

GTMC Submission – Regional Business Travel

1.0 Introduction

The voice of business travel is a critical one to the debate around aviation in the UK and the regional business traveller perspective is one that has until this point been sorely neglected.

Heathrow and its world class network of routes to traditional business destinations should be to the advantage of the whole of the business community in the UK.

This submission outlines from a business travel perspective the factors influencing domestic air connectivity between Heathrow and the regions and provides both insight and data on the aspects of the current offer which are shaping the behaviour of regional business travellers.

2.0 About the GTMC

The Guild of Travel Management Companies (GTMC) is the UK's leading professional body for travel management companies (TMCs). These TMCs represent over 80% of managed corporate travel.

Our members work on behalf of corporates to facilitate the international movements of the business people who “do the deals” that will underpin the UK economy’s growth. As such we have a keen sense of:

- 1) The priorities for corporates in terms of connectivity; and
- 2) The perspective of those business people actually travelling internationally.

Where applicable the GTMC has set out the data that underpins the perspective of both the corporates and business travellers. This includes a bespoke survey of 1039 people who travelled internationally three or more times per year on business from airports in the regions, 14% of which travelled 13 times or more.

3.0 The Business Traveller

The GTMC and its members work daily with travellers deciding how to get to the places they wish to do business. As a result they have developed a detailed sense of the priorities of a business traveller when deciding on mode or specific operator. In addition to this the GTMC has commissioned several polls which set out in clear terms the drivers of how they get from A to B.

It must be remembered that many business travellers, certainly those within corporates that employ a TMC, will have a travel policy that narrows the range of options. This is in essence the formal reflection of the attitude of the business to travel. Within this range the individual preferences of the traveller kick in and allow them to shape their journey.

Alongside this we have SMEs and the self-employed who tend to have a less formalised approach to controlling travel options but for whom making the right decisions on travel can have a more fundamental impact on profit.

Across both of these groups we see the following priorities:

- **Cost** – travel needs to provide value for money.
- **Convenience and Speed** – the traveller needs to be able to get to where they need to work with minimum disruption and as quickly as possible.
- **Productivity** – the traveller needs to be as productive as possible through that journey.

It is by these criteria that the GTMC judges the efficacy of UK transport and which have a significant impact on how competitive UK plc can be.

4.0 Regional Business Travel

International links are key to the economic strength of a region. Corporates and their decisions to locate in a particular area are heavily influenced by connectivity and easy access to markets, customers and clients is vital.

While Heathrow lags behind rival hubs in terms of numbers of destinations served it does retain world-class status in terms of traditional business routes. Bearing this in mind it is no coincidence that the majority of the UK's top 300 businesses have HQs within a 25 mile radius of the UK's major hub airport. International businesses also rank these factors highly as the area around Heathrow markedly outstrips the UK average in terms of foreign business location (100% more US companies and 260% more Japanese).

It also clear that if regional economies have no direct routes into Heathrow they are unable to tap into the advantages that come from this connectivity both in terms of local business being able to access markets and their region being attractive to foreign investment.

Over the last 20 years the number of routes into Heathrow from domestic airports around the UK has fallen dramatically with only seven UK airports served. As a result large parts of Britain are now without access to the UK's main international airport and the links to overseas markets that it can provide.

While the anti-aviation lobby stresses the alternative of using rail instead of such regional routes but from the perspective of a business traveller looking to connect internationally this is simply not possible. There are no direct rail links into Heathrow from the North and there will be none until the interchange of HS2 and Crossrail at Old Oak Common in 2025 and from beyond Birmingham not until 2032.

The GTMC recognises then that Heathrow needs to be a hub airport that works for the regions as well as London and the South East and that the array and frequency of traditional business routes served from Heathrow are easily accessed by these economies.

5.0 London-Regional Connectivity

It is natural that a constrained airport will look to prioritise those services that offer the greatest revenue. For a hub such as Heathrow it is long-haul flights that offer the greatest return for a particular slot than do regional connections. The absence of connections is something that can only really be rectified by additional capacity.

It is natural also to expect business travellers to adapt. The business travel community is not a captive one that will "make do". Rather it will use its own resources and the expertise of TMCs to find travel options that better serve their objectives.

In the sections below we highlight factors that influence business travel demand for domestic air connectivity between London and the UK regions and their influence on the development of the market.

Regional Economies

- The economy of the UK is diverse, particularly in terms of the proportion of the workforce in the public or private sectors, and this will have an impact on the demand for air connectivity. In the UK we see high private sector employment rates occurring most often in sub-regions in the South East of England and low private sector employment rates are found more commonly in the North or Midlands. This will ultimately have an impact on the demand for certain services in those areas.
- This has been reflected in the GTMC's own survey work. In 2013 we surveyed 1011 business travellers in the South East who ventured internationally on business six times or more per annum. In 2014 we attempted to replicate this exercise for business travellers in the regions. However, despite the intervening economic growth after screening interviews with over 5,000 potential participants it

became clear that the number of such targets was small. In fact our process of participant selection for our surveys found that per head of population twice as many people in the London/South East are flying six times or more per year on international business travel than is the case in the regions.

- Moreover when we analyse the sectors that are driving such movements we can also see a divergence. In the South East the main sectors making international business trips were: IT, Financial Services, Manufacturing and Education, while the North of England for example saw the top five business trips coming the following sectors: Manufacturing, Education, Healthcare, IT and Retail. Clearly the varying recovery in particular sectors, combined with the smaller private sector in the regions, will have had an impact on demand.

Schedules

- While the main point has been about the reduction in routes connecting regions directly to Heathrow the GTMC believes that question marks also appear around the quality of the regional routes that remain. Our understanding of the UK business traveller is that convenience is a significant influence on choice of journey. Critical factors in their choice of journey hinge on this concept such as nearness of airport to home or the convenient timing of flights. The GTMC regional business traveller survey data supports this by showing that the major reason (34%) that a business traveller will use a non-UK hub instead of Heathrow is due to more convenient flight times.
- A pertinent example is that of business travellers using Leeds Bradford airport. While services remain between Leeds Bradford airport and Heathrow the first such flight is at 9.35am. In contrast the first service between Leeds Bradford and Amsterdam Schipol is at 6.20am. For many business travellers looking to be as productive as possible catching a flight after the working day has begun is simply not a viable option, equally it also removes the possibility of connecting to international flights before that time.

Network

- Recent Heathrow research revealed the top 24 cities globally by Gross Metropolitan Product that are not directly linked by Heathrow but are served by at least one EU hub, these being: Pittsburgh, Hartford, Memphis, San Antonio, Monterrey, Bogota, Porto Alegre, Campinas, Lima, Belo Horizonte, Santiago, Ankara, Chengdu, Chongqing, Shenzhen, Wuhan, Nanjing, Manila, Shenyang, Hangzhou, Osaka, Nagoya, Jakarta and Perth. These represent significant markets that are not accessible directly from the UK.
- Our data reflects this through the business traveller frustration with the range of destination that can be accessed from the UK compared to a European hub. The GTMC survey found that 27% connected via a non-UK hub because it was the only way to reach their desired destination. Moreover, the same sample showed that 34% of travellers would return to using Heathrow were more destinations added to its roster.
- The capacity constraints which prevent the expansion of Heathrow's network, in contrast to EU hub rivals, are a deterrent to the use of regional-Heathrow routes that remain and a distinct regional economic disadvantage in a global race to deliver the trade, jobs and economic growth associated with emerging economies.

Competitors

- The contraction of Heathrow regional connectivity has coincided with a period of expansion from the flag carrier airlines of countries with rival hub airports – particularly KLM and the Gulf airlines.
- For those business travellers in sub-regions that do not enjoy links into Heathrow they are a lifeline of connectivity that allows them to access key markets. Equally for those who wish to access growth markets that Heathrow does not directly serve there is a "no-brainer" aspect to using a rival hub.
- In those areas where there is a Heathrow connection we see direct competition. In these circumstances their product, with its more convenient flight times and connections into growth markets, has undoubtedly siphoned-off business travel to long-haul destinations from the UK.
- Perhaps the most telling illustrative point is that the Leeds City Region Enterprise Partnership on its own website boasts of its connectivity as a reason to locate and invest in and charts its connections to Paris CDG, Amsterdam, Brussels, Barcelona, Milan, Belfast, Edinburgh, Glasgow and Dublin - yet makes no mention of Heathrow at all.

Rail Impact

- In terms of the influence of rail services on the demand for air travel this entirely depends on the type of journey being undertaken. Those business trips with London as their end destination may well see air options compare unfavourably with a rail journey that deposits the traveller in the centre of London, has no check-in and allows access to wi-fi during the journey. Travel from Heathrow into central London takes time and this has to be factored against the ability to enter the heart of London by rail.
- Equally the opposite is true of those looking to travel internationally from Heathrow. Transferring in Heathrow is much more attractive than a train journey into central London and a Heathrow Express back out. This may change with the advent of western access into Heathrow and the eventual connection of HS2, via Old Oak Common, to the airport but until these direct rail connections improve air transfer will remain preferable.

Air Passenger Duty

- The discussion paper references APD but flags that demand began to tail-off prior to its doubling. While this is true the GTMC is more interested in the link between APD and the continued tendency to connect via a foreign hub.
- Recent PWC analysis suggests that as APD rises people flying from the UK may increasingly choose to multi-ticket to cut their APD bill. By splitting a journey into two legs – the first from a UK airport to a short distance non-UK hub, and then the second from the hub to the final destination – and purchasing two tickets and transferring physically through the hub, rather than staying on the plane, it is possible to avoid paying APD on the second leg of the flight.
- While this has to be balanced against the risks of missing a transfer flight and having no recourse we also recognise that some business travellers are attracted by the ability to reduce the amount of tax paid. Her Majesty's Treasury recognise this also but from responses to Parliamentary Questions probing this issue it appears they are unable to get a sense of how big this pattern has become.

- Our recent survey sought to begin to put a figure to the trend and explicitly asked respondents whether they took non-direct flights to avoid APD. The showed that a significant proportion (28%) occasionally do so and 15% claimed to regularly multi-ticket to reduce APD exposure.

6.0 Summary

The regional business traveller has a clear set of priorities when it comes to selecting travel options: cost, convenience/speed and productivity. They also have in many cases the expertise on tap to understand all the various routes to getting to where they want to do business.

Our experience and data suggests that the offer to regional business travellers from the UK's hub airport in many cases does not exist at all and where it does is inferior to non-UK hubs due to factors ultimately linked to constrained capacity and taxation policy.

Regional business travellers when confronted by more convenient flight times, better emerging economy networks and the possibility of minimising APD are likely to opt for an alternative to Heathrow.