



A&M TRAVEL, HOSPITALITY & LEISURE INSIGHTS

Travel and hospitality demand is going to recover.

Won't it?



Focusing on **when** demand will return to normal post-COVID prevents strategic thinking about **how** demand will be fundamentally different. Organisations waiting for demand to get back to **normal** risk missing a unique opportunity to recover faster and grow market share compared to pre-pandemic.

Many hospitality and travel operators are confidently forecasting that after the calamities of COVID-19, they will, between 2022 and 2024, see demand slowly but surely return to something like that seen in 2019. Of course, businesses want to get back to normal as quickly as possible. But the uncomfortable truth is that when it comes to the structure and breakdown of demand, 'normal' is not coming back.

Operators assuming that 2019 pre-COVID levels of activity will return in one to three years' time are not confronting the other critical question: how will people, and demand more generally, behave differently in the medium-term and further ahead? Even when COVID feels over, it is likely that the demand mix will be very different compared to the pre-pandemic norm.

This applies to:



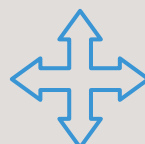
Geographies and markets



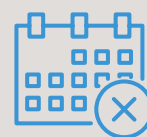
The definition of business and leisure



Appetite for luxury



Prevalence of different booking channels



Booking windows and cancellation rates*

*more during recovery than long-term

...and many more factors besides.

And to make matters trickier still, predicting demand has never been more difficult. As economies begin to reopen, businesses will have very little time to find out who their customers are and what they want before they walk through the door.



To maximise demand and build strong and lasting customer relationships in the wake of COVID-19, organisations need to be unsparing in re-evaluating planning and forecasting assumptions and be ready to re-think their business accordingly.

In particular, this includes removing the pre-pandemic dependence on historic and market comparison data in order to build a picture of future demand. It also includes questioning the supremacy of historical booking channels and their associated costs.

We see too many companies defaulting into thinking that the same frameworks that delivered years of reliable growth leading up to COVID will be match-fit as we shift into recovery mode.

The notable strength of **private rental** bookings in recent months shows that operators cannot take anything for granted. Instead, organisations need to think boldly and differently about forecasting and responding to demand. The current environment presents a unique opportunity to shape and respond to a demand structure which no longer blindly follows traditional patterns. It also opens up opportunities to maximise revenue by promoting the reservation channels achieving higher attachment rates for ancillary services or cross-selling of other products.

Putting this new approach into practice is challenging but not impossible. The decision to act should not be difficult, because the consequences of not acting now could be existential. Considering the amount of debt taken last year and the continuous risk posed by potential vaccine-resistant variants, any booking that can be captured at present is a win, and will serve as a valuable data point as business continues to adjust to a new demand mix.

“Focusing exclusively on when everyone will travel again stops organisations thinking about how people will behave differently in the immediate term and further ahead.”





“Historic comparison data on customer volumes and demand patterns, painstakingly constructed and managed over years, is now fundamentally devalued.”

Adapting to new consumer behaviours: What can you monitor? What can you act on?

Practically, our experience shows that value is created and risk is mitigated by re-analysing historic comparison metrics alongside newer demand data reflecting the external factors impacting demand. Distilling this analysis into a detailed and flexible set of demand scenarios and adapting processes accordingly empowers the broader commercial and operational strategy. Ultimately, this provides a forecast and plan more informed by first principles and the underlying building blocks of demand, and less reliant on pre-COVID assumptions.

As economies reopen, demand will be affected by any number of variables. Executives must do more than understand the indicators that should be monitored and focus on the areas where change needs to be actively pursued to adapt to and drive demand.

Responding to developments early by executing a clear plan is always preferable to improvising, but the plan needs to go beyond simply re-opening previous capacity. When trial and error is inevitable, the organisation itself needs to be retooled in order to accommodate increased flexibility. The solution is to invest in building more comprehensive and flexible scenario plans that go beyond the basic best-case and worst-case eventualities. Moreover, by building scenario plans that go beyond historic demand, booking and market comparison data, to focus on the foundational drivers of underlying demand, a considerably more effective and resilient plan will be established.


Some of the implications of new patterns and drivers of demand are immediately obvious. For example, the Association of British Travel Agents (ABTA) has suggested that people are 31% more likely to book a package holiday – where food and drink is taken care of and there are pre-agreed cover for illness or emergency – than pre-pandemic.

Inventory must be re-examined to bolster the assets, product offerings and operating models that can respond to this new paradigm while still accommodating more spontaneous customer experiences. Adapting now may prove crucial in engendering long-term resilience.

Demographics will also impact demand for the longer-term, outside the present issues around COVID risk and vaccination rates. This also extends to business travel, the golden goose for many airlines, which – according to Delta CEO Ed Bastian – will rebase at 10-20% below pre-COVID levels. If a more flexible attitude to work and leisure becomes a permanent reality, the ‘perfect customer’ will come from the demographic best able to cope with fluctuating ‘traffic light’ restrictions by tolerating short-notice reservations while being steadfast enough not to cancel at the last minute.

Such seismic shifts have another consequence in the travel and leisure space: historic comparison data on customer volumes, channels and demand patterns, painstakingly constructed and managed over years, is now fundamentally devalued. While comparables should not be totally jettisoned, executives have to look beyond the past to plan for the future. Using real-time data in smaller volumes, then adjusting when pattern shifts become apparent, is likely to be the new normal for operators.

These actions have tangible effects on cash generation and profitability. Being able to respond quickly by directing particular customer demographics to high-conversion or high-revenue channels will result in more meaningful interactions. In addition, richer real-time data can inform decisions on reopening and closing particular locations and/or destinations, helping maintain sustainable capital expenditure during the further uncertainty that surely lies ahead.



“Management teams that focus entirely on maximising short-term performance without adapting to the new reality run the risk of putting their organisation in longer-term jeopardy.”

In summary:

Be bold, be agile, act now

Companies must invest in building a more flexible understanding of the nature of post-COVID demand that can inform the creation of new products and practical adaptations to their operating models in response to a changing demand mix. By starting from the customer's needs and not preconceived assumptions, operators can re-invent the product offer and their delivery models to ensure it becomes more relevant and delivers enduring success. These goals seem ambitious, but in our experience this is mostly about adapting the existing business. By doing this, management teams benefit from playbooks for maximising the demand opportunity and dealing with different levels and nature of demand over time.

Coming out of a uniquely intense 12 months, and with so much still to deal with, executives could be forgiven for asking, ‘Do I have the time and resources to put this into place? And does understanding demand in this way even matter when I need to get tills ringing today?’

The impact of not taking these steps is to root plan and forecast in an archaic pre-COVID context, at the time competitors will be taking steps to enhance their understanding of demand. Businesses that fail to adjust risk lagging behind. The prize for the companies that get this right is rich: **consumers have saved trillions of dollars over the last 12 months**, and many economists expect a marked increase in spending as vaccinations continue to roll out and travel and leisure restrictions in many markets ease.

Management teams that focus entirely on maximising short-term performance without adapting to the new reality run the risk of putting their organisation in longer-term jeopardy. Managing and responding to demand in a more flexible way will put companies in a position of strength to deal with ongoing uncertainty.



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When traditional improvement activities are not enough, A&M's restructuring and turnaround heritage brings fact-based, action-oriented leadership to transformation and delivers rapid results.

Our professionals have both operational and advisory experience together with a proven track record in leading businesses through tough, complex situations.

AUTHORS



Ed Bignold
Managing Director

+44 (0) 7540 783 481
ebignold@alvarezandmarsal.com



Herve Gilg
Managing Director

+44 798 335 8909
hgilg@alvarezandmarsal.com

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