

The new normal customer: New decision criteria determine what airlines can do to adapt their revenue management, sales and distribution

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Travelling in times of Covid-19

Remember the good old days, when travelling was so simple? You just had to book a ticket and hop on the plane. However, the Covid-19 pandemic has fundamentally changed the criteria for travelling. Different factors are now important in determining the ability to travel and the willingness to travel. The impact is immense on the current revenue and sales structure. With at one point more than 80% decrease in number of flights and expected 55% decrease in passenger revenues¹, airlines are forced to adjust their sales and revenue management strategy. Therefore, a profound understanding of the change in the customer decision criteria is essential before defining and implementing the changes. As the situation remains volatile, monitoring and adaptation of the strategy is key.

People reprioritize what they really want – Personal factors determine the willingness to travel

Personal factors have always played a significant role in the willingness to travel. Especially income, attitude, degree of comfort desired (i.e. cabin, seat type), personal age (i.e. young, elderly) and flexibility needs have affected the decision process. However, these factors shifted during the pandemic. Nowadays health and hygiene factors become more dominant in one's decision process, since the desire to stay healthy even when travelling has become much more relevant. Also, additional cost of a Corona test at the destination and following the return journey, and flexibility to adapt to the rapidly changing situation play a more important role in the personal decision to travel.

The world is not as open as before – External factors determine the ability to travel

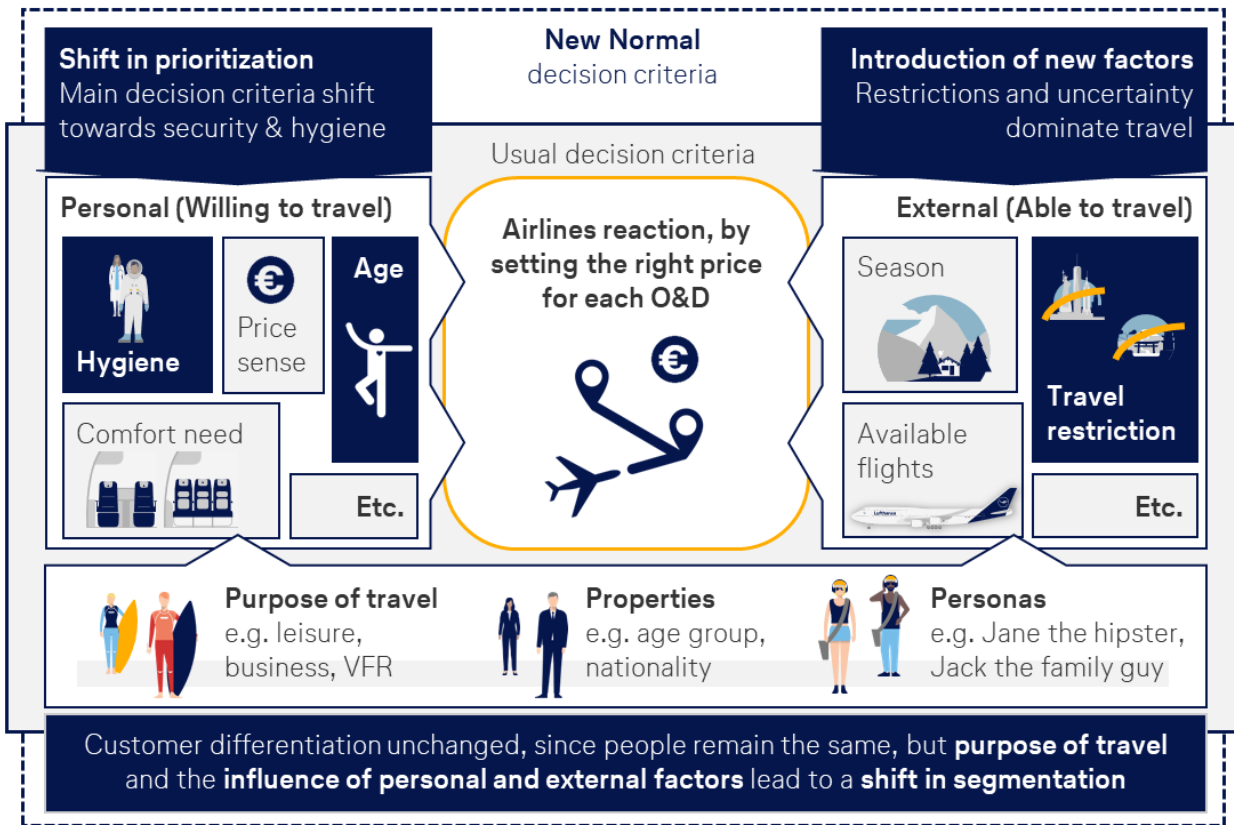
External factors, that determine an individual's ability to travel, have a much higher impact on travel than pre-crisis. These factors determine, if a customer is allowed to travel under these circumstances. There have always been external factors influencing the ability to travel, for example the availability of flights, the seasonality and time of travel (i.e. peak, off-peak) and in some cases visa restrictions (i.e. due to nationality).

With the Covid-19 pandemic, new factors arose and old factors became unpredictable, resulting in an uncertainty for travelers. Especially the entry restrictions at the destination (i.e. visa, travel insurance, nationality, Corona test, 14-days quarantine) and rules for returning to the place of origin (i.e. quarantine, Corona test) lead to a reluctance to travel at all.

The situation is made worse by a global state with the uncertainty about the status of each country or region to be classified as an area of risk by the country of origin. Also, the restrictions imposed by employers to travel to risk areas add to the uncertainty to travelling outside of the country of residence. Airlines in close cooperation with the International Air Transport Association and International Civil Aviation Authorities are trying hard to re-establish the trust and confidence in travel. These efforts have to be supported by clear and stable instructions from the authorities and the ability to do a Corona test pre- and post-departure without paying a fortune.

¹ Source: IATA

Figure 1 The 'New Normal' decision criteria (Source: LH Consulting)



But... people still want to travel – Understanding the shift in segmentation

The way customers are differentiated will not change, since people still remain the same, but there will be a shift in segmentation due to the changed environment.

The **purpose of travel** has changed during the pandemic.

Business travel has been significantly reduced due health concerns, altered travel policies and cost-saving virtual alternatives. Business customers can be now split into a “need-to travel” and “non-essential travel”, presenting new options. While business travel overall is much reduced, the remaining “need to travel” customers will most likely have a much higher willingness to pay.

Leisure travel is strongly dependent on the Corona restrictions. The changing government restrictions are often announced at short-notice and result in a volatility and uncertainty to travel abroad. Therefore, holidays cannot be planned in advance anymore, but rather at short-notice within only a couple days before departure.

Also visiting friends and relatives (VFR) are impacted by the pandemic, as the need to finally visit friends, family and relatives, to reunite couples in long-distance relationships or to take care of elderly parents have become more pressing over time. This drives also the willingness to pay, since the visits are needed and cannot be planned ahead as usual.

The “**properties**” determining the segments now get a whole new meaning in building them. For example, the elderly age group and therefore risk group in terms of Covid-19 might have a completely different willingness to pay for certain ancillaries than younger people. Another example is nationality, now determining on a much more granular level if travel is possible or not.

Even new **personas** might arise, that now value other qualities and have other priorities. These changes though take effect at an earlier stage and are more important for the product development, especially for ancillary development.

Airlines must react by adapting the revenue management strategy

Understanding these changes in the customer decision criteria is essential for the revenue management department. To react, the offer of an airline must be adapted. The following points are examples, for actions most airlines should introduce when restarting their operations.

Offer increased security:

As a solution to counterbalance these uncertainties, airlines can introduce carefree packages or travel insurances. A good example for a carefree package is the “Bring me home” policy introduced by Lufthansa to provide customers the stability to plan ahead. Also, the establishment of partnerships with insurance companies is an opportunity to generate additional revenue and to transmit a feeling of safety.

Ensure flexibility to rebook:

Almost all airlines have started to react towards the need for flexibility by eliminating changing fees on tickets to increase the flexibility to rebook their tickets. This must be balanced with the airlines need to secure their revenue, so that almost all airlines permit the option to rebook only in 2020 with flight date until the end of 2021². This is under constant review, as the global situation evolves.

Promote more space:

Furthermore, airlines can promote more space based on old and new ancillaries catering to that desire. For example, an upgrade or a free neighboring seat can be perceived as a measure to stay safe. Also, buying access to lounges can bring additional revenue and increase the utility as business traffic has dropped significantly.

Adapt the fare structure and rules to the changed willingness to pay:

Another priority is the adaptation of the fare structures and rules (i.e. minimum stay, seasonality, day of week). Each individual origin and destination (OnD) has to be understood in terms of customer segments and willingness to pay. Routes restricted by entry limitations are an opportunity for a higher yield as they are mainly driven by VFR traffic. Leisure routes instead are price-sensitive as customers have alternative options: one of them being to stay at home. Especially the steering of the flights 3 weeks before departure is essential as this uncertainty makes people book closer to departure. However, these changes have to be done with caution for the travel periods of the next 1-3 months. Important is the protection for travel further ahead. The period around Easter 2021 is a good example as people feel more confident in flying next year again.

Sales and distribution can also adapt to the new factors

Modify the contracts and incentives in the business segments:

The modification of the contracts and incentives for the business segment is essential to build back the trust of the customer. Companies have extended their policy to work from home, impacting the

² LCG research

demand from the business side for air travel. Therefore, tailored incentives for companies are a way to respond (i.e. free middle seat for company A).

Build up a partnership for the leisure segment:

Building up partnerships for the leisure segment is an opportunity to react towards the increased interest in packaged holidays. A joint approach with tour operators allows the possibility to react towards the uncertainty of traveling due to constantly changing rules.

Exploit VFR traffic:

Targeting the steady demand of the VFR segment is an opportunity with immense value to generate fast cash. VFR is more resilient to personal and external factors, since the travel is usually seen as a necessity and not dependent on a holiday budget or company policies. Additionally, the willingness to pay is higher than in usual times due to the lack of alternatives caused by a reduced overall network.

Embrace new technologies to strengthen direct channels:

Embracing the digital transformation at an even faster pace as before will give a competitive advantage. High volatility implies a demand for fast reaction, something classic distribution channels cannot offer. Using new technologies to expand and strengthen the direct channel (e.g. NDC) will help to test and learn how offers are perceived, what is needed by the customers and where the most revenue can be achieved.

Conclusion

Willingness to travel and the ability to travel change the decision criteria of the customer. Flexibility, reliability and speed in time to market are key to win customers in the new normal.

Therefore, the offer of increased security, the flexibility to rebook, the promotion of more space and the adaptation of the fare structure and rules according to the willingness to pay are key priorities for revenue management to adapt to the 'New Normal' Customer. The priorities for sales should be the modification of contracts and incentives in the business segments, the development of partnership for the leisure segment and the targeting of VFR traffic to adapt to the 'New Normal' customer segments. Distribution must extend the reach of the direct channel by further embracing digital transformation. Due to the constantly changing situation, Revenue Management, Sales and Distribution have to monitor and to review the change of the customer decision criteria regularly.

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