Planning for an uncertain future:
How airlines and hotels can prepare for an economic downturn
American football made the forward pass legal in 1906, but its first practitioners used a rugby-style “shovel” toss. A year later, the Carlisle Indian Industrial School tried something different: an overhead spiral throw that permitted more distance and accuracy. That one innovation set one team apart from the rest—for one season. When the spiral pass became popular, it became ordinary. It still worked as intended, just as it does today. But no one thinks of it as a competitive differentiator.

So it is with recessions: Even the businesses that did a superior job navigating one downturn may find the same strategies and tactics won’t be as effective when another downturn looms.

With strong signs that another downturn may be on the horizon, the airline and hotel industries are facing that challenge right now. Some companies made bold moves 10 years ago when the global downturn put them at risk. Many of those decisions, such as certain cost-cutting and structural changes, are ones you can make only once. What tactics can these companies embrace now to emerge strong this time?

One of the biggest advantages airlines and hotels have now is time. With foreknowledge, they can make investment choices now that they might not have the time or flexibility to make later—ones that can help see them safely through trouble ahead.

But they have to approach this opportunity as a new game. As a potential new downturn looms, companies need to think through not only which investments they’ll make, but how their priorities might shift. Last time out, the focus was primarily on cost reduction as a means of survival. Where
prices and higher-than-average P/E ratios may have a dampening effect on consumer confidence and spending. Meanwhile the Federal Reserve is tightening credit in ways it hasn’t in years, and sustained low unemployment carries its usual threat of inflationary pressure.5

Ironically, these clouds are gathering just as the lingering constraints from the last downturn have dissipated enough to give policy makers room to maneuver on long-term development issues. The World Economic Forum notes that policy uncertainty, rising debt levels, and trade wars may have a braking effect on trade and investment around the world.6

Other signs of potential slow growth are on the horizon. Deloitte economist Ira Kalish7 points out that many downturns in the last 30 years came downstream of Federal Reserve moves to increase interest rates—the rate hikes exposed structural problems in financial markets, then panic selling drove down asset prices and caused a seizing up of credit market activity. The first link in a repeat of that chain is already in place, although there is speculation that rates will be reduced. Kalish also notes that about half of US investment-grade debt is rated BBB, or just above junk status, while nonbank lending to corporations has risen sharply. Low-quality debt coupled with liquidity issues could have a negative effect on credit.

Right now, it looks as if US deficit spending and loose monetary and credit policies in China will allow the current global expansion to continue for a while.8 But projections that US growth will slow, along with the protectionist trajectory of global trade, make the outlook for 2020 and beyond less bright.9 Layered on top of that outlook is the political uncertainty associated with an upcoming presidential election.

As Deloitte’s Kalish observes, this economy will soon become the longest bull run in history. The average post-war economic recovery has lasted eight to nine years—and when bull markets die, it isn’t of old age. Instead, they become increasingly fragile and sensitive to numerous market factors. The next downturn is a matter of when, not if. What form will it take—and why does the answer matter for the hotel and airline industries?

The travel and lodging sector often feels the impact of a recession more deeply than the rest of the economy. When US GDP contracted by 2.8 percent in 2009, overall travel expenditures in the same period shrunk by almost 9 percent, or about three times as severely.10

Depending on the way a new downturn unfolds, the landing for hotels and airlines could be hard or soft. The soft version would likely retard topline growth and compress margins. The hard version would be more traumatic. But in either case, stakeholders in large enterprises with long planning windows—such as hotels and airlines—have a responsibility to prepare for the least attractive case.

Planning to endure a downturn is only part of the mandate. Anticipating the world that will emerge from it, and positioning to perform in that new reality, is also something that should happen now.

In addition to large-scale uncertainties such as the effect of tax cuts and trade policy, in particular trade tensions, there are other specific indicators of tough times ahead.

A flattening yield curve that finds short-term treasury bills outperforming long-term ones is historically an indicator of recession, and that’s been the recent pattern. Rising asset M&A deals happened, they were driven by scale and efficiency. Heading into a new potential down cycle, companies have different options, and their investments and deals can be more forward-looking. Cost-efficiency is still in the mix, but the moves they make today can also aim toward long-term growth.

While each airline and each hotel company will have to make its own decisions, there are four key strategic pillars that can help focus a company’s pre-downturn investments for resilience and long-term strength. This combination of enabling and strategic building blocks can provide a foundation of technology, talent, and operational capabilities that withstands the difficulty ahead. But first, it’s important to look at what’s on the horizon.

Forecasting the next downturn

“An increasing set of indicators point to a more challenged macro situation, which could ripple through the economy to the consumer: A future recession is nearly certain to occur.”

– Deloitte US Economic Forecaster Danny Bachman

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Lessons from the past
If present-day correlations point to trouble ahead, airlines and hotels can take a cue from another, more encouraging one: Smart steps offer more than mere survival. Companies that perform well in recessions tend also to be companies that perform well over the long term. That point puts an additional premium on the steps these companies take right now. Let’s take a more detailed look at how each of the two industries fared previously.

Airlines
Since the turn of the century, US airlines have matured significantly due to multiple restructurings and consolidation, but the industry we see today remains cyclical because its fortunes rise and fall with both corporate and discretionary spending and a close tie to the overall economy. As a general case, when companies and people have more money to spend, airlines prosper. When the economy contracts, so do they. Drilling down to particulars, corporate and discretionary spending is only one driver of travel demand, and the industry also responds to specific inputs such as capacity, utilization, and yield.

In addition to the rise and fall of the economy, other factors make airlines different from other industries, even within the larger travel and leisure space. Their fixed costs are high—including not only the large expense of jets themselves, and their operation and maintenance over a life span of decades, but also the large labor expense that goes along with running such a mechanically and logistically complex enterprise.

Airlines are also particularly susceptible to “black swans” and other events beyond their control, such as terrorism, political unrest, trade disputes, or natural disasters. Sometimes these effects are localized, as with a severe storm or a regional conflict. Other externalities hit the industry globally. Following the September 2001 attacks on the United States and the subsequent shutdown of air travel, the US airline industry took losses totaling about $7.7 billion despite receiving direct aid from the federal government.

What airlines did last time
The Great Recession that began in 2008 was, in some ways, a combination of cyclical economics and external events. As demand and revenue declined sharply, carriers turned to a handful of key strategies:

• They consolidated to increase scale and enhance efficiency, usually domestically or within a region
• They tuned their fleet strategies to accelerate the retirement of planes with the highest operating cost, cut regional capacity as contractually allowed, and evaluated the mix of owned and leased assets
• They unbundled services to increase ancillary revenues

Like Carlisle football’s spiral forward pass, some of the levers that worked during the 2008 recession no longer offer airlines an advantage. Others may work again, but only if approached from a different angle. For example, where M&A helped previously, global regulatory hurdles will make major consolidation difficult and increase the complexity of synergy capture, and M&A in a new downturn may have more to do with acquiring new capabilities such as analytics. Other tools will be hard for some carriers as well: Current corporate debt levels and interest rates suggest more borrowing is not an obvious solution, and overall balance sheet composition will vary by company. There are fewer moves left to make in fleet strategy, owing to the long life spans of aircraft.

What are the steps airlines and hotels made during the last downturn? Which of those options are no longer viable, and which ones remain potentially useful in dealing with the next one? Figure 2 on the next page summarizes the ways they approached several categories of action.
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Figure 2. Key strategies airlines and hotels used to navigate the Great Recession

<table>
<thead>
<tr>
<th>Reshape business profile</th>
<th>Cost management</th>
<th>Capturing incremental revenue</th>
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<tbody>
<tr>
<td><strong>Consolidation</strong></td>
<td><strong>Fuel/Oil prices</strong></td>
<td><strong>Capacity changes</strong></td>
</tr>
<tr>
<td>Went from ten significant airlines in 2000 to four major airlines in 2015, resulting in the top four airlines now controlling 80 percent of the market(^{15})</td>
<td>Managed costs using a variety of levers (financial hedges, vertical integration)(^{21})</td>
<td>Cut capacity at a faster rate than demand, increasing load factor and revenue per flight(^{14})</td>
</tr>
<tr>
<td><strong>Restructuring</strong></td>
<td><strong>Fleet strategy</strong></td>
<td><strong>Product offerings</strong></td>
</tr>
<tr>
<td>Used Chapter 11 to lower cost profile and restructure company balance sheets(^{16})</td>
<td>Accelerated the retirement and grounding of the most costly operating aircrafts, managed usage of owned vs. leased aircraft(^{22})</td>
<td>Debundled offerings to increase ancillary fee and segmented the aircraft with “Basic” and “Premium” Economy(^{25})</td>
</tr>
<tr>
<td><strong>Optimized real estate portfolio</strong></td>
<td><strong>Operations efficiency</strong></td>
<td><strong>Cargo management</strong></td>
</tr>
<tr>
<td>Some players disposed underperforming owned properties to optimize portfolio and achieve growth goals with limited capital investment at an accelerated rate(^{17,18,19})</td>
<td>Identified on property efficiencies with minimal customer impact(^{23})</td>
<td>Increased capacity for cargo and increase the types of cargo transported, driving 10-15% of revenue per trip(^{26})</td>
</tr>
<tr>
<td><strong>Asset-light approach</strong></td>
<td><strong>Overhead reduction</strong></td>
<td><strong>Bundling or unbundling offers</strong></td>
</tr>
<tr>
<td>Transitioned from owned to managed model to concentrate on what they do best: hotel franchising and management(^{20})</td>
<td>Reduced above property costs</td>
<td>Bundled to ‘disguise’ rates through creative offers, or to pursue unbundled ‘no frills’ fare transparency(^{27})</td>
</tr>
<tr>
<td><strong>Operations changes</strong></td>
<td><strong>Rate cuts</strong></td>
<td><strong>Compete on quality</strong></td>
</tr>
<tr>
<td>Lowered rates to capture demand and drive occupancy(^{28})</td>
<td></td>
<td>Emphasized added features to increase perceived value and win with price-sensitive consumers(^{29})</td>
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*The levers employed in the last downturn will not be fully available in the next downturn*

Legend - [Fully Available] [Partially Available] [Not Available]

Source: Deloitte Research
How did airlines invest effectively?
During the 2008 recession, in addition to cost measures and consolidation, top performers such as Delta and Southwest used a combination of owned plane investments, operational improvements, and customer strategies as ways to counteract the market’s decline.

Operationally, Delta’s 2008 merger with Northwest sparked a deep integration that improved operations and anticipated talent challenges. The airline also changed its cabin segmentation and offered premium food and entertainment options at the higher end.

Southwest used M&A, specifically the purchase of ATA, to expand into slots at New York’s LaGuardia Airport, setting the stage for expansion in the post-downturn recovery. The company also unveiled the boarding queue system that has since become familiar, while reaching out to cost-conscious fliers with its “Bags Fly Free” policy. Additionally, both Southwest and Delta met the recession with significant investments in the owned portion of their respective fleets.

In the summer of 2011, during the early days of recovery and prior to declaring bankruptcy, American placed the largest order to date of new aircraft—460 fuel-efficient planes, split between Boeing and Airbus—and obtained significant financing from both manufacturers as part of the deal. In late 2018, United announced its plans to expand regional coverage by acquiring a stake in ExpressJet, a deal that is slated to include the purchase of more than 130 new aircraft.

Hotels
Like airlines, hotels are unusually susceptible to economic cycles, geopolitical instability, and unusual events such as terrorism or disruptive weather. They also have analogous choices to make about ownership of capital assets versus other arrangements, or about how to structure services and fees. Some of these similarities are borne out in the way the two industries reacted to the most recent global recession, but the strategies that marked top performers are different.

Hotels are on a hot streak—a decade-long run that has coincided with the restoration of macroeconomic health. Many brands have embraced the franchise model and moved from a reliance on property ownership to property management, a change that has reduced total revenue but reduced property-related costs even more, resulting in a net gain in profit margins.

How did hotels invest effectively?
The hotel companies that outperformed the rest of their industry in the last downturn did not do what the top-performing airlines did. They did not ramp up their capital investments in tangible property. Instead, they embraced an asset-light strategy that made them less dependent on discretionary consumer spending and made their fee revenue more stable and recurring. Other hotels that had a more asset-intensive strategy took the brunt of the financial cycle as asset prices fell, liquidity dried up, and risk aversion tightened.

The leading performers among hotels disposed of real estate assets and applied the resulting capital availability to quality investments. For example, IHG committed to a billion-dollar relaunch of its flagship Holiday Inn brand in 2007, while Marriott refreshed properties and offered new technology and amenities to guests. Marriott was also among several brands that sought to drive loyalty with new offerings; its “RejuveNation” promotion attracted weekend stays, while other companies launched new brands geared to specific lifestyles.

Another Marriott decision was to embrace long-term management and franchising contracts that made earnings more stable and predictable while making it easier to add new locations with limited leverage.

The trend toward real property divestiture is a broad one. Accor sold $5.4 billion in real estate in 2018, Hyatt plans to sell $1.5 billion worth of property in the coming three years, and Marriott plans a similarly sized divestiture in connection with its Starwood merger. All three companies have earmarked the proceeds from those sales to use in growth and market expansion.

The lessons of 2008
In broad terms, top performers in both industries took proactive measures while employing typical cost transformation levers during the downturn to drive long-term performance. If their experience teaches a lesson for use in the present day, it is that companies should look for opportunities to make smart capital decisions now, on what may be the cusp of a new downturn, if they hope to enjoy similar returns after it hits.

The evolution of technology can help guide some of those capital decisions, because there are tools available today that weren’t “ready for prime time” a decade ago, such as cloud and automation. Today these areas can be the focus of investments aimed at productivity, not just solvency. At a time when productivity gains have slowed because of changes in customers, operations, and talent, and when debt may no longer be an avenue to extra cash, new tools may help build new value from the inside out.
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Working in concert, these are investments that can strengthen any organization and make it more resilient against a variety of shocks. Let’s look at this structure in detail and examine how the strategic pillars of customer loyalty and operational flexibility and responsiveness are facilitated by investments in the two enabling pillars.

Applying the lessons: How to prepare for the next downturn

History teaches that proactive investments combined with typical cost transformation levers are a common factor among companies that perform unusually well in the aftermath. Smart decisions now can pay off later, and “now” is a fleeting window. The cash available now for investment use may be fleeting too. There are times when the No. 2 “fast follower” is a smart position to seek. This time is not one of them. Investment gains may go only to those who move earliest.

Once you’ve decided to act, the next question is: What are your targets? Which investment priorities will help prepare today’s airline and hotel companies for the next downturn and beyond?

There are four pillars to downturn readiness: two enabling ones and two strategic ones (see figure 3).

- The enabling investment pillars are next-generation talent models that position a workforce to meet tomorrow’s demands and data-driven decision-making that an organization can use to pivot more quickly and accurately.

- They set the stage for the two strategic pillars: customer loyalty that focuses on retaining customers with the most value and operational flexibility and responsiveness that equips a company with an elastic ability to respond to market and competitive challenges.

Customer loyalty

“We know you have a choice when you fly . . . ” Well, fewer choices than there used to be. But both airlines and hotels still depend greatly on building relationships that drive repeat business. Loyalty drives more segments and more stays, it fuels word-of-mouth promotion, and it helps channel more business through customers a company has already paid to attract while relying less on the expensive-to-attract new customer.

Accordingly, both airlines and hotels have made major investments in customer experience (CX). But among all industries, they rank 29th (airlines) and 37th (hotels) out of 43 in customer satisfaction. Among individual companies across all industries, 4 airlines rank in the bottom 10. It takes cost and effort to build a loyal customer, and it can take only an instant to lose one. Data indicate one out of three consumers are willing to abandon a brand they love after a single poor experience.

All of these considerations amplify under the threat of a downturn, when hotels and airlines will need their loyal customers more than ever, and new customers will be harder to come by. When margins tighten, loyal and repeat customers deliver a critical boost in ROI because it costs less to attract and serve them—that is, if the right investments in customer experience have already been put in place before the downturn starts.
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It is common knowledge that it can be six to seven times more expensive to acquire a new customer than to keep an old one. There is no shortage of evidence that treating people right pays off: Customers who experience a positive interaction with a travel brand will remain customers for an average of five years longer than customers who have had negative experiences, and customers with the best past experiences spend 140 percent more than ones who have had bad ones. An increase of as little as 5 percent in customer retention can increase profits by as much as 25 percent.

How can hotels and airlines bring home rewards like those results as part of their downturn survival strategies? First, go where the customers are. People's research and buying habits have gone digital, so investments in digital customer channels set the stage for the engagements that will nurture loyalty. And, as in other areas, it can pay to look outside the industry. With the right engagement and relationships, a consumer’s spending on travel and lodging may become regular and habitual instead of feeling discretionary—which can be a make-or-break distinction when people are facing their own recession-era belt-tightening.

A system that identifies and creates positive customer interactions is built around a number of key elements.

Define value. If tracking metrics is always important, it's doubly so in a downturn. The difference between acquisition and retention costs is familiar in principle—but what are your acquisition and retention costs? How can that knowledge inform your customer segmentation and outreach, and what are the thresholds for considering the return on those efforts to be worth the investment? Armed with these and similar answers, a travel brand can not only modulate its own practices, but it can also identify ecosystem partners whose profiles make them good choices for collaboration.

Know who drives value. Every customer has his or her own personal ROI to an airline or hotel. For many travel companies, a minority of customers drive the majority of revenue. Knowing who they are and how their behaviors and preferences differ can help a company allocate its efforts more profitably. Coupled with digital tools, this knowledge can arm front-line personnel with information that guides on-the-spot customer interactions.

Create value through experience. If you have identified who your high-value customers are, how do you pivot to make them happier? Connecting the dots in their travel histories can help companies craft personalized or uniquely responsive offers before travel, while helping to create special touches during travel that make moments matter. They may be more willing to repeat a trip they enjoyed in the past, or act as word-of-mouth ambassadors to encourage others to follow in their footsteps. It takes multiple touchpoints to engage with customers this way, and the opportunity can extend beyond the flight or the room if companies reach out to engage a traveler's entire ecosystem of air, hotel, dining, experiences, ground transfers, and even online travel-booking companies.

Track and enhance value creation. A down economic cycle turns up the heat on this kind of customer engagement—it goes from an ought-to-have to a must-have. That change makes it important for hotels and airlines to be able to measure their efforts and their outcomes. Understand the ways travelers engage with your brand, as well as the ways they engage or promote it in other places such as on social media. Monitor their satisfaction so you can be quicker in addressing it, whether positive or negative (and know that left unaddressed, negative experiences linger longer in the consciousness). With enough sensory input on a brand’s customer outreach, it can work toward predicting behavior—an ability that can be adjusted and refined over time.

A common thread in these opportunities to enhance business decisions and operations throughout the customer journey is the use of data—from exploration and comparison shopping through purchase, use of the service, and loyalty-building. In each of these areas, hotels and airlines can make decisions that are more effective, more informed by the specific situation, more future-focused—and much faster—than before. The impact of data goes beyond improving tasks that have always taken place. It also allows for new opportunities, especially in customer engagement and operational flexibility.
**Operational flexibility and responsiveness**

Weathering a downturn and coming out strong on the other side is an exercise in being flexible. We all know the fable of the oak and the reed. Building a stance and capability set that keeps the company responsive can help airlines and hotels adjust not only going into an economic cycle, but during it. This approach takes an elastic model that is open to new inputs and able to respond quickly to market fluctuations and competitive disruptors. In creating such models, airlines and hotels have a chance to add value to both assets and operations.

**Building the elastic model.** Where are you strong? Where must you become stronger? Where are the points where you can bend, what are your potential breaking points, and how can you turn more of the latter into the former? Preparing an organization to be more flexible starts with rigorous self-assessment. It also takes external awareness—flexibility isn’t effective if you don’t know what you’re reacting to. A robust listening mechanism can help companies know what competitors are up to and detect relevant trends in time to meet them head-on.

**Continue to build flexibility and responsiveness.** To retain the ability to maneuver once a down cycle has begun, airlines and hotels should make these capabilities part of their DNA. And while they sound like similar terms, they are two sides of a coin. Flexibility is how far you can shift. Responsiveness is how fast you can shift.

Where should flexibility and responsiveness apply? Ideally everywhere, but it makes sense to focus efforts on major cost drivers. For airlines, that means fuel, labor, and marketing.\(^47\) For hotels, the focus is labor, utilities, and marketing.\(^48\) Some major brands are already at work: IHG has targeted $125 million in annual efficiencies by 2020,\(^49\) Marriott has reduced its third-party commission rate from 10 to 7 percent,\(^50\) and Hilton reported operating efficiencies of $1 billion since 2008 from sustainability programs.\(^51\)

**Target both assets and operations.** On the asset side, elastic models can help balance fleet and owned aircraft mixes to serve changing route demand more efficiently, while hotels can find analogous efficiencies in their mix of owned, managed, and franchised properties. Flexible, responsive asset management can help an airline know which planes to park before end-of-month reporting. Even little things can add up: for example, booking rooms near each other when occupancy is low so it’s more efficient to clean them, leveraging analytics to prioritize quality evaluations, or using third parties for support services such as evaluation and accounting.

On the operations side, there are still more opportunities to add recession-resistant strength. Process automation and cognitive tools can drive not only short-term savings but also overall performance and speed over the longer term,\(^52\) while creating new data that feed continuous improvement and even analytics opportunities. Service and speed in property management and reservations can improve through the use of the cloud. Asset tracking becomes sharper and quicker with Internet of Things (IoT), while IoT-driven biometrics can speed screening and check-in. And using predictive analytics, a travel brand can detect that a potential customer is shopping for a trip even before he or she begins an actual booking process. This knowledge could be helpful with younger travelers, who tend to do more online research but book less far in advance.
**Next-generation talent models**

It’s not only the work that’s changing. It’s also the workforce. Companies that hope to thrive through adversity have to look beyond adjustments to their existing talent paradigms and embrace entirely new models—ones that account for flexible roles, generational shifts, greater geographic mobility, the marriage of labor and technology, and more. The last time they made talent investments as part of a downturn strategy, they were primarily cost-focused. For the next downturn, talent investments can help support operating model and customer changes that fuel efficiency, effectiveness, and sustained growth.

To address key skill gaps and position talent for emerging needs, organizations should consider three key questions.

**What work can be automated?**

Automation isn’t an either-or question of “replacing” people with machines. Instead, the rapidly growing array of automation, cognitive, and artificial intelligence (AI) tools augments the workforce, creating capabilities different from what either people or machines can do alone. The need for human touch is not going away—in fact, human interactions with customers may become even more important as other touchpoints are taken over by technology.

That view can guide organizations as they decide where to apply the new pairing of people and machines. It also guides decisions about personnel and skill sets. Right now, technology is advancing faster than productivity—the two- to five-year average usefulness of a given skill may have run out before the end of an average job tenure of four-and-one-half years, which widens the skills gap and makes in-job learning more important. In today’s environment of low unemployment and scarce specialty talent, it may be difficult to summon the data and analytic skills that an augmented workforce requires, and it is likely that these skills will continue to be scarce in the next downturn.

Companies must also account for the rapidly falling cost of implementing technologies like robotics, cognitive, and even some AI applications. Capabilities that would have cost half a million dollars in 2008 can be had for about $22,000 today, and that change affects both technology investments and the headcount that complements them.

**Who can do the work?**

The rapid advance of data and technology is a double-edged sword. Using technology typically makes people and organizations more capable and productive. But understanding, implementing, and using the technology introduces new skill requirements that some organizations may struggle to meet—and the supply of talent is tight.

The Bureau of Labor Statistics estimated there were more than 1.1 million job openings in the leisure and hospitality sector in 2018, up from 353,000 in 2009. Yet even for an industry that has always had comparatively high turnover, the structure of the workforce has never been more flexible. In trying to meet their new talent demands, organizations like hotels and airlines can look across the entire Open Talent continuum, which includes not only full-time employees but also part-timers, contractors, freelancers, gig workers, and even crowdsourcing. If crowdsourcing critical technical support sounds outlandish, consider the front line of customer service for Apple products: It’s other Apple consumers participating in open forums.

If a downturn does unfold, it will likely have a chilling effect on talent mobility. People who feel less secure are less likely to move or change jobs voluntarily. There are also fewer traditional employees to turn over because 40 percent of the US workforce will be contingent workers by 2020. A resilient strategy to prepare for talent needs in a downturn should include investments that prepare for a more gig-based workforce characterized by temporary positions and short-term engagements—whether that takes the form of mobile and cloud technologies, physical workplace redesign, or whatever else will leave a company better able to reap the labor of people who don’t follow a traditional full-time employment path.
Where is the work done?
What are the options for virtual work, distributed work, remote work, and redesigning workplaces to be better connected and more productive for human essential skills?

Tourism already employs roughly 1 in 10 people in the global economy. An expanding industry will need even more people, which is a challenge considering low unemployment in the United States. To attract the people they will need in a more competitive labor market, travel companies should innovate to embrace the gig economy, the productive power of connectivity and mobility, and other things many individuals want from work.

For some companies, the answer may involve consolidating work in single locations or low-cost places as virtual, distributed, and remote work environments become more prevalent. The technology that permits remote work is only part of the challenge. It may be harder to get a handle on the “soft” attributes of new workplaces that allow people to foster human connections and productivity when they no longer work face-to-face. This strategy may be important to acquire scarce skill sets across geographies, as it is likely that these skills will remain in high demand through a downturn.

As airlines and hotels take on these new talent challenges in advance of potential economic doldrums, they can’t lose sight of the old ones. No matter what the economic weather, talent has to keep up with technology, and talent models have to keep up with the operating improvements technology makes possible. By taking all inputs into account, these companies can devise talent frameworks whose parts reinforce each other.

As the convergence of data, cloud, and AI accelerates, this time is an exciting one in the world of robotics and intelligent automation. Gartner predicts that the current global business value of artificial intelligence is $1.2 trillion and will grow to $4 trillion by 2022. More and more organizations are piloting automation, and many are expecting their service providers to deliver mature AI and automation services embedded in everything they do—workforce, strategy, operations, and technology.

As companies consider potential changes to talent models and workers’ roles and responsibilities, an important step is to ensure alignment with travel and hospitality unions. Doing so in advance ensures limited work stoppage and impacts to end customers.

Data-driven decision-making
Of course, organizations have always used “data” in decisions, going back to before the modern airline and hotel industries existed. What’s different now? Not only the amount and power of data, but also the stakes. Smart use of data and analytics can yield opportunities that didn’t exist before.

But failing to seize those opportunities can be gravely damaging, because whatever advantage you aren’t seizing, your competitors are.

Once in operation, data-driven decision-making tools show off blinding speed. But that benefit doesn’t mean putting them in place is fast. If an improved data and analytics regime is going to help buoy an organization’s performance in the next downturn, the steps to create that regime need to start now.
Supporting customer engagement
The data that customers and customer interactions generate can circle right back and enrich those experiences the next time, building satisfaction and loyalty in the process. Airlines’ frequent passengers can enjoy personalized in-flight experiences based on collected data, as well as route recommendations or targeted promotions based on previous trips and preferences. Hotels can welcome guests with preferred items waiting in their rooms, or provide a direct, personalized—and therefore effective—response to a complaint about a past stay. Just note that value-adds like these benefits are more likely to require multiple investments applied in a coordinated way.

Travel companies can look outside the industry for examples of this digital approach to customer engagement. Sephora, the makeup and skin care retailer, uses data and digital channels to personalize its customers’ experiences through “virtual try-ons,” community forums, voice-powered skin care advice, and the use of profiles to recommend products. The brand’s mobile app even converts automatically to a “store companion tool” when customers approach a retail location. Travel and cosmetics may not have a lot in common, but they’re both industries built around growing share of total customer wallet. How can hotels and airlines borrow some of the same practices?

Supporting operational flexibility
When data drives decisions, airlines can speed aircraft turnarounds through better management of flight times. IoT can automate the detection and handling of maintenance issues, to the extent that an aircraft in flight can “request” a needed spare part that will be waiting for it without human interaction.

In both the airline and hotel industries, both of which rely so heavily on goodwill, data can enhance operational flexibility by improving customer interaction and issue resolution. Strengthening operations with data is another area in which non-travel companies may have insights to offer. For example, Amazon uses customer data to strengthen and streamline its supply chain. Most people have experienced the company’s product recommendations—“People who bought X also bought Y”—but fewer may know about anticipatory shipping that uses customer buying patterns to position merchandise in local distribution centers, or its use of analytics to find the warehouse that represents the most efficient midpoint between a vendor and a customer. That practice is estimated to save Amazon between 10 and 40 percent on shipping costs.

Data-driven decision-making in practice: Hotels
Hilton is using the Internet of Things (IoT) to help guests make temperature adjustments, stock their favorite beverages, and stream desired TV content, while IHG is deploying the same technology in hotel lobbies to push individualized, real-time offers to guests’ smartphones. Implementations like these give guests a rewarding way to interact directly with the franchisor while they’re on the property. Other brands are turning to voice-enabled virtual assistants. And, in a partnership with Buxton, Marriott is embracing predictive analytics in its effort to derive profitable insights from customer data.
Getting started
The three major questions this document aims to address are: What lessons can we apply from the last downturn? Is there a case for preparing to apply them now? And what does that preparation look like?

Figure 4. Three major steps to prepare for the next downturn

1. Go beyond the standard playbook
   What did we learn from the past? Most companies employed a standard playbook, but those that outperformed continue to invest in their business.

2. New levers require preparation
   Why prepare now? Many of the levers that helped hotels and airlines weather the previous downturn may not be as effective in a future cycle. The new playbook, while effective, requires preparation to implement effectively.

3. Ensure preparedness across the downturn pillars
   How can companies prepare? While most hotel and airlines will have initiatives in the four pillars, we recommend taking a fresh look at these holistically with a downturn lens (i.e., M&A for capabilities and partnership versus synergy and scale).

The four pillars we have identified—next-generation talent models, data-driven decision-making, customer loyalty, and operational flexibility and responsiveness—draw on past experience and current indicators to map out the kind of readiness that is likely to help airline and hotel companies weather a coming downturn. What’s left to determine is the path from theory to action. In a downturn environment, choices are critical and speed is indispensable.

It’s not only time to act; it’s likely a good time to act. Companies that survived the last 10 years have laid a foundation that today gives them the chance to solidify their financial positions and make well-chosen investments.

Making those choices starts with a conscious decision to go beyond the standard playbook (see figure 4). That decision point is where the framework we’ve identified comes into play—focusing on retaining top customers, creating operational flexibility, data-driven decision-making, and next-generation talent approaches.

Whatever investment strategy has guided you through recent good times, potentially including low investment or even divestiture, the data suggest this is a time to amass value for the future. And while every company has a “way we do things,” it’s often a mix of information, intuition, and emotion. As potential trouble looms, the stakes are likely too high to rely on intuition and hunches. Evidence and data can guide the critical decisions that must happen right now.

Bear in mind that in addition to the many specialized steps we have examined, the more traditional cost-reduction strategies that apply in a downturn may also apply here. They may be less effective the second time around, or they may apply in different ways—for example, using M&A to build skills and capacities rather than to drive cost efficiency. The new strategies are additions, not replacements.

Leaders whose companies went through the last downturn can take a specific, explicit look at what steps the companies took then and evaluate the results that ensued. The principle that “not every play from back then will work now” is a strong general case. But the specific case of your own company’s experience can make it stronger.

Lastly, take a look at current initiatives against the landscape of the four pillars defined here. It may be that elements of these strategies are already in place, and moving forward with the four-pillar approach can build on what’s already happening instead of disrupting it. When you look at each of the pillars holistically, and the four of them together, through the lens of an approaching downturn, the choices ahead will come into focus.
Planning for an uncertain future | How airlines and hotels can prepare for an economic downturn

Conclusion

The global downturn that began in 2008 left a record of strategies that worked for some leading organizations. The analysis here has sought to identify some of those strategies that may have some effectiveness left in them for a second go—as well as new ones that arise from the last decade’s changes in technology and market conditions.

Just remember that Carlisle football team. And they are remembered: The coach was Pop Warner and the star ball carrier was Jim Thorpe—both familiar names more than a century later. But neither would prosper in today’s game, because yesterday’s innovations are today’s assumptions.

There’s another element of the playbook to consider: errors of omission. What sports fan hasn’t looked back sadly on the hockey goalie who was left in the net a shift too long, or the relief pitcher who came into the game a batter too late? In travel and tourism, the move you regret not making is likely to be the enabling investment that would have provided a better foundation for the ones to follow. For example, adding streaming video or voice-activated smart speakers to a room is tangible and attractive—but only if the Wi-Fi is reliable. Tools that capture a new wealth of guest preference information are in vogue, but they are effective only if the guests can feel the difference on their next visit. Investments work better when they work together.

A capacity you’ll need a year from now is one you should be building today, if you don’t already have it. Making strategic investments requires identifying and earmarking the capital to be invested, which will only get harder if the economy makes things tighter.

Use the pillars here as a lens through which you view your own company’s portfolio of initiatives—and the ones it may be missing. To keep flights and rooms profitable to and through a potential downturn, use the new playbook to help add confidence to the investment decisions you make right now. And move ahead with less apprehension that the biggest call in the months ahead will end up being the one you didn’t make.
Planning for an uncertain future | How airlines and hotels can prepare for an economic downturn

Endnotes


10. Deloitte analysis; US Travel Association and World Bank information.


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