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COVID-19 RECOVERY CONSIDERATIONS FOR THE TRAVEL & HOSPITALITY INDUSTRY

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“After hopelessness, there is so much hope, and after darkness there is the much brighter sun.”

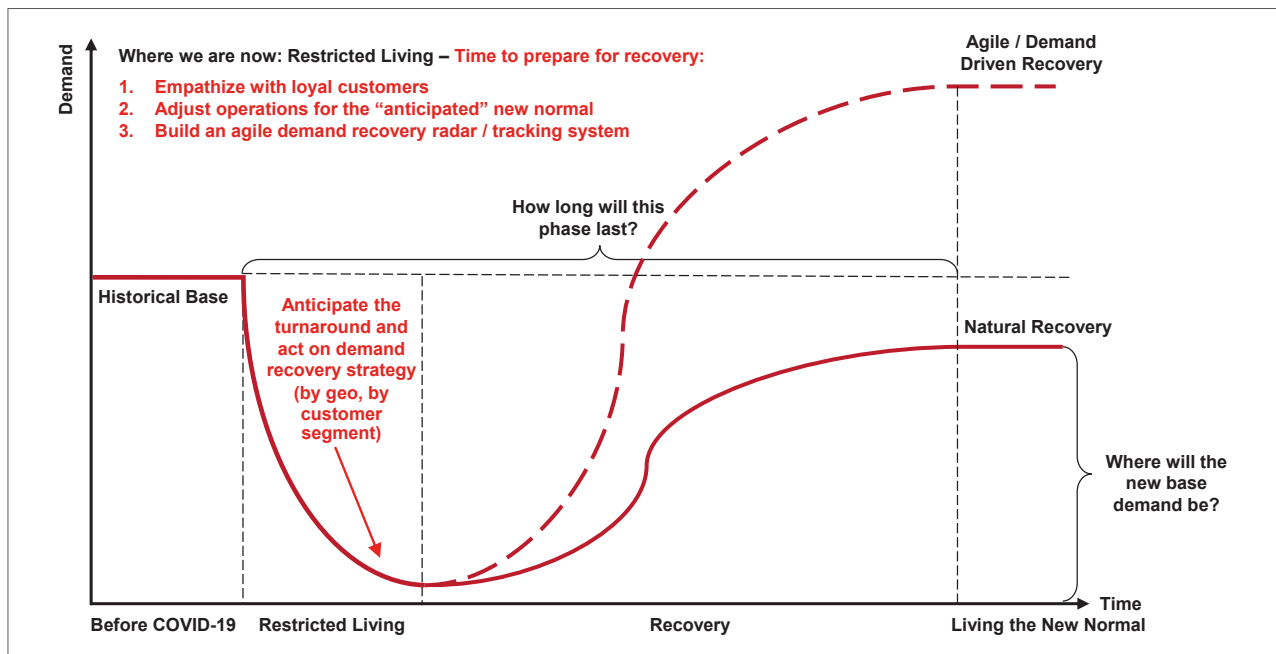
—Rumi

COVID-19 has impacted the travel and hospitality industry more than any other with the lock-downs most governments had to do to ensure citizen health. With no revenues and more than 90 percent of assets lying unutilized, combined with significant ongoing financial commitments, the industry has never had it tougher.

[For more details on the recent impact of COVID-19 in the industry, please see our latest research¹]

While these turbulent times require a close watch on frequently changing dynamics, it is also important to have an eye on the horizon. A new normal will be established with certain countries, states and even counties recovering sooner with some others taking much longer. Accordingly, the industry has to right-size scale, talent, infrastructure, costs, and multiple other parameters, to emerge stronger from the prevailing scenario.

Figure 1: Demand Considerations



Note: The key message of the chart above is not about the shape of the recovery curve (such as 'U shape' and 'V shape') but where travel companies may end up based on how they manage the Restricted Living and Recovery phases.

¹<https://www.wnsdecisionpoint.com/our-insights/reports/detail/93/covid-19-galvanizing-the-travel-industry-for-high-tide>



HOW LONG WILL TRAVEL RESTRICTIONS LAST?

The most critical question is the duration of the crisis considering the stage of the spread of virus and, various proactive and reactive steps taken by government bodies to contain it. We expect the situation to remain fluid, all the way down to county levels in the U.S., and depending on the vulnerability of the customers till a vaccine emerges. Until then, we expect a slow and phased recovery depending on the location and health risk profiles of travelers. It is also important to be ready for additional waves based on the effectiveness of lock-down / re-opening and social distancing measures in place.

RECOVERING DEMAND: TIMING IS EVERYTHING

The new normal is about remote working, localized supply chains and a shift to digitalization – more than ever before! While we expect both business and leisure travelers to

gradually adapt to the new situation, short-haul (less than three-hour flight time) travel is likely to pick up earlier than long-haul travel.

Moreover, it will be interesting to see how business will adapt back to travel after getting used to digital meetings and if business travel will pick up earlier than leisure or the other way round.

Vulnerable population will continue to experience travel restrictions longer than others, likely until a vaccine is found. Of course, the demand will also need to be adjusted for the economic structural changes as well as the emerging trends. Therefore, it is critical for the planning teams to be prepared for multiple scenarios and to observe leading indicators (government directives on the metrics to open economies, customer sentiments, online searches as anticipation of demand before recovery starts, as well as the actual booking data) and plan for different scenarios. One thing is for sure, data will need to be tracked and analyzed at more granular and local levels than before. We will elaborate on WNS' Demand Recovery Tracker solution in an upcoming article.

COMMERCIAL PLANNING: PREPARING FOR THE NEW NORMAL

While making network, fleet, rooms / property decisions, it is critical for airlines and hotels to incorporate the above considerations. There may be several scenarios as the new normal emerges:

- Demand in certain segments and locations bounces back rapidly
- Demand in certain segments and locations takes longer to stabilize, for example 6-18 months
- Total demand recovers to a new normal (adjusted for structural changes, key trends and what has been done during restricted living and recovery)

All the scenarios are possible depending on the market and customer segment under consideration. Hence, planners (both airlines and hoteliers) need to closely monitor the leading indicators and cues in each geography and continuously re-adjust the demand curve, so that there are judicious deployments of assets (fleet, seats, rooms, properties). Long- and medium-term profitability as well as Customer Lifetime Value (CLTV) should be the foundation for such decisions to avoid any downward spiral in the future – running a hotel / flying an aircraft can be more expensive than a non-operating environment if the break-even load / occupancy is not reached.

REVENUE MANAGEMENT AND PRICING STRATEGIES

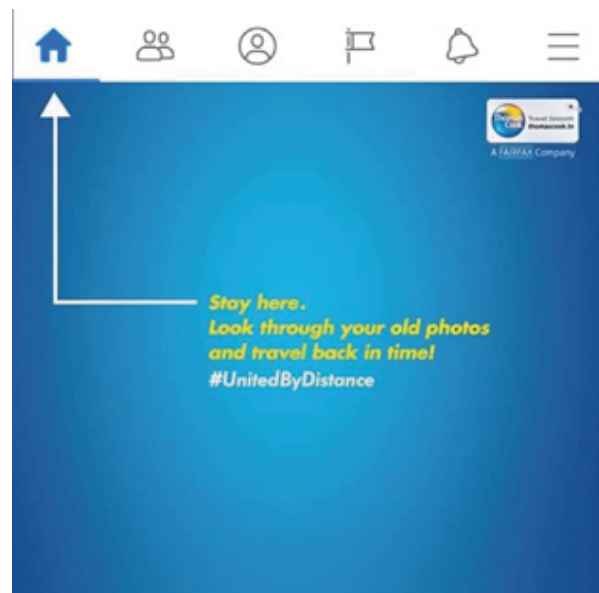
Social distancing is likely to be the new norm for the industry until an effective vaccine emerges. For airlines, the initial demand might be weak coupled with government regulations ensuring alternate seats, and perhaps rows, to remain vacant for maintaining distance. In such a situation, it is quite likely that ticket prices

would increase. While essential business travelers are more likely to initially pay for these higher priced tickets, leisure travelers may consider local vacations and road trips.

MARKETING COMMUNICATION AND CAMPAIGN STRATEGY

It is difficult to engage customers during such phases of uncertainty when aircraft are on ground and hotels are practically shut. Campaign strategy, targeting and personalization should follow demand recovery signals. This is the time to connect with customers to update them on the situation on the ground and level of preparedness once the situation normalizes. There can be instances of customer distress due to COVID-19 (personal and / or financial loss), and it's important to demonstrate empathy towards the customers. Below is a creative example by Thomas Cook India during restricted living.

Figure 2: Communication Strategy



Source: Thomas Cook

Key considerations for communication:

- Maintain positivity
- Demonstrate empathy for the losses incurred due to COVID-19
- Reinforce core brand values
- Information about the internal health (employees, finances) of airline / hotel
- Educate on steps taken by airline / hotel to ensure safety, compliance and innovation
- Assuage any fears customers might have about flying / airport / hotel / staff and so on, as the situation recovers

From a marketing perspective, the key theme would be the safety aspect of flying or staying depending on the locality and customer segment. Also, from a segmentation perspective, it is important to identify core customers / early adaptors and incentivize them to reconnect with the brand during recovery.

LOYALTY

Historically, loyalty programs have been used to ring-fence loyal customers. But a loyalty program does more than that. We have instances in the U.S. where loyalty programs have provided a bailout for airlines in previous instances of financial distress through pre-purchased credit card miles. The same can be leveraged by airlines to ensure business viability in the interim to clear any unavoidable financial commitments. It also provides an opportunity to engage with loyal customers through the non-airline partners' ecosystem, so that they remain loyal to the brand.

More importantly, travel companies have to proactively engage with personalized communications and ensure that loyal customers return once the demand starts to recover. Competition may also act quickly on local demand signals and will likely offer status match and additional perks to target frequent travelers.

SAFE OPERATIONS

The industry has always been obsessed with safety as one of the core value propositions. However, safety has got a whole new definition now. Hence, it's paramount that the core elements – assets, day-to-day flight and group operational processes are re-looked at, to make them safe for flyers. During the restricted living period, it helps airlines to critically review some of these processes to explore automation and outsourcing opportunities.

It would also be critical to ensure that airlines and hotels take all the measures possible to ensure safety and testing of their employees (both customer facing and otherwise) so that the situation remains contained and operations are not impacted once the recovery begins.

The current situation also provides an opportunity to upskill and cross-skill employees so as to resume with speed when the demand is back.

OTHER CONSIDERATIONS

Some of the predictive maintenance and hygiene related upgrades, along with the pending maintenance, repair and overhaul work, can also take place in the interim to ensure that there will be minimal untoward disruption once the recovery starts. The situation also has opened the door for fuel hedging opportunities for airlines. The price of a barrel of West Texas Intermediate (WTI), the benchmark for U.S. oil, fell as low as minus USD 37.63 a barrel on April 20.

From a broad strategy perspective, there may be mergers and acquisitions / consolidation opportunities including potential divestitures and the sale or purchase of minority equity stakes.

About WNS

WNS (Holdings) Limited (NYSE: WNS) is a leading Business Process Management (BPM) company. We combine our deep industry knowledge with technology, analytics and process expertise to co-create innovative, digitally led transformational solutions with over 400 clients across various industries. The industries include banking and financial services, consulting and professional services, healthcare, insurance, manufacturing, media and entertainment, retail and consumer packaged goods, telecommunications and diversified businesses, shipping and logistics, travel and leisure, and utilities and energy. We deliver an entire spectrum of BPM solutions including industry-specific offerings, customer interaction services, finance and accounting, human resources, procurement, and research and analytics to re-imagine the digital future of businesses. We have delivery centers worldwide including in China, Costa Rica, India, the Philippines, Poland, Romania, South Africa, Spain, Sri Lanka, Turkey, the United Kingdom and the United States.

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