



Business Travel Trends

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Executive Summary

Background

Skylark was selected to undertake this study by the CAA as part of the ongoing seventh quinquennial regulatory review (“H7”). This paper is intended to provide insight into shifting trends in business aviation travel due to the Covid-19 pandemic. The paper is divided into three sections:

1. A review of short-term impacts and recent recovery trends on business travel
2. A discussion of long-term trends and behavioural changes in business travel, supported by market interviews
3. A qualitative assessment of the impact of these trends on Heathrow Airport’s traffic

In the course of this work, Skylark has reviewed publicly available studies, surveys, and industry articles. Data has been gathered from a variety of sources, including airline and airport websites, annual reports, and subscription data sources.

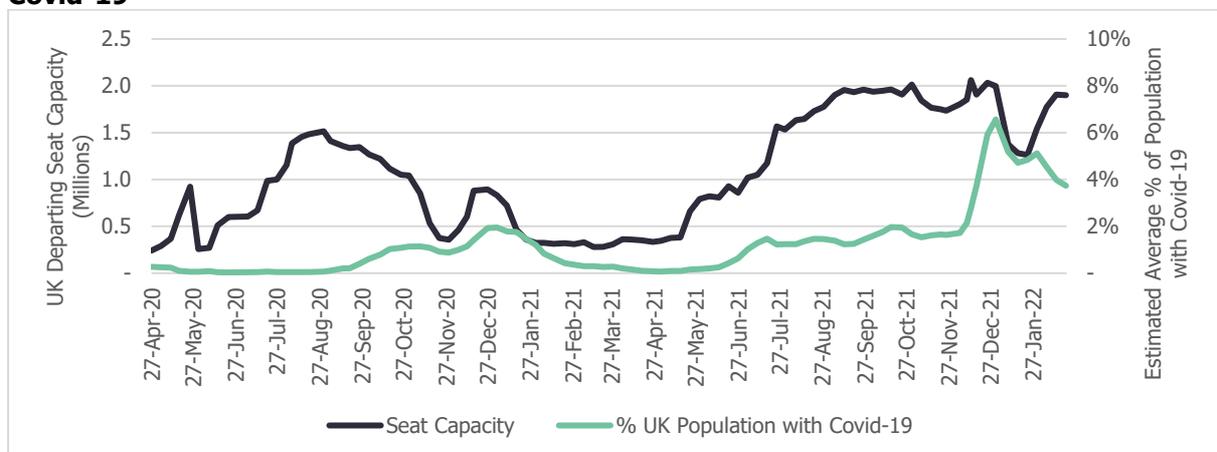
Skylark also conducted interviews with senior figures in organisations which have historically undertaken significant business travel. This was to understand changes in attitudes to business travel, and specifically to understand what changes were expected to persist beyond the short term.

Short-term Impacts and Recovery Trends

Skylark has explored the short-term impacts and recovery trends during earlier waves in the pandemic to assess whether past trends provide a reasonable template for recovery from the Omicron wave, as well as any future waves that may emerge.

Skylark explored the recovery trends seen during the pandemic before the Omicron wave. While seat capacity was substantially depressed in the first few months of the pandemic, as the pandemic continued there appeared to be a partial decoupling of Covid-19 infections and UK seat capacity. It appears the impact of new variants is reducing with each successive wave which aligns with the perception that Covid is becoming more tolerated by policy-makers and the public.

UK Departing Seat Capacity and Estimated Average Percentage of UK Population with Covid-19

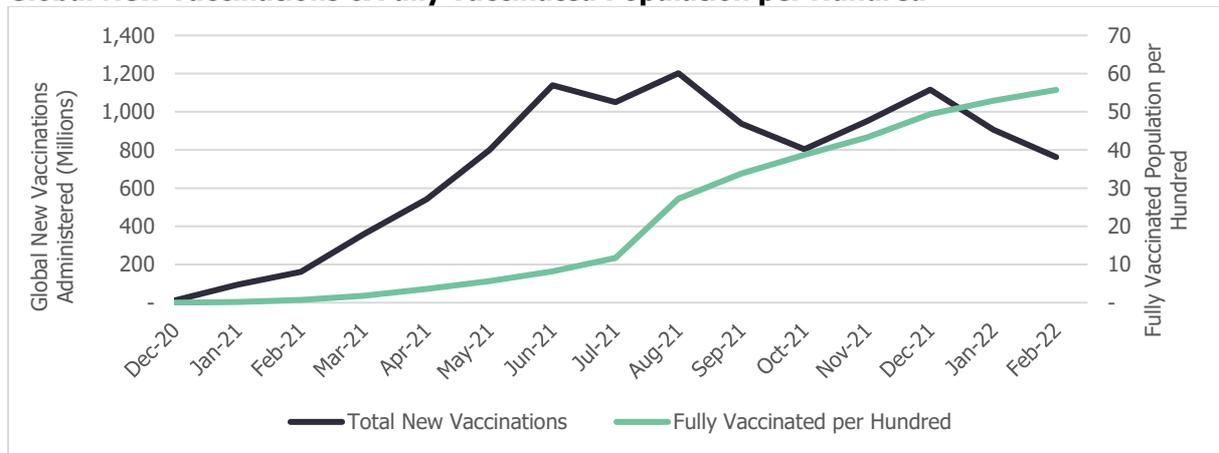


Sources: OAG Schedules; ONS. Note: UK percentage was calculated using ONS mid-2020 population estimates.

Skylark also examined business travel trends during Omicron to the extent that data was available. Differences in travel restrictions, vaccination rates, and passenger confidence during the Omicron wave compared with previous waves played a substantial role in the more rapid recovery of business travel seen during this wave.

- Omicron-related restrictions were lifted sooner than in earlier waves. A legal ban on non-essential travel from the UK was announced on 5th January 2021 which was not lifted for over four months, whereas the travel bans imposed by the UK for travel to just eleven countries during the Omicron wave lasted less than twenty days.
- Vaccination rates were much higher during the Omicron wave than in previous waves. The Omicron variant has also been found to be intrinsically less severe. The resultant reduction in the proportion of severely ill patients during the Omicron wave has resulted in a disconnect between the number of cases and deaths, leading to less stringent travel restrictions and disruptions.
- Throughout the pandemic, the public have also become more familiar with the risks associated with Covid-19, such as health and travel disruptions, resulting in a growing establishment of a 'new normal', even when new variants emerge. This, alongside the less onerous travel restrictions and increasing vaccination rates, has increased passenger confidence and has contributed to greater market resilience and more rapid travel recovery in the Omicron wave compared with previous waves.

Global New Vaccinations & Fully Vaccinated Population per Hundred



Source: Our World in Data

The Omicron wave provides a suitable template for traffic recovery from future waves. As vaccination rates increase, travel restrictions become less onerous, and passenger confidence in the safety of travel increases, the aviation market is becoming more resilient to the effect of Covid-19 waves.

Long-term Changes in Business Travel Trends

Skylark has assessed the potential long-term changes to business travel caused by the adoption of new technologies during the Covid-19 pandemic, environmental and sustainability pressures, and a reduction in traveller confidence seen over the last two years. Skylark believes that, although most business travel will return, there will be a permanent, negative impact on total volume.

Skylark's interviews with senior figures across a variety of industries have revealed a level of uncertainty in the future of the business travel market, with divergent views that vary by sector. However, nearly all respondents noted a focus on implementing changes to travel in order to increase the benefit of business travel to their organisation.

Consensus among industry sources and Skylark interviews indicates that the new widespread use of technologies such as Zoom and Microsoft Teams will see a permanent reduction in travel for reasons that businesses deem less essential and/or more replaceable by technology. However, all businesses interviewed indicated that many activities (particularly those centred around networking and creative processes) are significantly more effective when conducted in person and these will be the largest and most immediate drivers of returning business travel.

The size of a business appears to impact the rate at which they return to business travel. Small and medium-sized enterprises ("SMEs"), typically seeking rapid growth, tend to rely on creating and maintaining relationships to generate business. They also lack the institutional inertia of large corporations. SMEs are therefore more dependent on travel, and their greater reactivity allows a more rapid uptick in travel activity. As a result, business travel from SMEs in our survey group had already seen a substantial recovery, with larger corporations lagging.

Environmental concerns are an important focus of many organisations, especially quoted companies which are required to report carbon emissions by law in the UK. However, most companies interviewed by Skylark indicated that the needs of clients and customers took priority, noting that they mitigate emissions through other means, such as building more sustainable products and/or making use of carbon offsetting. From Skylark interviews, companies looking to decrease their travel did so primarily for cost savings and efficiency gains, with emissions reductions being viewed as beneficial side effect.

While passenger confidence was reduced severely during the pandemic, studies and Skylark interviews indicate that confidence in the safety of travel is continuously improving due to global vaccination rollouts and easing travel restrictions. In the longer term, the time savings achieved in some instances by replacing travel with online communication, and heightened awareness of physical and mental health considerations are likely to impact an individual's willingness to travel for non-essential business purposes. Businesses have started to address this by planning longer duration, multi-purpose trips which may result in less frequent travel and therefore negatively impact business traveller volumes.

A reduction in business class ticket demand was already being seen prior to the pandemic as companies grew more cost conscious. Combined with the decrease in business traveller volumes anticipated by airlines as a result of the pandemic, and corroborated by Skylark, airlines have been transitioning cabin layouts to those which incorporate fewer business seats in exchange for more premium economy. The latter fare class is designed to attract lower-end business travel as well as upper-end leisure travel and, due to the higher seat density and typical fare bands, offers comparable profitability per square foot to business class cabins. This transition is likely to help ensure that average fares in each cabin are kept competitive over the long-term.

Skylark considers that, although the proportion of passengers travelling for business purposes is likely to permanently reduce to some extent, material changes to fare structures are considered unlikely, or to be of limited impact. This is due to a combination of competitive constraints (particularly for short-haul traffic) and the structural inertia of network airlines, in addition to little evidence of material changes to fare structure following previous industry shocks.

Although the majority of business travel will recover following the Covid-19 pandemic, there will be a long-term, permanent reduction in the volume and demand. The adoption of new technologies and changing trends in willingness to travel will lead to reducing business travel activities that are deemed to be less essential and more replaceable by technology. However, this shift is unlikely to produce a material change to average airline fares.

Impact on Traffic at London Heathrow

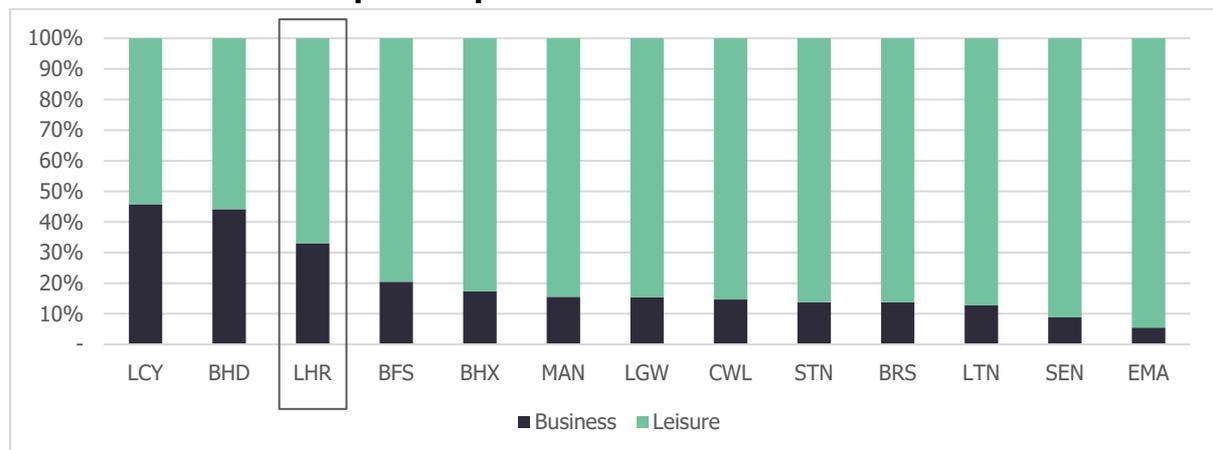
As the UK’s largest airport and a major European hub, London Heathrow’s (“LHR”) business traffic recovery from the Covid-19 pandemic is likely to follow a different trajectory to other UK airports. As noted above, Skylark would expect the proportion of business travel to reduce. This will apply equally to LHR traffic as to traffic at other airports.

A third of 2019 traffic at LHR was for business purposes, highlighting the importance of the business market to the airport, with 98% of seat capacity provided by full-service carriers. This suits business travellers, who are less price elastic than leisure passengers and often favour airport accessibility, arrival and departure time flexibility, and full-service offering over fare price. However, the reliance on business travellers poses a risk for LHR as business travel is widely expected to lag leisure recovery. Nevertheless, LHR remains in a strong position due to its status as a business travel hub and the expected boom in leisure travel in summer 2022.

Approximately half of traffic at Heathrow is short-haul, mainly to European destinations. These routes are competed by low-cost carrier operations from other London airports. The low fares offered by these carriers reduce the pricing ability of short-haul airlines at LHR, ensuring that fares are kept at reasonable levels on these routes. Therefore, fares structures on these routes are unlikely to see significant changes as a result of changes to the business traveller mix.

Long-haul routes have undergone consolidation from other London airports, with the number of long-haul routes served recovering significantly faster at LHR than LGW. This is likely to result in returning long-haul business travel gravitating to LHR due to the lack of alternative direct flights to other airports.

Reason for Travel at Top UK Airports



Source: CAA Passenger Survey 2019, Heathrow Airport Limited

LHR is the preferred airport for the majority of London business air travel. Seat capacity has recovered more quickly than at other London airports due to consolidation of routes, and especially long-haul routes. As such, LHR is expected to experience a more rapid recovery in business travel

than other airports in the London system. Nevertheless, Skylark's expectation is that, post-recovery, the proportion of business travel at LHR will nevertheless be lower than pre-pandemic levels, with losses at a similar level to other UK airports.

London Heathrow is likely to undergo a stronger recovery of business passenger volume and demand than other London and UK airports due to the particular characteristics of the airport. In the longer term, the proportion of business travel at LHR will be lower than pre-pandemic levels, as at other UK airports.

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1 Introduction

1.1 Overview

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Skylark also conducted interviews with senior figures in organisations which have historically undertaken significant business travel. This was to understand changes in attitudes to business travel, and specifically to understand what changes were expected to persist beyond the short term.

The first section detailing the short-term impacts and recovery trends explores the recovery trends during earlier waves of the pandemic and assesses whether past trends provide a reasonable template for recovery from the Omicron wave, as well as future waves that may emerge. This entails discussions on pre-Omicron recovery trends, including analysis of seat capacity, Covid-19 cases, and Covid-19 related deaths. Trends seen during the Omicron wave, including travel restrictions, passenger confidence, and vaccination rates are explored in comparison with trends seen in earlier waves to examine the differential impact on business travel as a result of the Omicron wave.

The subsequent section on long-term business travel trends explores the likelihood of systemic changes in business travel patterns due to the impact of technology on business travel, environmental pressures to reduce future business travel, the role of passenger confidence, and the resulting airline fares in response to the pandemic, including the impact of potential losses of high-yielding business travellers on average fares.

The final section includes a discussion of the consequences of the above analyses on London Heathrow's traffic base. This includes discussions around the relevant differences between LHR and other UK airports and the resulting impact on business travel levels.

1.2 Methodology

Skylark examined the short-term impacts and recovery trends during the Covid-19 pandemic and the long-term travel changes to business travel using Skylark's proprietary knowledge, data, and research, combined with analysing studies, surveys, and articles. Specifically, data has been gathered from a several diverse sources, including from airlines, airports, industry associations and publications, and schedules and MIDT data. Skylark has also conducted interviews with a number of senior figures in companies across a variety of sectors with high levels of business travel prior to the pandemic.

2 Short-term Impacts and Recovery Trends

2.1 Introduction

Skylark examined the short-term impacts and recovery trends during the Covid-19 pandemic using Skylark's sectoral experience, data, and research, combined with information from news articles, airline and airport reports, and subscription data sources such as OAG Schedules and MIDT.

Analysing traffic recovery prior to the emergence of the Omicron variant is a key aspect of indicating how the market will recover from any future variants and waves. This analysis will include the appropriateness of using pre-Omicron recovery as a baseline for future recovery, and then exploring the differences in business travel during each wave of the pandemic to assess the differences in restrictions and recovery. Skylark also examined business travel trends during Omicron, to the extent that data was available, specifically discussing differences in travel restrictions, passenger confidence, and vaccination levels during the Omicron wave compared with previous waves.

Through consolidating information on the impacts of the various infection waves on business travel, Skylark found that moderate travel restrictions, high vaccination rates, and passenger confidence reduced the impact of the Omicron variant compared with trends seen earlier in the pandemic.

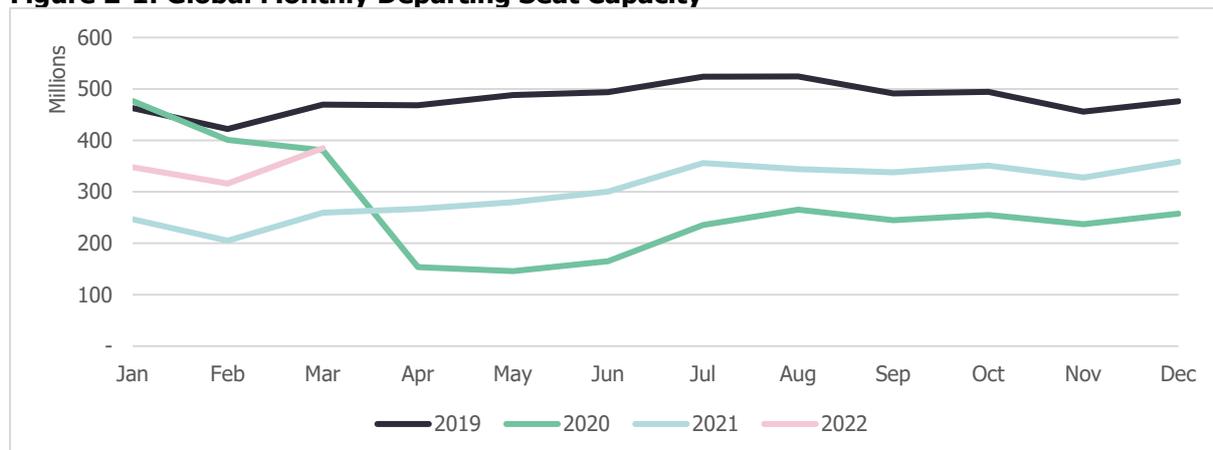
2.2 Pre-Omicron recovery trends

While aviation recovery trends prior to the emergence of the Omicron variant can provide insight into recovery trends for future variants and waves, there are expected to be material differences in future recovery speed compared to earlier waves.

Seat Capacity

Prior to the pandemic, monthly global seat capacity in 2019 fluctuated between 401 million at the low point in February to a peak of 524 million in August. The following year saw the greatest decline in seat capacity during the pandemic, with capacity in May 2020 at 29.9% of May 2019 levels. However, 2021 seat capacity was mostly higher than in 2020 in spite of growing global Covid-19 cases and the higher levels of Covid-19 deaths. In a Skylark interview with an Operational Watch Supervisor at NATS, the interviewee said that the company were predicting a return to pre-pandemic traffic between 2025 and 2026 at the start of the pandemic. However, now they are anticipating up to 90% of 2019 traffic by summer 2022, highlighting the increasing recovery speed compared to earlier in the pandemic.

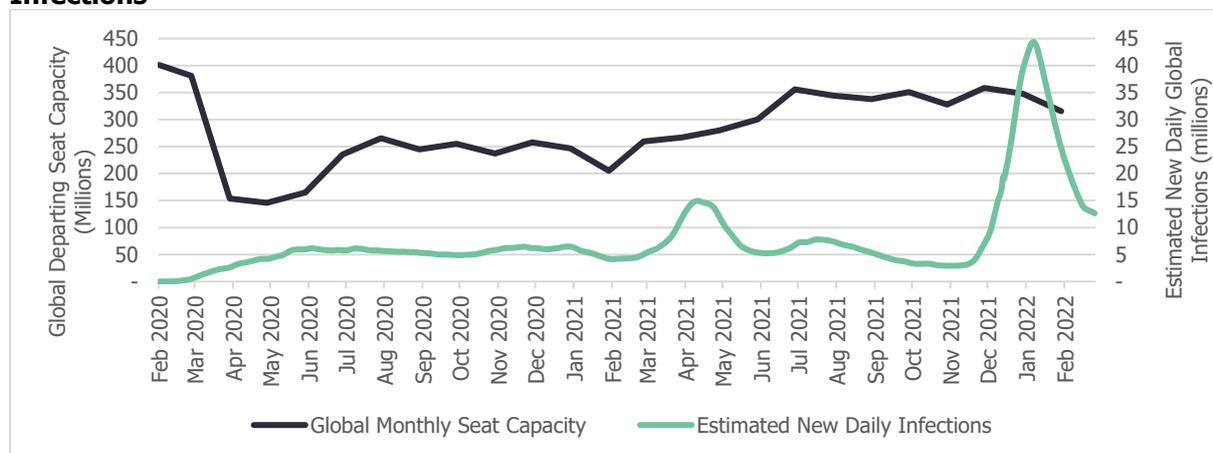
Figure 2-1: Global Monthly Departing Seat Capacity



Source: OAG

Global Covid-19 cases had a greater impact on seat capacity earlier in the pandemic than in the later waves, suggesting capacity levels are becoming increasingly resilient to new waves of infection. When infections initially began to increase, even at low levels in April and May 2020, seat capacity dropped substantially. However, as infections rose substantially at the end of 2021, seat capacity remained relatively stable, suggesting a decoupling of the relationship between Covid-19 cases and seat capacity. On this evidence, Skylark believes that future variants will have less of an impact on traffic levels, both for business and leisure travel.

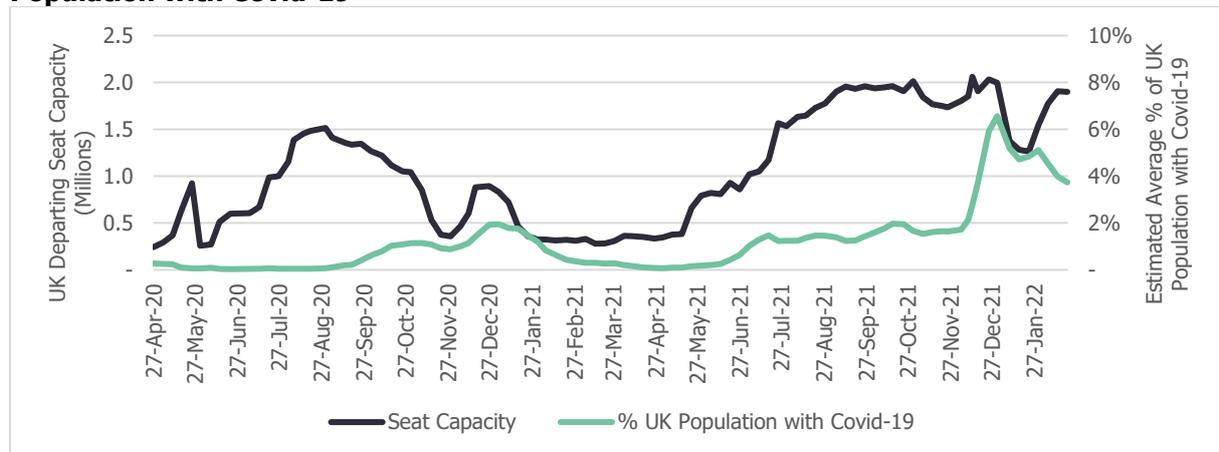
Figure 2-2: Global Monthly Departing Seat Capacity and New Global Daily Covid-19 Infections



Source: OAG, Institute for Health Metrics and Evaluation

The same trends can be seen in Figure 2-3 for UK seat capacity and the estimated proportion of the UK who have Covid-19, which takes into account the constraints in the availability of testing, especially at the start of the pandemic. As the pandemic progressed, UK seat capacity became increasingly resilient to rises in the estimated population with Covid-19. Although UK seat capacity dropped in December 2021 and the first few weeks of January 2022 due to a substantial increase in Covid-19 transmission as a result of the Omicron wave, capacity rebounded rapidly, highlighting the increased resiliency within the market.

Figure 2-3: UK Departing Seat Capacity and Estimated Average Percentage of UK Population with Covid-19



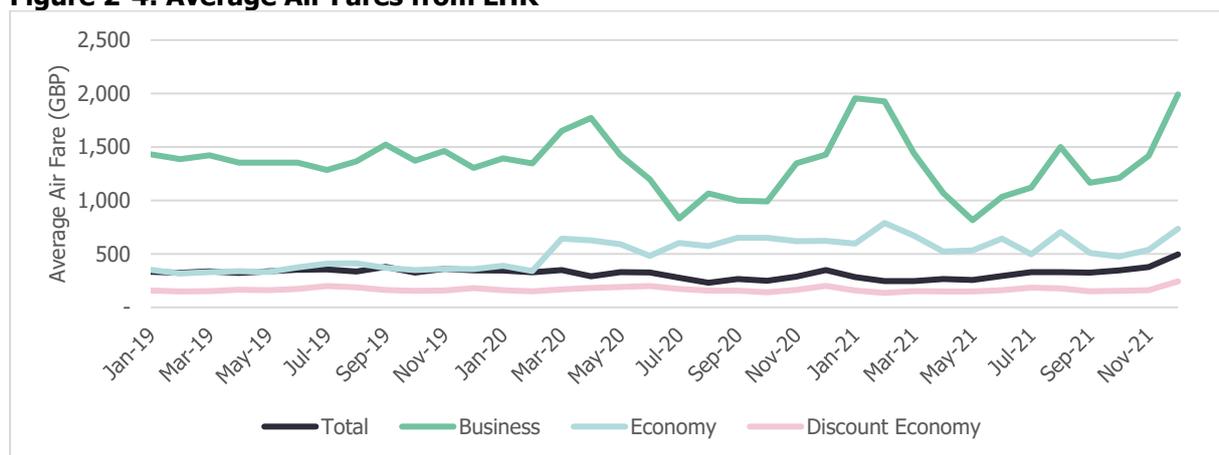
Source: OAG, ONS. Note: UK percentage was calculated using ONS mid-2020 population estimates.

Air Fares

With only mild fluctuations in average air fares for a significant period prior to the pandemic, air fares have seen substantial changes throughout the pandemic. Average business fares, such as those seen at LHR as shown in Figure 2-4, have been much more volatile than both economy and discount economy fares. Whilst capacity appears to be influenced less by successive waves, it appears airlines continue to respond to new waves with short-term increases in air fares, likely in response to reduced demand.

The average fare for Economy class tickets, while fluctuating more than usual, were consistently higher in 2020 and 2021 compared with average 2019 prices. It is not completely clear what drove this trend but it is plausible that during the pandemic passengers typically only travelled when it was essential. Therefore discretionary, more price sensitive travel was less common. In this context airlines were able to increase air fares, improving unit margins.

Figure 2-4: Average Air Fares from LHR



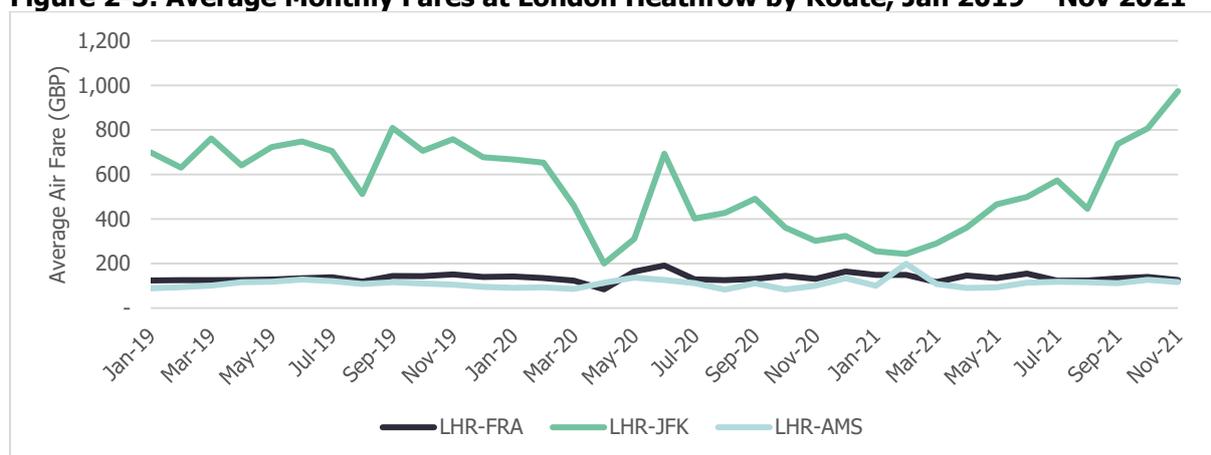
Source: MIDT

Peaks and troughs in average air fares can be seen on long-haul and short-haul routes over the pandemic period, but the effect is clearly more pronounced for long-haul routes. Typically, more business-focused short-haul routes, such as LHR to Frankfurt International Airport ("FRA") and Amsterdam Airport Schiphol ("AMS"), saw little variation from 2019 to 2021. In contrast, a long-haul route from LHR to New York's John F. Kennedy International Airport ("JFK") fluctuated substantially.

By November 2021, the average fare was much higher than the 2019 average, possibly a result of the US border reopening to UK passengers in November 2021. The increased volatility in long-haul route fares over the pandemic may be due to changes in the mix of routes flown with some routes suspended during the pandemic.

There are indications that these routes from LHR are seeing a return to business travel. KLM, whose primary hub is at AMS, reported seeing more business travellers, particularly from small and medium businesses, flying in Q4 2021.¹ Lufthansa, whose primary hub is at FRA, have reported a similar trend, stating there is a “pent up demand for leisure and business travel” which they believe will intensify in 2022.²

Figure 2-5: Average Monthly Fares at London Heathrow by Route, Jan 2019 – Nov 2021



Source: MIDT

2.3 Business travel trends during Omicron

2.3.1 Background

The Omicron variant was first reported in South Africa on the 24th November 2021. Studies have shown that this variant is more infectious than previous variants.³ The number of new Covid-19 cases globally has since increased rapidly, reaching an all-time high of approximately 3.5 million new daily cases by the end of January 2022.⁴

2.3.2 The Effect of Travel Restrictions, Vaccination Rates, and Passenger Confidence

During the Omicron wave passenger confidence in travelling has been higher than in previous waves. This is likely owing to the impact of travel restrictions and vaccinations. On the whole, travel restrictions were less onerous and more short-lived compared to previous waves, and vaccination rates are now much higher than in the initial stages of the pandemic. Subsequently, passengers have been impacted less by travel disruptions and health concerns, and are now more confident in travelling, which has been reflected in the improved recovery of business travel compared with previous waves.

¹ KLM, “KLM Group Figures for Q4 and 2021”, February 2022

² Lufthansa Group, “Lufthansa Group Expects Strong Travel Season”, March 2022

³ CDC, “Omicron Variant: What You Need to Know”, February 2022

⁴ Our World in Data, “Coronavirus Pandemic (Covid-19)”, accessed February 2022

Travel Restrictions

During the early stages of the Omicron wave, travel to 11 countries (South Africa, Angola, Botswana, Namibia, Nigeria, Zambia, Zimbabwe, Malawi, Mozambique, Lesotho, and Eswatini) was banned in multiple jurisdictions, including in the European Union, the United States, Australia, and countries in Africa, Asia, and the Middle East. However, compared to travel restrictions imposed earlier during the pandemic, the Omicron-related restrictions were lifted more rapidly. For example, a legal ban on non-essential travel from the UK was announced on 5th January 2021 which was not lifted for over four months. Even then, only those travelling from 12 green-list countries were exempt from quarantine restrictions. Yet, during the Omicron wave the UK banned travel from 11 countries in southern Africa on the 29th November 2021 but lifted the bans on the 15th December.

Not only are travel bans becoming more short-lived, but the more recent Omicron-related travel bans prompted discussions in the UK on the issue of whether travel restrictions are essential and effective in the case of new variants emerging. Researchers have argued that such decisions place unfair burdens on regions with outbreaks, and disincentivises countries from reporting outbreaks.⁵ The travel bans imposed in late November and early December 2021 to curb the spread of the variant were also heavily criticised by the African Union and South Africa's government for the negative impact the bans would have on the tourism and the wider economy.

Research has highlighted the inefficiency of travel restrictions in stopping or even limiting the spread of Covid-19, suggesting that incoming travellers during the Omicron wave to certain European countries did not make a significant difference to case transmission.⁶

To this end, the EU Council recommendations that travel within the EU should be based on the health status of the traveller, rather than the epidemiological situation of the country, have been adopted as of the 25th of January 2022.⁷ Subsequently, any future waves could likely be met with less severe travel restrictions, and any restrictions imposed will likely be more short-lived than previous restrictions earlier in the pandemic, having less of an impact on business travel.

Vaccination Rates

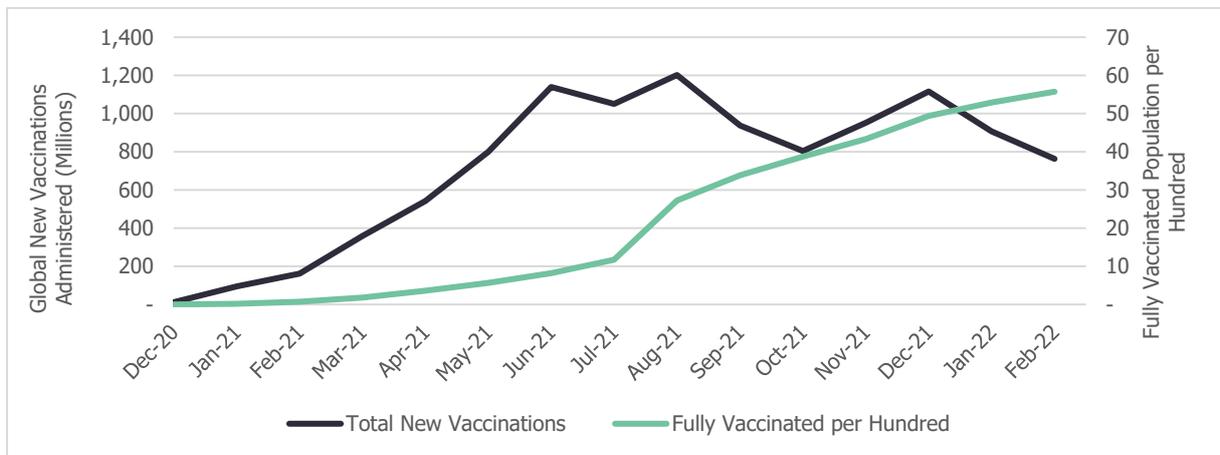
The first doses of the Covid-19 vaccine outside of clinical trials were administered in the UK in early December 2020. As depicted in Figure 2-6, the number of vaccinations administered increased rapidly from the initial rollout in December 2020.

⁵ Nature, "What the Data Say About Border Closures and Covid Spread", December 2020

⁶ Oxera, "Impact of Travel Restrictions on Omicron in Italy and Finland", January 2022

⁷ IATA, "New Research Shows EU Travel Restrictions had Little Impact on Omicron Spread", February 2022

Figure 2-6: Global New Vaccinations Administered & Fully Vaccinated Population per Hundred



Source: Our World in Data

During the Omicron wave there has been a greater disconnect between the number of cases and deaths and the subsequent restrictions, public reactions, and disruptions. While the number of cases increased by 476% from November to January, deaths only increased 12% due in part to the higher global vaccinations rates seen during the Omicron wave than in previous waves. Additionally, despite the Omicron variant mutating to become more transmissible, studies have found Omicron infection to cause less severe disease than previous variants.⁸ Data suggests that as Omicron and potentially future variants will become less severe and more people are vaccinated, in the UK Covid-19 has recently been shown to have become less lethal than influenza.⁹

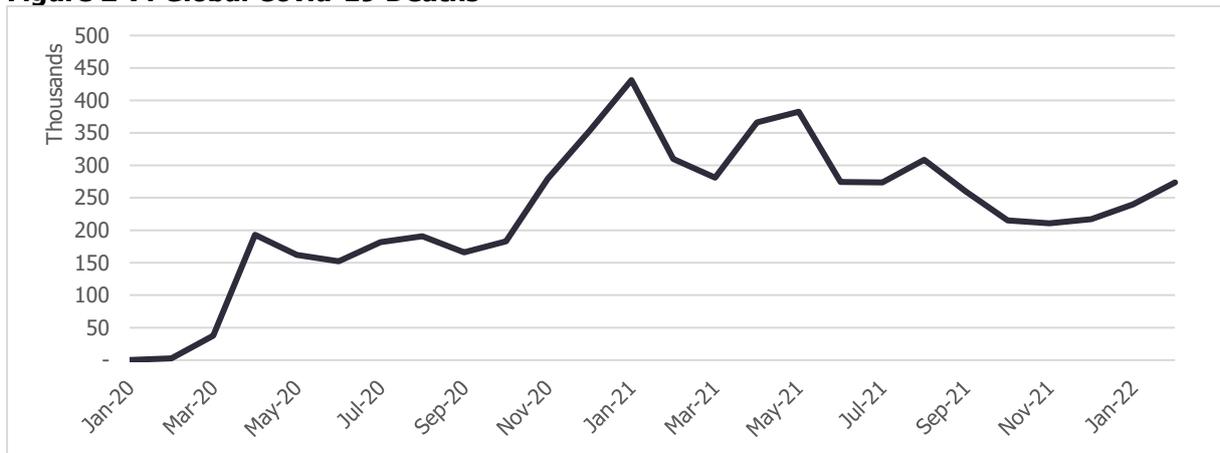
With lower hospitalisations and deaths, there has been a growing trend towards 'learning to live with Covid-19' as people become less likely to become severely ill from the virus. Subsequently, fewer restrictions are required, and the public are more confident in travelling. This, coupled with the removal of strict travel and quarantine requirements for fully vaccinated passengers in mid-December has resulted in the Omicron wave (and likely any future waves) having much less of an impact on traffic levels than previous waves.

In fact, Skylark interviewees commented on the relative ease of travel for business since the removal of most quarantine requirements, despite proof of vaccinations and pre-departure Covid-19 tests remaining. Therefore, both leisure and business travel will likely be impacted much less and recover more rapidly from any future waves.

⁸ CDC, "Omicron Variant: What You Need to Know", February 2022

⁹ Public Health England, "National Flu and Covid-19 Surveillance Reports: 2021 to 2022 Season", February 2022

Figure 2-7: Global Covid-19 Deaths



Source: World Health Organization

Passenger Confidence

Risk perception will play a key role in the recovery of passenger traffic. As public risk perceptions change throughout the pandemic, swifter recovery in terms of travel becomes more likely. Throughout the pandemic, changes in the severity of travel restrictions imposed on the public, as well as the lessened health risk posed by Covid-19 as a result of vaccination rates has led to a trend of growing passenger confidence in travel.

One of the key factors underpinning how people will perceive the risk of travelling, not just in terms of health risks but also the risk of disruptions and uncertainty, is how familiar people are with the risk.¹⁰ Specifically, the more familiar the public become with a risk, such as Covid-19, the less averse they will be to it. In addition to vaccination rates and less severe travel restrictions, passenger confidence has been growing as the public become more familiar with the consequences of the pandemic, and subsequently have been more likely to travel in the midst of the Omicron wave.

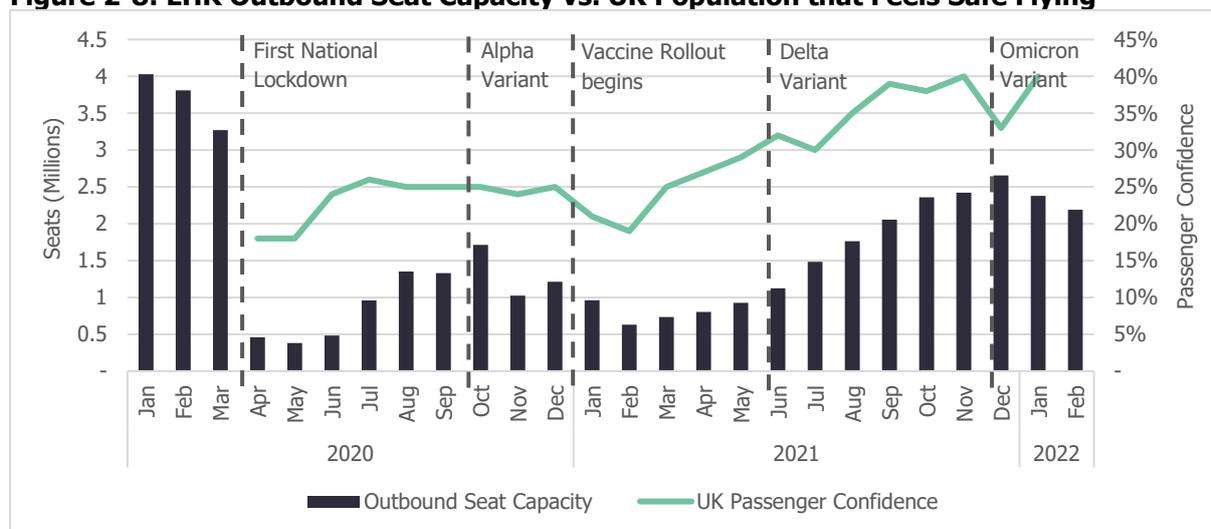
Figure 2-8 indicates how traveller confidence has changed throughout the pandemic and how departing seat capacity from London Heathrow Airport has responded.

Each subsequent wave has caused less of an impact on both traveller confidence and seat capacity. This has been especially visible during the current Omicron wave; although the Omicron wave saw the highest levels of the UK population estimated to have Covid-19 since the start of the pandemic, traveller confidence and available seat capacity remained high.

This increased passenger confidence is largely due to the less onerous travel restrictions in place during the Omicron wave, and the increased level of vaccination rates which has helped to safeguard passenger health. Resultingly, Skylark anticipate business travel will likely be impacted less and recover more rapidly from future waves.

¹⁰ Slovic, Fischhoff, and Lichtenstein (1980), "Facts and Fears: Understanding Perceived Risk", accessed February 2022

Figure 2-8: LHR Outbound Seat Capacity vs. UK Population that Feels Safe Flying



Source: OAG, Deloitte

Note: Passenger confidence is the percentage of survey participants that agreed or strongly agreed to feeling safe flying.

2.3.3 Impact of the Omicron Wave on Traffic

As previously discussed, the subsequent waves during the pandemic, especially the Omicron wave, have seen travel restrictions become more short-lived and less severe. Additionally, the severity of the new variants has been reduced as a result of the global vaccination rates. Subsequently, passenger confidence in travelling has been increasing, resulting in the Omicron wave being less disruptive to traffic and business travel. According to IATA, the Omicron travel restrictions only slowed recovery by approximately two weeks in December.¹¹

In the UK, 30.9 million passengers flew in and out in Q4. This is up from 24.8 million passengers in the previous quarter, in spite of the Omicron wave impacting the last month of Q4.¹² While this is 55% below traffic seen in Q4 2019, 17th December 2021 was the busiest day for flights in the UK airspace in 2021, representing 77% of 2019 levels.¹³ In addition, Heathrow saw their busiest day of 2021 on 19th December, and Luton and Stansted on the 17th December, despite being in the midst of the Omicron wave.

Despite some reductions in business travel during the Omicron wave, airlines have remained strong in their recovery at the end of 2021 and beginning of 2022:

- American Airlines saw small and medium business travel recover to approximately 80% of 2019 levels in Q4 2021. However, large corporate travel is lagging, with a 40% recovery over the same period.¹⁴
- Qantas and its subsidiary Jetstar reportedly experienced a decline in traffic at the end of November 2021 as a result of the growing uncertainty surrounding the Omicron variant. Yet, by the end of February, the Group anticipates domestic business and leisure travel to exceed pre-pandemic levels.¹⁵

¹¹ IATA, "Passenger Demand Recovery Continued in 2021 but Omicron Having Impact", January 2022

¹² CAA, "2021 Quarter Four Flight Data", February 2022

¹³ NATS, "No Recovery for UK Air Traffic in 2021 as Pandemic Continues", January 2022

¹⁴ American Airlines, "Q4 2021 American Airlines Group Inc Earnings Call – Edited Transcript", January 2022

¹⁵ Qantas, "Qantas Group Market Update – Balance Sheet Recovery from Delta Lockdowns", December 2021

- Wizz Air has also proved to be resilient during the Omicron wave. After reporting November 2021 passenger traffic levels at 73% of 2019 levels, traffic increased in December, with January 2022 traffic reaching 93% of January 2019 levels.¹⁶
- Delta saw business travel recovery lag general passenger recovery, with business travel in December 2021 at 60% of December 2019, compared with general recovery of 80%.¹⁷ During the Omicron wave in January and February, general recovery has only fallen slightly to 70% of 2019 levels. Nevertheless, the airline remains confident in strong recovery by the Spring and Summer owing to pent up demand for both business and leisure travel. Delta anticipates traffic levels between 72-76% for Q1 2022 compared with the same period in 2019, with March seeing the same levels as December, highlighting the more rapid recovery of traffic levels during the Omicron wave compared with waves earlier in the pandemic. In a Delta survey, 80% of corporate travel respondents anticipated travelling the same or more in Q1 2022 than Q4 2021. Whilst this is encouraging, traffic was still depressed in Q4 2021 compared with pre-pandemic levels.

The reduced impact the Omicron wave had on business and leisure travel signals a growing resilience and more rapid recovery in the face of any future variants. This increased resilience likely results from the influence of global vaccination rates and more limited travel restrictions on growing passenger confidence to travel.

2.4 Conclusion

Differences in travel restrictions, vaccination rates, and passenger confidence during the Omicron wave compared with previous waves played a substantial role in the more rapid recovery in terms of travel, including business travel, seen during this wave.

Compared to travel restrictions imposed earlier during the pandemic, the Omicron-related restrictions were lifted much sooner. Throughout the pandemic both the authorities and the public have become more familiar with the risks associated with Covid-19, such as health and travel disruptions, resulting in the growing establishment of a 'new normal', even when new variants emerge.

Global vaccination rates appear to have played a key role in the reduced impact of Omicron on business travel, as vaccination rates were much higher during the Omicron wave than in previous waves. Additionally, the Omicron variant is thought to cause less severe disease than previous variants. This has resulted in a disconnect between the cases and deaths, leading to less stringent travel restrictions and disruptions.

Lessening travel restrictions and increasing global vaccination rates have also contributed to passenger confidence in travelling growing over the pandemic. Resultingly, Skylark believes that the impact of subsequent waves on business travel are likely to be lessened, with swifter recovery periods than in previous waves.

¹⁶ Wizz Air, "Passenger Traffic Stats", accessed February 2022

¹⁷ Delta, "Delta Air Lines Q4 2021 Earnings Call Transcript", January 2022, accessed via Motley Fool

3 Long-term Business Travel Changes

3.1 Introduction

Skylark has assessed the long-term travel changes to business travel by analysing studies, surveys, news articles, airline reports and conducting primary research.

To understand the recovery of business travel following the Covid-19 pandemic, and the longer-term changes to travel behaviour, the impact of technology, environmental concerns and traveller confidence were examined, and the resultant impact on air fares assessed.

Skylark industry interviews yielded varying responses; however, all organisations indicated that they were planning to resume business travel to some extent. One overarching theme across most interviews was that companies are looking to increase the benefit of business travel compared to that seen pre-pandemic. Business activities likely to be replaced in favour of virtual equivalents are those which can be considered less essential to a business' function, and those not dependent on networking or creative processes.

External pressures to resume travel are felt more strongly by small and medium-sized enterprises which rely on networking and maintaining relationships to generate business. While environmental pressures on larger corporations do exist, Skylark found that sustainability considerations alone were not the primary factor limiting the return to travel.

Respondents noted that more targeted travel, reducing travel frequency, increasing trip duration, and increasing the amount of business activity while travelling are potential ways to maximise the value of business trips and improve employee willingness to travel following increased home working flexibility.

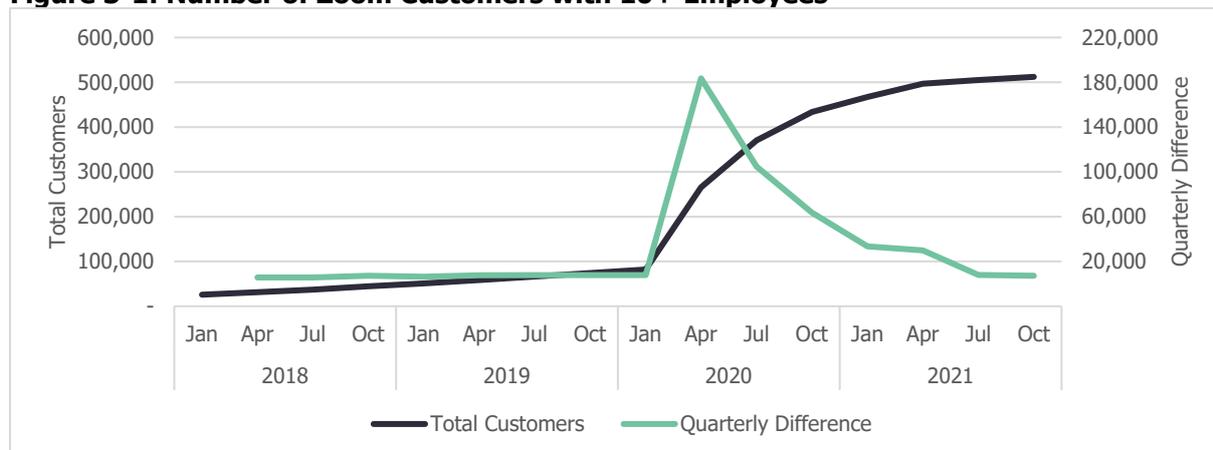
As a result, Skylark believes that while a significant proportion of business travel will return, volumes will be permanently and negatively impacted by behavioural changes caused by the pandemic.

3.2 The Impact of Technology on Business Travel

Prior to the Covid-19 pandemic, videoconferencing software such as Microsoft Teams, Zoom and Skype were gaining traction in the business environment by offering benefits over the traditional conference call. The main advantages of videoconferencing are the visual aspects of the service, allowing participants to see one another as well as allowing screen-sharing. Restrictions imposed around the globe to limit the spread of the Covid-19 virus resulted in limitations to the amount of face-to-face interaction allowed. Businesses responded by rapidly adopting videoconferencing software as a necessity to continue daily business activities.

Videoconferencing software companies saw huge growth during the pandemic. For example, Zoom saw its number of business clients with over 10 employees more than triple in the first three months of 2020. Zoom has retained its larger userbase despite the gradual lifting of pandemic restrictions; however, the number of monthly *new* users has fallen to pre-pandemic levels as of July 2021, indicating that it is reaching saturation of its available market.

Figure 3-1: Number of Zoom Customers with 10+ Employees



Source: Zoom

This accelerated global adoption rate and continued usage of videoconferencing will ensure that it remains a tool for businesses to make use of into the future. Employee demands for flexible working will also contribute to the utilisation of these tools, reducing the frequency of which employees work in the office. Furthermore, the use of online and blended learning in schools and universities has embedded videoconferencing technology into the daily lives of future generations.

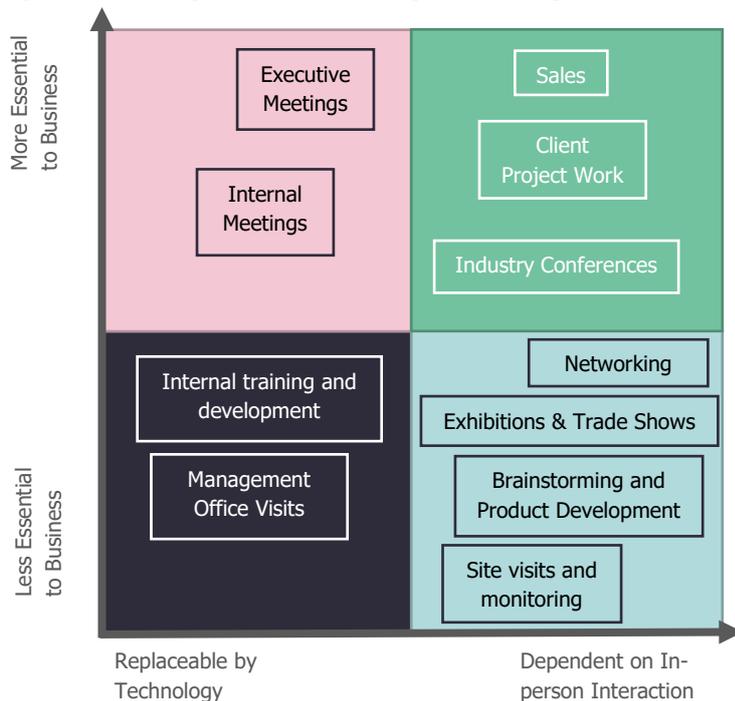
However, this is not to say that MS Teams and Zoom will continue to retain their use across all business activities as they have during the pandemic. Many activities occurred online throughout the pandemic out of necessity, rather than preference. While some will continue to be conducted online, such as internal team meetings, training and presentations, others, such as client project work, conferences, trade shows, sales, and client relationship meetings are likely to return to in-person interaction.

In a poll conducted on business travellers by the Global Business Travel Association¹⁸, 86% of participants reported that they require travel to accomplish their business goals, with over half of respondents stating that they miss travel and hope to travel more in the future. Interviews conducted by Skylark revealed that, although workable, online meetings with many stakeholders can be especially frustrating and are often more productive in person. Furthermore, respondents stated that face-to-face meetings can establish stronger relationships, facilitate new introductions, and maximise inventiveness in creative settings compared to online equivalents.

Figure 3-2 compares the importance and technology replaceability of several business activities. Note that the importance and replaceability of each activity will, in reality, vary by sector and by organisation.

¹⁸ GBTA, "BTI Outlook", November 2021

Figure 3-2: Importance and Replaceability of Business Activities



Source: Deloitte, Skylark Analysis & Interviews

The green region describes important face-to-face activities which are key drivers of returning business travel. These are typically collaborative and relationship-based activities, which depend on face-to-face interaction to maximise productivity and effectiveness. In an interview with Skylark, Roland Chief Sales Officer Gordon Raison noted that people are more inventive in person. While the likes of Teams and Zoom have been effective over the pandemic, they struggle to match the productivity of face-to-face collaboration in creative settings.

Skylark also anticipates a “domino effect” occurring amongst some these activities – as soon as some companies start interacting face-to-face with clients and attending conferences in person, others will be compelled to do the same to keep pace with their competitors. While some conferences may include online elements, sources indicate that the majority will take place in person due to the significant advantages of networking face-to-face. In a Skylark interview with an international boutique law firm, the interviewee noted the necessity of keeping in line with the way their competition responds to returning business travel. In a second interview, senior management at a global foundation stressed that that any loss of a competitive edge through not travelling would oblige them to resume.

The light blue region includes exhibitions and trade shows and site visits which may be considered less essential to business but are difficult to replace with technology. While many virtual trade shows and conferences were held during the pandemic, Skylark interviews indicated that companies were dissatisfied with outcomes of online events compared to those held in person, as they are critical for successful releases of new products, engaging with potential clients and taking items to market. Although technological solutions for remote site monitoring do exist, these require large upfront costs and training which provide high barriers to entry. A Skylark interview with public address and fire evacuation system manufacturer TOA revealed that although many of their systems can be monitored and managed remotely, site visits for inspections, upgrades, and the commissioning of new installations must be carried out in person by technicians, and consequently continued through all stages of lockdown. As a result, these activities are also likely to continue in-person.

The pink region includes internal meetings and presentations. While important to the function of businesses, these activities are more replaceable by technology than client facing activities as no direct relationships with clients are at stake. Skylark anticipates that this region is the most likely to see a “blended” return to travel, with meetings returning to in person where possible while allowing remote or travelling colleagues to attend online. Skylark interviews also revealed that C-suite executives are likely to continue travelling for board meetings which are of particular importance for large international organisations.

The dark blue region represents activities that may be considered less essential to business and more replaceable by technology, thus unlikely to return to pre-pandemic levels of business travel. This includes mainly internal activities such as team meetings and training, much of which is possible to carry out online which offers cost savings and flexibility. However, some aspects of training and management are not possible without travel, with one Skylark interviewee noting that travel restrictions have led to delays of team restructuring and training which in turn led to a loss of sales of approximately 20% in one region.

The use of technology was affecting how people travelled prior to the pandemic, with readily available internet connectivity globally in airports, hotels, and on aircraft allowing travellers to become more productive by working and being able to attend meetings while out of the office. The increased use of these tools around the world will only help facilitate working during travel. However, while Skylark believes that these tools will stimulate greater productivity while travelling, the increase in number of trips due to better connectivity is likely orders of magnitude lower than the number that the number replaced by technology.

To conclude, technologies such as Zoom and Microsoft Teams will continue to be popular tools in business. The consensus is that many activities key to the function of businesses rely on the networking and social aspects brought by face-to-face interaction which videoconferencing cannot provide. However, many organisations have also discovered efficiencies created by using technology in business which, as a result, will remove the need to travel for some business activities, with the types of activity and extent to which they are replaced varying by sector. Therefore, the replacement of in person activities with technology will result in a permanent, negative impact on business travel.

3.3 External Pressures to Reduce Business Travel

Sustainability and minimising environmental impact are ever growing considerations for companies, with growing pressure from shareholders and other stakeholders to reduce businesses’ environmental footprints. In April 2021, the UK government set their climate change target in law: to cut emissions by 78% by 2035 compared to 1990 levels. This includes the UK’s share of international aviation and shipping emissions. COP26 held last year in Glasgow saw countries make new, stronger emission reduction pledges, and helped to further raise the global profile of climate change.

Currently, small and medium-sized enterprises (“SMEs”) which account for 60% of the total UK employee population¹⁹ are not subject to mandatory carbon reporting, which suggests that there is less environmental pressure than on larger corporations which are more susceptible to reputational impact as a result of poor environmental performance. This correlates with a recent Morgan Stanley survey²⁰ in which 21% of larger companies listed the environment as the top reason for replacing travel with virtual meetings, compared to 6% of SMEs.

¹⁹ Department for Business, Energy & Industrial Strategy, “Business Population Estimates for the UK and the Regions 2021”, October 2021

²⁰ Morgan Stanley, “Global Corporate Travel Survey 2H21”, November 2022

Additionally, SMEs are less likely to operate global networks of offices and are more likely to depend on developing relationships and contacts to generate growth which further compels a swifter recovery of travel. This is supported by Skylark interviews, with an interviewee from a small Law firm planning on travelling more than in 2019 in order to renew relationships, compared to an interviewee from a large pharmaceutical firm slashing the travel budget for one executive from thirteen short-haul and two long-haul trips to two short-haul and one long-haul trips.

The resurgence of travel amongst SMEs has been observed already, with American Airlines reporting in their Q4 2021 Earnings Call²¹ that SME travel during that quarter had recovered by 80% compared to just 40% for large corporate travel.

Although it may seem that large corporations are more likely to decrease business travel directly due to environmental concerns, Skylark analysis and interviews suggest that environmental pressures are secondary to current restrictions, employee reluctance to travel, and cost savings for most companies, and that emission reductions are likely to be a side effect of any changes to business travel habits rather than a driver.

A Skylark interview with a sustainable apparel brand revealed that sustainability was not their primary consideration when choosing to reduce future travel budgets: the change in business practices during the pandemic were caused by the company deeming travel for certain reasons replaceable by technology for convenience and cost savings. Interviewees described environmental plans focused on other aspects of their businesses such as improving the sustainability of products and supply chains. This trend is demonstrated by PWC, which, while reporting reduced emissions per employee from both business travel and other sources, has seen the proportion of emissions attributed to business travel increase from 57% in 2010 to 88% in 2019.

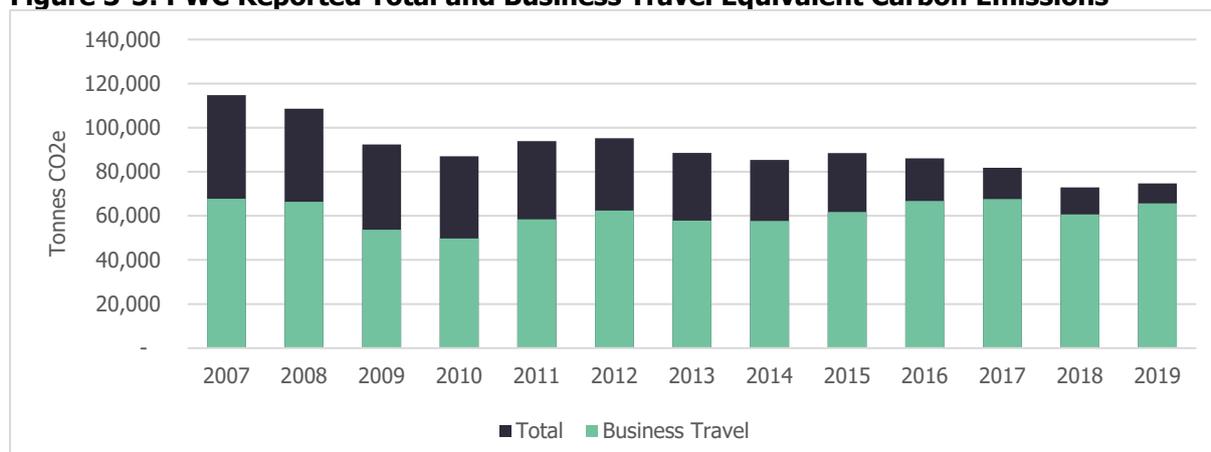
PWC reported²² that while their total carbon dioxide emissions fell by 35% between 2007 and 2019, those due to PWC staff business travel have remained – broadly – the same, reducing by just 3%. While this does represent a decrease of 21% *per employee* over the period, the proportion of emissions attributed to business travel rose from 57% in 2010 to 88% in 2019 which demonstrates that a reduction in emissions may be more easily achieved through means other than reducing business travel.

Figure 3-3 also shows how business travel is likely to return after the pandemic shock: emissions due to business travel decreased by 25% between 2008 and 2010 following the global financial crisis, before showing a strong return in the following years.

²¹ American Airlines Group, "Q4 2021 Earnings Call Transcript", January 2022

²² PWC, "Managing Our Travel emissions", accessed February 2022

Figure 3-3: PWC Reported Total and Business Travel Equivalent Carbon Emissions



Source: PWC

Alternative sustainability measures such as switching to renewable energy providers, efficiently insulating and heating buildings, and switching to LED lights may come with large associated costs; however, they provide less impact to the fundamental operation of the business than cutting business travel. Therefore, these measures are likely to be taken before affecting business travel.

To conclude, studies show that small businesses are less likely to consider the environmental impact when making decisions than larger companies and have already started to exhibit a stronger return to travel than larger companies due to their dependence on development of relationships. Skylark interviews showed that larger organisations do pay considerable thought to the sustainability of their operations; however, environmental factors are not often primary concerns when planning business travel. Environmental targets are likely to be met through other means, such as transitioning to renewable energies, using greener buildings e.g. LED lights, more efficient insulation and heating, as well as using carbon offsetting companies to purchase carbon credits. For companies that do aim to reduce their use of business travel, emissions savings are often a beneficial side effect, with other factors such as cost savings and time efficiency being the primary drivers. As a result, environmental factors alone are unlikely to contribute a significant reduction in business travel, with the reduction from use of technology, cost savings and willingness to travel being more material factors.

3.4 The Impact of Traveller Confidence

Skylark interviews, in agreement with industry surveys²³, showed that travel restrictions and employee unwillingness to travel were the top two drag factors to the return of business travel. Not only are travellers concerned about contracting the virus, but the rapidly changing travel regulations including mandatory vaccination, self-isolation or hotel-based quarantine, Covid-19 testing, and additional travel documentation pose health, financial, and time-based risks that were not present prior to the pandemic.

As discussed in Section 2, passenger confidence in the safety of air travel has been rapidly returning to the market, largely due to less onerous travel restrictions, increasing vaccination rates, and increasing familiarity with a 'new normal' that Covid-19 has established. However, long-term willingness to travel, as opposed to confidence in the safety of travel, is more likely to be affected by the convenience and efficiency of conducting business through other means, such as virtually.

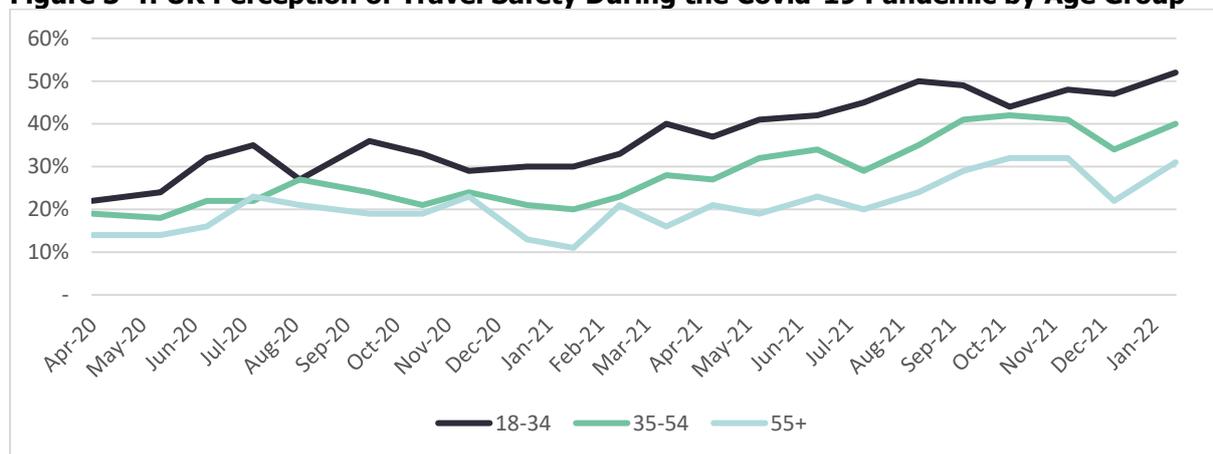
²³ Deloitte, "Return to a world transformed: How the pandemic is reshaping corporate travel", August 2021

With global travel restrictions easing and vaccine rollouts advancing across developed nations, health-related air traveller confidence is being restored – demonstrated by the strong recovery of leisure travel – with business travel expected to follow in due course.

The travel industry is putting measures in place to ensure that travellers feel as comfortable as possible. Enhanced cleaning procedures on aircraft and in airport spaces as well as the introduction of mandatory mask wearing throughout airports and on flights have become commonplace in the drive to return passengers’ feeling of security. Marriott Chief Executive Officer Tony Capuano noted in an interview²⁴ that the approach his company is taking to inspire confidence in the safety of travel is by ensuring maximum cleanliness in rooms, with staff wearing masks, having space for social distancing and providing hand sanitizing stations.

The Deloitte 2022 Travel Outlook²⁵ shows that 18–34-year-olds surveyed took more than twice as many holiday trips in 2021 than those over 55. This indicates that younger people are more willing to travel, with confidence returning at a lower rate amongst those over 55, most likely due to the health implications of contracting Covid-19. However, confidence across all age groups has seen an upward trend especially since the start of the vaccine rollout, as shown in Figure 3-4.

Figure 3-4: UK Perception of Travel Safety During the Covid-19 Pandemic by Age Group



Source: Deloitte Global State of the Consumer Tracker

However, prior to the pandemic, although passenger confidence in business travel was high, other physical and mental health issues such as limited opportunities to exercise, increased stress levels, a reduction in sleep quality and higher likelihood of burnout were prevalent amongst those that travelled frequently for business. The impact of these issues on employees, combined with the newfound near-universal ability to communicate effectively online and the demand for flexible working, has seen willingness to travel frequently for non-essential business activities decrease at some companies. Multiple Skylark interviews suggested that these trends are being countered by planning longer, multi-purpose, less frequent trips which still allow for business activities to occur while being less impactful on employee health – with one business interviewed having a policy for minimum travel duration of 5 days.

One Skylark interviewee at a major investment bank stated that frequent business travel has ceased to be a status symbol, and employees are continuing to work from home where possible. They noted seeing efficiency gains by replacing a two day round trip with two-hour online meetings, as well as seeing a trend towards employees preferring longer duration trips that incorporate leisure travel.

²⁴ Business Traveller USA, “Marriott’s Tony Capuano Talks the Return of Business Travel”, September 2021

²⁵ Deloitte, “Travel Outlook 2022”, January 2022

To conclude, studies and Skylark interviews indicate that health-related traveller confidence is continuing to improve. In the longer term, the time savings achieved in some instances by replacing travel with online communication such as the improved ability to work from home and physical and mental health considerations are likely to impact an individual’s willingness to travel for non-essential business purposes. Businesses have started to address this by planning longer duration, multi-purpose trips which may result in less frequent travel for non-essential business purposes and therefore negatively impact business traveller volumes.

3.5 Airline Fare Response

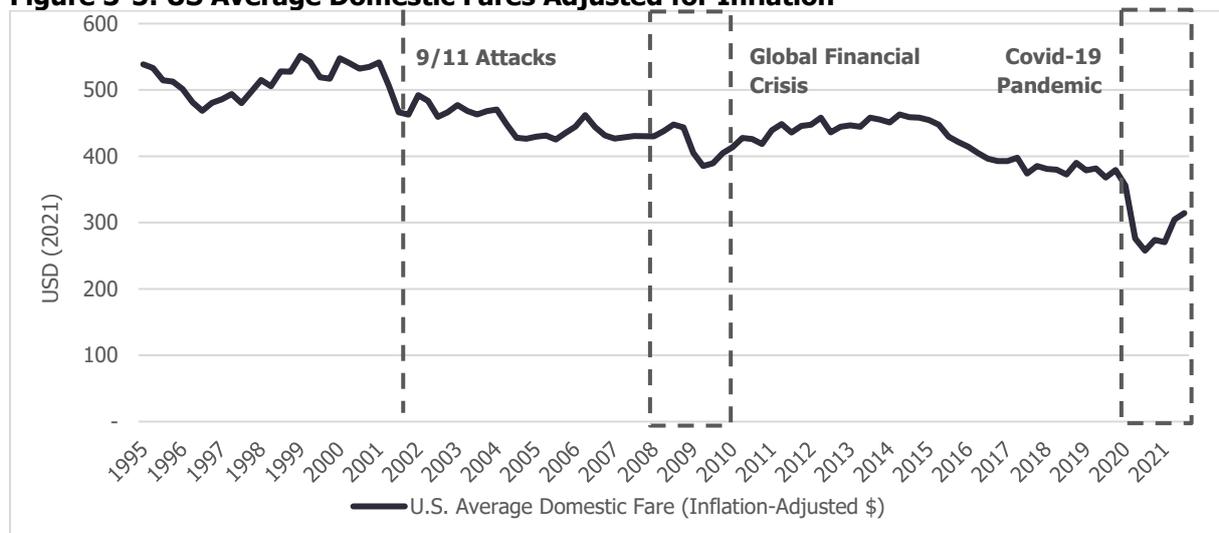
Airline fares following crises have historically returned to trend quickly. Although fare structures may see some changes in the months following the pandemic, Skylark believes that between reallocation of capacity, changes to seating configuration, and savings from operational efficiencies, long-term fare structures will return to trend. Due to the proliferation of low-cost carriers (“LCCs”) globally, full-service carriers (“FSCs”) will be unable to significantly increase fares, particularly on short-haul routes.

It is important to note that this statement is made alongside the belief that business travel volumes will be permanently and negatively impacted by behavioural changes caused by the pandemic. The assumed shifts in capacity and aircraft configuration are expected to offset the mix change, and indeed are implemented by airlines as a way to mitigate it.

Figure 3-5 shows domestic fares in the US between 1995 and 2021 adjusted for inflation. The general downward trend reflects the ever-increasing efficiency of aircraft, engines and automation, the cost benefits of which are typically passed on, at least in part, to the passengers.

Following the September 11th attacks, average fares stabilised following a sharp decrease due to the flagging economy resulting from the dot com bubble burst. During the 2007 global financial crisis, fares did fluctuate, but stabilised in 2010. The Covid-19 pandemic has seen average fares drop sharply due to decreased demand; however, fare levels have shown signs of recovery to trend. The response of average fares to these crises indicates that fluctuations seen during the pandemic are likely to stabilise as demand recovers.

Figure 3-5: US Average Domestic Fares Adjusted for Inflation



Source: DoT

While some airlines may choose to discount premium fares in the short-term to stimulate business travel, Skylark interviews indicated that price concerns are not currently a barrier to the return of

business travel, though other aspects such as new technology are likely to depress overall demand. Business traffic has historically been less price-elastic than leisure which is likely to remain true in the future.

A further reason why airlines are unlikely to make material changes to their fare structures, and will be wary of increases to leisure fares, is that this will inevitably lead either to a loss of passengers from the market, or a loss of passengers to a competitor. Skylark considers it unlikely that revenue from an increase in unit prices will offset the associated loss of passengers (otherwise, the increase would have been implemented long ago).

Airlines, and especially full-service carriers, have multi-year commitments to aircraft use through asset ownership or long-term leasing. For a healthy business, an aircraft must deliver sufficient revenue to offset the cost of ownership, which is substantial even for a non-flying aircraft. Revenue-negative passenger volume reductions therefore cause financial stress as the fixed costs of ownership are borne regardless. This problem is exacerbated in a full-service carrier with a business built around regular schedules; these are not amenable to change without knock-on impacts to the overall network performance. In the longer-term, changes to aircraft size and cabin mix can be employed, but neither of these will have a material impact on the average fares in each cabin. In short: carriers, and particularly full-service carriers, typically lack sufficient flexibility in their capacity to make swingeing changes to fare structures.

Case Study: British Airways

In IAG's 2021 Q3 results presentation, the company outlined a decrease in the number of premium seats of 15% due to new Airbus A350 and Boeing 787 aircraft having fewer premium seats than the retired Boeing 747 fleet they replaced, addressing a pre-pandemic trend of decreasing demand for premium cabins which saw British Airways reduce the number of first-class seats by 18% between 2008 and 2018²⁶. However, in an attempt to capture lower end business traffic and higher end leisure passengers, the airline is increasing the number of premium economy seats by around 33% across the entire fleet, as the profitability per square foot of these seats can be in line or even exceed that seen in business class due to its increased density and lower operating costs. Furthermore, IAG sees the premium leisure market as a high growth opportunity which has already seen significant recovery, with premium leisure services to the Caribbean surpassing 2019 levels by September 2021. Air France are also taking advantage of this trend by developing a "leisure-business" category for passengers who buy premium-class tickets for holiday travel²⁷, which is a lower cost, non-refundable business class ticket with fees for modifications.

Skylark believes that FSCs cannot easily increase economy fares, particularly on short-haul routes, for sustained periods due to the presence of LCCs competing on the same routes from the same or competing airports. However, changes such as increased premium-leisure sales and additional seats in premium economy cabins will help them to retain higher margins.

3.6 Conclusion

Following a stark reduction in business travel during the Covid-19 pandemic, organisations are looking to maximise the value of returning travel. The business travel recovery rate is likely to vary widely by size of business, sector and region, with each factor influencing decisions on purpose, duration, and frequency of travel. Skylark believes that although most business travel will return, but there will be a

²⁶ Aviation Business News, "Is this the end of first-class travel?", January 2022

²⁷ Bloomberg TV, Interview with Air France CFO Steven Zaat, August 2021

permanent negative impact on business traveller passenger volumes compared to the period immediately prior to the pandemic.

Skylark interviews showed considerable variation in how the use of technology will affect different activities in different sectors. However, Skylark believes that, although new widespread use of new technologies such as Zoom and Microsoft Teams will reduce some areas of business travel, many business activities are significantly more effective when conducted in person and these will be the largest drivers to the return of business travel.

Environmental concerns are an important focus of many organisations. Despite this, most companies interviewed by Skylark indicated that costs, efficiency, and the needs of clients took priority, with companies noting that they reduce emissions through other means, such as building more sustainable products or making use of carbon offsetting. As a result, environmental factors alone are unlikely to impact business travel significantly.

As vaccination rates increase and travel restrictions reduce, health-related passenger confidence in travel is continuing to improve, increasing willingness to travel. However, long-term trends have seen those flying frequently prior to the pandemic now reluctant to trade flexible home working and the use of technology for frequent non-essential travel. To counter this, businesses have seen trends towards longer duration, less frequent travel to reduce the toll on travelling employees imposed by multiple, shorter trips. Employees are also more willing to travel if they can combine the trip with leisure activities. As a result, Skylark anticipates a negative impact on business traveller volumes due to the reduced frequency of non-essential business trips.

Airlines are responding to these changes by altering cabin layouts and creating new fare classes. To address long term trends of reducing business class ticket demand, airlines are replacing business seats with premium economy seating. This offers comparable profitability per square foot to business class. These changes aim to capture lower-end business travellers as well as higher-end leisure travel – a sector which has seen increased demand in recent years. Furthermore, some airlines have created new fare classes which combine the business class experience but with limited ticket flexibility.

Skylark considers that, although the proportion of passengers travelling for business is likely to permanently reduce, there are unlikely to be material changes to airline fare structures. In particular, it is considered unlikely that there will be material changes to economy class fare structures. This is due to a combination of competitive constraints and structural inertia in addition to evidence of minimal (immaterial) changes to fare structures following previous shocks to the industry.

4 Impact on Heathrow Airport Traffic

The impact of the Covid-19 pandemic will likely be different for LHR than other UK airports due to the fundamental differences in LHR's operations. Specifically, LHR has a greater proportion of passengers travelling for business, more FSCs, and more long-haul services compared to other airports. Subsequently, the impact of the pandemic on business travel and long-haul operations will likely impact LHR differently to other airports.

Following the research conducted on business travel trends, Skylark would expect the proportion of business travel at LHR to reduce.

4.1 Reason for Travel

Owing to LHR's status as a global travel hub, serving as BA's hub, and its substantial route network, LHR has traditionally had a much larger proportion of business travel passengers than other major UK airports. As can be seen in Figure 4-1, approximately 33% of LHR's passengers travel for business. Aside from London City Airport ("LCY") and Belfast City Airport ("BHD") with 46% and 44% of passengers respectively, the rest of the top UK airports had a much smaller proportion of passengers travelling for business than LHR.

Figure 4-1: Reason for Travel at Top UK Airports



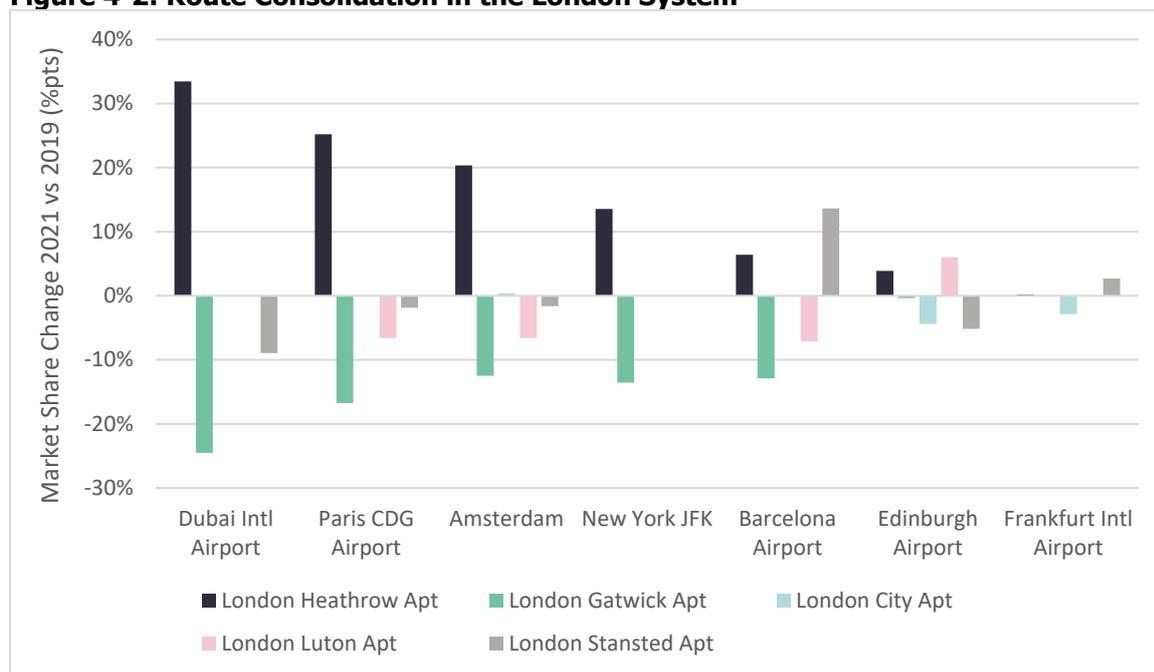
Source: CAA Passenger Survey 2019, Heathrow Airport Limited

Due to its high proportion of business travel, LHR has been particularly exposed to the effects of Covid-19 on business travel. As business travel recovery is widely expected to lag leisure recovery, it is likely that LHR's traffic will suffer a lower comparative dip than more leisure-focused airports.

In the meantime, airlines at LHR will likely attempt to reduce the impact of the slower recovery of business travel passengers by marketing seats at more leisure-focused passengers. Leisure travel is expected to boom in the summer season of 2022 due to pent-up demand, providing some mitigation for LHR in the midst of the slower business travel recovery. As a result of this, average fares are likely to decrease as airlines aim to fill seats that would otherwise be empty.

Due to LHR's status as an international hub, LHR is in a strong position to consolidate routes from during the recovery in the London and UK markets at the expense of other airports in the London system. This can be seen to occur in Figure 4-2 for a selection of routes. Depending on the net business/leisure split of the consolidated routes, this may alleviate or exacerbate the reduction in proportion of business traffic that LHR is expected to see.

Figure 4-2: Route Consolidation in the London System



Source: OAG

4.2 Carrier Type

LHR operations are primarily conducted by FSCs, with these airlines providing over 98% of outbound seats in 2019. This is considerably higher than other airports in the UK, as seen in Figure 4-3, due to the higher airport charges and restricted slots making it less feasible for LCC operations. For comparison, FSCs provided 40% of outbound seats in 2019 at Gatwick Airport.

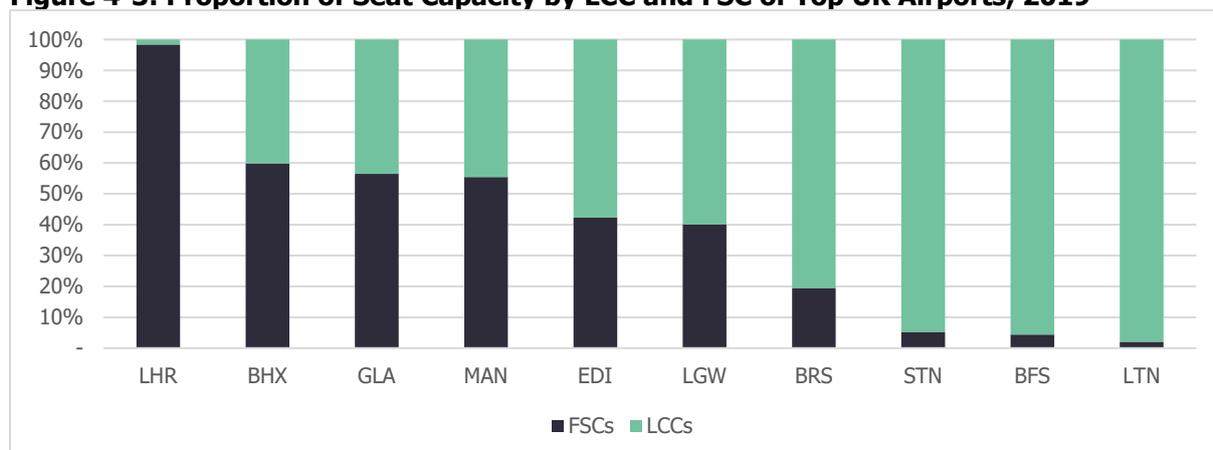
Short-haul operations accounted for half of all LHR flights in 2019. These routes, primarily to European destinations, are in direct competition with LCCs operating from other London airports including LGW, STN and LTN. As a result, FSCs have little pricing power on these routes, with price sensitive leisure travellers opting to fly from other airports should the price gap between FSCs at Heathrow and LCCs elsewhere increase.

Long-haul travel is conducted almost exclusively by FSCs, thus LCCs have little impact on long-haul operations and fares. With less competition on these routes, airlines have higher – though still market-limited – pricing power.

Business travel is less price elastic than leisure, with flight times and ease of airport access often taking precedence over price. Additionally, airline loyalty schemes, corporate discounts, ticket flexibility, lounge access and level of surface access also incentivise business travellers to fly with FSCs from LHR. While FSCs do face stiff competition from LCCs on point-to-point European routes, businesses tend to prefer flying with FSCs on routes to secondary airports as they guarantee connections.

Therefore, for FSC airlines at LHR to compete against LCCs at other London airports, the value proposition of short-haul flights must remain attractive, especially for leisure passengers. As business travellers are less price elastic, flying from LHR may be more attractive than other airports due to the ease of surface access of the airport and higher levels of service provided despite FSC fares being higher than LCCs. Long-haul travellers have less choice of airport due to the limited long-haul networks of other airports compared to that at LHR.

Figure 4-3: Proportion of Seat Capacity by LCC and FSC of Top UK Airports, 2019



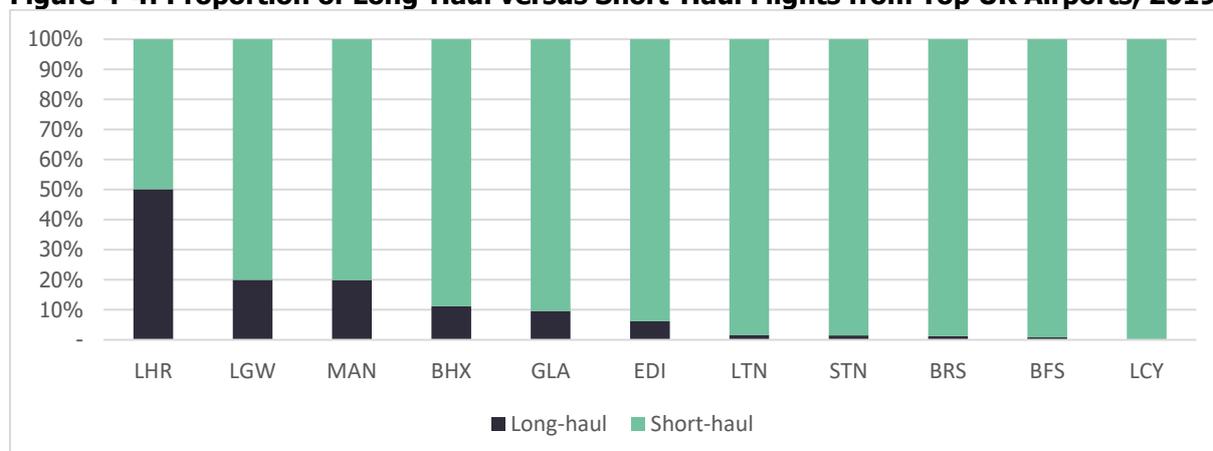
Source: OAG

4.3 Operation Type

Skylark anticipates that the strong performance of long-haul services at LHR in addition to its short-haul network will see the airport attract business travel more strongly in the coming months of recovery than other airports in the UK. In Skylark interviews, global business activities, such as industry conferences, were determined to be more beneficial in person than online, as they involved sustaining relationships, and are therefore likely to be key elements of the return of business travel. While global activities may differ between businesses, Skylark believes that LHR is better placed to handle these long-haul passengers than other UK airports due to its network.

LHR has the largest share of long-haul operations of all the major UK airports, with half of all flights departing the airport being to long-haul destinations in 2019 as shown in Figure 4-4. Combined with the high proportion of foreign travellers using the airport, this demonstrates LHR’s status as a global hub and its reliance on the global travel industry. Because of its wide spread of long-haul routes, the airport is more exposed to changes in global travel restrictions, especially to regions that may have higher numbers of Covid-19 cases, and less extensive vaccination programmes than the UK and Europe.

Figure 4-4: Proportion of Long-Haul versus Short-Haul Flights from Top UK Airports, 2019



Source: OAG

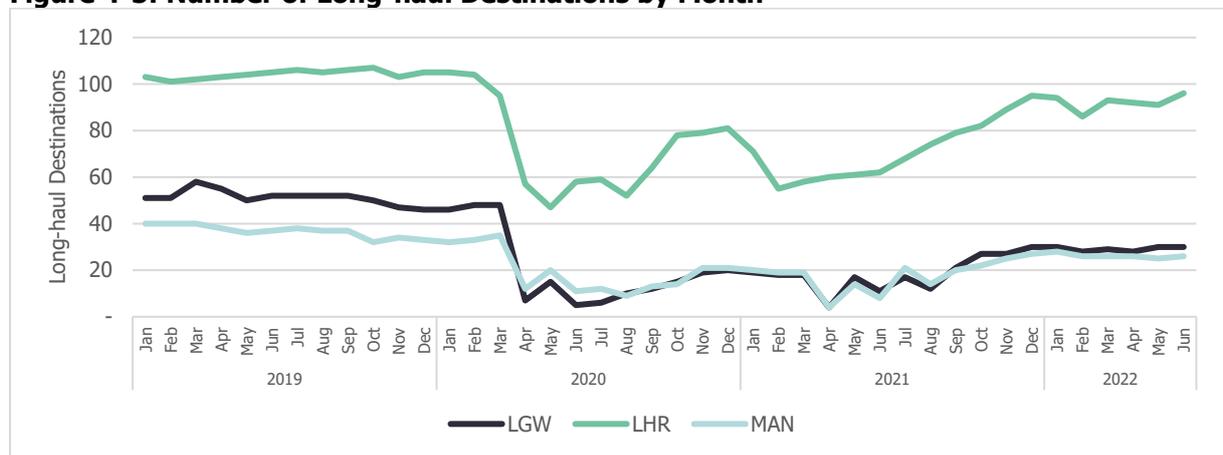
Note: Long-haul defined as routes over 5 hours in duration.

The number of long-haul routes operating from UK airports was severely diminished during the pandemic, as shown in Figure 4-5; however, LHR’s long-haul route network has recovered well, with

94 long-haul routes being served in January 2022, representing a 91% recovery of destinations compared to January 2019. This is in stark comparison to Gatwick Airport, which saw services to just 28 long-haul destinations in January 2021, representing only a 55% recovery to 2019 levels. This is due to consolidation of the long-haul network, with airlines shifting capacity to Heathrow which is more desirable and profitable than other London airports.

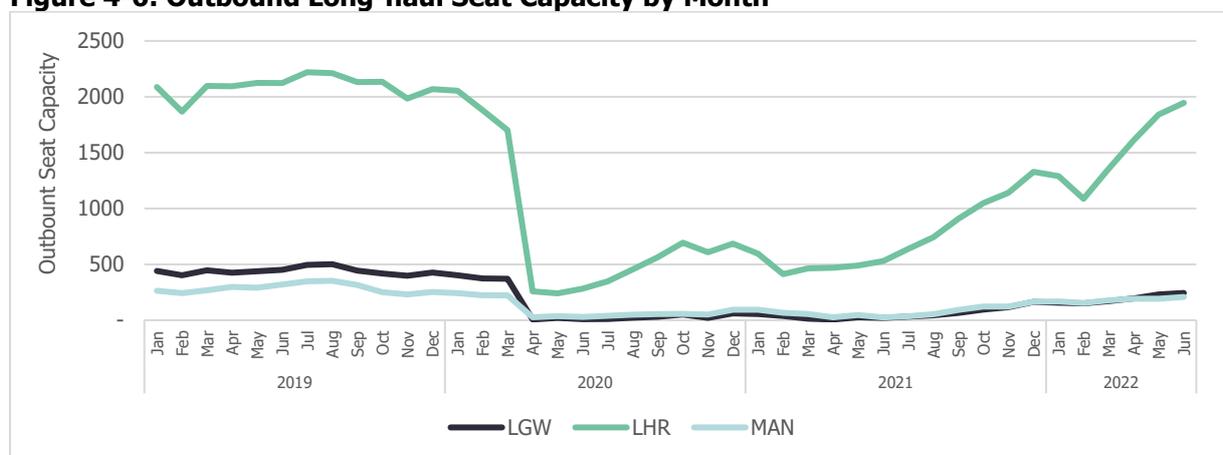
Figure 4-6 shows variation of monthly long-haul outbound seat capacity at Heathrow, Gatwick and Manchester airports over the course of the pandemic. Both LHR and MAN have demonstrated a stronger recovery than LGW, with outbound long-haul seat capacity in January exceeding 60% of 2019 levels seen at both airports, compared to 36% of 2019 levels seen at LGW in the same month. This further indicates that airlines are consolidating London capacity at LHR. Future schedule data indicates that Heathrow is on course to see long-haul seat capacity reach 92% of 2019 levels in June 2022. Although future schedule data is not always reliable and have continuously been optimistic during the pandemic, it does highlight a more promising recovery at LHR than LGW, with long-haul scheduled seats at just 54% of 2019 levels in the same month.

Figure 4-5: Number of Long-haul Destinations by Month



Source: OAG
 Note: Future schedule data may be unreliable.

Figure 4-6: Outbound Long-haul Seat Capacity by Month



Source: OAG
 Note: Future schedule data may be unreliable.

As a result, while LHR is exposed to a greater level of risk from global travel restrictions and variations in vaccination rate against Covid-19 due to its large route network, the airport is likely to

attract business travellers in the coming months of recovery due to its strong mix of short and long-haul routes and the high capacity and expansive breadth of its long-haul route network compared to other airports in London and the UK.

4.4 Conclusion

As the UK's largest airport and a major European hub, LHR's business traffic recovery from the Covid-19 pandemic is likely to follow a different trajectory compared to other UK airports. Following the analysis in the previous sections, Skylark expects the proportion of business travel at LHR to reduce. LHR may subsequently suffer a lower comparative traffic dip than more leisure-focused airports due to its high proportion of business travel.

Flying from LHR may be more attractive for business travellers than other airports due to superior network connectivity and a greater number of frequencies combined with high level of service offered by the FSCs. This is despite FSC fares generally being higher than the LCCs operating to the same destination at other airports. Additionally, given its unique business-focused strengths, including airport accessibility and service, and dominant long-haul network, the reduction in business travel is likely to be less severe than at other UK airports. Skylark believes that this conclusion extends more generally to major European hub airports whereby they gain market share in their respective airport systems as in difficult times, direct routes to marginal regional airports are withdrawn and airlines rely on transfer through the main hub. Additionally, airlines that have been pushed out of LHR or other European hubs can now return to some extent given lower overall traffic levels, keeping hubs full at the expense of regional airports.

5 Skylark Interviews

Skylark sought out individuals at a wide range of businesses to avoid over-emphasising behaviours and trends in a particular sector.

Senior Management at an international manufacturing company

The company has approximately 600 employees based around the world. Specifically, they operate in North America, South America, Europe, and Asia. Historically, travel was very important for the company. Whilst they already used video communication software, senior management would meet in person once a quarter, and in-person marketing trips and trade fairs were very important to the company. The interviewee noted that not being able to attend such events and trips in person has impacted company performance, and so travel will almost certainly return for those purposes. However, less important meetings will likely remain online, largely due to the lack of necessity to travel and the costs. Therefore, travel for the company will decrease compared to pre-pandemic levels. Environmental considerations did not appear to be a factor.

Chief Sales Officer and prospective CEO at Roland Corporation

Roland Corporation is a musical instrument manufacturing company, employing approximately 2,900 people across Europe, North America, South America, Japan, Malaysia, China, and Australasia. Business travel has historically been vital for company operations. It is especially important for internal and external relationship building and maintenance, as well as for tradeshow, client meetings, management meetings, negotiations, and training. Business travel has already resumed, primarily to the US and Europe, with plans to resume travel to Japan and Malaysia pending the removal of travel restrictions. Reduced business travel has affected the company performance, and so return to travel is being actively encouraged. The interviewee stated the impact on performance was a result of the inability to properly train employees and the inefficiency of online communication methods, especially for product development. The key change to business travel in the future is an emphasis on ensuring the trip will “add value to the company”. Resultingly, the company intends to encourage employee to travel less often but for longer. However, the interviewee noted a general nervousness from employees to resume international travel due to health concerns. Whilst employees have always used video conferencing, the interviewee noted it cannot replace face-to-face interactions in terms of productivity and innovation in such a creative industry. Increased air fares do not appear to be a deterrent to resuming travel.

Executive at a large pharmaceuticals company

The company employs approximately 8,000 employees and has a global presence. The interviewee stressed the historical importance of travel for the company, especially for meetings, conferences, and product development. However, in addition to only conducting a very limited number of business trips during the pandemic, the company has reduced the travel budget for 2022 and the foreseeable future to a third of pre-pandemic levels. Specifically, the respondent requested a budget for 13 short-haul and two long-haul trips in 2022, which was reduced to two short-haul and only one long-haul. Additionally, most of the company meetings have permanently moved online as many individuals are working from home. The company now believes travel is less important and only necessary in exceptional circumstances and will not affect productivity, and believes most pharmaceutical companies have responded similarly to the pandemic. This decision is irrespective of sustainability considerations as business travel is not a large part of the company’s carbon footprint, so there is not much pressure currently to reduce business travel levels.

Senior Executive at a boutique law firm

The company has 10-12 employees. They operate globally, with a particular focus on the US, Europe, the Middle East, the Far East, and Africa. The interviewee (previously a senior lawyer at a major, multinational law firm) highlighted the importance of business travel for the company, especially for business development, conferences, and court proceedings. After ceasing travel during the pandemic, the company expect travel to increase in 2022 compared with 2019, with a higher travel budget as well. Thereafter, travel is anticipated to return to typical pre-pandemic levels. Although concerns of the uncertainty surrounding travel restrictions in the future was expressed, the interviewee and the company view travel as a central part of operations.

A Director and a Marketing and Sales Executive at TOA, an electronics company

TOA has approximately 3,300 employees. The company is based in Japan, but has regional offices around the world. Historically, the company travelled for project work, events, exhibitions, intra-company meetings, visits to research and manufacturing facilities, and site visits. Due to the nature of the business, some travel was required during the pandemic. Travel for client visits and site visits have already resumed, as well as small in-person events and training. The interviewees noted that online events have not felt as successful online, and so travel for tradeshow and events will likely resume. However, they will likely have fewer intra-company face-to-face meetings.

Investment Banker at a major investment bank

The company employs approximately 5,000 people in offices across Europe, the Far East, and the US. The interviewee stressed the historical importance of travel for the company, specifically for internal strategy meetings, carrying out projects, and client acquisitions. Typically, the interviewee made three or four business trips each month. Travel has already resumed, but only at approximately 25% of pre-pandemic levels. However, due to the technological advances made in video conferencing technologies, the interviewee stated they "would not be surprised if [the bank] were planning for 50% or less of pre-Covid-19 levels" of travel. The C-Suite executives in the company will likely resume travelling whilst the more junior staff will rely on online communication. Additionally, the length of trips will likely be extended to make them multi-purpose, in order to increase the value of each trip and reduce the frequency of travel. Increased air fares do not appear to be a deterrent to resuming travel.

Chairman of a charity working in health and social welfare

The charity has 11 people on its Board of Trustees, with approximately a dozen volunteers, as well as many partners in Eastern Europe and Central Asia. Historically, travel has been very important for the organisation, with company trips typically once every two years as well as groups trips to the London office 10 times a year, primarily for conferences. Additionally, volunteers travel throughout the year. All travel for the company ceased during the pandemic, with conferences held online and project visits replaced by more regular online communication with grantees. The organisation plans to resume business travel in 2023 as a lot of their work relies on networking, with high value placed on face-to-face interactions. The interviewee noted that increases to air fares and the impact of Zoom and Teams could potentially influence the return to business travel. Increases to air fares are particularly pertinent given that as a charity they are more price sensitive than other organisations.

Chair of the International Transport Workers Federation and President of the Global Air Traffic Controller's Alliance; also an Operational Watch Supervisor at NATS

The interviewee's business travel primarily centres around attending conferences and events in the UK, US, Canada, and Europe. The interviewee stressed the importance of business travel, stating "there is no alternative for face-to-face interactions", especially for relationship building and

maintenance. Additionally, they believe that whilst some aspects of work can be substituted with video conferencing, hybrid meetings are not effective, even stating that “losing the face-to-face relationships was cataclysmic” to their work during the pandemic. However, they noted that rising air fares could hold back business travel. Nevertheless, they stated that NATS are anticipating a return to approximately 90% of 2019 traffic levels by summer 2022.

Chief Operating Officer at an international footwear and apparel brand

The company employs approximately 700 employees, and operates across the US, Canada, Europe, Asia, Australia, and New Zealand. The interviewee stressed the importance of travel for the company, highlighting their need to visit their various stores and offices, as well as tradeshows throughout the year. Whilst the employees did not travel over the pandemic, they have already resumed travel in the US, planning to travel at 60% of their 2019 levels in 2022. By 2023 they anticipate the travel budget to be back up to 80% of 2019’s budget. As a result of changing practices during the pandemic, the company believe that some functions can be performed just as effectively through virtual tools. However, they believe they cannot recreate their strategic planning and relationship building virtually. The company have a public stance on sustainability where they strongly control their air travel.

Executive at an international economics consultancy

The consultancy has approximately 300 employees, with offices in London and six European countries. Due to the global nature of the company, business travel is very important. Historically, the company travelled for internal meetings, client acquisition, conferences, company-wide meetings, and networking. A limited number of business trips were made during the periods of the pandemic where restrictions were lessened. The interviewee noted the negative impact of the lack of business travel on completing some projects and acquisitions, and so travel is anticipated to resume and gradually increase in the coming months. Whilst they offset their carbon emissions, the interviewee noted they have to cater to their client wishes. Some clients are anticipated to be more willing to use video conferencing after the pandemic. However, many viewed it as a “poor substitute for faces”, so business travel is expected to rise to 80% of pre-pandemic levels, likely with longer trips made less frequently to reduce the need for more trips.



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