Adjust capacity on current O&D flows. For airlines, adjusting O&D capacity is a longer-term measure and can mean everything from adding new O&Ds, to changing their frequency, to rejecting certain O&Ds altogether. In the shorter term, airlines can adjust pricing to ensure efficient utilization of demand.

Adjust marketing campaigns. The current shift in travel regions and demand should compel airlines to review and potentially rethink where to market, when to market, and which destinations to market.

Review promotions and incentive systems for the sales force and distribution partners. This ensures demand is pushed to countries and routes with open capacity and simultaneously facilitates fair employee compensation.

Challenge 2 Optimize transportation for highly profitable O&D pairs and boost overall destination attractiveness

Potential measures:

Increase current capacity. For Country 1, airlines might consider increasing capacity, as it is currently only at 13 percent of last year's value, while ensuring high utilization and optimal pricing.

Identify partnerships. More air traffic isn't the only possible enhancement. Airlines could partner with other modes of transportation (similar to Lufthansa's cooperation with Deutsche Bahn) – offering value to both transportation companies and travelers while capturing value even from "no-flight" travel.

DAS for a US beach destination

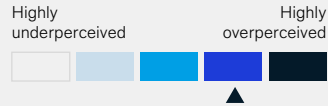
US beach destination

Overall performance

Traveler demand: 54%

DAS value: 61%

Status: Overperceived

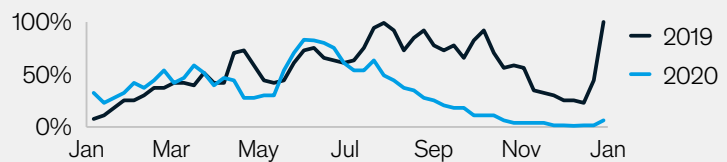


Top activities: Beaches, diving

Destination attractiveness

1	Historical attractiveness	0.75	Popular destination especially for travelers from State 1	High
2	Activities and attractions	0.85	High rate of outdoor and beach activities	
3	Accommodation	0.55	Hotel capacity already decreasing	
4	Transportation	0.24	Low airline capacity and long travel time by road for people outside State 1	Low
5	Epidemiological analysis	0.93	Relatively low infection rate with good medical services	
6	Travel restrictions	No	Currently no travel restrictions	
Current relative demand strength		0.54	Demand increasingly recovering	

Click-out check-in date,
Percent of maximum value



Top 5 states of origin

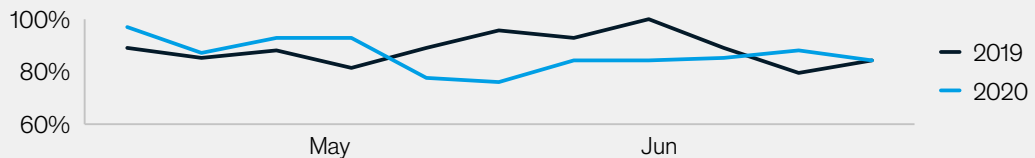
Last 4 weeks, percent of click-outs

State 1	14
State 2	3
State 3	3
State 4	3
State 5	2

2019, percent of click-outs

State 1	10
State 4	2
State 5	2
State 3	2
State 2	2

Click-out price, percent of maximum value



Source: trivago; McKinsey



Case Study 3:

Implications for an online travel agency

For online travel agencies (OTA), considering destination attractiveness offers insights to improve their efficiency and conversion rates. Especially, accommodation-booking platforms can utilize the latest insights into transportation, accommodation, epidemiological status, and demand to better advise and satisfy their customers. Moreover, DAS insights allow OTAs to compare destinations with similar activity and attractiveness profiles and take action to balance out the shifts in demand and supply to increase overall profitability.

Challenge 1 **Optimize the customer experience for travelers**

Potential measures:

Identify alternative travel destinations. Strategically advise travelers on the destinations most suited to their preferences. Provide current destination-related points of information, which could include on-site activities as well as travel requirements, precautions, and limitations.

Launch targeted marketing campaigns. Leverage available traveler information along with destination and accommodation characteristics to personalize messaging and address travelers' needs.

Challenge 2 **Become a trusted partner for accommodation providers and other travel players**

Potential measures:

Leverage destination insights to advise business partners (both branded and unbranded accommodation providers). Provide information regarding upcoming demand and capacity requirements, including information for optimizing pricing and revenue management.

Boost the appeal of underperceived destinations. Focus marketing on destinations that are currently underperceived by travelers, i.e., which currently have a high level of attractiveness but low demand.

Outlook

The current COVID-19-related developments and dynamics in the travel industry are unprecedented, but there is little empirical data to point to the drivers of these shifts in the market. However, analysis shows that certain patterns and “industry rules” still seem to be valid when combined appropriately. It goes without saying that many players in the industry are currently being forced to rethink their business models and improve their adaptivity to quickly-changing external events. Those able to do so will be well positioned to identify, utilize, and benefit from new opportunities.

Understanding the DAS can help travel industry players navigate these uncertain and continuously changing times. Depending on the needs of the travel player, the DAS could support decision making beyond the participant’s current scope of relevant tourism source markets (for example, the US), destinations, detail levels (for example, the US at state level), as well as additional time frames and circumstances even beyond the “here and now” of the COVID-19 crisis.

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