The Disruption and Transformation of Business Travel

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The twentieth century heralded a revolution in personal mobility. In 1900, the average American travelled under 700km per annum. By 2000, that had increased to over 25,000km per annum, with over a quarter of the total increase coming in the last 25 years of the century, driven almost exclusively by higher levels of income rather than significant technological change.[1] At the turn of the century, there was a consensus across transport planners that the demand for travel was linked to GDP, and as the world became wealthier, so the demand for travel would continue to increase.

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The first 19 years of this century challenged that assumption. Overall levels of travel per head – at least in the most advanced of economies – appeared to be levelling off and there were even suggestions that Europe may have reached "peak car" as the demand for travel began to fall and people began to return to more sustainable modes. For example, in England the average person made 6% fewer trips in 2018[2] than in 2000, despite GDP / Capita increasing by 20% during that time.[3] It became clear that the demand for travel might not continue to increase with income.

But if there was a gradual realisation at the end of the last decade that the demand for travel may not increase forever, nobody anticipated that it would collapse completely. The COVID-19 lockdown brought reduced levels of personal mobility not seen since the introduction of the railway. During lockdown periods, travel fell between 50% and 80%

1 Long-Term Trends in Domestic U.S. Passenger Travel: The Past 110 Years and the Next 90 Andreas W. Schäfer
2 UK National Travel Survey 2018, table NTS0101. Total trips per person fell from 1051 in 2000 to 986 in 2018
3 UK ONS UK Real net domestic product per capita CVM SA. GDP / Capita increased from £22,043 in 2000 to £26,497 between 2000 and 2018

across every major city in the world. Even as economies began to reopen, the overall demand for travel remained curtailed; people were advised to avoid public transport and the world's airline network remained a fraction of the pre-lockdown levels.

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Initial market research suggests that many people have been happier to give up short distance, day to day travel than expected. For example, research by the University of Amsterdam has found that over 60% of people who previously drove to work say they have not missed having to commute, over half of people who had not previously worked from home had become more positive about the experience as a result of the lockdown, and (perhaps most significantly) only 60% think they will go back to working full-time from the office when the crisis is over.[4] Flash polling and market research shows similar sentiment across Europe and North America.

In short, the pandemic pushed significant parts of people's work and social lives online, removing some of the need to travel in the process. As the pandemic recedes, people will re-engage with the physical world, but the changes of 2020 can be expected to have a material legacy. Now, the question is not whether the demand for travel has plateaued, but rather how to adjust to a world where travel becomes optional.

The Key Trends Shaping Demand for Travel

The pandemic-induced lockdown highlighted the difference between those who could work remotely, and those whose duties required physical presence. The likelihood increased that higher paid white-collar jobs would be completed remotely, whilst lower paid blue-

[4] What can we learn from the COVID-19 pandemic about how people experience working from home and commuting? - by Ori Rubin, Anna Nikolaeva, Samuel Nello-Deakin and Marco te Brömmelstroet, Centre for Urban Studies, University of Amsterdam

collar jobs required people to continue to travel. This distinction is likely to continue to hold in the post-lockdown world, where travelling to work becomes an option for people on higher incomes but a necessity for those in frontline and manual jobs. As a result, it is likely that those people with the lowest incomes will become those who have to pay for transport, and the market will become more price sensitive as a result.

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Even when people do begin to return to offices and reengage with the physical world, travel patterns are likely to be more flexible. Research by YouGov indicates that 45%[5] of people think they will work more flexibly in the future, either choosing to work fewer than five days a week from the office or alternatively changing the times when they work. This creates a double-edged sword for transit agencies and transport operators. The risks are obvious; that increased flexibility will reduce farebox revenue and create significant downward pressure on revenue. However, the opportunities could be substantial. Across transit agencies in the U.S., demand in the peak hour tends to be more than double that seen during the off-peak hours, and agencies incur massive infrastructure costs to meet that peak. If flexible working offers a way to spread demand more smoothly across the day, then capacity crunches can be avoided, massive infrastructure spend can be deferred, and the business case for transit schemes would be revolutionised as a result.

However well these schemes are managed, the fundamental reshaping of demand will create significant pressures on farebox income across all modes of transport. The revenue challenge will be particularly acute given the challenges that transit systems were already under. In 2016, transit systems in the U.S. covered only 36% of operating costs through farebox revenue[6] and even in Europe, where ridership and fares are higher, few systems exceed 70%.[7] Systems were already being disrupted by new mobility – transit agencies in the U.S. found that the introduction of rideshare systems such as Uber reduced the demand for conventional

5 Almost half (45 per cent) of workers expect to work more flexibly after lockdown restrictions on UK businesses are lifted, according to research; The survey, conducted by O2, ICM and YouGov, predicted employees will be reluctant to give up working remotely after lockdown, with many believing their employer will permanently change their approach to flexible working as a result of the crisis. A third (33 per cent) of respondents expected to work from home at least three days a week after lockdown, and 81 per cent expected to work remotely at least one day a week.

6 2016 National Transit Summary and Trends, Office if Budget and Policy, October 2017

7 See detailed network by network sources consolidated https://en.wikipedia.org/wiki/Farebox_recovery_ratio

mass transit by 1.3% per annum.[8] Against this uncertain backdrop, the combination of the initial demand shock from COVID-19, the likely economic impacts of the forthcoming recession, and the long-term reduction in the demand for travel could precipitate a user funding crisis for mass transit. However, facing significant fiscal shortfalls from falling tax revenue and an increased welfare bill, it is not clear that city authorities will be able to step in and fill the gap.

It is not only mass transit that has been significantly disrupted by the pandemic and can be expected to change as a result. During the three months of the lockdown, car traffic in New York fell by up to 60%, in London by up to 70%, and in Tokyo by 40%.[9] With the fall in traffic came a corresponding fall in nitrogen dioxide and other pollutants. The health benefits of this reduction will be remarkable. The Centre for Research on Energy and Clean Air estimate that the 40% reduction in nitrogen dioxide levels seen across Europe will have saved 11,000 lives and prevented 6,000 cases of asthma in children.[10] Achieving such benefits during the lockdown highlights the negative externalities of the internal combustion engine. The pressure to maintain "clear air" whilst supporting a return of mass car travel can be expected to force significant change upon the car industry. Any such change will also highlight that the current funding solution is untenable, and that a reliance on fuel tax is unsustainable as engines become more efficient and inconsistent with a commitment to support the rollout of electric vehicles.

The most significant changes to travel are likely to be felt in the commuting and shopping markets, and the urban transit networks which have sprung up to serve that demand. However, long distance travel will not be immune. Over the next couple of years, economic uncertainty and the pressure on incomes are likely to suppress the demand for travel as has been the case in previous recessions, but as the economy recovers, so leisure travel may be expected to return. The future of business travel is more uncertain. Physical meetings, conferences, and events will restart once COVID is controlled, and business travel will return as a result. However, the nature of that demand will change. Ninety-five percent of C-suite executives think that COVID-19 is going to cause companies to reconsider the need for travel or in-person meetings,[11] and even if the vast majority of business activities go back to face to face interactions, volumes may

8 Understanding the Traffic Impacts of Uber, Lyft University of Kentucky

9 COVID-19 Mobility Trends Report, Apple

10 "11,000 air pollution related deaths avoided" CREA, Lauri Myllyvirta and Hubert Thieriot

11 Azurite Consulting, Study on the Impact of Covid-19 on Business, Decision Making, Spending & Recovery. Survey of 4,5000 Respondents collected between April 17th and April 24th 2020

not fully return to pre-pandemic levels. Where passengers are still travelling, airlines, airports, and their supply chain partners will need to tailor their offerings to reflect a more discretionary and cost-conscious customer base.

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Implications for the Business World

Duty of Care

The increased awareness that only frontline workers have to travel, combined with the ongoing financial pressures on public authorities to deliver safe and reliable transport to and from work, will escalate the issue of mass transit up the CEO's agenda. Businesses will no longer be able to take for granted that their employees will have a cheap and reliable way to get to work, and business leaders will need to get more involved in the transit debate as a result. The "duty of care" concept may extend to begin the moment that staff leave home, rather than when they arrive at the workplace, and companies will have to get more involved in ensuring that there are safe, affordable, and sustainable travel options for their frontline staff. As businesses think more about how their frontline staff get to work, their expectations from public stakeholders will increase as well. Cities, which are courting desirable high-growth businesses – as was seen with Amazon's second HQ in 2018, for example – will need to demonstrate how their transport network will be resilient enough to provide for the future workforce.

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Demand Management

As companies and cities take a bigger role in determining how people travel to work – and indeed travel around cities – one might expect an erosion of personal freedoms about how travel decisions are made. Keen to "smooth the peak" to avoid costly infrastructure investment, cities will take a more active role in managing demand, whilst the CEO's "duty of care" obligations will lead them to have greater influence over the travel choices of their staff. These forces, when combined with the increased sophistication of journey planning tools, will create a greater emphasis on managed mobility. Rather than being presented with a map and left to fend for themselves, travelers will be provided with detailed journey plans for their trips, ensuring that they take the optimal route to reflect the available capacity, and presented with higher prices should they wish to deviate from the recommended option. As with any major technological innovation, the benevolent forces of such a change could be dramatic, driving a step change in the accessibility, usability, and capacity of mass transit networks. At the same time, these opportunities will need to be balanced against the risks to privacy and personal choice, and the scope for increased stratification of society that will come with active demand management.

Revenue Streams

As the need to travel to work becomes more concentrated on lower income groups, the cost of transit will rise on the political agenda. Transit agencies facing funding crises will no longer be able to rely on higher income commuters covering the shortfall through higher fares. Even where they attempt to increase the revenue contribution of the farebox, agencies are likely to find that passengers simply cannot afford to pay and either find alternative ways to travel or exploit increasingly inventive approaches to avoid paying. Without recourse to additional public funds, transit agencies will need to look to third party revenue streams to create additional income. To achieve this, passengers will no longer be seen simply as customers, but rather be regarded as a captive audience – ready to receive a wide array of highly personalized advertisements and happy to sacrifice their data on personal

travel movements in return for subsidized travel. As the ability to manage people's travel is combined with the rights to monetize their travel experience, transit will become a new battleground for the giants of big tech and receive a funding lifeline as a result.

High-Speed

Globally, the pandemic may accelerate the adoption of high-speed rail. Over the last 15 years, China has placed high-speed rail at the heart of its strategy for economic growth, building the biggest network in the world with over 25,000km of dedicated high-speed rail lines since 2008. Whilst there may be a case to focus on emerging technologies such as hyperloop, high-speed rail offers an intermediate solution which will deliver a step change in connectivity necessary to stimulate growth, whilst at the same time reducing the carbon costs of long-distance travel. Already in the UK, the controversial HS2 scheme has been approved during the pandemic, with the notice to proceed given to contractors on 15th April 2020 (22 days into the UK's lockdown), whilst the Vienna Institute for International Economic Studies has recently put forward proposals for major expansions to the European high-speed network[12] and there are now proposals in the U.S. being advanced by Rep. Seth Moulton for a $240bn investment in a national high-speed rail network to create over 2.6m jobs.[13] The combination of a strong lobby movement, proven technology, and a number of "shovel-ready" proposals means that the sector is likely to continue to gain momentum.

Sustainable Aviation

Any expansion in high-speed rail would also have implications for the aviation sector, and indeed, there is already evidence of this shift in emphasis. For example, in France, one of the conditions of Air France's €7bn bailout has been that it stop operating domestic services which could be served by the TGV[14] network. When combined with the potential for further growth of the Flygskam "flight shaming" movement, the economic, social, and environmental pressures could precipitate major changes in aviation – especially on

12 How to Spend it: A Proposal for a European Covid-19 Recovery Programme, Jerome Creel, Mario Holzner, Francesco Saraceno, Adrew Watt and Jerome Wittwer, Wiener Institut fur Internationale Wirthschaftsvergleiche

13 Plans released outlining $240 billion investment into U.S. high-speed rail, Global Railway Review, 21st May 2020

14 Coronavirus aid: Air France 'must cut domestic flights to get state loan', BBC Website 4th May 2020

shorter routes. As the industry looks to maintain government support to survive the short-term economic headwinds and needs to adapt to meet the expectations of its customer base in the long term, so the goals of the industry as a whole to become carbon neutral will need to become more ambitious and substantive and the willingness of some airlines to become “first movers” could become a major source of competitive advantage.

Considering the trends in transport at the beginning of 2020, one might have been able to foresee most of these trends, as the growth of digitization and the increased importance of environmental concerns were evident for much of the last decade. But each of these factors would have previously been viewed as a long-term consideration which could have begun to have an impact by 2030. The events of the pandemic will accelerate this timescale in a way which would have been inconceivable in January.