



# Who Moved My Travel?

## Thoughts on Global Governance

September 2021

## Table of contents

- 1. Introduction**
- 2. Where is Travel & Tourism Headed?**
  - 2.1 Business or Pleasure**
    - 2.1.1 Bad Business
    - 2.1.2 Underwhelming Numbers vs Overwhelming Demand
  - 2.2 Domestic or International**
    - 2.2.1 A Balancing Act
    - 2.2.2 Available Means of Travel vs Sufficient Means for Travel
- 3. How do we Get There?**
  - 3.1 Digital-First Partnerships**
    - 3.1.1 Partnerships Without Borders
    - 3.1.2 Public-Private
  - 3.2 Traveler Segmentation**
    - 3.2.1 The New Traveler
    - 3.2.2 Upside-Down Loyalty
- 4. Conclusion**





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## 1. Introduction

It's a little unfair to reference the bestselling business book *Who Moved My Cheese?* when talking about travel & tourism. No amount of change management could have staved off Covid-19. Increased competition and economic downturns don't compare to something akin to a natural disaster that leveled the sector.

In 2019, travel & tourism represented 10.4% of global GDP; it nearly halved to 5.5% in 2020.<sup>1</sup> The impact goes beyond GDP figures and tax revenues. Travel & tourism supports social growth by providing individual income and incorporating small businesses in the global economy. Between 2014 and 2019, the sector represented one quarter of all net new jobs globally; it accounted for 62 million job losses in 2020.<sup>2</sup>

But it would be a mistake to view travel & tourism before 2020 as representative of a halcyon era. Mass tourism often clashed with environmental sustainability, and expectations around financial inclusion and reduced



poverty weren't always met. While there's a lot to be recouped, there's also a lot to be redefined. Travel & tourism has moved on and isn't coming back in the same way.

Opportunities abound. A shift to digital has left legacy systems and processes languishing. Quality data is needed to provide insights into travel trends and changing traveler needs. Travel's always been personal; one person's quest for unspoiled solitude is another's recipe for boredom. But such detail was too often treated as incidental when travel was booming.

Today, those details matter more than ever as Covid-19 accelerates emerging trends.<sup>3</sup> Its impact varies, but personalized and smooth customer journeys are basic expectations. And safety concerns in the wake of a global health crisis mean customer centricity and sustainability go hand in hand.

Recovery will hinge on the answers to two basic questions:

- Where is travel & tourism headed?
- How do we get there?

An answer to the first question requires a clearer understanding of how traditional lines between business or pleasure and domestic or international are being redrawn to accommodate different traveler behaviors and expectations. An answer to the second comes from applying that understanding to digital-first partnerships, which may be public-private and cross-border, and to insights from data-driven traveler segmentation. Better travel & tourism strategies and policies should result.





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## 2. Where is Travel & Tourism Headed?

### 2.1 Business or Pleasure?

It was always a blurred boundary. Covid-19 and the shift to digital only blurred it further. Workations grow in popularity as a workforce of digital nomads emerges. Business travelers spend longer at their destinations to make the most of trips requiring inconvenient and protracted travel protocols.

#### 2.1.1 *Bad Business*

The global share of business air travel relative to leisure air travel ranges from 26% to 30% in a typical year.<sup>4</sup> It's a similar story across the entire travel & tourism sector. Yet what business sacrifices to leisure in terms of share, it more than makes up for in terms of profitability.<sup>5</sup>

An airline, for example, would prefer a full business cabin over a full economy cabin. But against airlines' wishes, business travel tends to drop faster and stay down



longer during economic downturns than leisure travel. Volatility, in its literal sense of being able to fly, is usually a prerequisite for flight. Unfortunately, it doesn't fly in terms of travel economics.

Much of business travel occurs between regional offices or as part of the MICE quartet: meetings, incentives such as corporate retreats, conferences and events. Video conferencing and new technologies currently seem to reduce some of that need. The degree depends on function and sector: product development may still require more face-to-face meetings than finance or accounting; working onsite is more essential to production and construction services than financial or other services. Providers will naturally focus their attention on prospects with more essential travel needs.

Yet even for less essential needs, video conferencing can only replace so much. The relatively fast return to business travel of small and medium-sized enterprises,<sup>6</sup> which usually have little need for intercompany travel, bodes well. And reductions in intercompany travel may be offset by new opportunities in the space. The effect of e-conferencing on travel could prove to be a bit like e-commerce on retail; it shakes it at the foundations but then supplements rather than supplants it.

Regardless of the state of business travel, conferences combining in-person and virtual attendance are likely to become permanent fixtures. The organizers benefit from increased attendance; the attendees benefit from flexibility around how and when to tune in. It's a marketing opportunity that goes well beyond when virtual reality vacations—and by extension corporate events—were April Fools' Day advertising stunts.<sup>7</sup> Immersive commerce, which enhances the transactional focus of online shopping with the experiential dimension of offline shopping, will be instructive here.<sup>8</sup>

In the end, despite the severity of this particular downturn, the slower recovery of business travel—in the air or on the ground—than leisure travel is understandable and expected.<sup>9</sup> What's unheralded is where the recovery of both kinds of travel is headed.



### 2.1.2 Underwhelming Numbers vs Overwhelming Demand

As any fear of flying returns to preoccupations about being in the sky rather than in an enclosed cabin, factors less obvious than vaccination rates and herd immunity play a role. Three enduring challenges now afflict many travel & tourism providers:

- empty business sections
- high debt
- lack of staff and maintenance crews

Looking just at airlines, the slower recovery of highly profitable business travel means airlines will struggle to repay their government bailouts for some time. It's also not just travelers who need to get back into the habit of flying; pilots do too—a shortage of 27,000 is expected by the end of 2021 as licenses expire and retraining becomes a cost issue.<sup>10</sup> Further constraints will likely result from bottlenecks as idle maintenance equipment is returned to service. Airlines rely on higher yielding business travel to reopen travel routes—particularly during the middle of the week when leisure travelers don't want to fly. Similar capacity challenges cut across much of the travel & tourism sector.

The silver lining in the relatively plane-free clouds comes from consumer sentiment. As businesses continue to limit certain travel, many consumers are conversely looking at how to spend their share of the extra US\$5 trillion saved since the onset of Covid-19.<sup>11</sup> Travel ranks second only to eating out as the out-of-home activity most missed during lockdowns.<sup>12</sup> And consumers who return to eating out first are generally also the ones who return to travel first.<sup>13</sup>

It's ironic that the demand for leisure travel could outstrip the ability to deliver. But the situation is far preferable to the inverse and just calls for some deft accommodation—whether in a hotel room or anywhere across the entire customer journey. Some clarity can be found in the emerging interplay of road warriors, who venture out by car to more local destinations, with other forms of domestic, regional and long-haul travel.



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## 2.2 Domestic or International?

Travel is often romanticized as far away trips to exotic locations. Usually, however, it's domestic. In 2019, 72% of travel & tourism spend was made domestically by residents; in 2020, it was 82%.<sup>14</sup> The increase in share is expected because of marked declines in international travel, but the relatively small change of 10 percentage points reflects the preeminence of domestic travel regardless of Covid-19.

### 2.2.1 A Balancing Act

Despite overall domestic dominance, the balance between domestic and international travel can vary significantly based on factors like geographical size, proximity to other countries, infrastructure, and popularity as a tourist destination. For example, the share of domestic travel & tourism spend in 2020 was 95% in Japan and 94% in the US, but 67% in France and 47% in Turkey.<sup>15</sup> Covid-19 vaccination rates now add another variable to the mix.

Still, regardless of country specifics, stronger domestic travel provides little respite from the challenges afflicting international travel. International visitors spent US\$1,691.5 billion in 2019; the amount dropped to US\$517.6 billion in 2020.<sup>16</sup>

The expectation is that shorter car trips will precede longer plane trips and domestic travel will precede international travel. Such predictions are relatively well-founded. Domestic flights in nearly one in five countries have returned to at least 90% of levels before Covid-19 and are already exceeding them in some countries.<sup>17</sup> Meanwhile, the number of international flights continues to grow, albeit more slowly. But recovery is patchy as countries adjust their requirements. Travel bubbles, or corridors between select countries, are short-term solutions and many have already burst.

As a result, predictions that a return to travel might result in large volumes of cheap flights and hotel rooms have proved somewhat off the mark. Reduced capacity



means high fixed costs need to be paid by fewer consumers. Even with competition for seats and rooms, many operators need to maintain or increase prices. In addition, many hotels are reluctant to reduce prices because of the time needed to increase them again at a rate tolerable to consumers. That risks pricing some people out of the market for the time being—particularly when it comes to more expensive international travel.

### *2.2.2 Available Means of Travel vs Sufficient Means for Travel*

Covid-19 precipitated a return of road warriors. As of May 2021, global gasoline spending was already 13% above its prior peak in August 2019.<sup>18</sup> There will be a drop off once flying really takes off, but it may be tempered by high airline prices. After all, ground travel doesn't preclude long-haul travel, but it is limited where border crossings over land are not easy.

The likely consequences of a reduction in capacity and an increase in prices are a reduction in long-haul travelers and an increase in domestic travelers. The situation will vary significantly based on regions and countries. How long it persists in different circumstances will be influenced by decisions on how to balance capacity with prices.

One approach for travel & tourism providers is to carefully increase capacity in response to emerging demand. That could mean providing early booking discounts—possibly with flexible booking and cancellation policies—to incentivize travel while allowing enough time to prepare for any resulting uptake.

Alternatively, for some providers, the financial appeal of multiple budget and business travelers of old, who pop in and out, may pale next to a few affluent travelers, who stay longer after satisfying any health protocols. The challenge is knowing when and where to apply which approach.



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## 3. How do we Get There?

### 3.1 Digital-First Partnerships

The term customer journey is particularly suited to travel & tourism. Although journeys never simply began with embarkation and ended with disembarkation, never has such an integrated approach been needed from all participants.

Safety has gone beyond a focus on maintaining equipment and thwarting terrorists to questions of personal health. That makes protecting health and supporting the economy into bedfellows.

#### *3.1.1 Partnerships without Borders*

Closed international borders can help individual countries control Covid-19 internally, but that's only a short-term solution. The 69.4% drop in spend between 2019 and 2020 by international visitors shows just how important international collaboration between governments is to regrowth.<sup>19</sup>



Bilateral or regional partnerships risk hindering sustainable global growth. The situation goes beyond simple degrees of reliance on international tourism, where small countries with emerging economies tend to be more reliant on international travel than large countries with diversified economies and a predominantly domestic travel base.<sup>20</sup> The differences are now becoming starker as certain countries progress with vaccinations while others lag.

Travel & tourism, a sector that prides itself on socio-economic development, now risks charges of discrimination for failing to achieve international cooperation. As of July 2021, inequitable vaccine distribution is the main reason behind the World Health Organization's rejection of Covid-19 vaccination records as prerequisites for international travel. Any "vaccine passport" initiatives, such as the European Union's Digital Covid Certificate, remain regional in scope.

However, health passes don't necessarily have to be so lofty in scope as to be unfair. Instead of insisting solely on vaccination, the EU certificate also provides for proof of a negative test result or recovery from Covid-19. The imminent adoption of similar initiatives in other regions and sectors, such as restaurants and retail, is likely.

### 3.1.2 Public-Private

Once deployed, digital health passes will help travelers avoid out-of-pocket expenses associated with Covid-19 in what could be an increasingly expensive international travel market. But they require international acceptance and global standards covering data privacy and security.<sup>21</sup> Asking a traveler to provide their health status several times on different apps and portals is frustrating and exacerbates any risks around inadvertent data exposure. That's where public-private sector partnerships can help.



Contactless, smooth and safer customer journeys in the retail sector have resulted in certain consumer expectations. As a result, the technology and standards adopted by payment networks—identity verification, tokenization of sensitive information to protect the underlying data in the event of a security breach, and contactless cards—can facilitate and secure the use of digital health passes.<sup>22</sup> Government-issued or government-accredited digital IDs, which are becoming increasingly prominent in today's open-banking era of financial services, can also play a role if they secure international acceptance.<sup>23</sup>

Customer expectations are also providing new roles for technology startups. Improved booking interfaces and customer journey management tools can digitally integrate travel requirements and use real-time insights to adjust as circumstances change. This digital engagement with travelers is important for the inclusion of small businesses, which governments are keen to foster. The sustainability of travel & tourism depends more than ever on small businesses being integrated onto e-commerce platforms and being accessible via mobile apps before, during and after travel.

The better the user experience, the more loyal the traveler. That matters as personalized incentives grow in importance as they cater to new traveler segments.



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## 3.2 Traveler Segmentation

Travelers are traditionally categorized across tiers or overarching travel purposes. Those categories work fine from a product perspective. What's missing is personalization, which matters more than ever when travel is no longer a given.

### 3.2.1 The New Traveler

As travel returns, eight new or modified travel segments will accommodate shifts in consumer behavior and needs:<sup>24</sup>

Two are business oriented:

- workation travelers
- essential business travelers

Six are leisure oriented:

- budget deal seekers
- escapists wanting short getaways close to home in less crowded locations
- rejuvenators taking dining and beauty spend habits on vacation
- adventurers taking outdoor spend habits on vacation
- international VFR (visiting family & relatives) travelers
- luxury aficionados

These global segments are all colored by regional backdrops. For example, a global tendency toward workations is not reflected in several Latin American countries, and a predilection toward escapism in certain Gulf countries happens to parallel preferences in Japan.<sup>25</sup>

Detailed analysis of aggregated and anonymized sales activity allows further understanding of each segment. For example, today's luxury aficionados tend to focus more on traveling to boutique rather than glamorous destinations.<sup>26</sup>



Such nuances won't necessarily override global and regional differences. For example Chinese tourists, who traditionally like to spend at high-end stores, aren't suddenly going to fall in line with Brits, who traditionally prefer to splurge on hotels.<sup>27</sup> But the added context permits a better understanding of new market forces. Lookalike modeling, couched within these global and regional trends, then allows loyalty programs to cater more precisely to travelers' whims.

### 3.2.2 Upside-Down Loyalty

Loyalty is perhaps the most tangible example of Covid-19 upending travel & tourism. The recent shift of travel reward programs to efficient and personalized digital-first offerings is well-timed in that regard.<sup>28</sup>

The limited relevance of traditional perks, such as priority boarding in a time of Covid-19 requirements, makes top-tier loyalty members increasingly difficult and expensive to satisfy. Understanding members' real needs and preferences, and ideally being able to adjust in real time, can help identify the right incentives to help accelerate recovery and maximize revenue.

But results won't come solely from efficiency on the top end. Top-tier and low-tier loyalty programs are undergoing a certain reshuffling of priorities in a similar way to business and pleasure or international and domestic travel categories. Low-tier loyalty members, traditionally bypassed for many offers, may be easier and less costly to please at a time when indebted airlines and hotels are struggling to honor rewards.



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## 4. Conclusion

The travel & tourism story doesn't contradict the standard narrative that Covid-19 accelerated already emerging market trends. Covid-19 certainly boosted the adoption of digital-first partnerships and data-driven segmentation, but it wasn't the initial cause. And overarching concerns about sustainability in the sector and the adequate inclusion of small and medium-sized enterprises didn't suddenly appear in 2020.<sup>29</sup>

However, what is unique about the travel & tourism sector is the extent of the damage wreaked by Covid-19 and the opportunity that such a situation affords.<sup>30</sup> As other sectors adjust to accommodate new trends, travel & tourism is resetting itself. Well-defined categories, such as business and pleasure or domestic and international have acquired additional nuances and blurred their boundaries.

So, in some respects, it's less a resurrection of the sector than its reincarnation. And wherever travel moves and begins to settle down, sustainable solutions will matter as much for addressing societal issues as for creating compelling incentives to travel.



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For more travel recovery insights, check out:

**Recovery Insights: Ready for Takeoff?**

## Endnotes

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