

A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance and Management from the Nova School of Business and Economics, titled:

## A forced disrupt: “the next normal” for airlines and cruises

A project carried out as part of the Master's in Finance and Management under supervision of: Professor José Miguel Pita.

**Student:** Ulrik Brink (student ID #39750)

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# Abstract

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The aim of this master's thesis is to investigate how COVID-19 has impacted travel and tourism and how the industries can transform themselves in order to become competitive in *"the next normal"*. To do so, we have done a deep-dive on two industries – namely the airline and cruise industry – and by gathering, analysing and interpreting secondary and primary data we have sought to outline how the industries were performing prior to the pandemic, to which extent they have been impacted during the pandemic, and what we can expect the next normal to look like. Thus, the main question that we have set out to investigate in this thesis is: *"How is COVID-19 currently changing the airline and cruise industries, and how can industry players reimagine themselves in order to become competitive in "the next normal"?"*

The present chapter attempts methodically to outline what business travellers – the most impacted airline customer segment – can expect in the next normal. This is done, first, by contextualising the segment, i.e. providing a picture of how the segment was performing prior to COVID-19 and which role it played to airlines. Secondly by using secondary and primary data to explain how COVID-19 has impacted the segment's flight consumption. Finally, by looking at ongoing trends and by understanding the needs and wants of business travellers, it looks at how the future is currently forming and will continue to shape.

Secondary data shows that, while just accounting for 10% of global airline passengers, business travellers drive up to 75% of airline profits and 50% of airline revenues, and thus airlines are inarguably dependent on this segment to run successfully. The entire infrastructure of business-oriented airlines is built up around serving this segment and their leisure passengers thus function as loss leaders. During COVID-19, the business segment has been impacted more than its leisure counterpart as (1) business everywhere has been moved from the office to peoples' homes, and (2) because companies do not want to risk the health of their employees. Primary data shows that the future will be increasingly remote, however all indicators point to only the most non-essential business travel to be replaced by video conferencing in the future as there is a broad consensus that trainings, negotiations and conferences are significantly more effective and engaging in-person.

Given the novelty and unpredictability of COVID-19, researching this topic has been exceptionally difficult as industry data and forecasts as well as consumer sentiment changes on a daily basis. Thus, this research deck should be interpreted as a screenshot of the situation and how we recommend airlines and cruises to deal with it as of January 2021 while the pandemic is still developing rapidly, rather than a fixed conclusion for solving the managerial problems that have emanated.

# Chapter 3:

## Business travellers' flight consumption before, during and after COVID-19



### Key question

*“When will demand for business travel rebound, and what does the next normal look like for business travellers?”*

### Structure

### Research questions

### Methodologies

3.1.



**Business travel before COVID-19**

#### What characterised business travel consumption before COVID-19?

- Why are business travellers important to airlines?
- Which trends have shaped business travel over the past 15 years?
- How has business travel performed over the past 15 years?
- How volatile is business travel in times of hardship?

- Business-leisure H2H
- Service attr. analysis
- Market trend analysis
- Segment breakdown
- Volatility analysis

3.2.



**COVID-19's impact on business travel**

#### How has the pandemic impacted business travel up until this point?

- To which extent has the pandemic impacted the overall demand?
- How has it impacted consumer sentiment and preferences?
- How has it impacted the customer journey?
- How has it impacted business policies and travelling programmes?

- Analysis of COVID-19 implications on BT
- Survey, cons. sentiment
- Traveller interviews
- Travel Manager surveys

3.3.



**Travelling for business in “the next normal”**

#### When will demand rebound, and what will business travellers want in “the next normal”?

- What does the rebound of business travel depend on?
- Based on new initiatives, how will the future customer journey be?
- What will characterize the future of business travel specifically?

- Travel Manager surveys
- Rebound framework
- Benchmark analysis
- Implementation matrix
- Market dev. analysis

# The airline industry has a highly differentiated customer landscape, but business travellers impact the industry disproportionately

There are cases where business travellers drive up to 75 percent of an airline's profits while just accounting for 10 percent of its total passengers as business travellers are generally willing to pay a premium for various service attributes.

## Business and leisure travellers tend to behave very differently

Since its inception, the airline industry has shifted from selling all-inclusive bundled fares to base fares on which you add desired services. This ancillary revenue model has made flying more accessible, but it also causes **highly differentiated consumption** between business and leisure travellers. The lifetime value of business travellers is significantly higher, i.e. due to their on-demand needs, cabin classes, travel frequency, brand loyalty and low price sensitivity. The following personas aim to demonstrate some of the main differences between the segments:

Business traveller, example

**Ron, a management consultant travelling for work**

Business	Weekly	Business	SH & LH	Carry-on	Very low
Travel purpose	Travel frequency	Cabin class	Distance travelled	Bags carried	Price sensitivity

Leisure traveller(s), example

**Mona and Peter, a Danish couple that loves to travel for surfing**

Leisure	Annually	Economy	LH	4	High
Travel purpose	Travel frequency	Cabin class	Distance travelled	Bags carried	Price sensitivity



## Business and leisure travel from afar<sup>59,60,61</sup>

**Proportionality**

10-20% Business		80-90% Leisure
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**Revenues**

50% Business		50% Leisure
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**Profits**

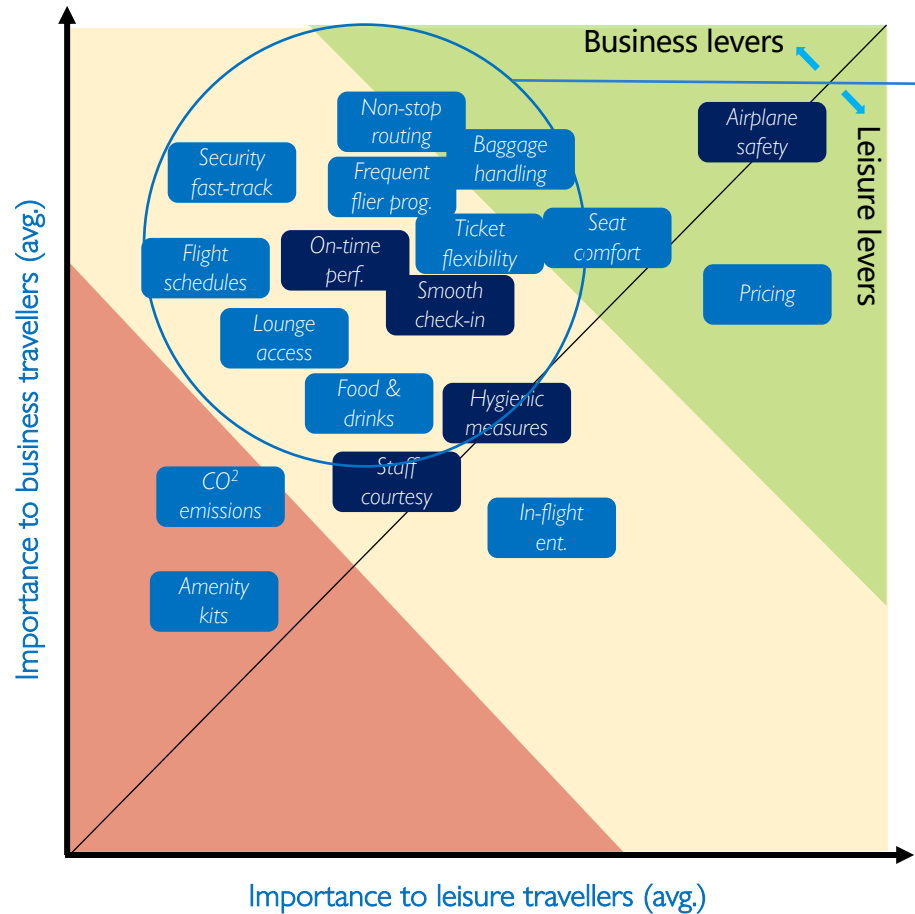
~55-75% Business		~25-45% Leisure
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Sources: Skift Research; McKinsey & Company; The New York Times

# The vastly higher profit margins of business travellers can be explained by the segment's exceeding service expectations and low price sensitivity

## Business and leisure travellers' service preferences (pre-COVID)

Importance levels of airline services to business and leisure travellers<sup>62,63</sup>



Cluster of service attributes, indicating higher service demands

- Customer and employee co-creation
- Without customer interference



## Implications

- The profitability of business travellers can be explained by the segment's **exceeding service demands** and **low price sensitivity**.
- Several full-service carriers (FSCs) have their entire infrastructure centred around accomodating the needs and wants of their business travel customers. This includes i.a. offering specific departure times, easily accessible airport gates and work-friendly airport lounges.
- Leisure travellers sometimes function as "loss leaders" whose function is simply to fill the remaining available space so the airlines can **offer on-demand flights to the more lucrative business segment**.
- For some types of business travel, e.g. consulting and sales, travel costs are just a marginal part of an overall budget and thus **the economic gains easily outweigh the associated costs**. Therefore, airlines can frequently sell all of these services to business travellers by offering them **bundled options in either Business Class or First Class** as the costs are marginalized in the total budget of their travel purpose.

**Sources:**

Min & Min; Anitsal et al.; NOVA SBE Master's Survey, 20/10-23/10 2020, N = 117

# Airlines provide these services by upselling tickets, however business travellers have increasingly been “downgrading” as the overall experience has improved

Though premium demand varies greatly between different geographic regions, the demand for First Class and Business Class tickets has generally been declining as airlines have continued to increase the overall value of their lower-end products.

## The demand for First Class has declined...

Total number of First Class seats for select airlines<sup>64</sup>

The demand for ultra-premium airline experiences has declined drastically in recent years. This trend has caused a majority of the world’s leading FSC’s to reduce their overall First Class seat capacity.

	2008	2018	
	560.000	450.000	↓ 20%
	400.000	200.000	↓ 50%
	380.000	180.000	↓ 53%
	150.000	90.000	↓ 40%



## ... while that for Premium Economy has risen

Airlines now purchase aircrafts with more Premium Economy seating as they have proven to be the most profitable. In the case of Lufthansa, it has big potential as it drives more revenue for the company per m<sup>2</sup> than both Business Class and Economy Class.

↑ 6% compared to Business Class<sup>66</sup>

↑ 33% compared to Economy Class<sup>66</sup>

↑ 9% expected growth per annum between 2020-2028<sup>65</sup>



## Implications

Luxury travel has become increasingly popular in recent years, but for airlines **the story is the opposite**. This is due to a number of things, mainly:

1. Private jets have become increasingly accessible, and thus ultra-premium customers are opting for this option more frequently.
2. Airlines have continuously innovated and improved their products and services to the point where one could say that **“Business Class is the new First Class”**.

Consequentially, more airlines have been working on phasing out their First Class products to instead focus on **maximizing the potential of their Business Class and Premium Economy products**.

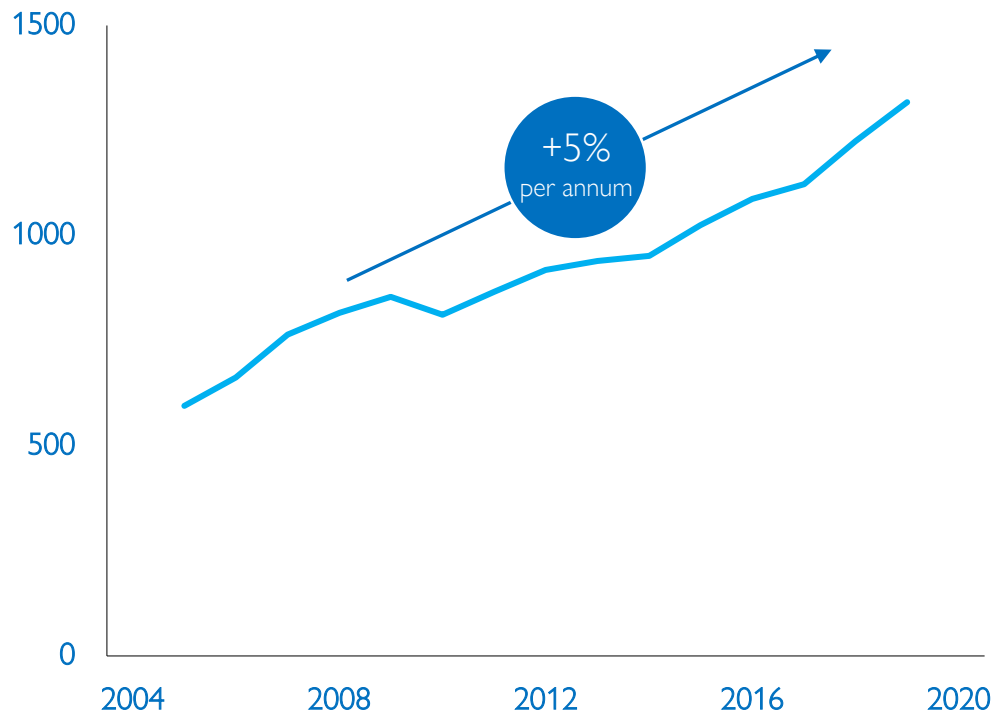
**Sources:**

The Economist; Financial Times; Lufthansa

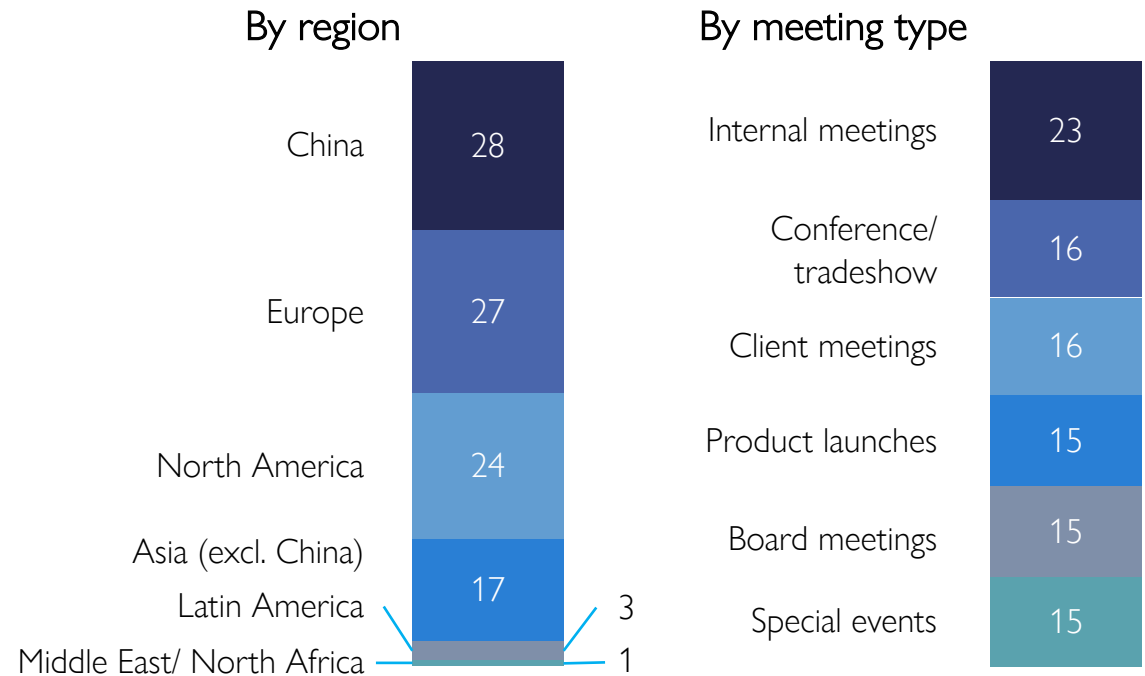
# By letting business travellers “downgrade” comfortably, airlines have ensured steady growth within the segment, and it was on pace to grow 4,1% in 2020<sup>1</sup>

The business travel industry is very geographically focused into Asia, Europe and North America as these three regions accounted for roughly 96% of global business travel spending last year.

**Business travel spending has been increasing...**  
Global spending in EUR (billions) between 2005-2019<sup>70</sup>



**... but the industry is very geographically focused**  
% of global market<sup>69</sup>



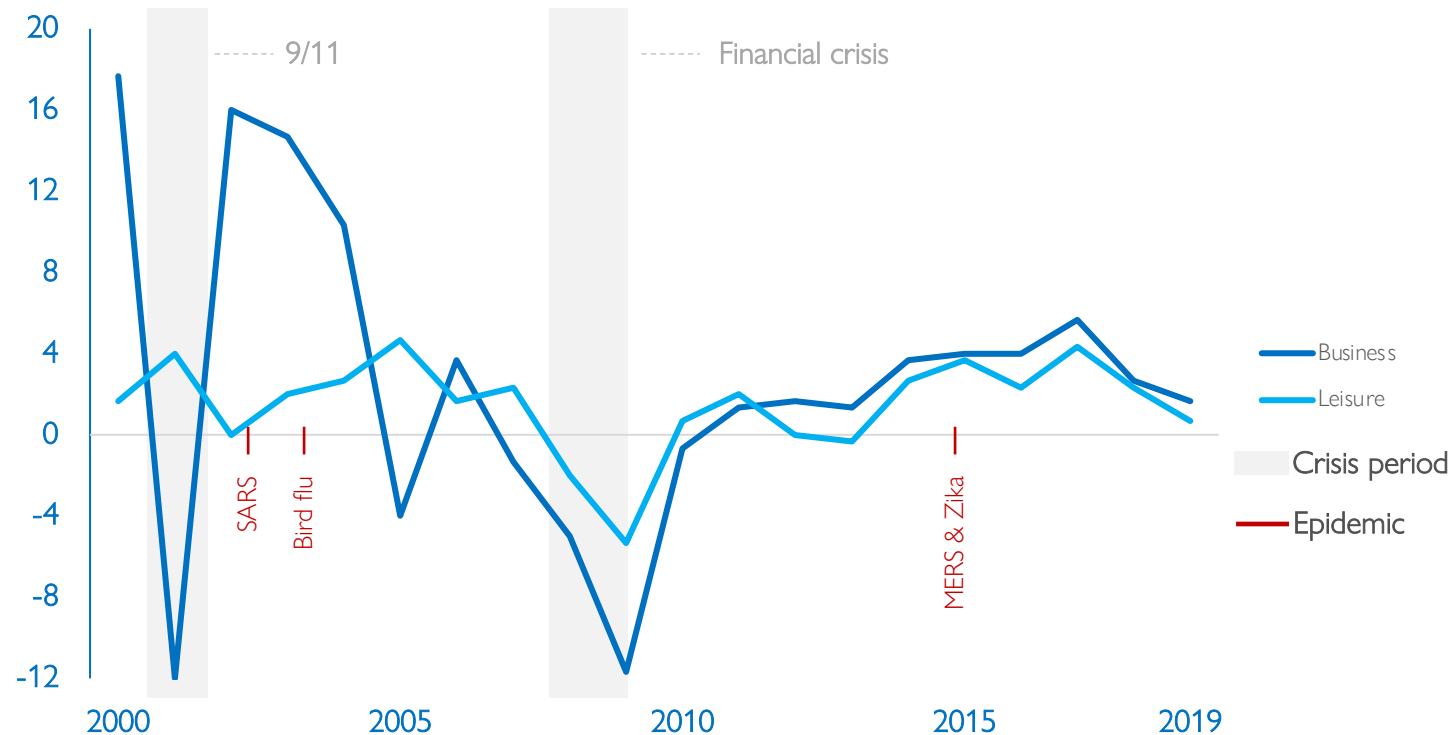
Sources:  
U.S. Corporate Travel Report; McKinsey & Company

# Despite of its solid profits and steady growth, business travel’s major downside is its tendency to be more volatile and slow to recover during downturns

In the past, business travel has been more impacted by economic downturns as well as global epidemics. While economic downturns naturally entails strong budget cuts, epidemics have forced companies to put strict travel guidelines in place to ensure employee safety.

## Volatility of business and leisure travel demand

Demand change in %<sup>59</sup>



## Implications

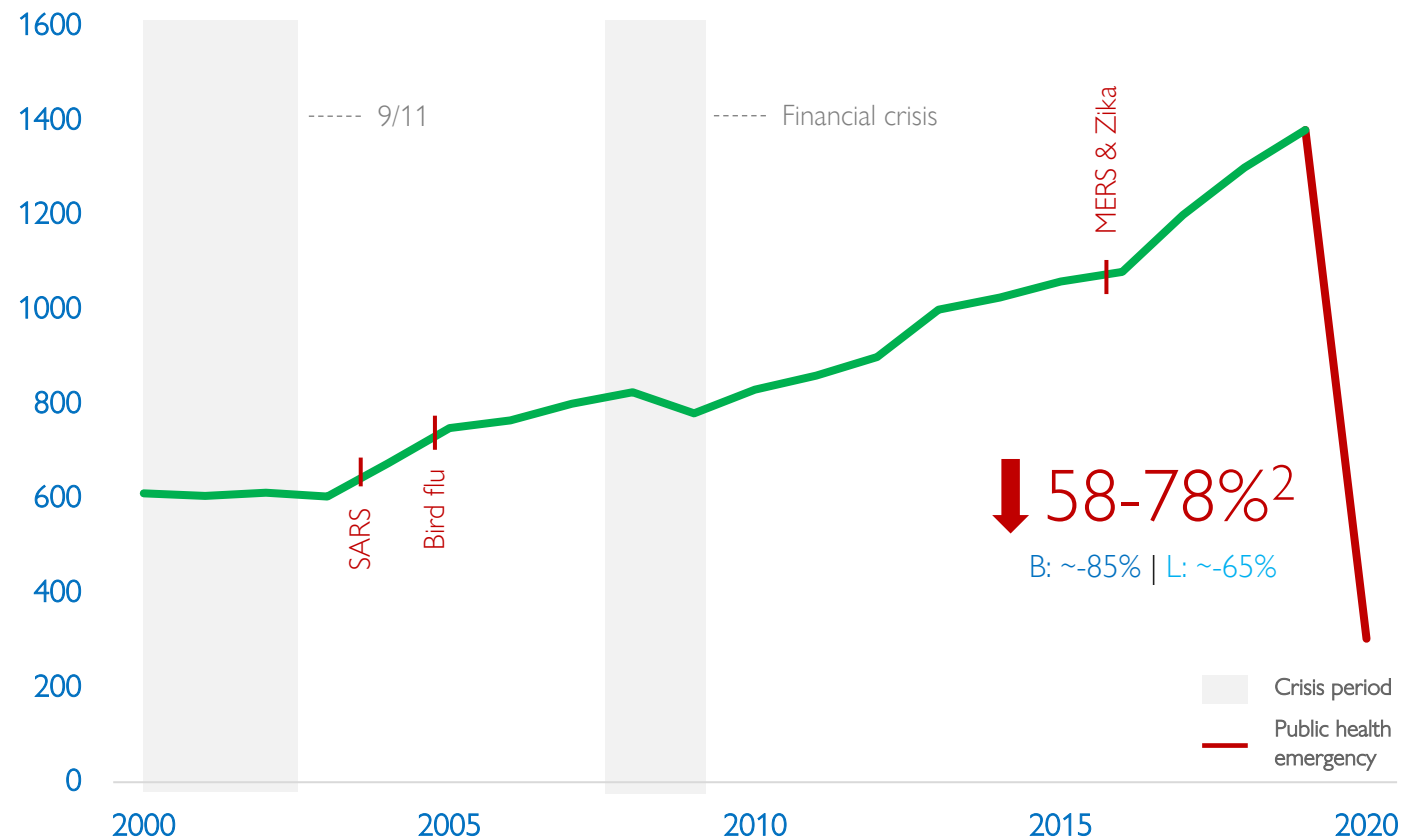
Over the past 20 years, it has been clear that **business travel is vastly more impacted by financial downturns and health emergencies**. For instance, during the '08-'09 global recession, business travel was impacted four times more than leisure and took almost three times longer to recover. The reason for this is two-fold:

1. When companies are faced **financial issues**, travel expenses are typically one of the first areas to receive cuts. It is an easy thing to dispose for managers until their company gets back control.
2. During **health emergencies**, companies must establish clear guidelines to ensure employee safety and to avoid litigation. Putting employees at unnecessary risk can be an expensive affair, so companies must wait until they are certain that measures and guidelines are in place from the airlines to keep their employees safe.



# The pandemic has caused an unprecedented decline in flight demand, and business travel is particularly stung

## How COVID-19 has affected international tourist arrivals worldwide<sup>1</sup> Million passengers carried annually<sup>59</sup>



## Implications

Historically, flight demand has been resilient. Airlines have always been able to **stimulate demand through lowering prices**.

The pandemic is **a toxic cocktail for business travel in particular**. This is due to different factors such as:

1. Its severity;
2. Its "invisibility"; and
3. Its widespreadness.

This makes it hard for companies to ensure employees safety when travelling, and therefore the company travel guidelines are hard to soften. It is also hard for them to ensure their employees safety in-office, and therefore offices worldwide have been forced to shutdown, meaning **there are practically nowhere for business travellers to go at the moment**. The forced trend of remote work has sparked innovation aimed at utilising remote work potential, and it has caused some of the world's leading tech companies to put a lot of money and effort into developing their video conferencing technology.

In order to understand how consumers are currently feeling about COVID-19 as well as how they envision the next normal, we conducted a survey

## Survey overview<sup>63</sup>

### Approach and implications

- Fielding occurred between October 20 through October 23
- The survey was distributed through private networks on WhatsApp and LinkedIn
- The survey gives a snapshot of the consumer sentiment back in October, but since then various factors have given rise to shifts in consumer sentiment

### Key figures and numbers



117 respondents



12 nationalities



61% female | 37% male



86% leisure | 14% business

*\* Please note that the results of this survey should be taken very cautiously due to the high levels of unpredictability associated with this disease as well as its continuous development. At the current point in time (January 5<sup>th</sup> 2021), we face a third wave with new, more severe mutations occurring throughout the world, which has undoubtedly caused a shift in consumer sentiment.*

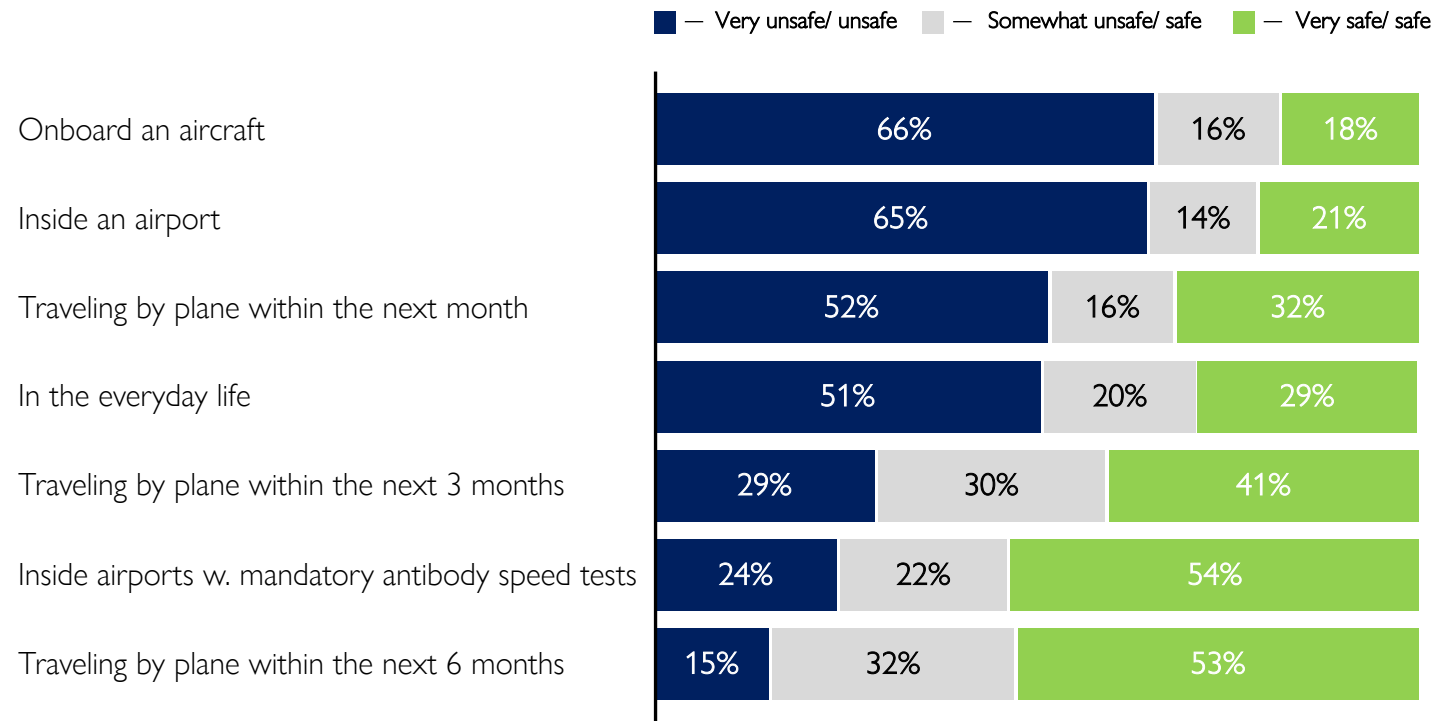
**Sources:**

Nova SBE Master's Survey, 20/10 – 23/10 2020, n = 117

# One of the main reasons for the demand decline is the increased feeling of unsafety, and consumers particularly feel unsafe in airports and airplanes

There is reason for optimism as consumers expect to feel safe to travel in a reasonable time horizon, especially if airports manage to implement mandatory antibody speed tests for passengers.

## Consumer sentiment in the general population % of respondents<sup>63</sup>



## Implications

Airports and planes are still perceived as high-risk areas amongst consumers

While people still fear for the virus in their everyday lives, respondents felt significantly more unsafe from COVID-19 in airports and onboard aircrafts.

Consumer confidence is expected to grow  
There is reason for optimism as 53% of survey respondents expect to feel safe to travel within 6 months.

Mandatory antibody speed tests will be a key demand stimulator in short-term  
76% of business travel professionals would prefer this public policy over any other alternative<sup>2</sup>.

# The increased unsafety has completely changed customer preferences with non-price factors becoming increasingly important during the pandemic

In the past, airlines would just resort to discount pricing if they needed to stimulate demand, but it has not worked during the pandemic.

## Consumers' attitude towards airline service attributes before, during and after COVID-19

Average of respondents on a scale of 1-10<sup>63</sup>



<sup>1</sup> - Q16 - Please indicate to which extent you agree with the following statements. To which extent does the "X" of the airline influence your flight purchasing decision?

# The shift in consumer sentiment have forced airlines to completely reshape customer journeys, but it is inducing added stress to the travel experience

Increased stress before, during and after travel is the common denominator amongst travellers<sup>71</sup>

- A shared sentiment from five different interviews with travellers that have travelled during lockdown was **an increased stress level before, during and after traveling by plane.**
- In general, the interviewees felt that **airlines did little in attracting and reassuring them about their safety.**
- It seems that airlines must come up with **solutions that increasingly provide choice and control** in order to rebuild customer trust and confidence.



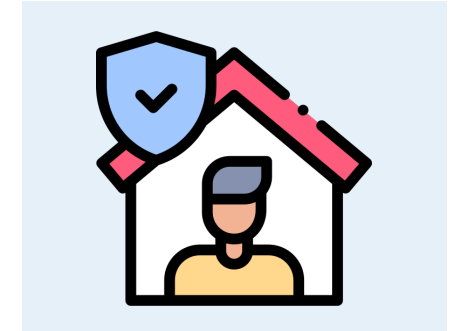
## Before the trip

- Check governmental travel guidelines
- Check documentation requirements and availability
- Decide whether or not your trip is essential
- Check if your insurance covers you against COVID-19 hospitalization or evacuation
- Stay updated on policies that change frequently
- Book with a higher risk of flight cancellation



## During the trip

- Risk of lockdown
- Risk of return flight getting cancelled
- Risk of contamination
- Risk of misunderstandings due to fast-changing policies



## After the trip

- Risk of quarantine
- Increased risk of transmitting COVID-19 to your colleagues, family and friends

### Sources:

Nova SBE Master's Interviews, Travellers' Experiences  
Flying During COVID-19, n = 3

### Chapter 2: Airlines, consumer side

Before COVID-19 ----- During COVID-19 ----- The next normal

Survey results from travel managers clearly demonstrate to which extent business travel has been affected...

**97%**

Promote new policies that support working from home (e.g. use of video tools)

**66%**

Updated their travel policies as a result of COVID-19

**49%**

Implemented tighter employee travel/tracking procedures

**80%**

Have cancelled all/most business travel

**90%**

Have cancelled all/most international flights

**68%**

Have cancelled all/most domestic flights

**Sources:**

IATA, August 2020, n = 70; GBTA, October 2020, n = 927

**Chapter 2: Airlines, consumer side**

Before COVID-19 ----- During COVID-19 ----- The next normal

... but there continues to be reason for optimism...

Of companies that have cancelled all/most domestic travel

**78%**

Think that they will resume domestic travel within twelve months.

Of companies that have cancelled all/most intl. travel

**66%**

Think that they will resume international travel within twelve months.

**82%**

Think that face-to-face meetings are more effective/ much more effective

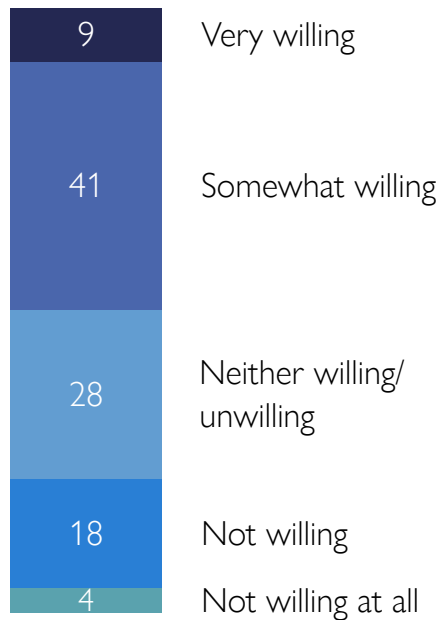
**58%**

Would be interested in long-haul travel if quarantine exemptions were put in place

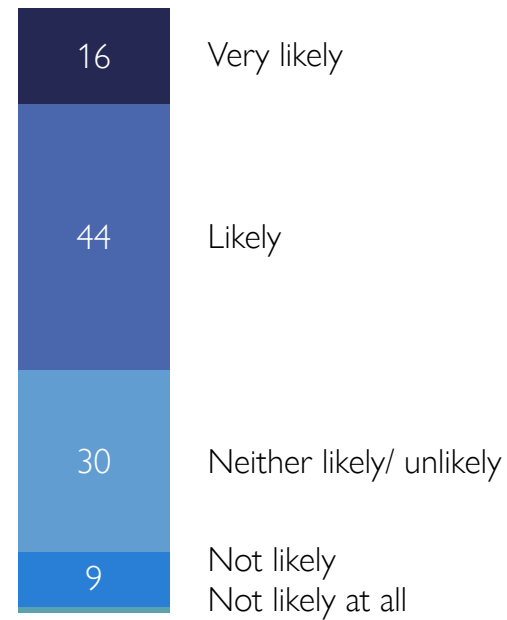
# When will business travel demand rebound? First and foremost, it will depend on willingness to travel, company guidelines, and government restrictions

Business travel will not rebound until travellers feel safe to travel again, management feels safe to return their companies' travel programs, and governments feel safe to not enforce strict border restrictions.

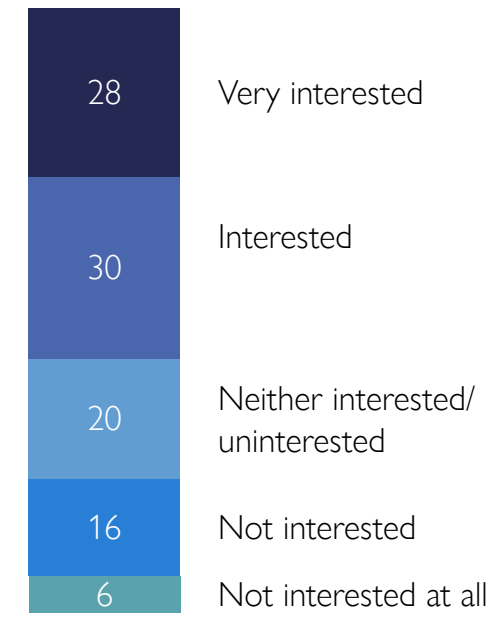
Business travellers' **willingness to travel** is increasing rapidly<sup>73</sup>



Travel managers increasingly believe **travel programs** will return in 2021<sup>73</sup>












Travellers have shown an interest in **quarantine exemptions** on intl. trips<sup>73</sup>



# The demand will return in phases, but it is questionable whether it will ever reach pre-pandemic levels as remote work becomes increasingly effective

The return of business travel will happen in phases based on proximity, reason and sector...<sup>74</sup>

Proximity	Reason	Sector
 <p><b>Regional travel</b> Trips replaceable by other means of transportation</p>	 <p><b>Essential business</b> E.g. client meetings and in-person sales meetings</p>	 <p><b>Traditional sectors w. high urgency</b> E.g. manufacturing and construction</p>
 <p><b>Domestic flights</b> Trips that are only sensible to carry out by plane</p>	 <p><b>Non-essential business</b> E.g. job trainings and internal meetings</p>	 <p><b>Traditional/ modern sectors w. urgency</b> E.g. tech, real estate and energy</p>
 <p><b>Intl. flights</b> Intl. trips that are only sensible to carry out by plane</p>	 <p><b>Professional gatherings</b> E.g. conferences and exhibitions</p>	 <p><b>Modern sectors w. some urgency</b> E.g. healthcare and education</p>

Earlier recovery



Later recovery



... but with new optimised facetime options, will some types of business travel go completely extinct?

In 2020, organisations spent on average **10%**<sup>76</sup> of their IT budget on virtualisation, indicating that **they are in it for the long haul.**

Still, different sectors have different **remote work potentials**, e.g.:

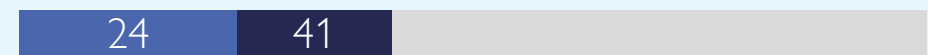
*Communicating with and guiding clients (e.g. consulting):*



*Training, teaching and coaching:*



*Selling to or influencing others:*



Current potential      Maximum

Source: McKinsey & Co.



Travel executives predict a permanent reduction in business travel due to COVID-19 at **~15%**<sup>77</sup>.



# Then, how will the future look? Airlines have already reshaped entire customer journeys to boost customers' willingness to travel, and thus far it is paying off

## Measures taken by airlines to prevent spread of COVID-19

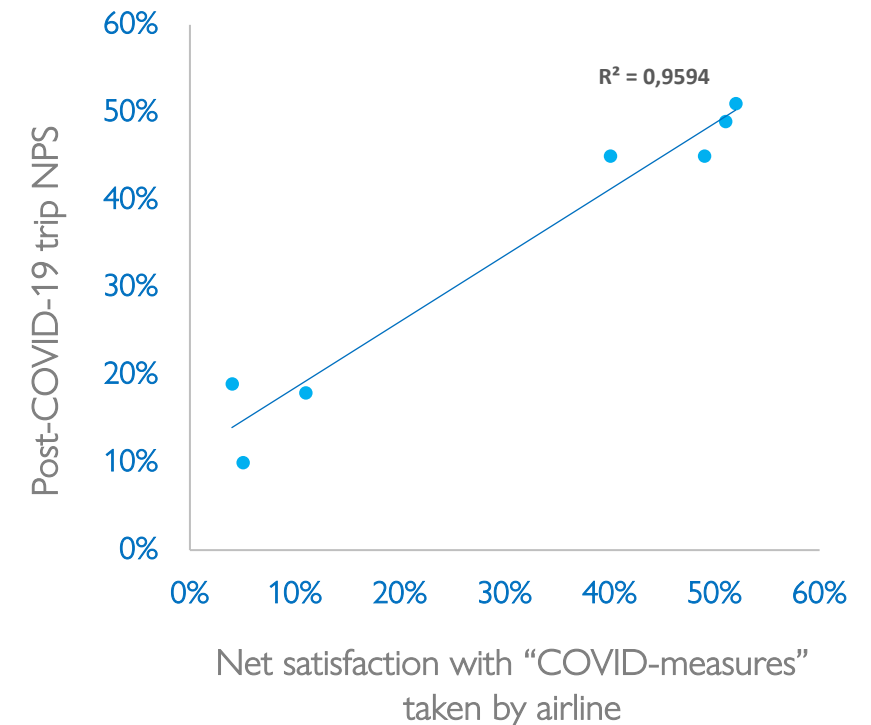
Heat map based on level of measures taken by select airlines<sup>76-96</sup>

	Ticket flexibility	Check-in process	Lounge operations	Boarding procedure	Seating measures	Food and drinks	Sanitation standard	Overall score
Air Canada	Green	Green	Green	Green	Red	Green	Green	12
Delta Air Lines	Green	Yellow	Green	Green	Green	Yellow	Green	12
United Airlines	Yellow	Green	Green	Green	Red	Green	Green	10
Alaska Airlines	Green	Yellow	Green	Green	Green	Yellow	Green	10
Southwest Airlines	Green	Red	Grey	Green	Green	Green	Green	9
All Nippon Airways	Green	Yellow	Green	Green	Red	Red	Green	8
Lufthansa	Yellow	Green	Yellow	Green	Red	Yellow	Green	8
Turkish Airlines	Red	Green	Red	Green	Red	Green	Green	7
British Airways	Green	Red	Yellow	Red	Red	Green	Green	6
Aeroflot	Yellow	Yellow	Red	Yellow	Red	Green	Yellow	6
American Airlines	Yellow	Yellow	Red	Red	Red	Green	Green	6
LATAM	Green	Red	Red	Yellow	Red	Yellow	Yellow	5
Air China	Red	Red	Red	Yellow	Red	Green	Green	5
Japan Airlines	Green	Yellow	Yellow	Red	Red	Red	Yellow	5
Air France	Yellow	Red	Red	Yellow	Red	Red	Yellow	3
China Eastern	Red	Red	Yellow	Yellow	Red	Red	Yellow	3
Easyjet	Red	Red	Grey	Yellow	Red	Red	Yellow	2
Ryanair	Red	Red	Grey	Red	Red	Yellow	Yellow	2
IndiGo	Red	Red	Red	Red	Red	Red	Yellow	1

Measures taken by airline  
■ — Little to no effort (0 points)    ■ — Some effort (1 point)    ■ — Great effort (2 points)








## Customer satisfaction is correlated to measures Net Promoter Score (NPS) and net satisfaction<sup>97</sup>



# These tendencies imply that travellers are seeking a safer and more seamless travel experience in the future, one that is both more contactless and digital

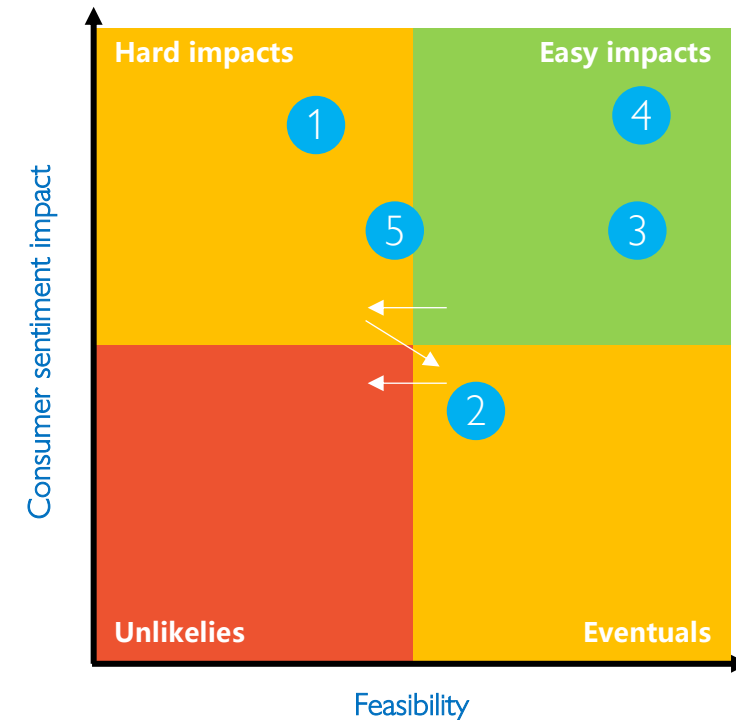
The pain points and trends that existed before the crisis, such as the shift toward a more digital and personalized journey, and an increased emphasis on wellness and sustainability, have not gone away. Rather, it has been pushed forward.

Some trends that have emanated from the pandemic will still be popular in the next normal...<sup>98</sup>

	<b>1</b> Health screenings	Only boarding symptomless passengers
	<b>2</b> Biometric tech	Removing the need for physical passports
	<b>3</b> New mobile apps	Less touch and many improved experiences
	<b>4</b> New cleaning standards	Making airports and airplanes more virus-free
	<b>5</b> Increased ticket flexibility	Letting customers book their flights safely



... still, the likeliness of each trend to become a norm is based on its feasibility and sentiment impact

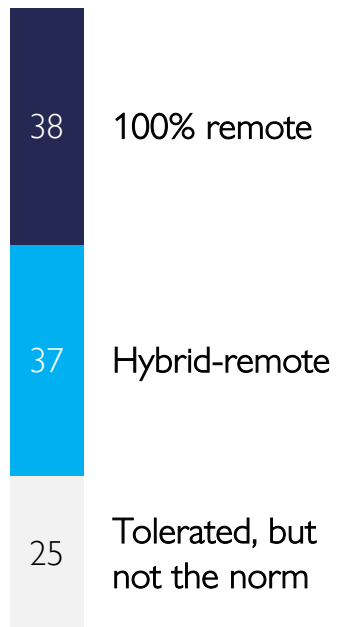


# Finally, the line between business and leisure travel will be thinning as remote work becomes increasingly accepted throughout the corporate world

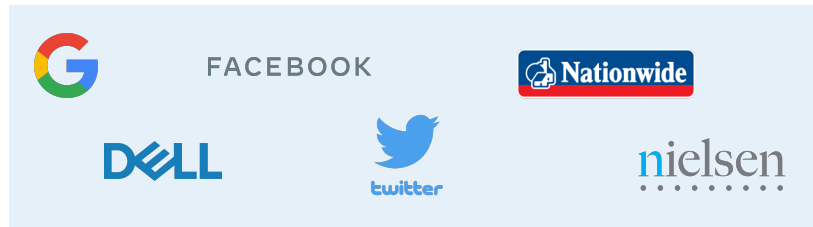
The pain points and trends that existed before the crisis, such as the shift toward a more digital and personalized journey, and an increased emphasis on wellness and sustainability, have not gone away. Rather, it has been pushed forward.

## The pandemic has changed the way we work, and companies are already promoting long-term work-from-home options for their employees

Companies' remote work policies during COVID-19<sup>76</sup>



Leading companies have announced ambitious remote-work plans for the future, incl...



And in general, employees want and expect to work much more remotely in the future with...<sup>99</sup>



## Implications

The ongoing pandemic has completely changed the way people work and changed future workstyle preferences.

Even after businesses begin to reopen, social distancing will remain relevant in the post-COVID-19 office space. Thus, there will be an increased demand for videoconferencing technologies and other collaborative technologies that can facilitate these changes in the long term.

After the pandemic, business travellers will be more likely to combine their business trip with leisure elements, e.g. staying longer to do sightseeing, relaxing and spending time with family.



## Flight consumption prior to COVID-19

1. The leisure traveller segment outweighs the business traveller segment **approx. 9 travellers to 1**.
2. Business travellers thus impact the industry disproportionately by accounting for 50% of airline revenues and by driving up to 75% of profits for some airlines.
3. The increased profitability can be explained by **business travellers exceeding demands from the airline** – everything from frequent flier programmes to flight scheduling.
4. The business travel segment is **geographically concentrated in Asia, Europe and North America**, and it has been **steadily growing over the past 15 years**.
5. Still, **one of business travel's biggest downsides is its tendency to be extremely volatile and slow to recover after downturns**, and with the ongoing pandemic it is no different.



## Flight consumption during COVID-19

1. As a consequence of COVID-19, **overall demand has plunged with up to 78% less than 2019 levels**, and the steady demand curve is gone with  $R^2$  falling from 93% to 60%.
2. One main reason for the declining demand is the increased feeling of unsafety in airports and onboard airplanes.
3. The increased unsafety has completely changed customer preferences with **non-price factors becoming increasingly important during the pandemic**.
4. The drastic shift in consumer sentiment has forced airlines to rethink entire customer journeys, but it is inducing much **added stress to the travel experience**.
5. Travel manager surveys have shown that **80% have cancelled most flights and 90% have cancelled most intl. flights**.
6. Optimism remains as **78% think they will resume domestic travel and 66% think they will resume intl. travel in 2021**.



## Flight consumption in “the next normal”

1. The rebound of business travel will depend on **willingness to travel, company guidelines and government restrictions**
2. With the news of effective COVID-19 vaccines, **willingness to travel has been increasing rapidly with 50% of business travellers being willing or somewhat willing to travel again**.
3. The demand will return in phases, but **it remains questionable whether it will ever reach pre-pandemic levels** as remote work becomes increasingly effective
4. Airlines have started moving towards the next normal by reshaping customer journeys to boost customers' willingness to travel, and so far it is paying off with **strong correlation between airline safety efforts and customer satisfaction**.
5. These tendencies imply that **travellers are seeking a safer and more seamless travel experience in the future**, one that is both more contactless and digital

## Section 7.1.3. Bibliography: Airlines – consumer side

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