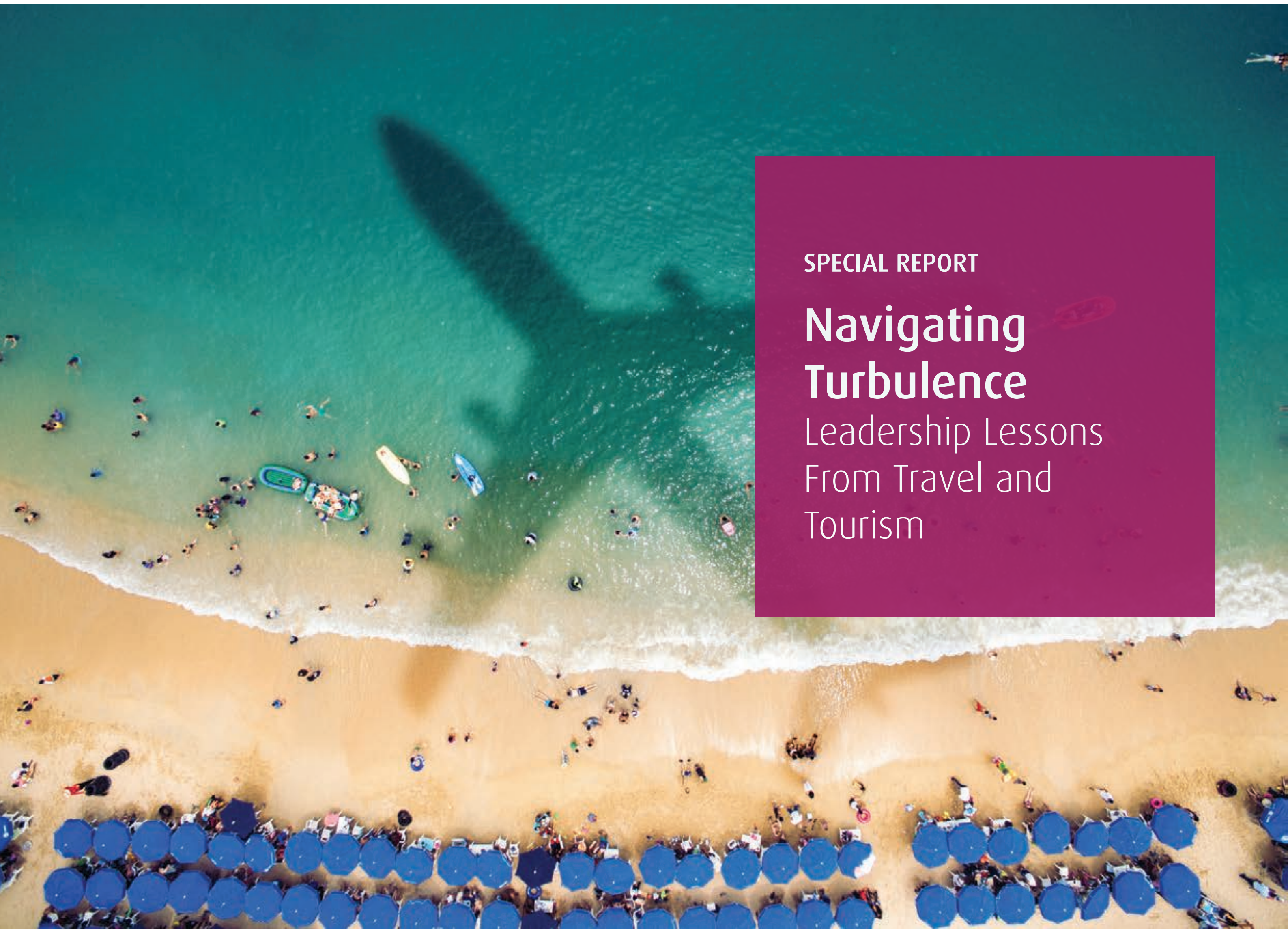
Leadership



SPECIAL REPORT

Navigating Turbulence

Leadership Lessons From Travel and Tourism

Amrop

Leaders For What's Next

Navigating Turbulence
Leadership Lessons From Travel and Tourism

In 2020, two young holidaymakers step off their coach to check in to their hotel outside Magaluf. At 10.30 pm, the building is dark. Unable at this late hour to reach their travel agent, the women persuade the driver to take them into town, where they wander the streets in search of alternative accommodation. During the following days, their attempts to contact their travel agency yield no response. Before they are (eventually) refunded, the two women spend a further €2,000 on the replacement hotel that they were fortunate to find.

This is just one story reported by the BBC's 'Rip-Off Britain' that reflects the trouble in the tourism industry at the outset of the Covid pandemic.

In another case, a couple spent €5,200 on business tickets to the US with one of the world's best-known transatlantic airlines. Their flights were canceled. They contacted the airline several times a week, finally sending a physical letter to its headquarters and setting out their case for a refund. They too got no response. Only after six months did the refund arrive. Angered by the 'total lack of respect' from a brand to whom she has been loyal for years, the frustrated customer said that she would not allow an airline representative into her house and that it should not expect any further business from her.

Another customer spent €7,100 on transatlantic business class tickets with a different world-class brand. Two weeks before take-off, the US announced a travel ban and the flight was canceled. Seeking a cash refund, he visited the airline's website, ticking the only box, (which offered vouchers). Calling the airline to exchange the vouchers, which he did not want, for cash, which he did, he was informed that the exchange was not contractually possible, as he had ticked the voucher box. An independent mediation body confirmed that the airline was correct.

Under EU rules, refunds should arrive within 7 days of cancellation.

In its report the BBC acknowledged the difficulties created by the coronavirus pandemic for the tourism industry (Virgin Atlantic said it had received unprecedented volumes of refund requests). However it underlined the importance of good customer communication. In all the above cases, the surreal experience of getting answers caused the customers financial exposure and stress, resulting in a loss of confidence, defection, and negative coverage on national TV. Hardly a PR officer's dream scenario.

What is the narrative from the business end of the equation?

Uncertainty is still rocking the industry and 'traffic light' travel restrictions remain jumpy — despite the much-welcomed progress of vaccination programs. How have industry leaders experienced the Covid cataclysm? How do they view the outlook for this most challenged of industries? What strategies and leadership qualities will take the sector into calmer skies? And what can leaders in other sectors learn from them?

This is how the World Travel and Tourism Council describes the sector in its 12-point '100 Million Jobs Recovery Plan' — backed by the G20 with input from CEO's across the globe. Travel and tourism accounts for 330 million jobs (one in ten) globally and 10,3% of global GDP. Over the past five years, it has provided one in all four of all new jobs worldwide, in all sectors and industries.

The Council describes this as one of the world's largest industries, playing a pivotal socio-economic role in reducing poverty, driving prosperity and reducing inequality, providing opportunities "regardless of gender, education, nationality, and beliefs." 54% of the sector's workforce are women and over 30%, youth."

The report goes on to estimate the staggering costs of Covid for the sector as global travel collapsed: losses by end 2020 of over 197 million jobs and $5,5 trillion worldwide. In June 2021 the International Civil Aviation Organization (ICAO) reported a loss of $1,3 trillion in international tourism receipts in 2020, making it the year worst on record with international arrivals dropping by 74%.

JOBS GLOBALLY
330 mn
(1 in 10)

PROPORTION OF GLOBAL GDP
10,3%

JOB LOSSES BY END 2020
197 mn

FINANCIAL LOSS BY END 2020
5,5 trn

Help is at hand

The G20 platform was created after the previous financial crisis and played a major role in world recovery via international collaboration and coordination. The 12-point plan for travel and tourism emphasizes that central to not the sector's recovery, but very survival, will be enhanced international coordination to remove barriers and build traveler confidence. Collaboration between the public and private sector will be vital.

Private sector actions cover health and safety measures, innovative and digital technologies to streamline travel, with booking measures offering flexibility, promotions, affordability and value to incentivize domestic and international travel. Companies must cooperate with governments to promote open destinations. They need to adapt business models and collectively work in product and solution development (for example, incorporating Covid-19 cover in travel insurance).

Public level actions: G20 Tourism Ministers will collaborate across borders, working within governments and with businesses. CEOWorld warned that aviation in particular cannot trigger recovery if there are government level failures, and that governments will end up paying the bill if they don't step up: "If governments cannot open their borders, they will need to open their own funds to provide the financial assistance to keep airlines afloat." Echoing the experiences we cited earlier, the plan emphasizes "consistent and coordinated communication to travelers". Its architects also invite organizations to install upskilling and retraining programs — specifically the "essential digital skills to adjust to new normal and for a more inclusive, robust and resilient sector." Given the job losses suffered by the industry and the migration of talent, this will be particularly important.

Sustainability remains on the agenda.

Practices should be reinforced, the report says, in partnership with local communities. Also with an eye on the future, the sector must continue to invest in crisis preparedness and resilience to future risks or shocks.

Your customer base is dissolving and your organization is at the mercy of geographically uneven and constantly-changing regulation. Your costs are accumulating fast and many of your partners and suppliers risk financial ruin. Meanwhile, your valued staff are defecting to safer sectors.

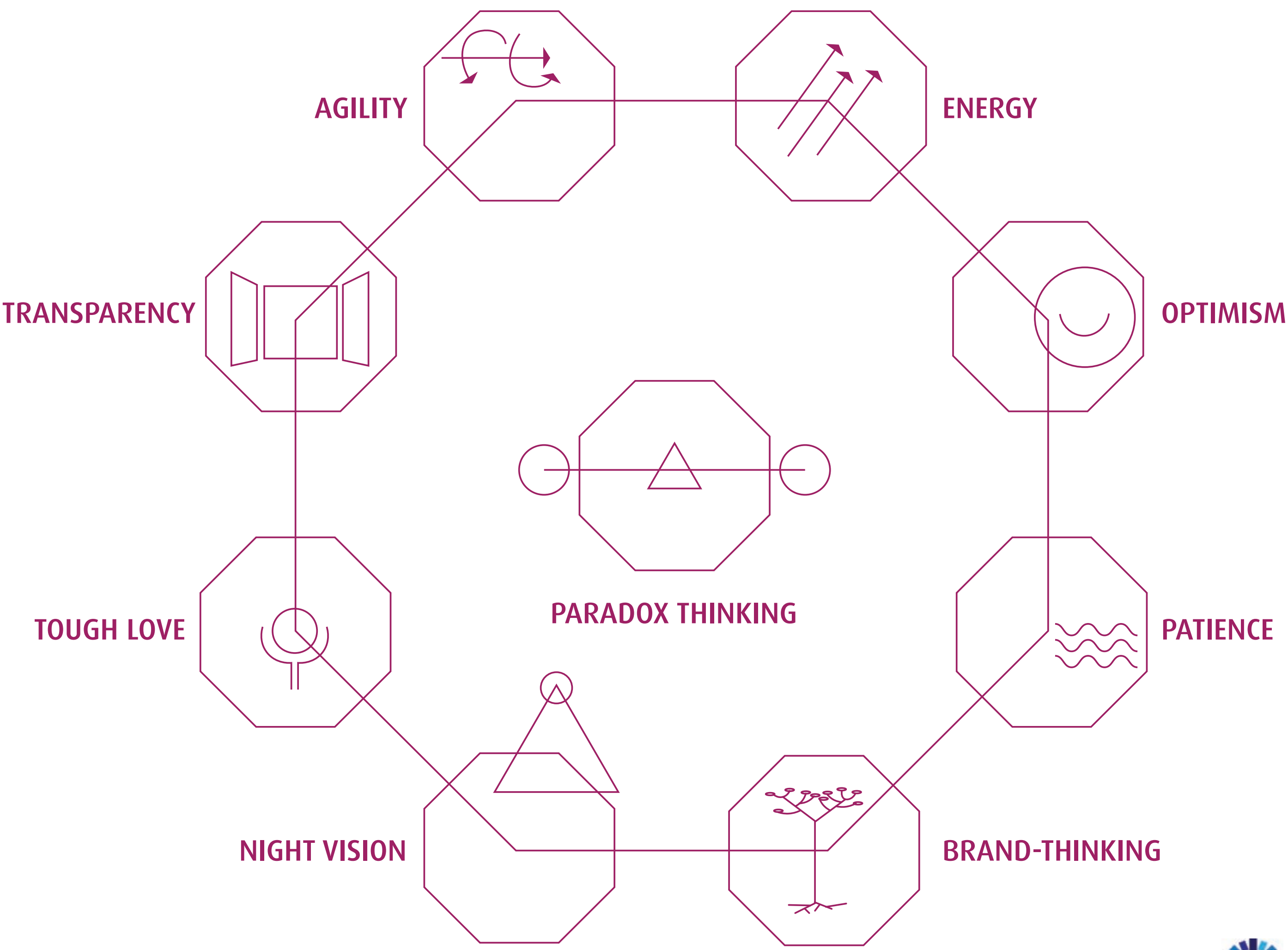
Every time you devise a way out of this sticky web of logistical and operational problems, it changes form, so you need to reconfigure. What's more, you are navigating in a fog.

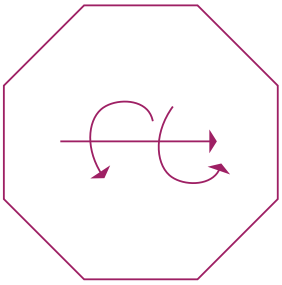
Meanwhile, you must reassure your shareholders that their investment is secure, whilst seeking new funds. You must reassure your customers that they can trust your brand, whilst rescheduling or canceling their bookings. Not to mention juggling the needs of your other key stakeholder groups: suppliers, employees, and strategic external partners.

What leader would choose to pilot a multinational in this sector, in these times? And indeed, what kind of mindset and core qualities does it take to do it?

If few sectors have had an easy voyage through the pandemic, tourism has been at the sharp end, even as green shoots of recovery emerge. What can we learn from its leaders? If diamonds form under pressure, what is being mined at the present time?

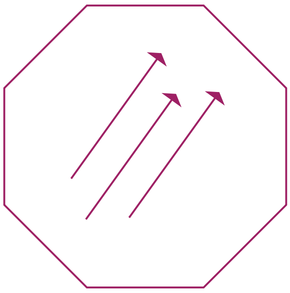
TRAVEL AND TOURISM LEADERS | 9 CORE QUALITIES





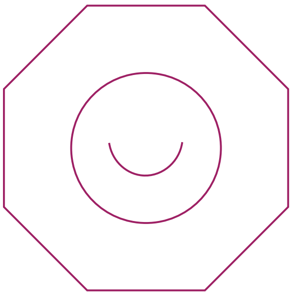
AGILITY

Leaders in the travel and tourism sector are manipulating an engine with multiple moving parts. They are constantly adjusting, whilst keeping an eye on the horizon. This takes agility (and crisis management) to a new level, particularly when flexing to sudden fluctuations in demand as borders rise and fall. As Accor CEO Sébastien Bazin put it in a Facebook post in March 2021: "we are invading the world of innovation, audacity, the word I have is pivoting: it's that ability, within the team members of this company, of thinking differently." And it will take considerable agility to be set for the rebound of the industry. In its May 2021 half year report, TUI's management simply states: *"Crisis management is part of our DNA."*



ENERGY

The performance of tourism leaders brings to mind top tennis players battling through a five-set match. In a crisis that has now lasted for nearly a year and a half, agility is not just the matter of a moment. It takes relentless, sustained energy to stay on court. Sébastien Bazin told the CNBC Conversation in March that it's been necessary to "accept the pain and show the energy to stay in the battle and come out stronger." Like TUI, he refers to an inherent, genetic trait: "Energy is part of the DNA of any hospitality player, it has to be." Together with energy, the resilience of industry leaders has been clear: many have had to take what the Lufthansa Group refers to as "deep dive" structural measures: swathing headcount reductions via forced dismissals and voluntary redundancies. This portfolio-heavy industry has also seen its fair share of divestments. All painful decisions, with human costs, needing to combine a sense of financial and social responsibility, before moving on to the next challenge.



OPTIMISM

Motivation, a leader's driving force, has three components: *direction, effort* and *persistence*. A tennis player will find it easier to sustain her agility, resilience and energy (*effort* and *persistence*) if she believes she'll be holding that cup at the end of the tournament (*direction*). Looking at what the leaders of the multinationals have to say (and indeed how they say it), their positivity is striking. Hilton Group's Christopher Nassetta described himself to Bloomberg in January as an "eternal optimist", adding: "that's why I'm in the industry I'm in".

Accor's Sébastien Bazin acknowledged that business had dropped by 20%, but will be back by 2023-24: "Don't bet against the hospitality sector." In his Facebook message he underlined the importance of optimism (and set out all the reasons why it was justified). "I've been reflecting on the last twelve months," he said, "and I need to see the glass half full…"

Meanwhile, TUI CEO Fritz Joussen positioned TUI's re-financing of via an equity-based package not as a worrying symptom of a organization in trouble, but as a sign of confidence in the industry. He too believes that this serious game is being won, noting that for the last 15 years the travel and tourism sector has been outgrowing GDP by a factor of two. Older, healthier people with more time and money are a key factor, he says, "experience is the new luxury" and the "fundamentals are intact". Like Sébastien Bazin, and seeing 2021 as an intermediary year, he forecasts that by latest 2023, demand will be back on track and the market more consolidated.

PATIENCE

Agility, energy and optimism can have a natural downside: the rush to make rapid decisions. Hilton CEO Christopher Nassetta told Bloomberg that it was important to exercise restraint. For example, one bright spot in the gloom has been Hilton's 'limited service, extended stay' offer. Its Hampton Inn and Hampton Suites have been significantly performing all the other brands, he said, as they combine the (relatively resistant) leisure and drive-to markets. However this should be seen as a moment in time, he cautions. Whilst things already in motion that speed up will have a lasting impact, it is important to avoid making "a bunch of key decisions" on the basis of "snapshots in the darkest part of a storm". Saying that it was impossible to predict the duration of the crisis with any certainty, Accor's Sébastien Bazin also pinpointed the importance of patience. As the vaccine program was rolled out, he said in his Facebook message: "It's going to be there, it's for us to grasp… we know we're going to be back on the road and have a lot of noise in the different hotels, at the bars, and we'll be back in business." Again, it's easier to be patient if you are optimistic about the reward at the end of the road.

BRAND-THINKING

Marketing expert Elisa Chan, writing for hospitality.net, considered that hotel brands, prior to the pandemic, were "at a crossroads with increasingly brand agnostic consumers and ever-expanding brand portfolios." She says that consumers are increasingly gravitating towards a reputable and trusted name, especially given the difficulties so many customers have experienced during the pandemic. Brand authenticity will be key to a more sustainable future, she believes. As the industry intensifies its push towards digitization, Dr. Chan emphasizes the importance of discernment for brand-conscious hoteliers. They must "meaningfully fuse technology (AI and robotics) into a hotel brand's identity," rather than limiting it to undifferentiated, operational functions.

Hilton Hotels and Resorts manages and franchises a portfolio of eighteen brands, from Waldorf Astoria, to Conrad, Canopy and DoubleTree. In January 2021, CEO Christopher Nassetta was asked by Bloomberg about the impact of the pandemic on the group's brands. Mr. Nassetta countered with a gentle reminder that Hilton had been in business for nearly 102 years: "We build our brands to last, longer than you and I are going to live." The underlying brand segmentation philosophy, he said, remained valid, even if certain brands were doing better in the current circumstances. When it comes to brand legacy, the roots, in other words, remain intact, even if above the ground certain branches may be temporarily flourishing more than others.

NIGHT VISION

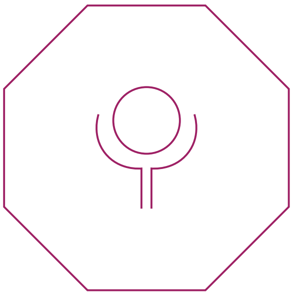
Christopher Nassetta's reference to "the darkest part of a storm" expresses the turbulence and obscurity surrounding travel and tourism these past months. No leader can be considered legitimate without a vision. But travel and tourism leaders have a striking ability to not only envisage a future state whilst trying to stay afloat in a tornado, but to take immediate steps to bring it alive. For example, airlines have been investing in enhancements to their fleet and engaging in collaborative partnerships to open up new routes. Hoteliers have been bringing on more franchisees, adding room capacity and renovating existing real estate. Or they have re-purposed rooms to welcome the resurgence in business meetings, (with an eye on hybrid formats) or developed their private home offer.

Both sectors have invested in digitization, mainly to streamline and improve the customer experience whilst assuring quasi-clinical levels of hygiene. A cynical eye might view these measures as mere adjustments to existing models, safe, incremental steps. And particularly digitization has the potential to revolutionize industries, rather than enhancing them (recalling that TUI is looking beyond the crisis, with the priority of transforming into a digital platform company, with "digital mass individualization" as one goal). But given the relentless pressure under which industry leaders have been operating (and the need for extreme risk management), the fact that they are looking ahead and investing signals an innovative future. And indeed, the most visionary had innovative 'credit in the bank' prior to the onset of the crisis — for example, some key digital measures were already underway; Covid has only acted as a catalyst in concretizing them.

TOUGH LOVE

Hilton's Christopher Nassetta also emphasized in Bloomberg the need for the hotel industry to care for people, given the extended impact of the crisis for "those that can least afford it". And in his Facebook message, Accor's Sébastien Bazin openly expressed his regret for the difficult decisions he had been forced to take in the crisis. Thanking his employees for their immense efforts and reminding them of their importance, he also underlined the group's intensive activities towards its coworkers, 'the Heartists' — a fund giving access to nutrition and medical care and remaining close to the small businesses in the group's ecosystem.

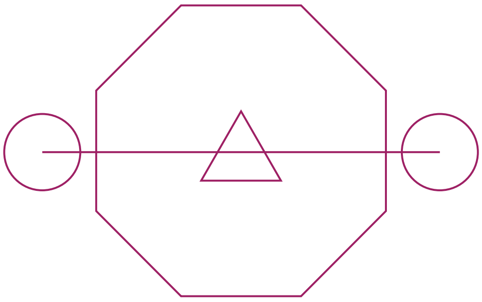
Indeed the industry needs to demonstrate that it will be a great place to work going forward, for three reasons. Firstly, to re-invigorate an exhausted remaining workforce, secondly, to attract talent back into the industry, and thirdly, to bring in new talent to equip it for future expansion. As business picks up, and given its unavoidable human cost-cutting measures, tourism and travel risks its very own war for talent. Being a caring organization in this battered environment will give corporates the competitive edge.



TRANSPARENCY

Posting an honest (and detailed) message on a public Facebook page, as Accor's Mr. Bazin did, opens the floodgates to every possible comment after a particularly tough period. Indeed all of the statements we cite from the leaders of this heavily challenged industry have one thing in common: they are publicly accessible. Furthermore, those leaders are striking a difficult balance. Whilst radiating positive energy and optimism for better times to come, defending the core fundamentals of their businesses, they clearly admit just how tough the environment has been in the previous months and that the crisis, even if it is calming down, isn't over yet.

PARADOX MANAGEMENT

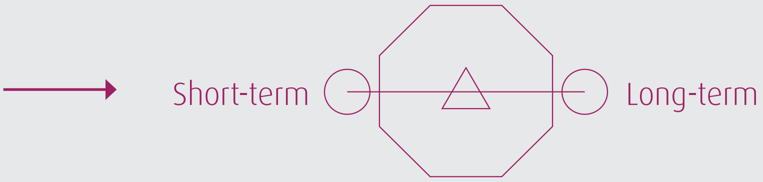


During the Covid pandemic leaders have been intensively activating all organizational functions in a close and constant interplay: digital, operations, marketing, purchase and logistics. When it came to taking some of the most difficult decisions and reporting them to shareholders and stakeholders, the CEO/CFO duo, for example, has been very much in the spotlight.

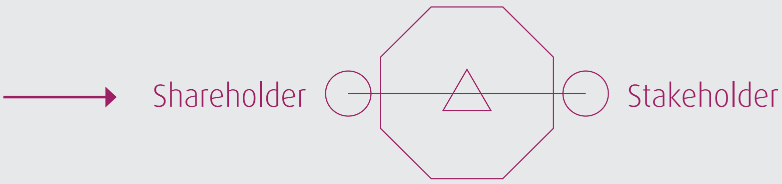
The idea of duos, or dualities, takes us into the fascinating arena of paradox thinking. Simply put, a paradox contains two contradictory, yet independent elements that operate simultaneously. Dealing with paradoxes demands a particular kind of mindset. As we discuss in our article 'From Tension to Transformation' this is a key facet of wise decision-making. Paradox leaders wisely acknowledge opposing ideas and tensions, take a more holistic view and embrace the ambiguities of fast-moving contexts. They do not choose between 'either/or' but allow 'both/and' to unfold into a new reality, transcending opposing ideas and opening up innovative, competitive avenues.

Tourism and travel provide fertile ground for leadership paradoxes. And indeed, all the leadership qualities we raise in this section contain paradoxes. Energy and patience, for example. Or brand legacy-thinking and vision.

Let's look at some more paradoxes.



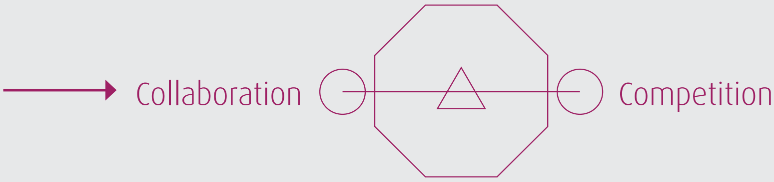
CEOs and CFOs are having to address the urgent realities of a slide in revenues. At the same time, they are equipping the business for a sudden, *short-term* resurgence in demand, as well as ensuring performance over a three-year, *longer-term* time frame.



The CEO/CFO duo are having to reassure nervous *shareholders*, whilst also representing other key *stakeholder* groups: employees, franchisees (in the case of the hotel industry) customers, and beyond.

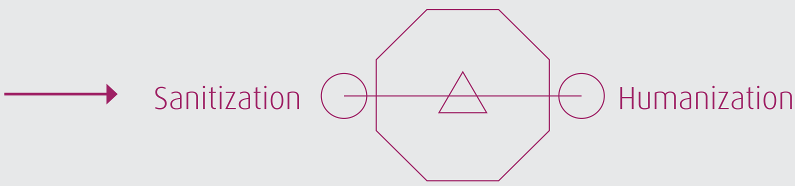
Customers are increasingly looking to a brand's sustainability record, (emphasized by the UN's Sustainable Development Goals (SDGs) and ESG imperatives). And sustainability is still high on the sector's agenda, despite the current turbulence.

In an industry that plays such a vital socio-environmental role, community and ecological perspectives need more than lip service. And this leads to another paradox in a resource-heavy industry with pressure on margins: *wealth* and *health*. Clear action plans are broadcast by all the players we examined. How far these can be followed through as they structurally recover from the costly pandemic will only become clear in the next couple of years.



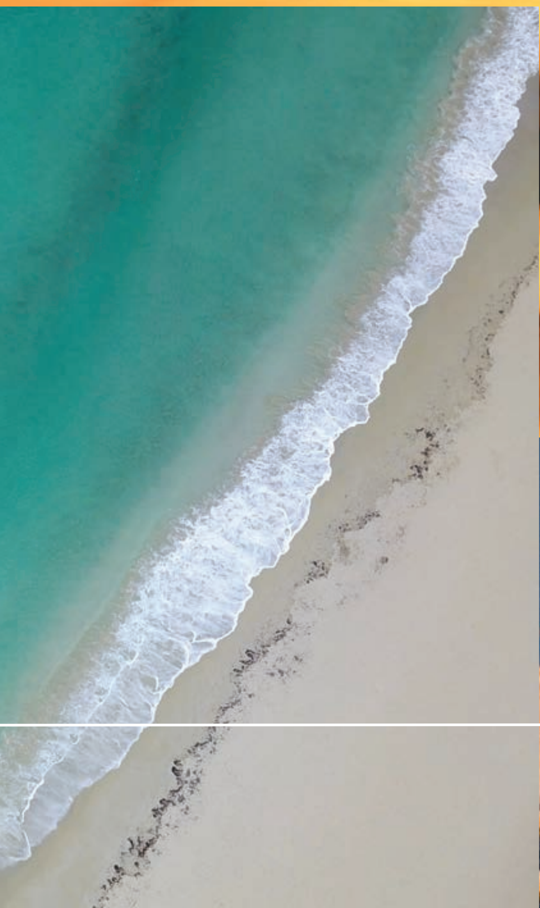
The travel and tourism sector is a web of inter-dependencies and alliances. The first example of 'codesharing', (where airlines publish and market the same flight under their own designator and flight number), was seen in 1989, according to upgradedpoints.com. Qantas and American Airlines coined the term to describe a business arrangement which spanned the spectrum of routes officially connecting Australian and U.S. cities. In 1997, five airlines forged the Star Alliance as the first of its kind in global aviation. Star Alliance now comprises 26 member airlines who "come together to offer smooth connections across a vast global network", coordinated by a Frankfurt-based project company. The alliance includes co-locations at airports, infrastructure, communication initiatives and other services aiming to improve the travel experience.

Airline CEOs have also united to lobby political leaders, in the push to open up the transatlantic corridor, for example. And the World Travel and Tourism Council's '100 Million Jobs Recovery Plan' backed by the G20, was developed with input from private sector CEO's across the globe and calls upon industry leaders to collectively work in product and solution development. If the Covid pandemic has intensified *competition* in the industry, it has also intensified *collaboration*.

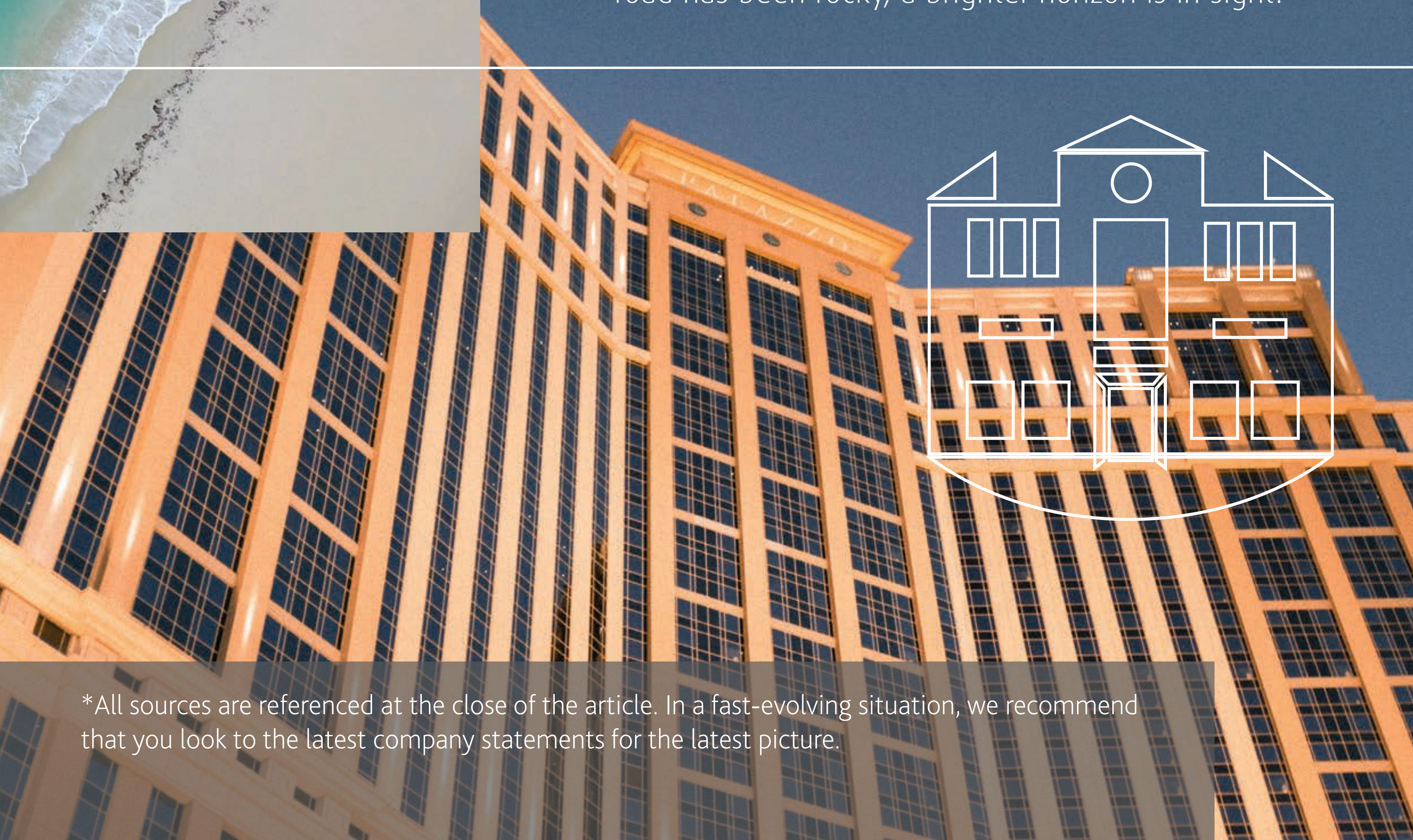


Digital has accelerated and expanded during the pandemic, leading us to a new paradox: *sanitization* and *humanization*. On one hand, tech has enabled contactless transactions for hygiene and efficiency.

On the other hand, the 'human touch' — personalized and empathic — will be a bigger brand differentiator in the future, especially in the premium segment. If good paradox thinking sparks new and creative solutions that elevate a firm or offer above its previous state, then this particular one has great promise.



In this section we explore the solutions that business leaders on the frontlines are devising to forge a path out of the crisis and into a sunnier future. Whilst the road has been rocky, a brighter horizon is in sight.*



*All sources are referenced at the close of the article. In a fast-evolving situation, we recommend that you look to the latest company statements for the latest picture.

We look at three major global players: American Airlines, Lufthansa Group (Lufthansa), and Turkish Airlines.

Uncomfortable seats

A report published in June 2021 by the International Civil Aviation Organization, (an arm of the United Nations), reveals the devastating effect of Covid on an industry with historically narrow profit margins. It simply states that world passenger traffic collapsed, "with an unprecedented decline in history".

ICAO preliminary global estimates for scheduled passenger traffic indicate an overall reduction of 34% to 38% of seats for the year 2021 over 2019, with an approximate loss of gross passenger operating revenues of between $276 and 315 billion.

Looking forward, and comparing domestic and international passenger traffic, the ICAO's 2021 vs 2019 outlook for domestic passenger traffic is slightly better than the international equivalent. It estimates an overall reduction of 18% to 21% of domestic, versus 56% to 63% of international seats. In terms of gross operating revenues it forecasts a $217 to 246 bn loss in international passenger traffic, with a $59 to 69 bn loss in domestic passenger traffic.

Foggy outlook, but lights on the runway

The ICAO bases its numbers on four possible paths for 2021. It says that the actual impact will depend, amongst other factors, on the 'duration and magnitude of the outbreak and containment measures, consumer confidence and economic conditions." So far, there has been moderate recovery in domestic passenger numbers, with international travel remaining stagnant.

The difficulty with analyzing the airline industry (and travel and tourism as a whole) lies in a number of game-changing factors, which the ICAO report sets out. For example, market size differs among regions, with potential disparities in the resilience and speed of recovery. The timing of outbreaks impacts when traffic bottoms out. And there is a gap between scheduled, and actual operations. In 2020 over half of resumed flights announced or planned by airlines were withdrawn, as the two customers cited earlier experienced to their cost.

If Europe and APAC accounted for around 70% of world international traffic in 2020, the international-domestic mix differs between geographies. Consider China and the US: in 2020, China overtook North America, with 30% of world domestic passengers. So if domestic passenger traffic is currently more resilient than international traffic, then China is in a stronger position than its counterparts in other markets — even the US. And whilst APAC and North America experienced 20% to 25% less decline in domestic passenger traffic than international, domestic passenger traffic in China even surpassed its 2019 level after Chinese New Year 2021.

Meanwhile in the US, reports indicate the airline industry is already recovering. CEOWorld reported in June 2021 that total net sales of travel agencies had reached $2.8 billion in March. This was equivalent to an 82% month-over-month increase compared to February and the third month in a row with positive sales growth.

Whilst domestic travel is proving more resilient than international travel, there are other lights on the runway, cargo being one example.

Financial measures

Complex operations on several fronts

The first quarter 2021 results of all three airlines broadly reflect the tough global picture. The response from their leaders has been robust.

Under Chairman and CEO Doug Parker, American Airlines installed a set of stringent financial measures: cost reduction, cash conservation and steps to improve its liquidity and balance sheet. It raised funding through a debt offering using some of the proceeds to prepay a secured loan from the US Department of the Treasury. It benefited from a Covid-19 relief package including an extension of the Payroll Support Program (PSP). Mr Parker told CNBC's Squawk Box in April 2021 that the heavy borrowing needed had probably exceeded that of any other airline. Whilst admitting that this was higher than he would like, he sees it as a fairly natural debt re-organization and isn't overly worried about servicing it – forecasting that it will be significantly reduced over the next five years. Meanwhile, cash flow is being restored fast, and the outlook is positive, he said.

Lufthansa's financial management has been just as rigorous, led by CEO Carsten Spohr. To restore balance sheet strength it has followed three axes: *returning to profitability* (cost reductions to ensure quick return and drive strong free cash flows), *repayment stabilization measures* (replacing state aid funds through long term debt and equity refinancing measures) and *divestments of non-core assets*. It reduced its operating loss compared to the prior year period, significantly cutting operating expenses. Savings have mainly driven by structural measures. For example, in the case of its subsidiary Eurowings, the termination of wet leases, short-time work and overhead cost reductions.

Turkish Airlines, with CEO Bilal Ekşi at the helm, is the world's fifth-biggest air cargo carrier (the segment accounts for almost half of its revenue) and covers 300 destinations worldwide. One of its major strengths lies in its brand. In TRTWorld in May 2021 Savio d'Souza, Director of Brand Finance, a business valuation and strategy consultancy, estimated the brand value of Turkish Airlines at $2 bn, and rising even in this difficult year. He put this down to two big factors: service and distinctive marketing, underpinned by a unique sponsorship strategy.

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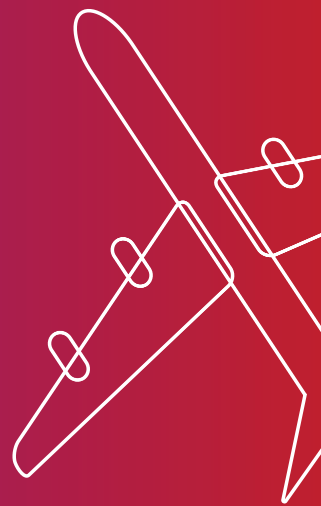


Human costs

More than a third of Lufthansa's personnel cost cuts were driven by 'deep dive' structural measures including a large number of headcount reductions in the past 12 months. The thinning down combined union agreements, voluntary departures and forced dismissals. The airline's management say that it has been 'aiming to reduce surplus staff capacities in a socially responsible way' and want to avoid redundancies once the reorganization has been implemented.

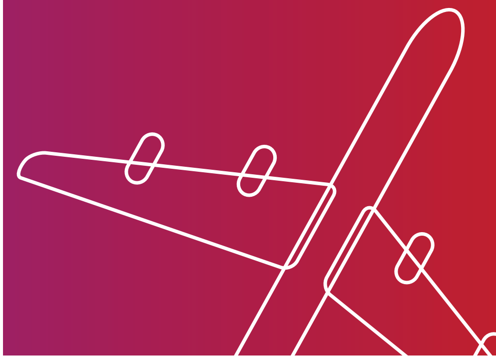
American Airline's cost-cutting measures included management reductions, labor productivity enhancements and other permanent cost reductions. It also opened a new voluntary 'early out' program in February.

Health and Safety

The key to staying in the skies

American Airlines is a prime example of the health and safety measures installed by airlines, opening a window on the frenetic activity that has been necessary across the board. It updated its mask requirements to align with directives from the Centers for Disease Control and Prevention and the Transportation Security Administration. It extended preflight Covid-19 testing options to give customers access to local urgent care facilities and hospitals. It now allows customers to redeem AAdvantage miles for at-home Covid-19 testing kits through a dedicated program. It introduced incentives to encourage staff to get vaccinated: US-based mainline and wholly-owned team members who do so will receive an extra vacation day and dollar recognition points. Finally the airline partnered with healthcare providers and airports to establish four on-site staff vaccination locations in the country.

The transatlantic corridor is a lifeline between areas that share values and history.



Networks and Partnerships

Joining forces opens markets

American Airlines has moved forward new partnerships with Alaska Airlines and JetBlue Airways. Together with JetBlue it is set to introduce 57 new domestic and international routes for customers in New York and Boston. The airlines are also significantly expanding their codeshare: (where two or more airlines publish and market the same flight under their own airline designator and flight number) to include more than 100 new flights. The Alaska and JetBlue partnerships have a dual aim: consumer benefit and efficient growth, with new services launching later this year between key hubs in the US, Asia and Europe.

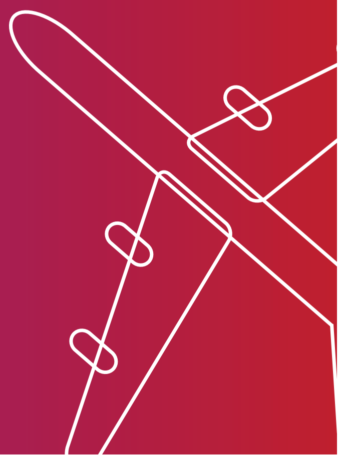
The importance of historic pathways

Leaders from American Airlines, British Airways, Delta Air Lines, JetBlue, United Airlines and Virgin Atlantic recently joined airport officials and other aviation CEOs in calling for transatlantic travel to be opened up as a matter of urgency. Lufthansa CEO Carsten Spohr told CNN's Richard Quest in May 2021 that opening up the transatlantic corridor in the summer is absolutely critical. He is however optimistic, given the political will. Joe Biden, Emmanuel Macron and Angela Merkel are well aware of the importance of the transatlantic market for aviation, he says, and describes it as a lifeline between areas that share values and history. "This is not just about industry, but everything else around it."

Brand analyst Savio d'Souza partially attributes the success of Turkish Airlines (with its 300 destinations) to its prime geographical location: Istanbul sits at the juncture of East and West and its airport is a mega-hub.

Amrop

Airlines cannot act alone. Echoing the G20 12-point plan, Lufthansa's Carsten Spohr emphasizes the need for agreement on an international travel pass signaling fitness to travel, at least in Europe and the US, and then as part of a global system.



cargo

Pulling its weight

One crisis-resistant area for the airline business has been cargo, according to quarterly reports: Turkish Cargo even enlarged its flight network strength with a 33 percent capacity increase in the first quarter of 2021, and its cargo revenue posted record growth: a 77 percent increase compared with the same period in 2020. Lufthansa too has seen high demand for air freight and the contribution from cargo has supported higher capacity, with record earnings. Meanwhile American Airlines continued to transport critical goods, including the Covid-19 vaccine, through cargo-only flights. It helped customers move 230 million pounds of goods around the world in the first quarter, including 98 million pounds on nearly 2,700 cargo-only flights.

Streamlining and Agility

Flexing fleets to meet changing demand

As a concreted example, American Airlines agreed with Boeing to defer and convert 787-8 to 787-9 aircraft, expecting its remaining 787-8 aircraft in early 2022. It also exercised its remaining deferral rights to postpone deliveries of aircraft from 2021 and 2022 to 2023 and 2024.

Lufthansa has set up operations flexibly: streamlining its fleet and capitalizing on the strength of its brands, hubs and partnerships. Three main levers will mitigate the impact from slower recovery of corporate demand, it predicts. The first will be flexibility in its premium offering: aircraft retirements decided in 2020 account for one third of premium seats in long haul flight, with variable aircraft configurations allowing the flexible adjustment of premium capacity and the expansion of premium economy increasing contribution per square meter.

Digital

Customer experience and safety - a dual role

American Airlines has enhanced its travel planning tool to help customers make informed decisions on where to travel and what to expect upon arrival. This enables them to view quarantine, document or testing requirements, and book flights. It also reports expanded acceptance of VeriFLY a mobile health wallet that simplifies and verifies travel requirements, to include all international flights to the US and from the US to eleven countries. Its partners Aer Lingus, British Airways, Iberia and Japan Airlines began accepting VeriFLY during the first quarter. AA is also expanding its touchless technology trial to allow customers to use biometric scanners to check bags in and will deploy the technology to allow access to a selected lounge. It will consider additional airport solutions going forward. It has launched a virtual assistant for customers in a proprietary mobile app; with a chat tool for airport team members; and an automated crew recovery program.

Lufthansa is also accelerating digitization in the name of improved customer experience, revenue quality and efficiency. But airlines cannot act alone. Echoing the G20 12-point plan, Lufthansa's Carsten Spohr emphasizes the need for agreement on an international travel pass signaling fitness to travel, at least in Europe and the US, and then as part of a global system. This, he told CNN's Richard Quest, is part of the future reality. As of July 1st 2021, the EU has created a European 'sanitary certificate' which will harmonize the passes now operating in its member states.

Pent up demand for business travel is huge, as people need to get back to work and out on the road

Outlook

A long haul back, but underway

Asked by CNBC in April 2021 about summer capacity, American Airlines CEO Doug Parker anticipates targeting the US, with a move to leisure, beaches and mountains. However this picture will evolve with the return of business and international travel, he believes. Pent up demand is huge, he says, as people need to get back to work and out on the road, foreseeing a return during the back half of 2021. Nonetheless, patience is of the essence – preclusions are slowly coming down and can't be rushed. Whilst the market is responsive, with an immediate pick up in bookings when restrictions are lifted, it will be gradual overall, he believes.

Even if demand remains significantly below pre-crisis level, with travel restrictions in 83% of global routes, Lufthansa reports good restructuring progress and, like AA, expects recovery to gain momentum in the second half of 2021, further accelerating in 2022. VFR (Visiting Friends and Relatives) and leisure traffic are expected to recover the fastest. Further down the line, the group projects a return to 90-95% of pre-crisis capacity in 2024, despite a reduction in corporate travel. Only in 2025 will this segment recover to 90% of pre-crisis levels by 2025, with high volume long haul recovering faster than short haul.

Like American Airlines CEO Doug Parker, Lufthansa CEO Carsten Spohr also noted the quick reactions of customers to lifting restrictions, telling CNN's Richard Quest in May that they 'jump up' in response. Flights are less frequent, he says, with smaller planes. But the destinations are available.

We look at three major global groups, Marriott International, Accor, and Hilton Hotels & Resorts.

Financial and structural measures

Cutting and building back

Like the airline sector, and reflecting the general trend in the hotel sector, the 2021 first quarter reports of these three multinationals show occupancy and revenues dropping like stones. Nonetheless, their leaders are looking ahead to position for recovery.

Leeny Oberg, Marriott International's Executive Vice President and CFO, euphemistically described the group's situation as "pretty fluid". In 2020 it had "cut down to the very bare bone of what we needed to do at a hotel to manage with extraordinarily low levels of occupancy." However, like its airline counterparts, Marriott International is adopting an agile response to fluctuations: "As you've seen demand pick back up, particularly in the resort hotels, we've, obviously, added back meaningfully more in the way of services for our guests." The group is also resolutely embarking on portfolio enhancement: 45% of its pipeline of nearly half a million rooms is now under construction. Approximately 40% is for full service rooms, of which 25% are in the luxury tier (fees from a new luxury hotel can be 10 times that of a limited service hotel).

Seemingly undeterred by prevailing uncertainty and its own financial challenges, Accor opened 56 hotels during the first quarter of 2021 – slightly below previous years but still 'a very satisfying level'. At end-March 2021 the Group's portfolio comprised around 5,000 hotels with a further 1,204 in the pipeline, (74% in emerging markets). Its 'Hotel Assets & Other' segment now comprises New Businesses (concierge services, luxury home rentals, private sales of hotel stays, and digital services for hotel owners). These continue to be affected in different ways, ranging from the severely-affected businesses directly related to the travel sector, such as onefinestay's private home rentals, to its digital businesses such as D-Edge. At end-March 2021 this segment, which includes owned and leased hotels, represented 122 hotels and nearly 24,000 rooms.

Accor also reorganized, changing its management structure under its RESET plan and re-configuring its operating structures within the different regions. The group also announced job cuts in the summer of 2020. In January 2021 its shareholders signed off a capital increase, with a second tranche foreseen. Le Figaro reported that month that the group would receive a state-guaranteed loan, given its 70% drop in turnover in 2020. Other financial measures taken by the group included bond redemption and covenant holidays, with a sale in February of part of its share in Huazhu Group Ltd.

Hilton, too, is in pharaonic building mode. It approved around 22,000 new rooms for development during the first quarter of 2021, bringing its development pipeline to nearly 400,000. By end-April 2021, 97 percent of the group's system-wide hotels were open. It also continued its debt repayments.

Health and Safety

Creating a contactless and clean digital experience

As for the airline sector, digitization is playing a triple role in the hotel industry: improving the customer experience, answering health and safety needs, and creating productivity efficiencies.

Writing for hospitalitynet.com, Korosh Farazad, the Founder and Chairman of the Farazad Group and a Board Member of Trinity Hospitality Group, examined the pandemic trends that will likely reshape the hospital experience long term. He confirms the importance of technology, with most major operators now enabling digital check-in/check-out, management and payment. Guests book on the basis of a virtual hotel tour, guided by apps to control their room environment and minimize surface contact. In-room media enables them to access digital streaming services or connect to conferences and host virtual meetings.

The Hilton Honors mobile app is an example of this approach, and Hilton, like its peers, was quick off the mark in the health and safety arena. It introduced a program in 2020 which it claims brings "an industry-defining standard of cleanliness and disinfection to hotels worldwide."

Marriott first rolled out elevated cleanliness standards over a year ago. It too has continued to develop its contactless experience, leveraging technologies such as mobile and web check-in and mobile key, to meet the changing needs of guests and drive productivity. The group is also testing contactless arrival kiosks and grab-and-go marketplaces at several service properties across the US as part of its efforts. Marriott's EVP and CFO, Leeny Steenberg, said on the group's Q1 earnings call that it had adapted its housekeeping to the needs of its guests, who "have their own views on what they feel comfortable with".

Accor's ALLSAFE seal, accompanied and certified by Bureau Veritas, represents its own new standards of cleaning and prevention, certifying that all the procedures are followed by its hotels. The group has also rolled out a downloadable digital key app. On arrival, guests receive their room key virtually allowing smartphone access to rooms and floor access via elevators.

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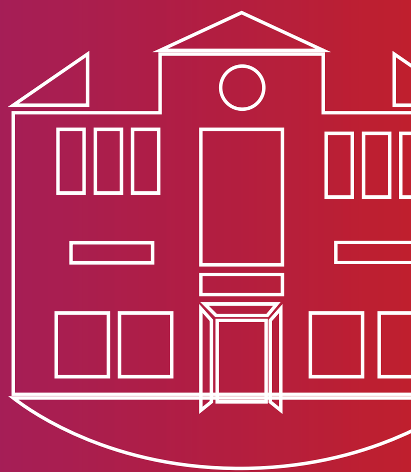
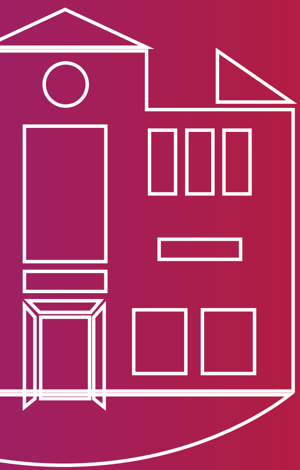


Despite the indisputable value of digital, hotels need to be selective in their use of technology to ensure it doesn't backfire in operational or customer experience terms.



Digital discernment

Despite the indisputable value of digital, hotels need to be selective in their use of technology to ensure it doesn't backfire in operational or customer experience terms. Soenke Weiss is the Founder and Chief Strategy Office of Optii Solutions, a company that uses technology to optimize hotel operations for immediate return on investment. The firm deploys predictive technology to map daily room attendant routes based on guest profiles and hotel needs, execute service delivery and strengthen team communications via 'data-driven insights'. Reflecting in hospitalitynet on the ways in which the pandemic has accelerated guest technology plans, Ms Weiss warns that "as staff remain thin on the ground, technology companies will need to continue to ensure that it adds value straight away and doesn't cause a distraction." If rooms are cleaned less regularly, even at the guest's request, the room will need a bigger overhaul at checkout, "this strategy delivers on safety, but it doesn't necessarily deliver on guest expectations, cost savings or efficiency on balance."

Strategies need to be locally driven, she says, on the basis of manager judgements and listening to customers. Her firm estimates that 90% of hotels "still run their operations with a pen and paper" and that when hotel groups digitize and compare their manual operations "huge disparities" are revealed. Unsurprisingly she still sees digitization as a key to streamlining costs and achieve economies of scale.

Also in hospitalitynet, marketing specialist Elisa Chan warns that hotel brands face the challenge of meaningfully fusing technology into a differentiated brand identity, rather than restricting them to undifferentiated operational procedures.

Networks, Partnerships and Markets

Loyalty programs are integral to big hotel brands.

Marriott International is one example of a group that runs co-branded cards — doing so in seven countries, with recent additions in South Korea and Mexico. On the May 2021 quarterly earnings call, its CEO Anthony Capuano reported good engagement from its cardholders, with improvements in new cardholder acquisitions. Helped by incentives, its quarterly global credit card spending had proved relatively crisis-resistant.

Complementary to its hotel brand portfolio and with around 30,000 listings, Marriott's home rental platform is a further engagement channel for its members to earn and redeem points. The group has also launched a program with Uber: members in the US can earn loyalty points in ride-hailing and food delivery activities.

Accor runs its own loyalty program. With 68 million members, the scheme provides access to a wide variety of rewards, services and experiences. Similarly, through its guest loyalty program Hilton awards points to 115 million members who book directly.

Hotel owners and franchisees — a critical stakeholder group

The attraction and retention of hotel owners and franchisees is of key importance in the hotel industry. For Marriott's Anthony Capuano, it is vital to exercise responsibility towards this hard hit community: "We've worked very hard to help owners lower their costs and maximize hotel operating margins in this low-occupancy environment." This approach seems to be bearing fruit: its signings pace has picked up fast over 2020. And Mr Capuano expects the momentum to continue, with the group adding over 23,500 rooms in the first quarter, 60% more than last year's equivalent.

In a similar vein and in early 2021, Hilton CEO Christopher Nassetta emphasized to Bloomberg the importance of liquidity bridges for Hilton's own small and medium size business owners in terms of payroll, tax and insurance. Beyond simply covering current gaps, he called for real economic stimulus, incentives for people to travel, visit restaurants and congregate. The system, he says, needed a jump start, after what he described as "being bucked off a horse".

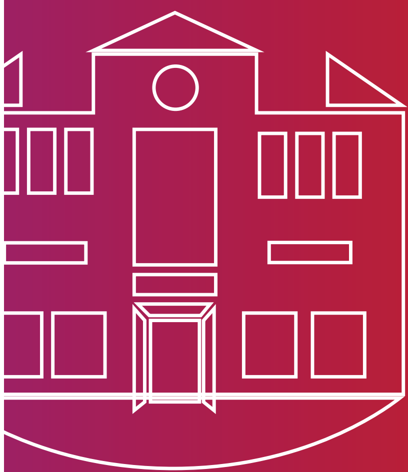
New forms of accommodation to meet shifting demands

Talking to CNBC Conversation in March 2021 Accor's Sébastien Bazin cited alternative, more private accommodation as one avenue showing rising demand. He admitted that Accor's response, (Live Limitless) is a difficult economic model, as every property is different (unlike the economies of scale that can be achieved in a typical hotel). In an additional strategy the group is also renting hotel rooms as work/office spaces – closing down 5-10% of room inventory, removing the bed and converting the room into office space.

This movement is just beginning, Mr Bazin says, and has promise. When it comes to negotiating business deals, Zoom has its limits, he suggests (Hilton's Christopher Nassetta told Bloomberg that the hybrid meeting model – where meetings resemble a TV studio – is pretty well established in the group).

To complement its hotel portfolio and offer a sense of domestic comfort, Marriott has also developed a 'hotels and villas' experience. Its CEO told CNBC that there had been 'explosive growth' in this area, with 30,000 listings for full homes. The linkage of the offer to Marriott's loyalty program will only fuel this expansion.

The attraction and retention of hotel owners and franchisees is of key importance in the hotel industry.



Outlook

Leisure a lifeline, with pent up demand in the vital business customer base

Marriott's Anthony Capuano observes that even if the group's business is still weighted heavily towards leisure, there is strong pent-up demand for all forms of travel, with a potential blend of business and leisure on its way. In conversation with CNBC in May 2021 he observed rising demand in the largest markets with business demand in China up 5% on March 2019. For the full year, the group expects gross rooms growth to potentially accelerate to approximately 6%. By 2022, however, one thing is clear: he wants brand standards re-established. Still, the hotel renovation Marriott is embarking on remains a balancing act. Given that Covid has left hotel owners' with dramatically lower cash reserves, the group is targeting its actions carefully: "picking our spots and making sure that we're picking the renovation work that is critical to the customer experience."

Leeny Oberg, Marriott's SVP and CFO, warned on the first quarter earnings call (2021) that whilst travelers may be feeling more comfortable, uncertainty remains, particularly in bringing large groups together, given persistent disparities in vaccination rates worldwide (and within the US). However, she predicts a distinct upward trend for 2022, even surpassing 2019, and like Mr Capuano sees pent-up demand from corporate and associate clients. "Once you get past '21, there is a full expectation that people will be getting back into doing their group business."

Hilton's Christopher Nassetta is also in a relatively buoyant mood. Pleased with the first quarter results and acknowledging Covid's negative impact at the outset of 2021, (particularly across Europe and APAC), he says the positive momentum will likely continue "as vaccines are more widely distributed and our customers feel safe traveling again."

However, he is realistic, telling Bloomberg in January 2021 that the global pattern will be fragmented, even if there is light at the end of the tunnel. He believes that after an epicenter in Spring, early summer, recovery will take a "long, long time". The opportunity will be in the third and fourth quarter "when we get to the other side of the health crisis." Still, he says that the situation "a lot better than people think."

The hotel industry is geting back in business.

The traditional business traveler accounted for around 75% of Hilton's business, Mr Nassetta said, plunging to a small fraction of what it was, with custom shifting towards leisure, particularly in warmer and coastal areas. Also seeing pent-up demand he believes the second half of the year will herald a return to group meetings, even small, internal and with customers, as the customer base shifts once again.

Accor Group's quarterly earnings release cautiously echoes the optimism of the US players. "There were no surprises in our first quarterly performance. Global business trends are improving slightly and the ramp-up of the vaccine rollouts bodes well for a particularly strong rebound. As it did in 2020, the Group continues to keep a close eye on protecting its cash and cutting costs. Today, all our efforts are focused on the strong recovery expected this summer."

Don't bet against the hospitality sector

In the CNBC Conversation in March, CEO Sébastien Bazin acknowledged that even if business had dropped by 20%, it would come back 2023-24. Echoing the sentiment of Hilton's CEO, he said: "Don't bet against the hospitality sector." Business travel makes up 60% of Accor's turnover, of which 40% is domestic. Mr Bazin expects that 90% of that will remain untouched. However, he believes that the fundamentals of the industry have permanently shifted: a quarter to a third of international business travel will likely disappear forever, he says.

Critical care

As business picks up, and given unavoidable cost-cutting, the hotel industry is set to face staffing issues going forward. It will need to attract people back into the industry. In his conversation with Bloomberg, Hilton's Christopher Nassetta emphasized the need for the hotel industry to care for people, given the extended impact of the crisis for "those that can least afford it".

What of businesses that combine air, land and sea? Led by CEO Friedrich Joussen, German multinational TUI Group is the world's largest leisure, travel and tourism company. It owns travel agencies, hotels, airlines, cruise ships and retail shops.

Financial measures

Recovering from surgery

In its half year report published in May 2021, TUI's results reflect the pounding suffered by the tourism industry. However, it was also seeing green shoots, helped by a tough set of financial measures. Staking its claim as the first operator to provide holiday experiences on the lifting of restrictions, it reported a return to a 'solid and healthy balance sheet' due a number of factors and measures. Together with a strong pipeline, significant "self-help" actions had been taken, with cash fixed costs significantly decreased by over 70%. Cuts since 2020 had included an agreed FTE reduction, and TUI fly Germany concluded with unions a fleet reduction from 37 to 22 aircraft, as well as a raft of shop closures. The group said that its efficiency programme was on track to deliver significant yearly savings, without compromising quality and growth.

Securing liquidity has been necessary for almost all the groups we have looked at, and TUI is no exception, locking up support packages and taking its first step towards refinancing government facilities with a successful issue of bonds. This signalled what it saw as a positive return to capital markets.

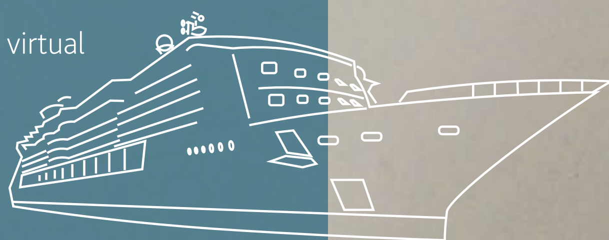
Digital

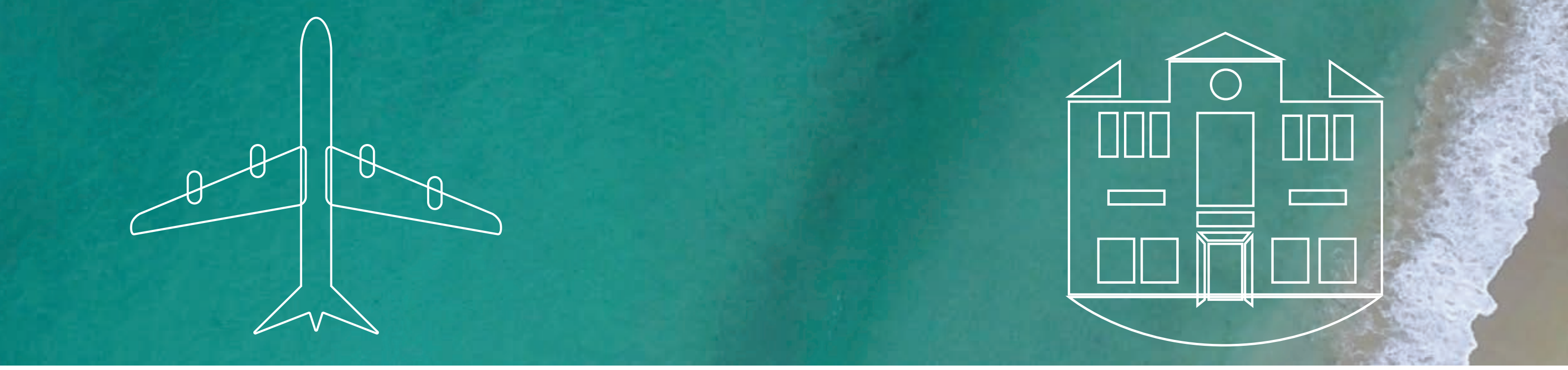
Waves of change

Like the airline and hotel multinationals, TUI is accelerating its innovative digital strategy for two reasons: inspiring customers and creating a long-term competitive advantage, improving its differentiation.

Looking beyond the crisis, it goes further, saying it that its priority is to transform TUI into a digital platform company – a cost efficient, one stop travel shop building on its own, best in class tech solutions and focussing on digital mass individualization. Measures include worldwide roll-out in the cloud – a central system governing its hotel, cruise, flight and package segments, flight and yield, with a CRM, web front end and App. It is looking to short development cycles driving efficiency and enabling a "better than ever" response to customers' needs. The program went live for flights in Belgium and the Netherlands in February 2021, with further rollout of packages in Belgium and Netherlands foreseen in the coming months and rollout to other markets starting at the end of 2021.

However TUI is looking at a blended solution: one point of contact, 24/7 virtual support via the TUI app, but with in-destination reps remaining in place.





Health and Safety

Safety as a standard

TUI has also had to install rigorous hygiene concepts, testing facilities, together with Covid insurance cover and comprehensive hygiene measures are now standard across the TUI ecosystem. The cruise sector was particularly hard hit during the pandemic, making the 50,000 PCR and 35,000 antigen tests conducted all the more important in assuring the return of a sector that the group now reports is firmly underway.

Outlook

Fundamentals intact

The Group is expecting a “quick and strong recovery of leisure travel.” In a business where confidence is key, 40% of customers say they currently feel very confident and 45% feel reasonably so. The NBTC Holiday Sentiment Monitor indicates that round 70% of consumers intend to travel in 2021, which the group see as a very good result compared to a normal year.

TUI predict that Summer 2021 will be open for leisure travel with a strong bookings pipelines and capacity at around 75% for the peak summer months. If other business leaders are looking to pent-up demand, TUI is already experiencing it, as consumer confidence rises with the easing of travel restrictions. With its liquidity headroom, market recovery towards summer already showing and significant working capital inflow expected, this market leader considers itself to be strongly positioned for leisure travel recovery, in a positive sign for the industry overall.

In a recent interview on TUI’s website, its CEO Friedrich Jousson confirmed that the tourism industry is safe - and set to rebound. 2021 will be an intermediary year, and by 2023 at the latest, demand will be close to 2019, with a more consolidated market. The sector has been outgrowing GDP by a factor of two over the past fifteen years, supported by the favorable demographics of an aging population with the disposable income and time to travel. In a nutshell: “the fundamentals are intact” and "experience is the new luxury."

In a nutshell: “the fundamentals are intact” and “experience is the new luxury.”

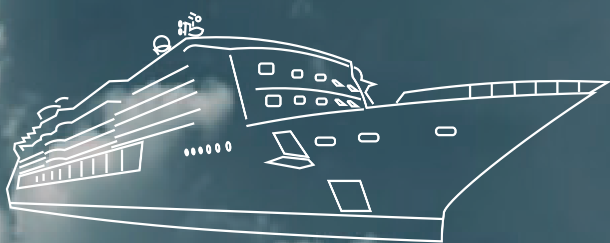
CONCLUSION

Our tour of the Covid-hit travel and tourism industry reveals just how rough the ride has been for its leaders. They have been engaged in a relentless and high-profile exercise of resolving multiple business paradoxes to ensure that their legacy organizations not only survive, but transform and flourish.

This is a daily balancing act that involves unpacking and synthesizing seemingly contradictory perspectives to arrive at higher-level solutions. From short-term and long-term, shareholder and stakeholder, wealth and health, sanitization and humanization, collaboration and competition.

The next generation of travel and tourism leaders — or any leader stepping into this industry, can expect to encounter a fascinating and fertile strategic field. Developing this rich terrain will take a very particular blend of qualities. More than being acquired or trained, these need to be deeply anchored in their DNA.

Agility, energy, optimism and patience, brand thinking and night vision. Tough love and transparency. It takes a particular kind of mindset to embrace what are, in themselves, paradoxical qualities. Something to consider next time you open an airline app, check in to a hotel, or reflect upon your next career move.



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