

**Industry Report:
The Business of Survival – a Follow-up Report on 9/11**

**Presented by:
NTA's Research & Development Council
March, 2002**

The fallout from the events of September 11 is far from over. That day is one that anyone who experienced it will never forget. The impact that it has had on the travel industry is also something that will not soon be forgotten.

The travel industry, coming off one of its best years, was already seeing the effects of a slowing economy. Add to that the devastation that was September 11 and we have the state of the industry today. The statistics are everywhere – hotel bookings are down, destinations are partnering with other destinations within their region to attract the drive market, tour operators are looking to plan itineraries that don't include air travel and are shorter and closer to home. The list is long and is the topic of many a conversation.

This report will provide updated information on the most recent statistics as we move into 2002 and, hopefully, into better days. In addition, it will discuss the business practices that many companies employ to move through such difficult times while still being prepared to take advantage of the eventual upturn.

The Industry in 2002

In the wake of the September attack, the World Travel & Tourism Council created a new policy tool together with their research partners Oxford Economic Forecasting, to provide real time case scenarios for travel and tourism. This tool showed that a 10 percent decrease in the demand for travel and tourism over a 12 month period could lead to the loss of some 8.8 million jobs and a 1.7 percent reduction in global GDP. If the world didn't understand the importance of travel and tourism on its economy immediately following September 11, these figures will most certainly open its eyes.

As we move into 2002, many segments of the travel industry are reporting improving numbers. Cruise lines are touting record bookings during their weeks following the New Years holiday, known as their "wave" period. Some hotels are reporting increases in bookings and many destinations are pleased with the year so far. The *Conde Naste Traveler* polling department recently released survey findings of their readers. Seventy-one percent of their readers have flown since September 11 for a leisure trip and 71 percent have booked a leisure trip to take place in the next six months. In addition, 78 percent of the respondents stated

that travel is their ultimate passion and nothing will stop them from traveling. One thing to keep in mind, however, is that *Conde Naste Traveler* readers are typically more affluent, educated and adventurous than the typical traveler.¹

While these are inspiring and, as was mentioned in the Research & Development Council's "Word on the Street" conference call article in the March issue of *Tuesday*, tour operators can look at areas such as cruise line bookings as a positive sign there are still some major obstacles to overcome this year. Topping the list is the average traveler's fear of flying. Despite efforts to tighten security at the nation's airports, a USA Today/CNN/Gallop Poll shows that many travelers remain skeptical about aviation security but hold out hope that a federal takeover might make a difference. Even more surprising is that compared with poll results two months after the September 11 terrorist attacks, the new poll shows no drop in the percentage of people who are still afraid to fly. In the survey taken November 26-27, 43 percent said they were "very afraid" or "somewhat afraid" of flying. Today, 44 percent are fearful.²

Additionally, Peter Yesawich of Yesawich, Pepperdine & Brown, recently released a comparison of consumer attitudes from September 2001 through January 2002. Among leisure travelers who indicated their travel plans have been influenced by the terrorists events and said they would cancel or take fewer trips, nearly twice as many stated they would not travel because they believed it was "not safe to fly." This fear actually rose as time passed with 33 percent stating this in October, 23 percent in November and 45 percent in January. Travelers' concerns about the safety of air travel exceeded concerns about personal safety (19 percent) as well as concerns about the current condition of the United States economy (13 percent).³

On the economic front, the current state of the economy and consumer confidence is also playing a part in the outlook for 2002. Consumer confidence fell in February as concerns about unemployment and the reliability of company earnings reports dimmed enthusiasm that had been building. The Conference Board stated its monthly index of consumer confidence fell to a reading of 94.1 after rising to 97.8 in January. This was the first decline in three months and was larger than expected.⁴

These figures are not intended to dampen enthusiasm but rather to paint a true picture of what companies are facing as we enter into this new year. Although areas of the country are seeing more travelers and many facets of the industry are reporting increased bookings and interest from travelers, the fact is that much of that is being created due to unprecedented discounts. A seven day cruise for

¹ *Travel Commerce Report*, February 19, 2002.

² *Travel Advance*, February 14, 2002.

³ Yesawich, Pepperdine and Brown, "Fear of Flying on the Rise Among Travelers," January 21, 2002.

⁴ *Travel Advance*, February 27, 2002.

\$300 or a four-star hotel priced at more than half its normal rate would get the interest of anyone. There are two big questions for the travel industry to monitor as the year progresses. How long will these price incentives last and, when they're gone does the business go with it? And secondly, when will this fear of flying start to diminish?

There are four operators already working to combat the fear of flying. Tauck World Discovery is taking a personal approach. When their research conducted among their customers turned up that even seasoned travelers were citing this as the reason they were not booking, Tauck went to work. Instead of fighting this fear with statistics and printed materials, they are getting personal. One on one phone calls to customers by customer service representatives are being employed to help alleviate these fears. Their hope is that by talking through what scares them, sharing experiences and ideas – and doing all of this in person – will help their customers past this fear.

The discount question is one for each individual company. It would make sense that a company can only go for so long selling their products without profit and, in some cases, less than the actual cost of the trip. Perhaps reaching the root of the problem, such as the reasons people aren't traveling, might make for a quicker recovery than simply relying on price.

Be Ready to Thrive

As many people have stated, people want to travel. We, especially those of us in the United States and Canada, view travel as a birthright and something we need. While the statistics contain both doubt and promise, the economy and the travel industry will rebound. But, will your company be ready to take advantage of this after months of survival-mode?

A recent article in *Fast Company* asked experts from various different types of companies what the most common mistakes that will be made in responding to a market downturn. Three statements really stood out:

- *"It's almost a reflex: Reduce your head count across the board. But we've done a lot of research on this, and we've found that 50 percent of all companies that cut head counts across the board end up in a worse position as they come out of difficult times. Even the companies that actually benefit from head-count reduction only see a 1 percent pick up in profit. Across-the-board head-count reduction doesn't work."* – Ian Downes
- *"Too many companies find themselves trying to make up for lost time, and, as a consequence, they cut too deeply. You really have to look nine*

months out. You may have to lay some people off, but you should focus on keeping your core team together.” – Morris Miller

- *“The big mistake that people make is cutting their R&D budgets. They don’t see R&D producing immediate benefits in the first 6 to 12 months, so they say, ‘Let’s cut that!’ You have to fight the natural tendency to think in 6- to 12-month cycles. Instead, you need to remember that this is a long game. When the business cycle recovers – and it will – you need to be ready to get past your competitors. So as the token techie on this panel, I’d advise people not cut R&D.” – Fred Chang⁵*

Although cost-cutting measures must be put in place to survive a tragedy like September 11, there are alternatives to layoffs that might keep your business in better shape to thrive when the downturn is over. While layoffs are often necessary, they are not always the only answer. They are detrimental to overall morale in an already challenging atmosphere as well as very expensive. According to Will Helmlinger of The Resource Development Group, the cost to replace one Customer Service Representative earning \$18,000 annually is nearly \$58,000. Another study evaluating the effects of the US Family Medical Leave Act found that turnover costs for a manager averages 150 percent of salary.⁶

Why are layoffs so expensive? Tangible costs such as paying accrued vacation time, severance packages, sick pay, supplemental unemployment benefits and administration fees are obvious. However, one must include the loss of productivity both without that person and when, or if, they are replaced by someone new and untrained.⁷ Studies have also shown that only six in 10 organizations were able to reduce expenses after a downsizing. In addition, companies that laid off 15 percent or more of their work force during the last recession performed significantly below average in the following three years.⁸

Companies, particularly in the travel industry where many employees are accustomed to seasonal work, can look for alternatives to across-the board layoffs. One tour operator asked employees to voluntarily cut one workday from their workweek. They worked, and were paid, for 32-hour weeks instead of 40 and, as it turned out, they did not want to go back to 40-hour workweeks when the tough times had ended. An example is Continental Airlines. After September 11 and the reduction in people flying, Continental had to layoff pilots, attendants, phone operators and reservation agents. A spokesman for Continental said laid-off employees receive preferential treatment when the airline begins hiring. In addition, Continental’s human resources staff, in partnership with business in its hub cities, set up job fairs to help furloughed employees find other work.⁹

⁵ *Fast Company*, “Lightning Round 1: Mistakes That Losers Make,” January 2002.

⁶ About.com, “What Good People Really Cost.”

⁷ www.afscme.org, “Alternatives to Layoffs,” 1996.

⁸ *The Business Journal*, “Alternatives to Layoffs Work for Innovative Companies,” December 24, 2001.

⁹ *Ibid.*

Restructuring business processes or job duties can also save in the number of employees that must be laid-off. Improving internal processes, hiring freezes or ceasing non-profitable operations can often save enough money in and of itself to not only save jobs but also retool them to be more efficient than ever before.

As mentioned in many other Industry Reports, finding alternate revenue streams is never more important than during recessions and other downturns. Perhaps out of necessity, new product offerings to attract non-traditional customers for a particular company will turn out not only to help the company through a recession but also develop even more business than prior to the downturn. In addition to new products, look at areas such as a company Web site for revenue – both earning and savings. This will be addressed in the next Industry Report titled “Utilizing the Web for Alternate Revenue Streams.”

Bottom line – no company likes to lose good employees and will do whatever it takes to see their company through rough times. When a certain amount of job loss is inevitable, the most important thing is to be as fair and upfront with employees as possible. Layoffs can leave the surviving employees with a lack of trust for management, fear for their own job and an overall decrease in morale. If managers are honest, explain what is happening, the reasons for the downsizing, the criteria utilized to decided who stayed and who was terminated and the plan for the company as it moves through the coming months, it will help to head-off some of the morale problems and further loss of good employees who flee to another company.

For any NTA member who is in need of free advice from human resource experts, that is available to you. The Herman Group, headed by Roger Herman, is a certified management consultant group. Mr. Herman has spoken for NTA at past Annual Conventions and Spring Meets and has a great deal of information to offer management on employee retention. As a free service, The Herman Group has placed an “Ask the Expert” button on their Web site. The site contains a form where you can submit your question and receive free, expert advice on employee retention. Members can link to this form from NTA Online or go directly to The Herman Group’s Web site at www.hermangroup.com. Another feature that is offered by this company is their Herman Trend Report – an e-mailed newsletter on similar employee issues. You can sign up for that free newsletter on their site as well.

Summary

No company wants to lose good employees and the business of navigating a downturn unlike any the travel industry has ever seen is not easy. Although the immediate ramifications from September 11 are starting to fade and traveler confidence appears to be on the rise, there are still serious problems as a result

of that horrific day that must be dealt with. The news from the travel industry is a mixed bag of good and bad news.

This, coupled with the recession that had begun even before September of last year, can make life very difficult for decision-makers in our industry. Although survival is key, being ready to capitalize on changes in the economy and the inevitable upturn in business is also crucial. Creativity, innovation and “thinking outside the box” are necessary to accomplish these two tasks.

Some experts have suggested that, when navigating a tough economic time and making business decisions, salaries are thought of as investments in the future rather than simply expenses that can be cut. Other investments in areas such as research and development are hard to undertake when the goal is saving money. However, experts contend such investments are critical for long-term success.

Try to imagine different, more creative ways to cut costs and not make the mistakes that were mentioned earlier in order to cut the bottom line. As many of the statistics in this report show, such sweeping decisions often turn out to be detrimental in the long run. Focus on survival but don't forget, the game is long. When you come out of the bunker, will your company be intact and ready to thrive?