



The future of tourism with and potentially after SARS-CoV-2

Continuous small steps and drawbacks towards a temporary new “normal”

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This assessment draws from experiences in the following countries:

Australia, Austria, Bulgaria, Canada, Croatia, Bosnia, Serbia, Montenegro, Czech Republic, Finland, France, Germany, Greece, Italy, Japan, Malta, Netherlands, New Zealand, Poland, Serbia, Slovakia, Slovenia, Sweden, Switzerland, United Kingdom, Viet Nam

Introduction

SARS-CoV-2 keeps international tourism under the spell. After one report each on Government Responses and Business Responses as well as a first trend report in May this year, AIEST assesses with this report the current situation as of end of September 2020. At the moment, the situation is volatile, and the duration of the crisis cannot yet be conclusively assessed. Hence, any type of forecasts can only be made with limitations. Nevertheless: we try to give you an idea of the situation with the help of some considerations along the following questions:

- (1) Observation of travel and tourism in the past three months
 - a. *From a microscopic perspective: What changes in individual (travel) behavior have you observed in your country?*
 - b. *From a macroscopic perspective: What changes in the appearance of tourism and tourism related services have you observed in your country?*

- (2) Short and medium-term changes in guest behavior (next 6-12 months)
 - a. *From a microscopic perspective: What (additional) changes in individual (travel) behavior do you expect in your country in the next 6-12 months?*
 - b. *From a macroscopic perspective: What (additional) changes in the appearance of tourism and tourism related services do you expect in your country in the next 6-12 months?*

- (3) Long term perspective
In your opinion: What long term changes in individual travel behavior (microscopic) and tourism (overall; macroscopic) do you expect to take place? One could also say: what previous travel trends do you see terminated and what new travel trends do you expect to evolve?

We summarize the outcome of the discussion in the sequence of the above questions.

- (1) **Observation of travel and tourism in the past three months**
 - a. ***From a microscopic perspective: What changes in individual (travel) behavior have you observed in your country?***
 - b. ***From a macroscopic perspective: What changes in the appearance of tourism and tourism related services have you observed in your country?***

In short: Travel has been a function of possibilities, not preferences. A volatile regulatory environment challenged both individual travel decision making as well as entrepreneurial planning. The world was made aware of the economic damage that a large decline in tourism can cause.

The situation in recent months has indeed been exceptional. All were severely restricted in their travel decisions, partly due to their own health considerations, but also due to the volatile regulatory environment. One could say that all governments of the world have determined for their resident population where their travel could go to or which guest they were willing to accept. To put this more generic: exogenous conditions have been restraining most individual's endogenous potentials, including time and financial resources (determining, e.g. the manner in which someone spends discretionary time), travel interests (determining, e.g., the choice of destination), and other. Cynics would say that the world is now experiencing what it means to be "regulatory" locked up (as for example in the satellite states of the Warsaw Pact), deprived of basic mobility rights which have been seen as an achievement and given for eternity. Due to these restrictions, any type of tourism and tourist marketing for the foreseeable future must focus on domestic tourists.

As the recent past has shown, borders after the lock down phase have been opened between countries with similar risk profiles – and within greater political regions. Therefore, some travelling between different countries, especially in Europe, has been possible in recent months. But with Covid-19 cases, a new type of "border" appeared: regulatory constraints. Governments have been constantly changing regulation on rather short notice; regulation which notably severely changed travel conditions (e.g. quarantine regulations). That essentially made any planning difficult to obsolete. People were forced to make decisions at sometimes very short notice. The geographical perimeters were very limited and, for reasons of caution, for the most part only extended to the national borders or to countries bordering on a country. Consequently, domestic travel and travel within "travel bubble" (e.g. Baltics) replaced large shares of international travel. In several countries, vouchers for domestic tourism services doled out by the governments further propelled this behavior. Because of these uncertainties most service providers have changed to models of free rebooking or even reimbursement. Consequently, a reservation has become rather an informal expression of interest than a real and legally binding commitment.

As a result of the current situation, many tourist needs could probably not be satisfied. However, it is unclear how long and how strongly this lack of satisfaction will continue (informal inquiries show that the need for beach and party is stronger than ever before); this will probably depend on the extent and duration of the effective and perceived restrictions in the coming months as well as the individual economic outlooks. Provided that funds currently saved do not have to be allocated otherwise, a pent-up demand could lead to a post-pandemic boom in international travel. We thus can expect that there will be a certain degree of postponed demand for some of the missed-out travels. The destinations that profited from the demand in this period cannot expect a permanent structural change in their favor.

Coming back to the immediate past: in different countries, similar behavior could be observed.

When people would travel, they tended to retreat to supposedly "quiet areas" that allowed for social distance such as the mountains or the countryside including national and state parks in general, and less frequented beaches. Cities tended to be avoided due to unavailable

attractions and the fact that such places are crowded with people. This behavior has led to unprecedented demand in certain destinations; in others, especially urban destinations, the massive slump in demand continues.

Any form of public and collective transport was rather avoided, which gave the car or the campervan as a means of individual transport even higher market shares than usual. In an attempt to compensate for the loss of international visitors, renting companies lured domestic customers with low rates and other special. There were also significant shifts in the choice of accommodation: Own and rented second homes (including villas), camping/caravanning (as mentioned before) and rather smaller hotels gained at the expense of larger and/or upscale hotels, with lengths of average stay increasing. This development is most likely a direct consequence of a changed guest structure (higher share of domestic tourism during their high season). Moreover, many countries have incentivized to stay at domestic commercial accommodation by providing vouchers. With the slump in demand for cities, sharing types of accommodation also lost.¹ Last but not least, and not unexpected, due to the character of the season: outdoor activities were preferred over indoor activities.

In the course of this crisis, many tourist resorts were reminded of how dependent they are on tourism; especially places that are highly dependent on international tourism still have to go through this very uncomfortable experience. The degree of suffering of the various companies and players involved in tourism varied. A corresponding ranking list is roughly as follows:

- Travel agencies and tour operators
- Cruise industry
- Producers, performers and service providers of events (include all MICE activities in general)
- Accommodation in cities, including peer2peer accommodation
- Theme parks
- Providers for tourist activities (ships, cable cars, and the like)
- Accommodation outside the cities; partially including peer2peer accommodation

¹ Many «professional» landlords of sharing accommodation entered the demand shock financially dangerously leveraged (without any substantial equity or sometimes even indebted; now without any cashflow coming in).

- (2) Short and medium-term changes in guest behavior (next 6-12 months)
- a. *From a microscopic perspective: What (additional) changes in individual (travel) behavior do you expect in your country in the next 6-12 months?*
 - b. *From a macroscopic perspective: What (additional) changes in the appearance of tourism and tourism related services do you expect in your country in the next 6-12 months?*

In short: What we have seen in the last months will unfortunately continue. Only a success in containing the pandemic (vaccine, therapy methods) and/or a levelling of infection rates between regions could bring relief.

Basically, three scenarios are conceivable.

Scenario 1: Things continue as before, i.e. over time there are different travel warnings for different individual countries or their regions. Consequently, there is always a latent threat of quarantine on return. People's behavior is therefore primarily exogenously driven and controlled by regulatory frameworks, some of which are very constraining. The degrees of freedom in travel decisions therefore remain very limited and the individual behavior observed in the last half year and the pandemic-driven phenomenon of tourism is likely to continue for the foreseeable future.

Scenario 2: Due to an infection rate that is growing everywhere and thus becoming more and more similar, and against the background of the increasing economic damage caused by the extreme travel restrictions, the sense of systematic quarantine is increasingly questioned. This leads to an increasing relaxation of regulatory travel restrictions. However, it must be assumed that large parts of the population will continue to be very reluctant to travel for various reasons. These reasons include health concerns as well as their own economic situation or general unease about the volatile situation related to this pandemic.

A third and intermediate Scenario could be a pragmatic mix: Governments restrict travel and open up for political or social reasons during the main travel periods (like in summer or for the Christmas period) and close again immediately afterwards to avoid the further spread of the virus.

Regardless of which of the above scenarios prevails, travel behavior will be characterized by the following peculiarities:

- there is no "light at the end of the tunnel" before the end of 2021;
- travel continues to be subject to possibilities, not preferences;
- people will mostly make opportunistic and decisions with as much flexibility as possible;
- there will be an increased demand for sanitary "safe" service provision;
- there will be continued interest in self-catering types of accommodation;
- domestic tourism and daytrips dominate, with a choice of destination rather in the proximity;
- together with the still dominating homeoffice or remote office, we will see an increase in the convergence of work and leisure ("workation") at tourist destinations (instead of in the urban residential environment).

Two potential game changers could put an end to this constrained situation: Vaccination and improved medication for Covid-treatments. As soon as these let the international travel demand prospects rise again, one can expect a promotion battle between the countries with high portions of international tourism.

Tourism companies for this intermediate period face reduced demand since domestic tourism is more volatile to weather and seasonality. Therefore, many will find it difficult to deliver a positive result on EBIT level, which is not much of a problem if there is enough equity to absorb the losses. They however will have to make sure to at least deliver a positive EBITDA to avoid a cash drain and potentially become illiquid (or have too much debt in governmental scheme). For this reason, flexibility, agility, and any efforts to reduce operational fixed cost are necessary.

(3) Long term perspective

In your opinion: What long term changes in individual travel behavior (microscopic) and tourism (overall; macroscopic) do you expect to take place? One could also say: what previous travel trends do you see terminated and what new travel trends do you expect to evolve?

In short: While demand might come back to pre crisis levels volatile economic conditions and safety/ sanitary concerns might increasingly determine behavior.

In general, it could be argued that behavior is rather sticky and therefore changes only slowly. Therefore, potential changes in behavior are primarily a function of the duration of the pandemic and the pandemic-related economic crisis. Even after a stabilization of the health situation, economically induced longer-term effects can be expected. Also, as we mentioned in the first report in this series, people's experience with this pandemic will leave its long-term mark on their psyche and thus also on their behavior. This includes issues with regard to health anxiety, physical distance, and sanitary needs. Providers will have to respond to these different needs, at least in the immediate aftermath of the pandemic.

The recession, which has already begun or is foreseeable, is causing income fluctuations and a lack of predictability of economic development for many people. This - or even precarious work situations due to an increase in self-employed "project" work - could in the long term hold back the growth of tourism.

Time will tell, to what extent there will be long-term changes in behavior. Opinions are clearly divided here: While some assume that tourism will be more local, and perhaps more sustainable, others believe that little will change in the long-term behavior of consumers and thus in the appearance of international leisure tourism.

Cost pressure on companies and the positive experience with remote online meetings will lead to the rethinking of numerous business trips policies. It is probably less about long haul or short haul travel but more about what types of business interaction processes can be shifted from a stationary to an online setting or vice versa, after this crisis. One could hypothesize that initiating original contacts or major contract negotiations and conclusions are likely to remain stationary in the future, whereas project-specific and especially short interactions are more likely to be held online. What this means to the MICE industry remains to be seen.

Due to the restrained demand, international core tourism industries will recover only hesitantly. Some of the authors assume that any recovery will take at least 5 years; some even assume that we will never recover to pre-crisis levels.

The reason for this assumption is, on the one hand, the massive SARS-CoV-2 induced capacity reductions to be expected, e.g. through the decommissioning of assets (e.g. in the airline industry) and the associated loss of jobs. However, the numerous bankruptcies expected will also contribute to this capacity reduction, unless the associated capacities remain - at a lower valuation - in the market. It will be interesting to see how and where new market equilibria can be found. Should demand grow faster than supply against the backdrop of a massive reduction in capacity, price increases that dampen demand can also be expected.

The recovery of the industry is crucial to any recovery of international tourism. Here, airlines play a crucial role, as this industry makes international tourism possible in the first place through their provision of "accessibility". While low cost airlines can ramp up their connections as needed due to their comparatively simple business model of point-to-point connections, legacy carriers face the challenge of having to ramp up not only individual connections but entire hub-and-spoke-networks with their complex upstream and downstream connections, mostly to intercontinental flights.

Recovery is a function of survival. One could argue that the surviving companies will have the advantage of reduced competition. In turn, the survival of individual companies is dependent on their ability to secure liquidity in the short term. However, medium and long-term solvency is also under pressure, as a re-evaluation of credit risks could lead to a higher interest rate premium, which in turn burdens liquidity and solvency. Hence, the key issue for survival will be to what extent companies get a risk evaluation holiday. The core question will be: what is the sustainable cash-flow: the pre-crisis cash-flow or the crisis-cash-flow? And if how long it will take to get back to the first one again.

Altogether with the flexibility of homeworking, which at least partly will stay, new forms of tourisms will emerge (second homes being used more and more as real hybrid homes, long stay tourism where travel and work is mixed). This will fuel the existing trend where home and away more and more converges.

St. Gallen (AIEST), September 25, 2020