2024

TRAVELWEEKLY

# Insight Report

Produced in association with

Deloitte.

# Return of the new normal

## Travel in a world of geopolitical, climate and digital disruption

Produced by Travel Weekly, with exclusive consumer research

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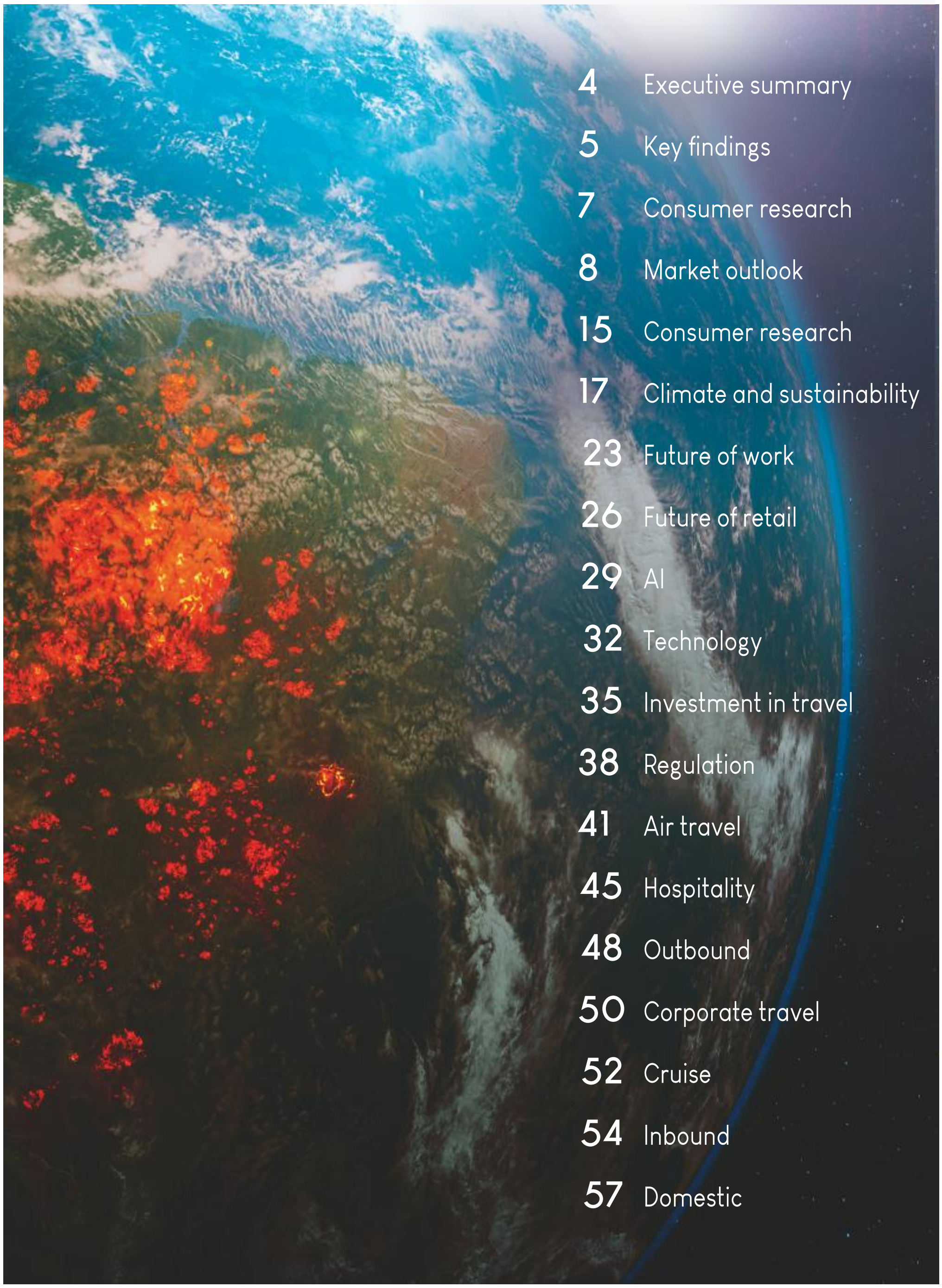
## TRAVEL WEEKLY INSIGHT REPORT 2024






TRAVEL WEEKLY
INSIGHT REPORT 2024

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TRAVELWEEKLY
Insight Report

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# EXECUTIVE SUMMARY
## THE INDUSTRY HAS AN OPPORTUNITY TO REDEFINE ITSELF

The sector reaped the rewards of a busy summer 2023. But the travel landscape is evolving, argues Deloitte's Alistair Pritchard

**THERE WAS no abating consumers' appetite for travel in 2023 despite surging inflation and geopolitical instability, as pent-up demand continued to fuel spending on travel. However, 2024 promises a more nuanced and evolving landscape.**

There is little doubt the turbulence of the past three years has reinforced consumers' interest in travel. Moreover, with increasing workplace flexibility becoming more widely accepted, professionals are seeking opportunities to blend work and leisure. This shift is poised to further sustain travel demand while changing the nature of business travel.

With many travel businesses returning to, or surpassing, pre-pandemic passenger volumes, 2023 saw a strong recovery. Net spending in the leisure sector improved for a third consecutive quarter according to the Deloitte Consumer Tracker Q3 2023 and the travel industry reaped the rewards of a busy summer. As the appetite for travel remains, the sector is seeing investment and a trickle of M&A activity.

However, there is the potential for a more conservative approach to travel behaviour in the face of an economic downturn. Consumers will want maximum value for money and may consider options such as all-inclusive holidays or fewer days away. Higher-end travel products could have a better year than budget ones.

On the corporate side, decision-makers face the delicate task of balancing conservative budgeting with the benefits travel can offer. The value of in-person interactions is clearly recognised, but how organisations go about travel is changing as they strive for growth and profitability while reducing costs and CO2 emissions.

Progress on sustainability in the industry has been modest. While corporate responsibility and marketing play a role, consumers' travel decisions do not tend to reward sustainable practices consistently. Institutional investors and government regulations are the key drivers for change, but the pace is often slow. However, investors are taking sustainability seriously, as market perception can change fast, impacting the top line and asset value.

For travel providers, adaptability is key. Those who can integrate technology to provide personalised and flexible offerings will be at the forefront of meeting the evolving needs of consumers. Technology including artificial intelligence will play a crucial role in enabling businesses to address sustainability and cost targets. Significant investment is expected. Generative AI has the potential to disrupt travel and hospitality, particularly around itinerary generation and hyper-personalisation, and to redefine loyalty by focusing on personalised experiences rather than points-based programmes.

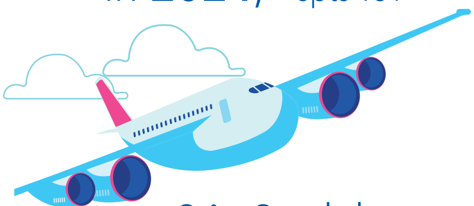
As we navigate the complexities and uncertainties of the post-pandemic world, the travel industry has the opportunity to redefine itself. By embracing innovation, understanding diverse consumer needs and prioritising the delivery of meaningful and personalised experiences the industry can redefine value through experience.

We hope you enjoy this *Travel Weekly Insight Report*. We look forward to discussing its insights and their implications with you.

**Alistair Pritchard, lead partner, Travel and Aviation, Deloitte LLP**

# KEY FINDINGS

51% plan an **overseas holiday** in **2024**, +8pts YoY



**2 in 3** adults **aged 25-44** and **70%** of parents **with children** plan an overseas holiday

62% intend to holiday **outside peak**, +7pts YoY

3 in 5 holidaymakers with **children** & 44% of adults plan a break of **six nights** or less

57% of holidaymakers & 70% with children will seek **cheaper flights**

**Half** say they will book **fewer holidays** in 2024

**54%** of travellers expect to **spend more** in 2024

69% of **parents** with children expect to spend more

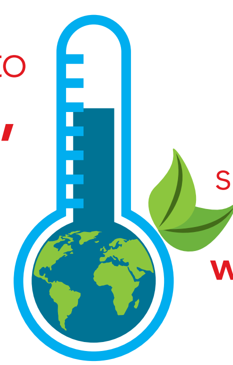
1 in 2 say **increased prices** may impact their holiday choices

31% of those 'very likely' to holiday abroad **strongly agree** to **pay more** to reduce emissions

3 in 4 parents & holidaymakers aged 25-44 plan **all-inclusive** holidays


57% of **all holidaymakers** plan an all-inclusive break, **+5pts** YoY

**43%** say they'll **change behaviour** due to **climate change,** +8pts YoY; **1 in 10** will avoid travel to a **hot** destination



**2 in 5** planning a holiday say climate concerns **won't stop** them

**32%** plan an overseas **beach** holiday, -10pts YoY

2 in 5 rate the **destination** choice the **most important**

*Source: Service Science/Kantar Graphics: Shutterstock*

# FOREWORD

## TRAVEL DEMAND STRONG DESPITE WEAK ECONOMY

**A QUESTION uppermost in outbound-travel industry minds going into 2024 was could we possibly see as consistently strong demand in the year ahead as in 2023? From the start to January, it appeared we might.**

To appreciate how remarkable that and the past 12 months have been, it's worth looking back to the last issue of this *Insight* report, published in December 2022. Then it appeared rising inflation would not be reined in without a recession. The report quoted Virgin Atlantic chief executive Shai Weiss's November 2022 prediction that "it's going to be a tough 2023".

There were challenges in the last year, but few would describe the travel market as "tough". The UK economy avoided the forecast recession and the interminable cost-of-living crisis failed to prevent close to record numbers booking overseas holidays.

There was conflicting evidence on the state of the UK economy at the turn of the year, with inflation unexpectedly ticking higher in December. Yet weak economic growth and sustained higher interest rates appear likely for the year ahead.

Not one but two wars now compound the picture, threatening to trigger higher energy prices, with Israel's war on Gaza and the fallout from Houthis' attacks on shipping diverting freight and fuel around the coast of Africa. The UK year will be dominated by the forthcoming general election, skewing government business, distracting ministers' attention and making a resolution on Atol reform unlikely.

There were some notable steps taken to address travel's need to decarbonise and become more sustainable, including a first transatlantic flight using entirely non-fossil fuel and a heroic attempt to bring every hotel in Turkey (Turkiye) up to Global Sustainable Tourism Council (GSTC) accredited standards.

But there was no step change in progress and broadly the conclusion of last year's report must stand: "The industry will not be able to rely on demonstrating reductions in its carbon intensity to escape sanctions if total emissions don't fall." Total emissions are not falling. The challenge to decarbonise is becoming harder.

Entry for UK travellers to Europe and visitors to the UK will change this year. An EU Entry/Exit System (EES) will be introduced – expected after the Paris Olympics – to register non-EU residents at the Schengen Area border, replacing passport stamping. It could cause delays as visitors will need profiles creating with facial images and fingerprints. This follows the UK's launch in November of an Electronic Travel Authorisation (ETA), initially for visitors from Qatar. The scheme, costing £10 and valid for two years, will be extended to all non-UK nationals not requiring a visa by the end of 2024.

Consumer research for this report suggests outbound travel demand should be at least as strong in 2024 as 2023. But there is clear evidence of consumers looking to control their spending by travelling outside peak season, reducing holiday durations and so on.

I am once again indebted to Service Science for facilitating the research for this report and to Deloitte and the many Deloitte contributors for their time and expertise.

> Consumer research for this report suggests no let-up in demand for overseas holidays but efforts to control spending

*MORE than half of UK adults took an overseas holiday in 2023 (Figures 1 & 2), with three in four households with children doing so and 46% taking more than one holiday. There were sharp increases on both 2022 and 2019 (Figure 3). Almost three in four adults took a UK domestic holiday in the year (Figure 4)*

**Ian Taylor**
**executive editor,**
**Travel Weekly**
***ian.taylor@***
***travelweekly.co.uk***

PICTURE: Steve Dunlop

# UK CONSUMER RESEARCH

## SERVICE SCIENCE/KANTAR SURVEY

### *FIGURE 1:* UK HOLIDAY MARKET

**30.6m** UK adults took one or more overseas holidays in 2023

**27.3m** intend to take an overseas holiday in 2024

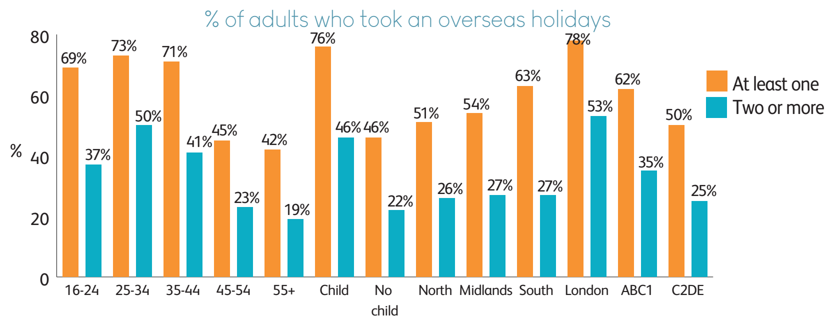

UK adults took one or more domestic breaks in 2023

**32.8m** intend to take a UK break in 2024

### *FIGURE 2:* UK OUTBOUND HOLIDAYS, 2023

**56%** of UK adults took at least one overseas holiday

**30%** took two or more




### *FIGURE 3:* UK HOLIDAY MARKET, 2023

Overseas holidays, 2023

**72%** of UK adults aged 35-44 took at least one overseas holidays in 2023

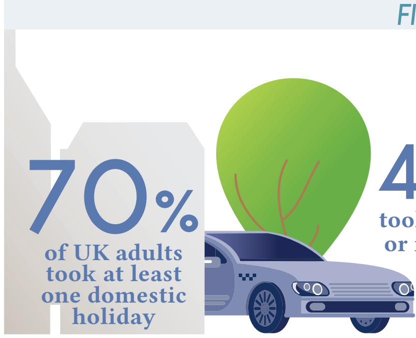
**56%** | **44%** (2022) | **50%** (2019)
of UK adults took at least one overseas holiday

**36%** | **21%** (2022) | **24%** (2019)
of adults took two or more overseas holidays

**76%** | **56%** (2022) | **58%** (2019)
of adults with children took one or more overseas holidays

**43%** of UK adults aged 45 and over took at least one overseas holiday in 2023

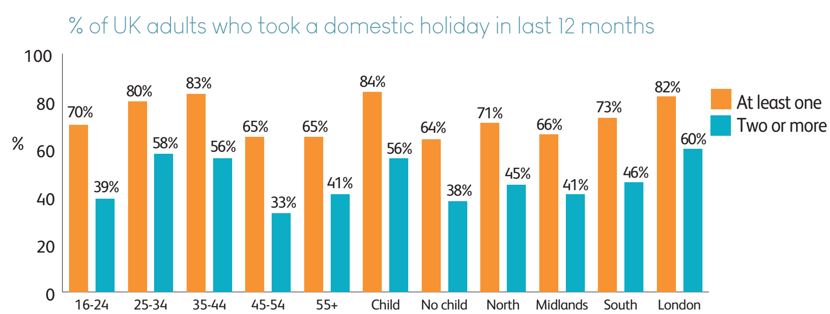
### *FIGURE 4:* UK DOMESTIC HOLIDAYS, 2023



**70%** of UK adults took at least one domestic holiday

**44%** took two or more

GRAPHICS: Shutterstock




*Source all charts: Service Science/Kantar survey of 1,279 UK adults (aged 16+), November 30-December 4, 2023*

# MARKET OUTLOOK

## TRAVEL'S RECOVERY EXCEEDED ALL EXPECTATIONS

**THE STRENGTH of demand for overseas holidays in 2023 confounded all forecasts. Consumer research for the last issue of this report found 42% of UK adults intended to take a holiday abroad in the year. The survey for this 2024 edition found 56% did so.**

The prior year survey results were in line with economic forecasts at the time. In November 2022 the Treasury and Office for Budget Responsibility (OBR) were forecasting the steepest fall in UK living standards on record, with real disposable income down 4.3% in 2022-23 and predicted to fall a further 2.8% in 2023-24. Deloitte chief economist Ian Stewart noted: "The squeeze on consumers will probably be worse than after the financial crisis."

When the government reintroduced Covid-19 testing requirements on arrivals from China in January 2023 it seemed that even some pandemic restrictions might return. Business Travel Association chief Clive Wratten denounced "a sucker punch to the industry" and "a huge step backwards for customer and corporate confidence".

The measures were subsequently removed in March. But in the meantime, outbound travel took off. Ryanair reported record bookings in January and "no need for seat sales" as it recorded five million bookings in a week for the first time. Jet2 boosted its seat capacity for summer 2023 by 7% year on year. Tui UK was confident enough by April to launch its biggest-ever summer programme for 2024, adding 11 aircraft and more than one million seats. EasyJet Holidays also added capacity.

All reported strong pricing, helped by the fact that air capacity overall remained down on the pre-pandemic level. European air navigation safety body Eurocontrol reported in October that Europe's air traffic reached only 93% of the 2019 level in the summer, two points lower than forecast in March due to "a slight fall-off since June".

The war in Ukraine was one factor in this. A degree of caution among network carriers such as British Airways owner IAG and the Lufthansa Group was another. But the key issue was a delay in deliveries of new aircraft, in particular at Boeing, coupled with maintenance issues on some models. This ensured overall capacity remained down after substantial numbers of older aircraft were removed during the pandemic. Capacity would almost certainly have been two or three percentage points higher without the delays and pricing a little softer.

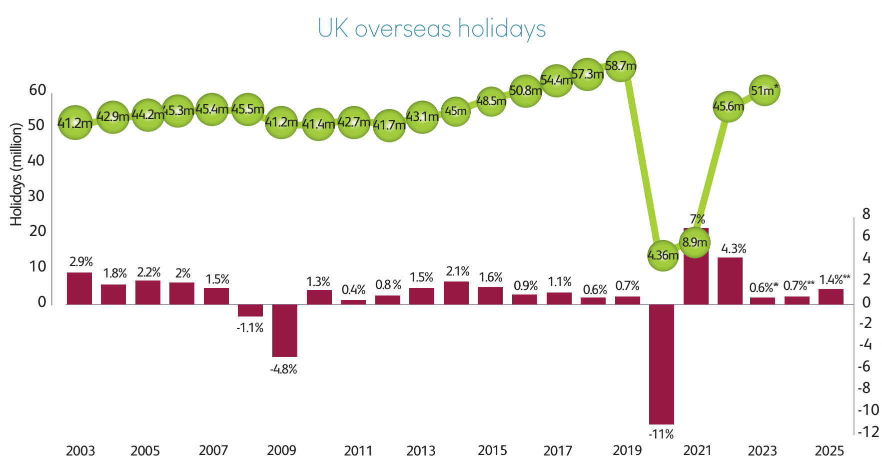
An additional factor was air traffic control, with a shortage of controllers leading to delays and some constraints on capacity, in particular at Gatwick, and a frequent number of strikes by controllers, most especially in France.

The performance of the top-two Atol holders, Jet2 and Tui, with about 40% of the market between them, set the tone for the sector overall. Jet2holidays reported average selling prices for the summer 11% up on 2022 and flight-only prices 18% higher. It was sufficiently emboldened to increase seat capacity for winter 2023-24 by 21% year on year and summer 2024 capacity by 12%.

**Outbound demand defied the economic forecasts in 2023 and there is optimism 2024 could prove equally strong**

*THERE IS a clear correlation between overseas holiday demand and economic growth (Figure 5), but weak GDP growth appears not to have too great an impact*

***FIGURE 5:*** OUTBOUND HOLIDAYS & GDP, 2003–25




**12 months to September **Office of Budget Responsibility (OBR) estimate/forecasts*
*ONS travel and tourism data revised 2019, when outbound figures for 2009-18 re-estimated Source: ONS, OBR*

> We expect growth to be flat in the first quarter and turn positive after spring, picking up in the second half of the year as price pressures ease and rates begin to move downwards

Tui reported record group revenue for July to September and its annual revenue exceeded €20 billion for the first time, up 25% year on year. The group reported winter 2023-24 bookings and average prices "up significantly" and forecast revenue would grow by at least 10% this year.

Travel retailers attending Abta's Travel Convention at the end of October reported similarly strong trading. Fred Olsen Travel retail director Paul Hardwick told a Travel Weekly Business Breakfast: "About one-third of our business is new to us this year – the highest it has ever been." The Travel Network Group chief executive Gary Lewis reported "a record year for many, with record numbers, record margins", and Midcounties Cooperative chief operating officer Claire Evans noted: "We're now booking into 2025."

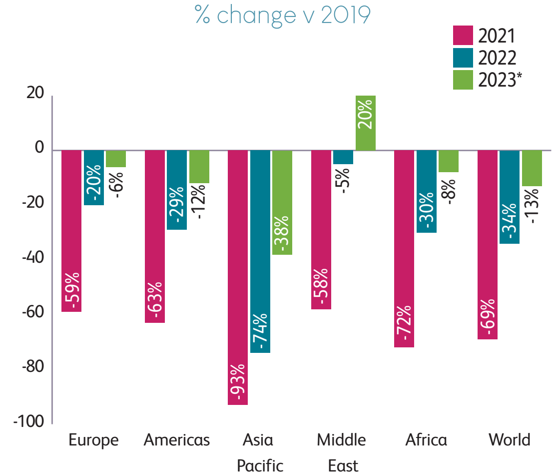
Abta chief executive Mark Tanzer declared the industry on "the threshold of a new era" at the convention, with artificial intelligence (AI) set to have a "transformative" impact but the record temperatures in many popular destinations during 2023 "making many reassess their investment strategy".

He warned: "The path the industry is on over the next decade won't be easy, [with] the challenges we face set against a background of international conflict and economic stagnation."

## SLOW START TO YEAR

Deloitte senior economist Debapratim De noted "a mixed message on consumer demand and growth" following the chancellor's Autumn Statement in November, saying: "On the face of it, the news looked positive. Individuals will pay slightly lower taxes than otherwise, and the OBR suggested

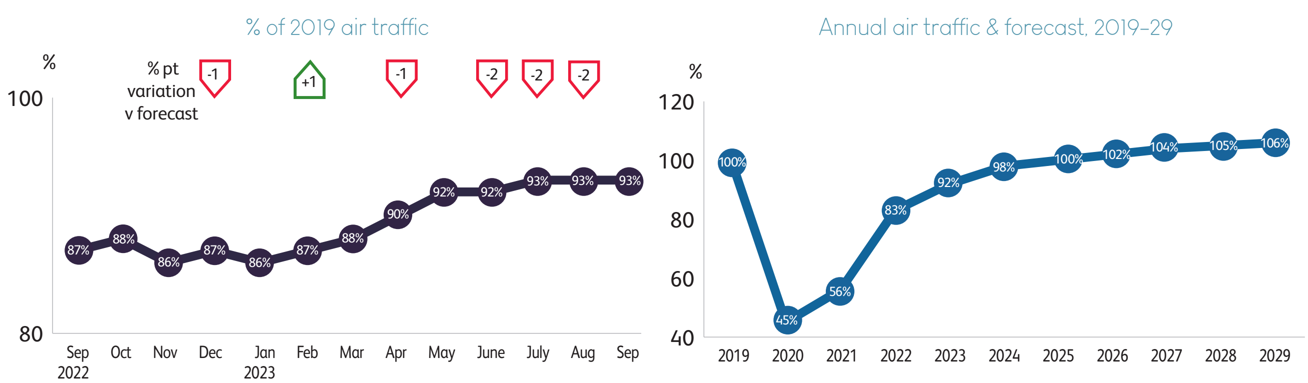
*FIGURE 6:* INTERNATIONAL TOURIST ARRIVALS




**January-September 2023 Source: UNWTO*

*THE MIDDLE East was the only global region to see international tourist arrivals surpass the 2019 level in 2023, according to UNWTO data, but Europe was only 6% shy (Figure 6). European air traffic returned to 92% of 2019's level in the year (Figure 7)*

*FIGURE 7:* EUROPEAN AIR TRAFFIC BY MONTH, 2022–23




*Source: Eurocontrol, October 2023*

# MARKET OUTLOOK
## TRAVEL'S RECOVERY EXCEEDED ALL EXPECTATIONS

the squeeze on disposable incomes is weaker than previously forecast. Having said that, even the weaker squeeze would be the biggest since the 1950s."

He explained: "Higher tax receipts as a result of inflation meant the government had some additional headroom for spending and it spent that on a significant cut to taxes for business and undoing some of the rises in income tax planned for future years. But despite the rhetoric on tax cuts, the UK will continue to run a much bigger state than before the pandemic.

"We forecast a modest recession a year ago, but what seems to have materialised was a far milder 'technical' recession in the second half of 2023. The labour market proved more resilient than expected, supporting jobs, wage growth and demand.

"We're going to see a slow start to the year. The impact of interest rate rises lags significantly, but we're seeing some of that feed through. We expect growth to be flat in the first quarter and turn positive after spring, picking up in the second half of the year as price pressures ease further and rates begin to move downwards.

"That is broadly a positive outcome given inflation peaked above 11% and interest rates have risen from 0.1% to 5.25%, without the financial or economic stress usual with monetary tightening. In the medium term, a lot will depend on how stubborn underlying inflationary pressures prove to be. Persistent pricing strength will mean higher rates dampen growth for longer."

De said: "Our central forecast has inflation continuing to fall this year, albeit at a slower pace. Underlying price pressures – core inflation or

### *FIGURE 8:* UK CONSUMER CONFIDENCE

% point difference between 'confident'/'not confident'

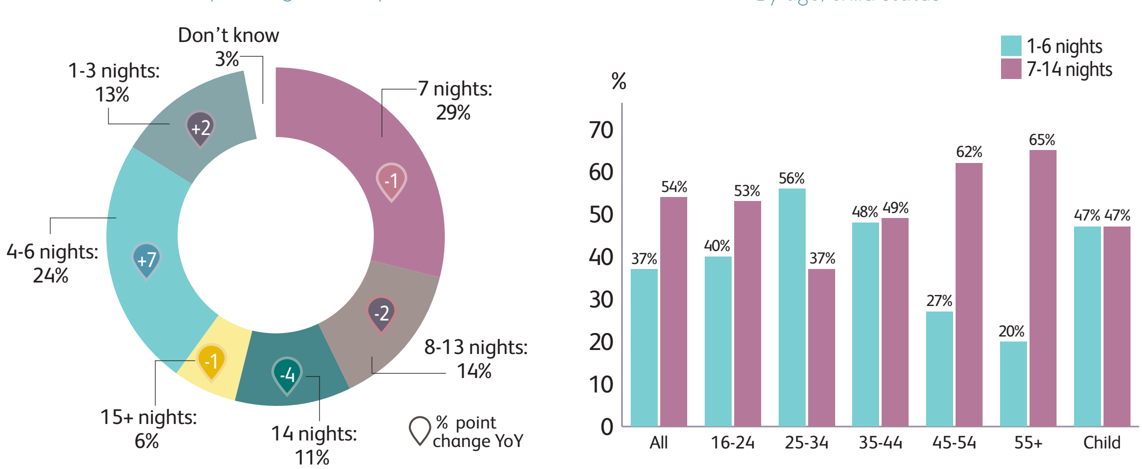

*Source: Deloitte Consumer Tracker*

*UK CONSUMER confidence has been lower but could not be described as strong (Figure 8). Our Insight consumer survey suggests an increase in holidaymakers planning shorter breaks (Figure 9). Yet demand and spending intentions remain strong (Figures 10 & 11), although living costs and climate concerns could influence behaviour (Figures 12 & 13)*

### *FIGURE 9:* DURATION OF NEXT OVERSEAS HOLIDAY

% of UK adults planning a holiday abroad in 2024

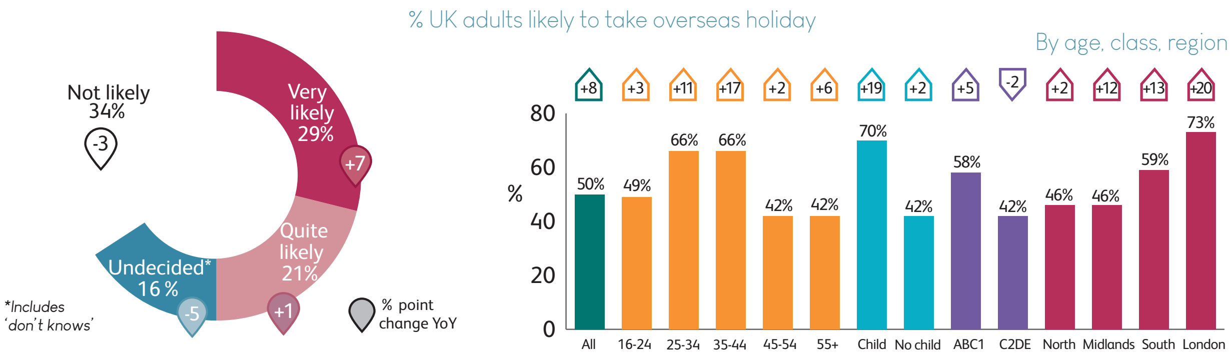
By age, child status



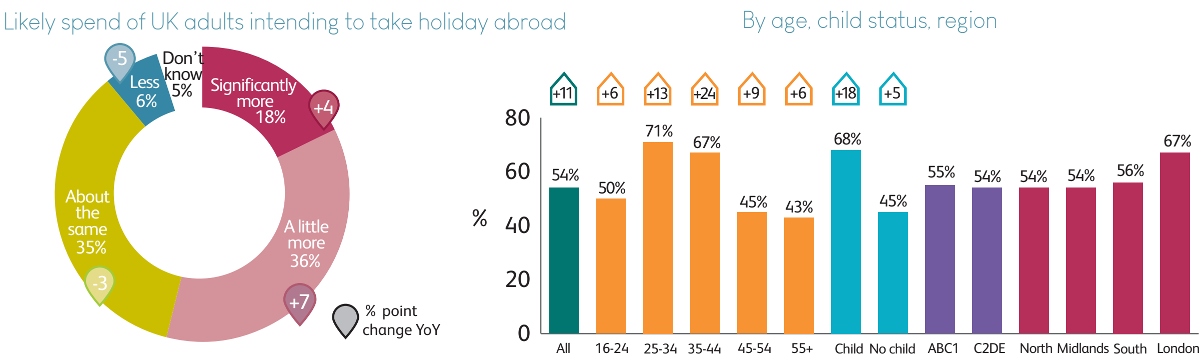

*Excludes 'don't knows'. Base: UK adults likely to take an overseas holiday in 2024. Source: Service Science/Kantar*

# UK CONSUMER RESEARCH
## SERVICE SCIENCE/KANTAR SURVEY

### *FIGURE 10:* DEMAND FOR OVERSEAS HOLIDAYS, 2024

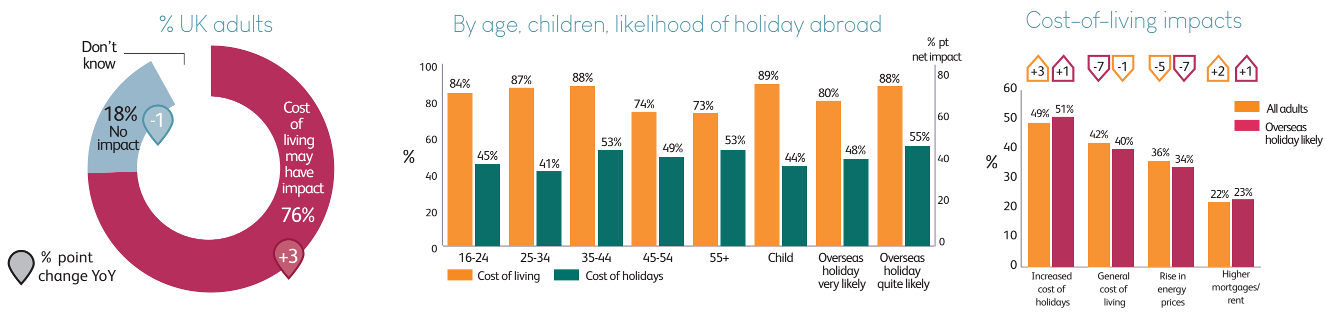



### *FIGURE 11:* SPENDING ON OVERSEAS HOLIDAY, 2024

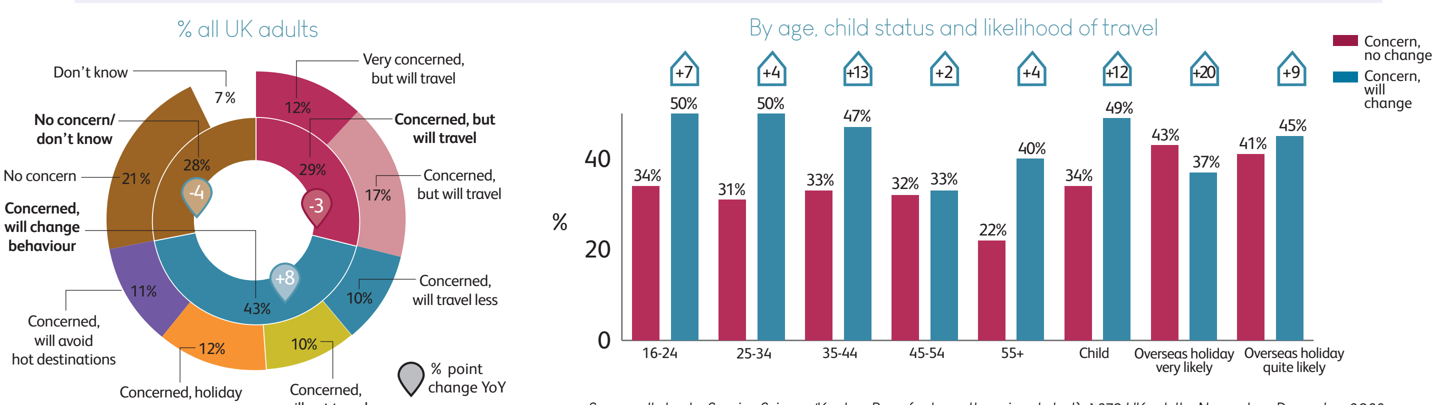



*Base: 813 UK adults planning a holiday abroad in 2024*

### *FIGURE 12:* COST-OF-LIVING IMPACT ON 2024 HOLIDAY DECISIONS




### *FIGURE 13:* CONCERN ABOUT CLIMATE CHANGE AND ITS IMPACT ON TRAVEL




*Source all charts: Service Science/Kantar Base (unless otherwise stated): 1,279 UK adults, November-December 2023* services inflation – are still fairly high. The expectation is inflation will be just under 3% by the end of 2024.

"Markets expect the first cuts to interest rates in the summer, then for rates to fall gradually because inflation is likely to remain above target probably well into 2025. Investors foresee a gradual easing to around 3.2% by the end of 2026. A year ago, markets expected rates to have fallen to 2.5% by then, so this is a significant uprating of expectations."

He noted: "The channel through which higher interest rates largely impact consumers is the mortgage market and, given one-third of British households have mortgages, the impact is limited to those. You could argue there is an indirect impact on those who rent as landlords pass on higher costs. But broadly the effect is limited. By the Bank of England's estimate, about half the impact of rate rises had been felt by consumers by autumn 2023, with at least a year and a half to go before the full effects.

"So, there is going to be some drag on consumer spending. Having said that, the 'lag' helps because wage rises will offset some of the drag on spending."

De added: "Unemployment has risen a little and we've seen consecutive months of falls in the number of vacancies [with] some early signs of slack developing in the labour market, but it remains quite tight. Given that, and the downward trajectory of inflation, I expect real wages to continue rising through 2024 even if unemployment rises slightly. That should support consumer spending.

## BUSINESS CONFIDENCE

"Business confidence took a bit of a hit over summer 2023 when inflation surprised on the upside and rate expectations rose. But our latest survey of chief financial officers (CFOs) shows optimism improved since then. CFOs expect growth this year, although not imminently. Cost reduction is still the top priority for business leaders, followed by increasing cashflow. CFOs do not expect a return to the low-interest, easy-money era of the post-financial crisis world."

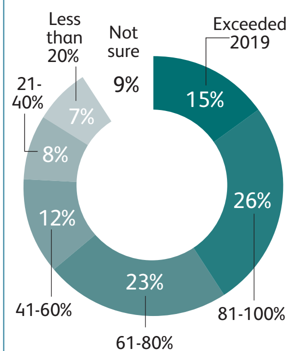
Looking beyond the UK, he said: "Inflationary pressure in Europe seems to be weaker than in the UK. Despite that, most European economies are forecast to grow at well below their trend growth rates. There is a significant slowdown expected in Spain, which grew strongly last year, and Germany seems to be in recession. A German recession would have a broad impact on Europe because Germany is the largest European economy and a big source of external demand for others. Slowing growth in China also dampens a huge source of demand for Germany.

"A year ago, economists were concerned the end of China's zero-Covid policy would mean inflation proved harder to tame in the West as China would boost global demand. That hasn't come to pass. In fact, demand has been weak in China. We haven't seen the sort of rebound we saw in the West once restrictions were eased. Despite that, China's economy is expected to have grown by 5% in 2023."

De argued: "The US, of all western economies, is probably the closest to pulling off a 'monetary miracle' – seeing off high inflation and substantial rate rises without a recession. However, economists forecast a significant

### *FIGURE 14:* INTERNATIONAL BUSINESS TRAVEL BOOKINGS, LATE 2023

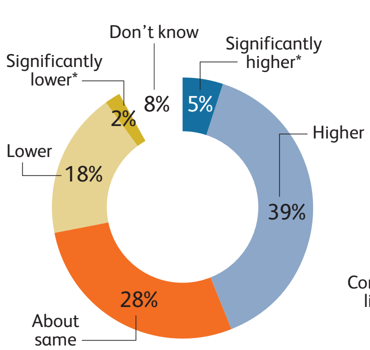
% of 2019 bookings




*Source: GBTA travel buyers, October 2023*

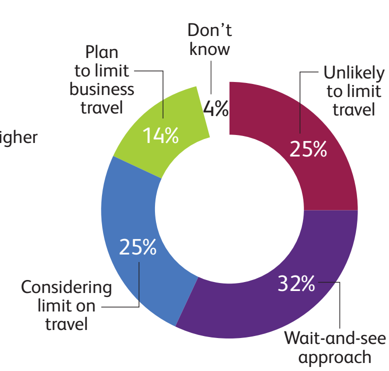
### *FIGURE 15:* CORPORATE TRAVEL OUTLOOK

2024 budgets compared with 2023




*25% higher or lower than 2023

Impact of economic outlook




*Source: GBTA, October 2023*
*Base: 865 GBTA members*

slowdown in US growth. Expectations are that the US grew by about 2.4% in 2023. The consensus forecast for 2024 is 1.2%."

He noted: "One of the surprising features of this monetary tightening has been the absence of a rise in financial stress. Although there were some bank failures last year, the fallout was limited, and households and corporates have largely absorbed the higher debt and input costs. We expect financial stress to tick up this year as the effects of rate rises feed through but to nowhere near the levels in previous recessions.

"There remain some areas of concern in the financial system. Our own measure of financial stress indicates above-average risks in the sovereign debt and real estate markets. There are still some concerns about US regional banks. But tighter regulation put in place after the financial crisis means European, UK and larger US banks are better placed to cope with shocks."

No great movement in exchange rates is expected, meaning US travellers to Europe should continue to enjoy an attractive rate of exchange, while UK and EU travellers to the US could find things costly.

## OUTLOOK FOR TRAVEL

Every indication at the turn of the year pointed to the continuing strength of demand for travel. Deloitte lead partner for travel and aviation Alistair Pritchard suggested: "Despite the economic challenges, there is undoubtedly going to be strong demand because consumers prioritise holidays.

"Our consumer tracker, Deloitte Consumer Signals, shows every time that leisure travel is the top area of discretionary spending. It can be higher than some areas of essential spending. Other forms of discretionary leisure spending have struggled.

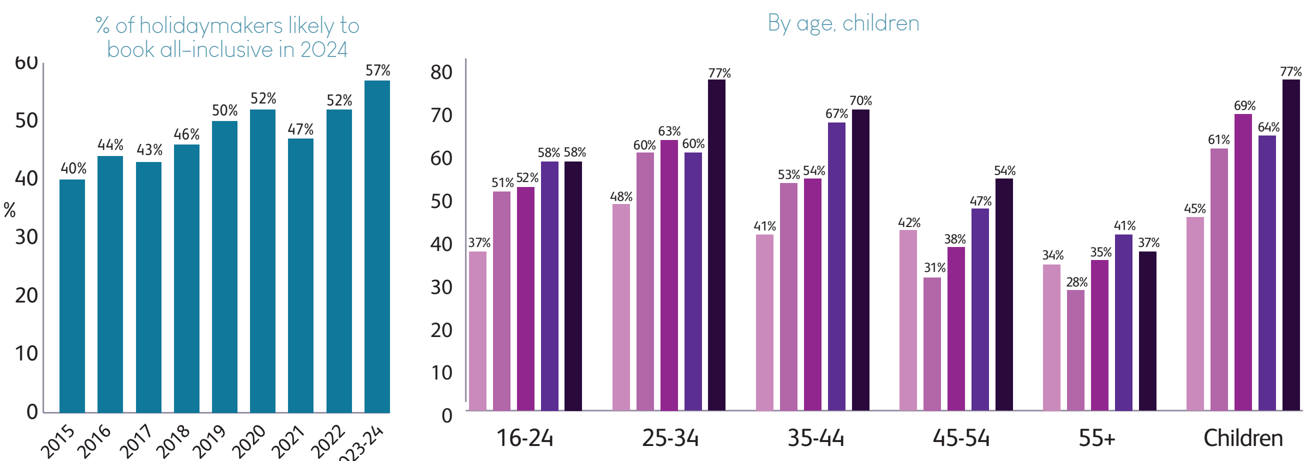
"Of course, we haven't seen the full impact yet of some of the cost pressures people face. Consumers will have to think about how much they spend on holidays and that might result in people taking seven rather than 10 nights, for example. We typically don't see people downgrading on quality but taking shorter breaks or thinking about value for money. I could see some destinations such as Turkey doing well if people are being careful about how much to spend."

He noted: "The big-three tour operators have put on additional capacity and increased their Atol licences quite considerably. Of course, there is a difference between an Atol and the actual capacity. A bigger licence sets a higher limit on the numbers, but that doesn't automatically translate into capacity.

> "We haven't seen the full impact yet of some of the cost pressures people face – that might result in people taking seven rather than 10 nights, for example

*CORPORATE travel bookings in 2023 remained down on 2019 (Figure 14) and rising costs could impact on 2024 (Figure 15). But the leisure consumer demand for all-inclusive accommodation just goes on rising (Figure 16)*

***FIGURE 16:*** **ALL-INCLUSIVE DEMAND, 2015-24**




*Source: Service Science/ Kantar*

# TRAVEL'S RECOVERY EXCEEDED ALL EXPECTATIONS

The leading operators have announced additional routes and capacity, but they have some flexibility. There could be some flexing on capacity depending how strong demand is.

"The Atol licence is about headlines to some extent. If you're a business of a certain scale, whether you apply for a licence of five million or 5.5 million does not make a huge difference to the requirements the CAA might put on you. It just gives an upper limit."

Pritchard pointed out the additional capacity in 2023 and that added for 2024 "would exceed the impact of Thomas Cook" exiting the market in 2019 "and mean more people holidaying than ever before".

"Given the current economic climate, that could be challenging and feed through into pricing. So, some tweaking of capacity will probably take place."

He suggested: "There has been a bit of a post-pandemic effect on demand and perhaps 2024 will be more of a normal year. People could have tighter pockets. Wages have been increasing, but we're still seeing cost increases and people are coming out of fixed-rate mortgages. It could be a bit different to 2023 when for many people it was the first year after the pandemic that they had a proper holiday and they had pent-up savings."

*DESTINATION and price have the most influence on holiday decisions, with some variation by age (Figure 17). Holidaymakers plan various ways to control their spending in 2024 (Figures 18, 19 & 20). Booking with a trusted company appears more of a priority than Atol protection (Figure 21).*

### *FIGURE 17:* FACTORS MOST LIKELY TO INFLUENCE OVERSEAS HOLIDAY CHOICE


*Source: Service Science/Kantar, November-December 2023*
*Base: 813 UK adults likely to take overseas holiday in 2024*

## DEMAND RISING

Research for this report suggests no let-up in demand for overseas holidays in 2024, with half (50%) of UK adults saying they are likely to book a holiday abroad, up eight percentage points on a year earlier. The sharpest increase, up seven points to 29%, was among those 'very likely' to travel abroad. Another 16% appeared undecided.

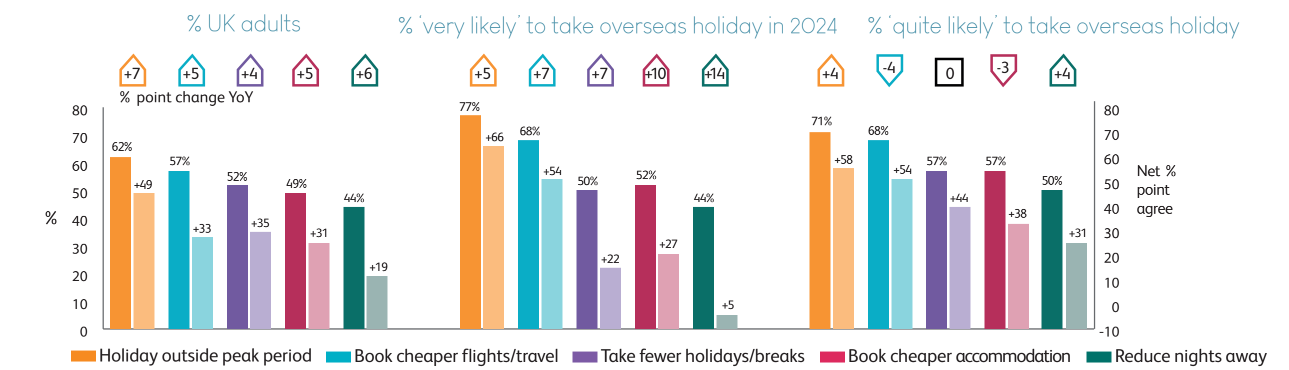
Two-thirds (66%) of those aged 25-44 said they intend to take an overseas holiday – a double-digit increase year on year – and 70% of those with children, up 19 percentage points. While a smaller proportion of adults aged 45 and over said they plan a holiday abroad, the 42% who do is up year on year.

More than half (54%) of those intending to travel expect to spend more on doing so this year than last, and another third (35%) to spend about the same. More than two-thirds of those aged 25-44 and/or with children expect to spend more.

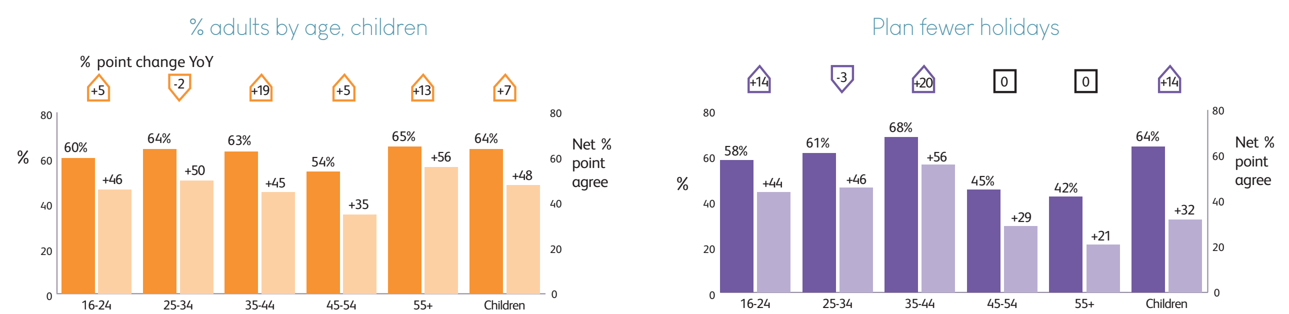
Despite this, three-quarters of UK adults (76%) said the cost of living

# UK CONSUMER RESEARCH
## SERVICE SCIENCE/KANTAR SURVEY

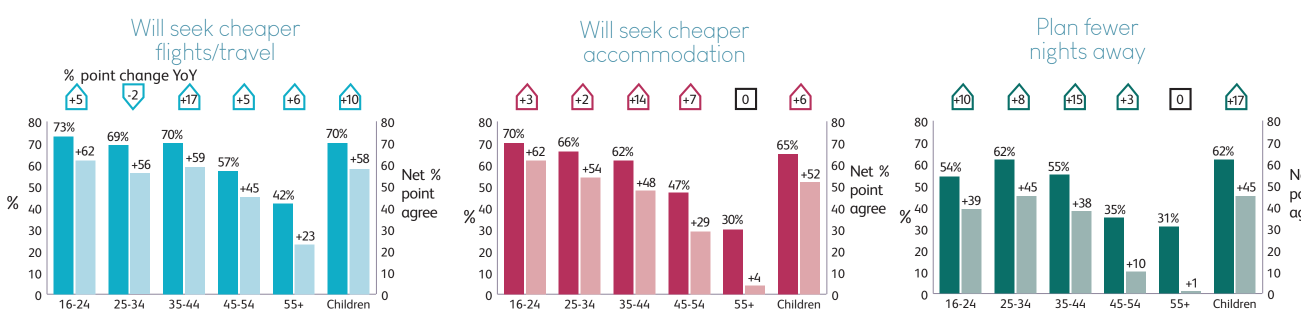
### *FIGURE 18:* HOLIDAYMAKER RESPONSES TO HIGHER COSTS



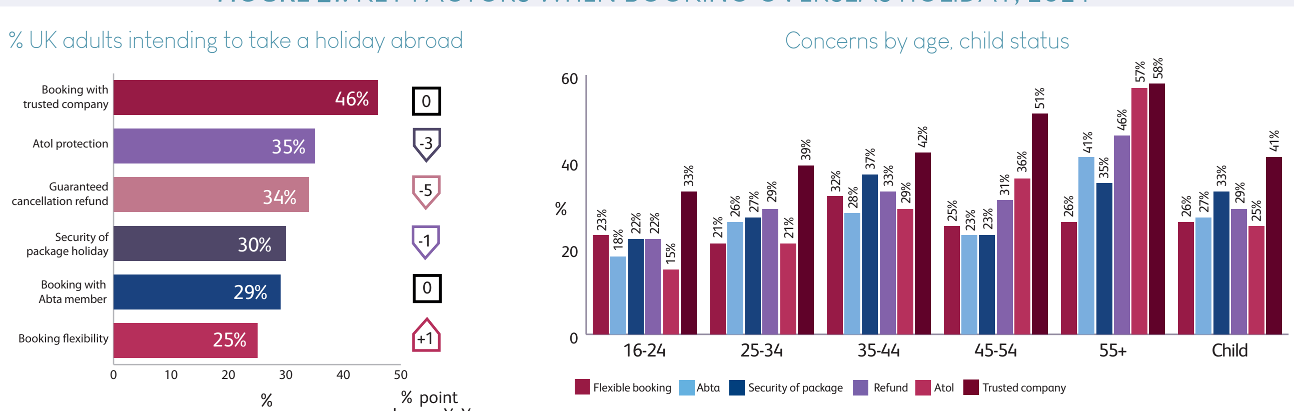

### *FIGURE 19:* HOLIDAYMAKERS WHO AIM TO TRAVEL OUTSIDE PEAK




### *FIGURE 20:* HOLIDAYMAKERS CHANGING TRAVEL BEHAVIOUR




### *FIGURE 21:* KEY FACTORS WHEN BOOKING OVERSEAS HOLIDAY, 2024




*Source all charts: Service Science/Kantar survey of 1,279 UK adults (aged 16+), November 30-December 4, 2023* may have an impact on their holiday decisions, rising to 80% of those 'very likely' to have an overseas holiday and 88% among those 'quite likely'. Half (49%) cited the cost of holidays as a factor that could influence their decision.

Unsurprisingly, the survey found ways to control or minimise cost increases increasingly popular. Almost three out of five prospective holidaymakers (57%) said they were likely to book all-inclusive accommodation, up five percentage points year on year and the highest yet recorded in the survey, fully 17 points up on 2015. Three-quarters (77%) of those with children said they would opt for all-inclusive.

Three out of five UK adults and 77% of those 'very likely' to travel said they aimed to travel outside peak season, including two-thirds (64%) of those with children. Two-thirds (68%) of those intending to take an overseas holiday said they would seek cheaper flights or travel options, and more than half cheaper accommodation. Just under half of those planning a holiday said they would reduce the number of nights away – in the case of those 'very likely' to travel this proportion was up 14 percentage points year on year to 44%.

Half of all UK adults (52%) said they would take fewer holidays in 2024 in response to increased costs. This rose to roughly two-thirds among those with children (64%) and those aged 35-44 (68%).

Alongside the strength of demand and cost concerns, the survey's most striking findings relate to climate change and sustainability. This may not be surprising given the growing prevalence of heatwaves, wildfires, floods and other climate-related events, often in travel destinations.

More than two in five UK adults (43%) said they were concerned enough about the warming climate to change their travel behaviour, up eight percentage points year on year. The proportion was lower at 37% among those 'very likely' to take a holiday overseas but up 20 percentage points on a year earlier.

Almost two out of five holidaymakers (38%) said they were prepared to pay more to travel with a company which minimises its carbon emissions, up 10 percentage points year on year, with a strong bias in agreement among those aged under 45.

## The Deloitte view

The year 2023 unfolded as another challenging chapter for the travel sector, grappling with the prolonged aftermath of the pandemic, geopolitical unrest and economic uncertainties. Despite these hurdles, the industry demonstrated its resilience, highlighting an ability to adapt to societal changes and emerging trends. These changes have included a workforce with varying needs and expectations, a decrease in business travel, an increasing focus on sustainability, and shifting customer demands. In the next year, industry executives will need to consider:

- **Strategic supply chain management:** Understanding the domino effect of disruptions and implementing measures to address them will be crucial for ensuring uninterrupted operations.
- **Regulatory preparedness:** Travel companies need to stay abreast of changes such as the EU Corporate Sustainability Reporting Disclosure, UK Corporate Governance Reforms and the new Failure to Prevent Fraud offence. Being prepared for regulatory shifts is essential for maintaining compliance and building resilience.
- **Adaptable travel products:** Flexibility in product offerings, combined with an understanding of evolving consumer needs, will be essential for sustaining profitability in the face of uncertainty.
- **Climate transition readiness:** The global focus on climate change presents risks and opportunities. As the finance industry channels capital towards low-carbon technologies, travel companies must be at the forefront of developing ground-breaking technologies and new operating models. Embracing the climate transition is not only imperative but a strategic move to de-risk the industry.
- **Breaking down organisational siloes:** Resilience requires a collaborative effort across departments, mobilising experts in risk management, finance, operations, technology, ESG, business continuity, supply chain and product development. Breaking down organisational siloes will enhance oversight of risks and facilitate mitigation strategies.

Prioritising enhanced risk management and resilience building can instil confidence in the industry's ability to adapt and thrive in times of uncertainty. By addressing supply chain challenges, staying ahead of regulatory shifts, adapting products to changing consumer demands, embracing the climate transition and fostering organisational collaboration, executives can fortify their businesses against future uncertainties.

*James Meadowcroft, partner, Risk Advisory, and Bethany Hawkings, senior manager, Risk Advisory*

# CLIMATE AND SUSTAINABILITY

## ‘THE RISKS OF CLIMATE CHANGE ARE BECOMING OBVIOUS’

**THE WORLD is on course for an average temperature rise of 2.9C above pre-industrial levels even if countries stick to their current climate pledges, according to a UN Environment Programme report in advance of the COP28 Climate Conference in Dubai in November.**

Global greenhouse gas emissions reached a new peak in 2023 and a 43% reduction on 2019 levels by 2030 is now needed to limit warming to 1.5C.

COP28 closed with a non-binding agreement on an “orderly transitioning away from fossil fuels in energy systems”, the first time fossil fuels have been mentioned in a COP agreement.

A UN Intergovernmental Panel on Climate Change (IPCC) Synthesis Report published in March made alarming reading, not least for the travel industry, despite its cautious language. It warned the risks of warming are greater than forecast less than a decade ago, noting “limits to adaptation” have already been reached in some tropical, coastal, polar and mountain regions.”

The IPCC warned: “Every increment of global warming will intensify multiple and concurrent hazards.” Yet it also asserted: “Deep, rapid and sustained reductions in greenhouse gas emissions would lead to a discernible slowdown in global warming within around two decades.”

The authors described the report as “a final warning”, suggesting governments move the 2050 ‘net zero’ deadline forward as near to 2040 as possible, adding: “Choices and actions implemented in this decade will have impacts…for thousands of years.”

Among the implications for destinations, the report noted sea level rise will mean “current one-in-100-year extreme sea level events [will] occur at least annually in more than half of all tide-gauge locations by 2100 under all scenarios”. Tide-gauge locations measure the changing level of tides. There are 40 around the UK.

The World Travel & Tourism Council (WTTC) and Saudi-based Sustainable Tourism Global Centre (STGC) released landmark data on the global impact of travel in an Environmental Impact Research report in November. This highlighted a decoupling of travel and tourism GDP growth from its environmental footprint between 2010 and 2019, with reductions in the intensity of greenhouse gas emissions, energy consumption, water use and material extraction.

However, it came with a warning, noting “the current climate and biodiversity crises” mean: “Continuing business as usual risks breaching environmental tipping points…[when] the sector is more dependent than most on the natural world.”

### RUNNING OUT OF TIME

The past 12 months saw unprecedented heat waves, wildfires and flooding around the world and little discernible increase in the rate of progress.

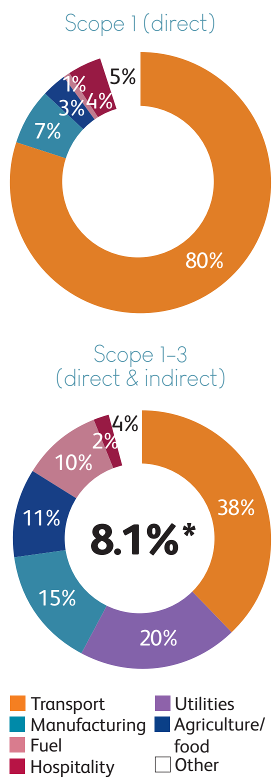
Beth Hawkings, Deloitte senior manager in risk advisory, noted: “You can see the physical impacts of climate change, the fires and heatwaves becoming more prevalent. These illustrate climate change is happening now. The implications and risks are becoming more obvious.”

She argued: “A 1.5-degree warming world was already unlikely. But where we are now, regulation is coming in thick and fast, such as the EU Corporate Sustainability Reporting Directive (CSRD) which will affect not only EU companies but companies with activities in the EU. We’ll see companies start to respond and the disclosures leading to action, giving business decision-makers the data they need to decide where to focus. As companies report against the regulations, we’ll start to see faster progress. We expect UK and US business to be impacted.

“There are four timelines, with the latest for full-year 2028. The CSRD hits large and listed companies first, then companies with large undertakings and activities in the EU, then small and medium-sized (SMEs) businesses and those with smaller undertakings in

Despite a lot of talk and some progress on sustainability, ‘we’re still tinkering around the edges’

*FIGURE 22:*
TRAVEL & TOURISM GREENHOUSE GAS EMISSIONS

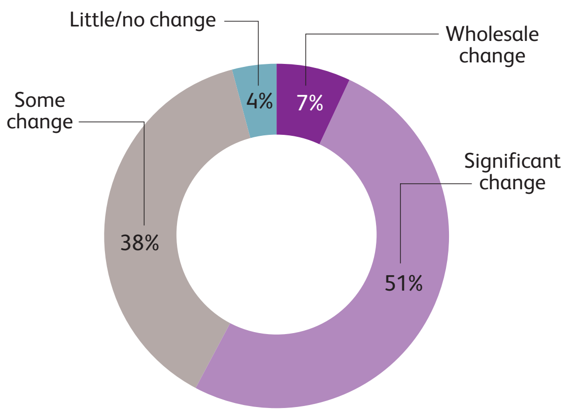



**Travel & tourism share of global emissions*
*Source: WTTC*

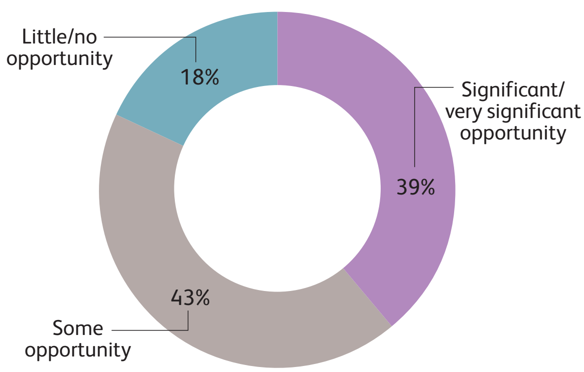
# CLIMATE AND SUSTAINABILITY
## 'THE RISKS OF CLIMATE CHANGE ARE BECOMING OBVIOUS'

### *FIGURE 23:* LOW-CARBON TRANSITION

Expected scale of change in next 10 years: % of CFOs




Expected opportunity: % of CFOs




*Source: Deloitte CFO Survey, Q3 2023*

> "When investors come to sell the asset, they want to know the business is on the right track not only with its reporting but in reducing its footprint

*THREE OUT of five business leaders rate the scale of change required to decarbonise as 'significant' or 'wholesale' (Figure 23). Government policy is seen as the biggest source of climate pressure on business, just ahead of consumers (Figure 24)*

the EU. The timeline is meant to allow for a progressive transition to reporting. The first round impacts all companies which had to report already under the Non-Financial Reporting Directive (NFRD), but it expands that significantly."

Alistair Pritchard, Deloitte lead partner for travel and aviation, insists the pressure from investors to take action on sustainability has not let up, while noting: "The volume and activity of investor transactions in the sector has been relatively modest over the last 12 months. So, there have probably been fewer conversations about this."

He argued: "Most investors look at the lifecycle over which they will hold an asset. The typical lifecycle is four to five years. When investors come to sell the asset, they want to know the business is on the right track not only with its reporting but in reducing its footprint."

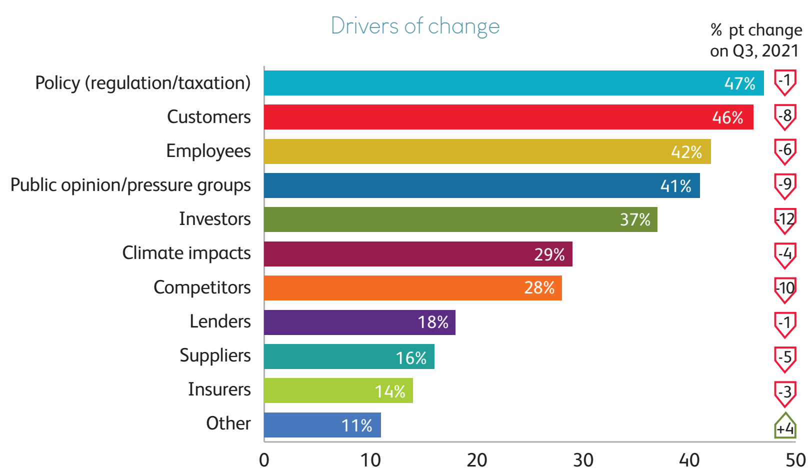
Yet there is a counter pressure against action on climate change and environmental, social and governance (ESG) issues, particularly in the US.

Pritchard acknowledged: "That is the one counter to this. There are areas in the US where things are happening, for example in California. But from discussions with companies in the sector which have operations in the US, I sense there is some reticence around this and it's causing a few dilemmas about how far and how fast companies should go. There is pressure from outside the US and from stakeholders in the US – pressure to find a balance between investing in becoming more sustainable and in wider ESG practices and pressure to optimise business performance. These debates are happening at boardroom level and could potentially result in things moving more slowly.

"The point is there are differing views on climate and ESG and the political situation could undoubtedly have a bearing on how strong any regulation is, whether any retrograde steps are made or whether things accelerate. The political situation in numerous countries could have a bearing on the pace of change."

### *FIGURE 24:* SOURCES OF CLIMATE PRESSURE ON BUSINESS

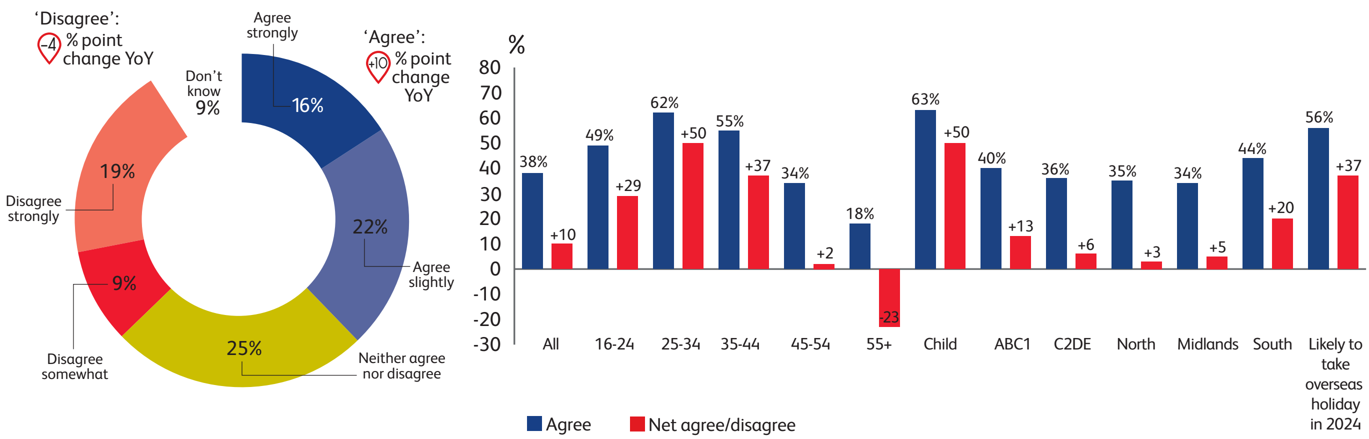
Drivers of change




*Source: Deloitte CFO Survey, Q3 2023*

### *FIGURE 25:* 'I'M PREPARED TO PAY MORE TO TRAVEL WITH A COMPANY THAT MINIMISES CO2 EMISSIONS'

% of UK adults planning a holiday abroad in 2023




*Source: Service Science/Kantar November-December 2023 Base: 1,279 UK adults*

## PROGRESS IN TRAVEL

There has undoubtedly been progress on sustainability in the travel industry. The question is whether the action is anywhere near enough.

Hawkings noted: "The first transatlantic flight using 100% sustainable aviation fuel (SAF) by Virgin Atlantic in November marked significant progress."

Martin Bowman, Deloitte aviation digital assets director, agreed saying: "The Virgin Atlantic flight was a major step forward from a UK and a global aviation perspective. It was a milestone in the move towards approval for 100% SAF. For long-haul aviation, SAF is the answer. Hydrogen is nowhere near yet [as an alternative aviation fuel] and electric propulsion is a short-haul solution as it stands. These are long-term plays. Prototyping and moving to certification of these technologies will be a long process.

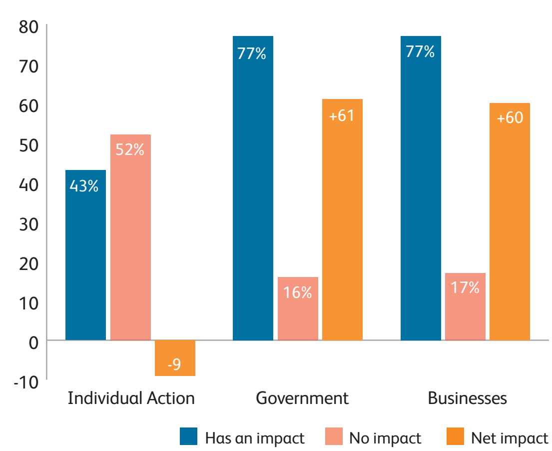
"There are encouraging signs of movement. But I have a couple of frustrations. One would be that we know the dial-shifting technologies are all significantly in the future. The technology needs to develop and regulation needs to catch up for the technology to be deployed. I'm talking about SAF, hydrogen and electric propulsion. In the interim, the only game in town is operational efficiency – flight efficiency, fuel efficiency, airspace modernisation. I'm frustrated at the lack of recognition that this is where the focus needs to be, and the lack of coordination on that. It remains a missed opportunity. We should be doing an awful lot more.

"That is not to say there haven't been advances and initiatives that are

*RESEARCH for this report found a sharp increase in consumers saying they are prepared to pay more to travel with a company which minimises its CO2 emissions, but with a pronounced age variation (Figure 25). Consumers see government and business as responsible for taking action (Figure 26)*

### *FIGURE 26:* IMPACT OF ACTION ON CLIMATE CHANGE

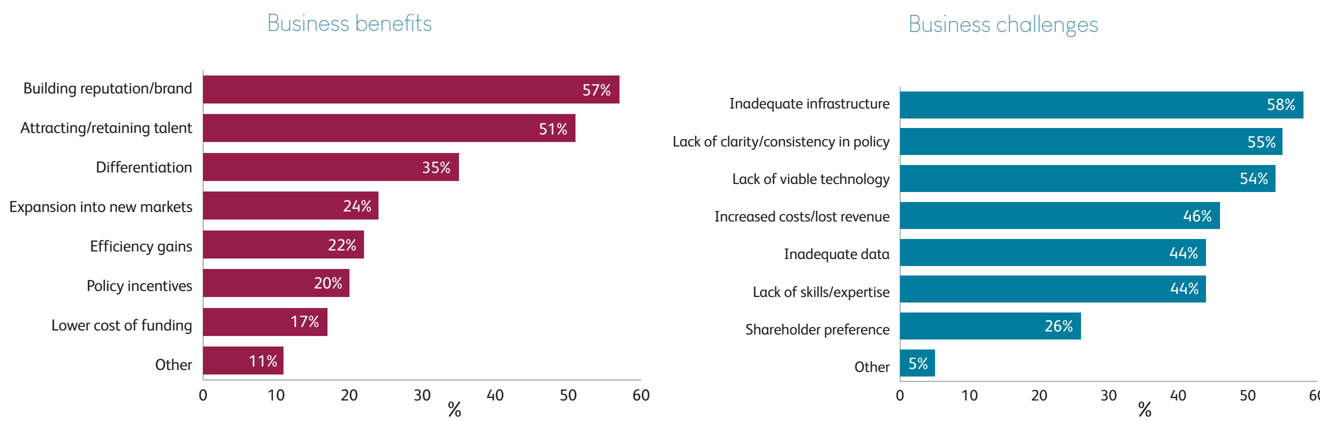
% agree




*Source: YouGov, November 2023 Base: 2,113 UK adults*

# CLIMATE AND SUSTAINABILITY
## ‘THE RISKS OF CLIMATE CHANGE ARE BECOMING OBVIOUS’

*FIGURE 27:* BENEFITS AND CHALLENGES OF CLIMATE TRANSITION




*Source: Deloitte CFO Survey, Q3 2023*

encouraging. One is the work Google has been doing on contrail [condensation trail] detection, initially with American Airlines and more recently with Eurocontrol, using artificial intelligence in the same way as technologies for [adverse] weather detection and avoidance. That is a great illustration of the type of thing we should be doing now. It doesn’t require any new technology. We need to be looking at these types of capabilities at the network level.

“The second frustration is that I’ve seen scenarios where a strategic recognition of the importance of cracking on with things subsequently becomes deprioritised – climate-related projects where people basically said, ‘It’s important but not as important as other stuff, so we’re not doing it’.”

There are major question marks around SAF, not least because the emissions from aircraft tailpipes will be no different to those from fossil fuels. The carbon ‘savings’ depend on the feedstocks and energy use in the production process. The EU has set a mandate for 6% of aviation fuel to be SAF by 2030, and the UK is pledged to establish a SAF mandate of 10% by 2030. But SAF comprises barely 0.2% of aviation fuel at present, according to Iata, and there is no clarity on what volumes will be produced, at what price, where and the availability of feedstocks.

*BUSINESS leaders see both challenges and benefits of climate transition (Figure 27)*

Pritchard said: “There are a number of challenges. If we have to bring in SAF from elsewhere, there is a carbon impact of doing that. If we can establish SAF manufacturing plants in the UK, there would be transportation costs to moving huge volumes on fuel transporters.

“There have been industry calls for a government mechanism to provide some certainty around price, because you won’t get manufacturers or investors to produce SAF if there isn’t certainty around pricing. Obviously, if there is certainty around price that has an impact on airlines. Can they build that into their model? Government intervention to make a market operate for manufacturers and users seems key.

“The other aspect is the feedstocks. There could be competition for those. Other industries want the same feedstocks. In effect, we have to set up a new industry, requiring investment and infrastructure and multiple parties to come together. Ultimately, it requires government intervention to make it viable.”

He noted: “When there are a lot of moving parts, it’s harder for investors to decide what to commit to. Even if the political climate is supportive, you could have a change in climate that could pull support. For example, companies were putting significant amounts of investment into HS2, then there was a change of tack. An environment where there is more stability is what is really required."

Emissions trading schemes (ETSs) may begin to have more of an impact in the next two to three years, as carbon prices in the EU and UK ETSs rise – although environmental groups have criticised the global aviation emissions trading scheme Corsia set up by the International Civil Aviation Organisation (ICAO).

Bowman described the schemes as "part of the solution" but said: "Emissions trading and offsetting should be the last item on the list when you've ruled out all other activities."

Pritchard argued: "The reason emissions trading is part of the solution is that as the cost of carbon credits go up and become a more significant cost for big emitters it will impact on their profitability and on investors' view. If the cost of not doing anything goes up, it may make investment a better option than doing nothing. The costs of carbon emission schemes are only going one way."

## CRUISE AND HOSPITALITY

The cruise sector faces almost as big a challenge as aviation, in that "there is a need for substantial changes to propulsion which are some way off but require long-term investment", according to Pritchard.

He argued: "There are smaller actions that can be taken now, and the bigger cruise lines continue to invest in these – whether around food waste on ships, the reuse of materials, removing plastics or technology for improving a ship's flow through the water. There is progress, but the large-scale stuff is long term. Each year we see more liquified natural gas (LNG) ships. A bit like SAF, LNG is not ultimately the solution, but it's a step in the right direction when there are few other options at present."

Hawkings noted: "The larger cruise companies have done a lot of work to understand their biggest impacts, their risks and where they need to focus."

There were some groundbreaking initiatives on sustainability certification in the past year. The WTTC and Global Sustainable Tourism Council (GSTC) agreed a partnership to speed up certification of hotels to accredited sustainability standards, with the GSTC endorsing the WTTC's Hotel Sustainability Basics scheme launched in March which aims to "raise the floor" with 12 indicators meeting nine GSTC-accredited criteria that "all hotels should implement".

> One of the challenges with certification is consumer confusion around what is good enough and what is the right certification

The Sustainable Hospitality Alliance (SHA) pushed ahead with plans to standardise sustainability certification and, in a separate initiative, more than 8,000 hotels in Turkey (Turkiye) were certified to stage one of a sustainable tourism programme developed with the GSTC. No more than a few thousand hotels worldwide have achieved full certification to GSTC standards to date. The programme aims to take 22,000 properties through three stages of compliance, initially meeting 14 GSTC criteria, then 28 and ultimately 42.

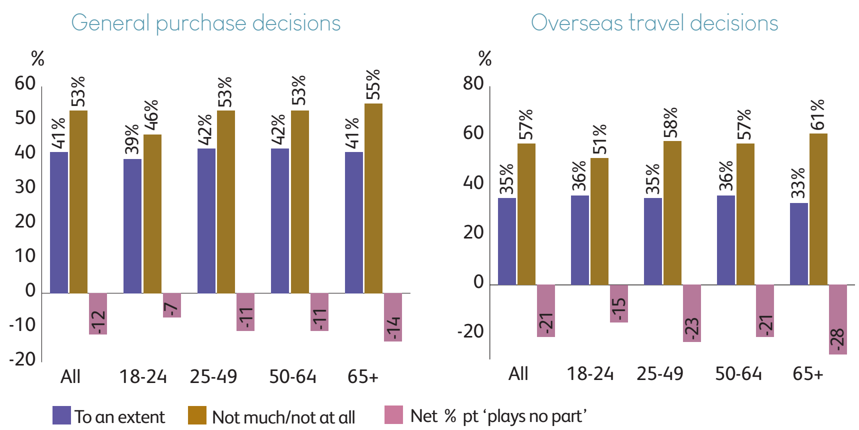
Hawkings said: "Certification is a step in the right direction and the Turkey example, where a destination has been proactive in tackling this to get a lot of hotels up to the same standard, is really positive."

But she noted: "One of the challenges with certification is consumer confusion around what is good enough and what is the right certification. Historically,

*UK CONSUMERS appear more willing to take account of sustainability when considering purchases in general than when thinking about overseas travel (Figure 28)*

### *FIGURE 28:* UK CONSUMER SPENDING AND ENVIRONMENTAL SUSTAINABILITY

% say sustainability plays a part in

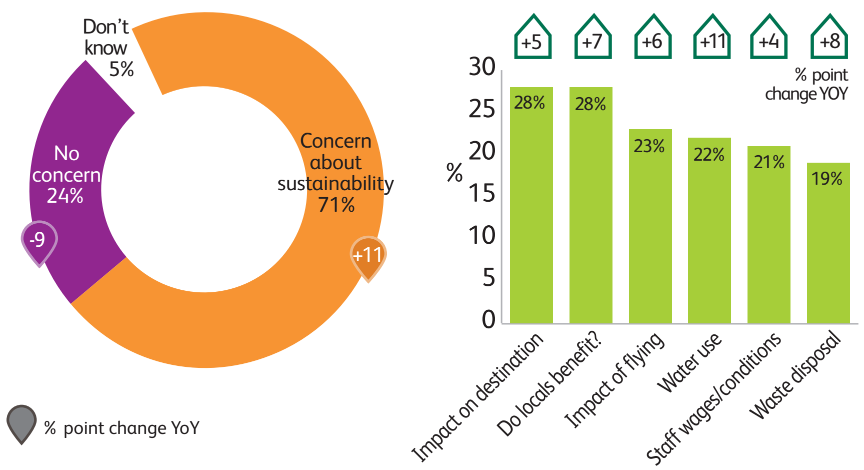



*Source: YouGov, August 2023 Base: 2,000 UK adults*

# CLIMATE AND SUSTAINABILITY
## ‘THE RISKS OF CLIMATE CHANGE ARE BECOMING OBVIOUS’

### *FIGURE 29:* HOLIDAYMAKERS’ SUSTAINABILITY CONCERNS

% UK adults who had an overseas holiday in 2023




*Source: Service Science/Kantar*

we’ve seen a lot of different certification systems. There is still work to be done in terms of what certification means and consistency. There are gold-standard certification schemes, but others out there that can create consumer confusion.”

She pointed to survey evidence which suggests consumers are considering sustainable travel more but said: “It’s hard to say how much this flows through into consumer choice and behaviour. I don’t think companies should be waiting for consumer behaviour to change.”

Deloitte partnered with Abta in 2022 to produce a Climate Action Guidebook for the sector and Hawkings said this will be followed up by “targeted pieces on topics such as the CSRD, transition risk, the physical risk implications of climate change and addressing scope three emissions”.

Pritchard noted: “Abta members are at different stages in their journey. There is a realisation as businesses start to look at this that there is a cost involved in transition to a greener economy and that could result in some taking longer to invest. There are cost savings to be had by being a more sustainable business. But there are costs incurred in getting there, whether investment in technology or processes. How quickly to invest is becoming more of a topic of conversation.”

*CONCERN about sustainability when travelling on holiday appears to have risen markedly year on year (Figure 29), with some marked variations by age (Figure 30)*

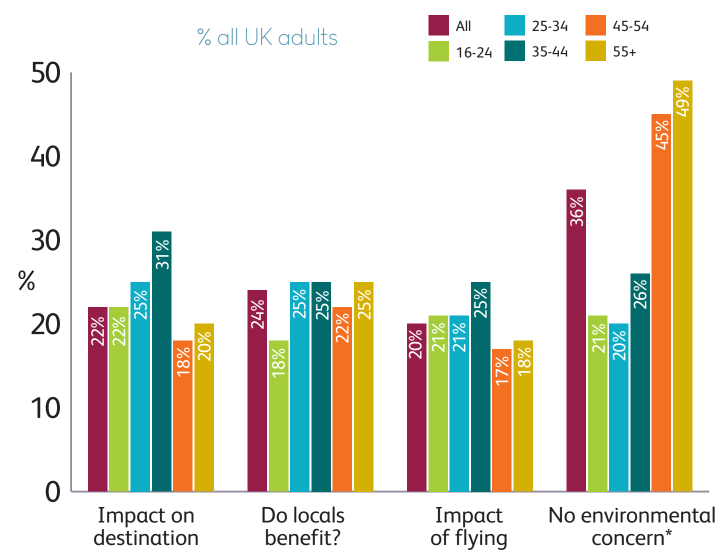
At the same time, fears of being accused of ‘greenwashing’ are having an impact. Hawkings said: “There is a bit of fear around what businesses put out about marketing and sustainability. It forces companies to look at whether they are taking the actions needed to back up their claims. That is positive.” Asked whether things are moving fast enough, she said: “There are signs of progress, but it’s not enough and that is backed up by the science. We’re not moving quickly enough.”

Pritchard agreed, saying: “The costs businesses are dealing with are a drag on how much investment they can make, and there are technology challenges. But every year eats into the 2030 and 2050 timetables and we’re not making a substantial difference. We’re still tinkering around the edges.”

Hawkings acknowledged: “It’s expensive to transition. But we’re also starting to see the impacts and cost of not transitioning, and we’ll see more of that as the physical effects of climate change increase. The knock-on effects will have their own costs, and these will start to increase significantly.”

### *FIGURE 30:* SUSTAINABLE TRAVEL CONCERNS, BY AGE

% all UK adults




**Excludes ‘don’t knows’ Source: Service Science/Kantar, November–December 2023*

# FUTURE OF WORK
## ‘THERE HAS BEEN A REALITY CHECK’

**HYBRID WORKING between home and office has become routine for millions, although the process is not always without tensions, while millions more continue to be required to attend a workplace.**

Oliver Graves, Deloitte director in Organisation, Design and Analytics, noted: “There is a challenge where employees want to maintain some of the flexibility they had during Covid and organisations in certain industries have been putting their foot down, saying, ‘You need to be in at this time’.”

He argued: “The first movers around that were castigated, but over the last 12 months there has been more of a move to saying, ‘We need you in the office’. Having said that, I don’t think many organisations are counting the times people scan in. But there are more checks on performance and ‘visibility’ seems to come up more.

“Many organisations have gone through layoffs. It’s not as secure a job environment. Also, people are being more collegiate, especially in junior grades, feeling, ‘I want to get to know people therefore I want to be in the office’.

“A lot of people are going in on Tuesdays, Wednesdays and Thursdays, and more limited numbers on Mondays and Fridays. You can tell that wandering around London and other cities.

“Businesses are saying, ‘We expect you to be in for this amount of time’. More businesses are also saying, ‘We operate this environment for a purpose. We want you to come together as a group’. ‘Purpose’ – meaning why we do what we do – is always challenging. If people work remotely, it’s difficult to manage and maintain.

“So, more people are in the office and spending more time in the office and being told it is advisable to be in, with job security increasingly becoming a factor.”

There are clearly implications in terms of workspace, after many businesses downsized or did away with locations all together during the pandemic.

**Recruitment pressures have eased, now could generative AI fundamentally change many roles?**

Graves said: “Businesses which have a considerable workforce and can’t cope at maximum capacity are reorganising space. Real estate vacancy rates have gone up. Friends in real estate say they have never been busier with people wanting different premises. Businesses want to minimise costs and you see the amount of empty office and retail space.”

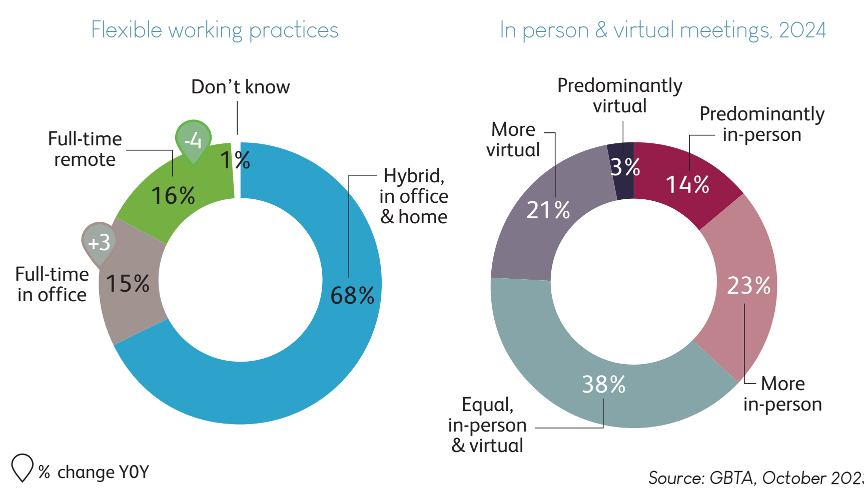
Deloitte senior consultant Gabriella Cooper agreed: “The workspace is changing, but also how the workspace is used. There is an emphasis on hybrid working, enabling people to come together in person, but also space to allow people to communicate with those not in the office. So, rather than just having lots of meeting rooms, it’s about enabling meeting rooms, making sure they are set up to enable hybrid working.”

Graves suggested the shortage of labour since the pandemic has meant “there has never been a better time to work in travel and hospitality from the point of view of shift patterns and benefits”. He insisted: “I only see that increasing.

“Flexibility for those with families has never been more prominent because recruiting workers has never been more challenging. There has been an element of having to rebuild trust in travel

*HYBRID working appears to have become the norm in business travel (Figure 31)*

***FIGURE 31:*** **WORK TRENDS: BUSINESS TRAVEL**




*Source: GBTA, October 2023*

and hospitality, especially hospitality, after what the sector went through during Covid."

Recruitment pressures have eased, he said, noting: "There are not as many vacancies and there is more competition for roles, driven by people rejoining the workforce, students increasingly joining the workforce, and people taking second jobs. We're increasingly seeing that as people need the cash."

He suggested: "There has also been a bit of a reality check. When organisations start making redundancies, people are not so willing to jump somewhere else."

## DIVERSITY, EQUITY, INCLUSION AND WELLBEING

Graves describes diversity, equity, inclusion and wellbeing as "table stakes" when it comes to recruitment and "more important than ever" for staff retention.

He said: "Just one incident of poor behaviour or sexual discrimination, if not managed well, can have severe consequences for an organisation and its brand. You just can't have these incidents. With social media and instant messaging, they will go viral.

"A lot of organisations still don't get this right, paying lip service when this has to go from top to bottom. People will make mistakes, but it's how an organisation reacts that matters – making exits where required and demonstrating that poor behaviour can't continue.

"From a diversity point of view, I'm seeing a lot of effort by organisations to bust the myth that you can't succeed if you're a woman or from an ethnic minority background. There has been a lot of effort to bring down barriers, although some organisations don't carry through by thinking about how to develop people from different backgrounds or with different capabilities by ensuring there are development programmes in place.

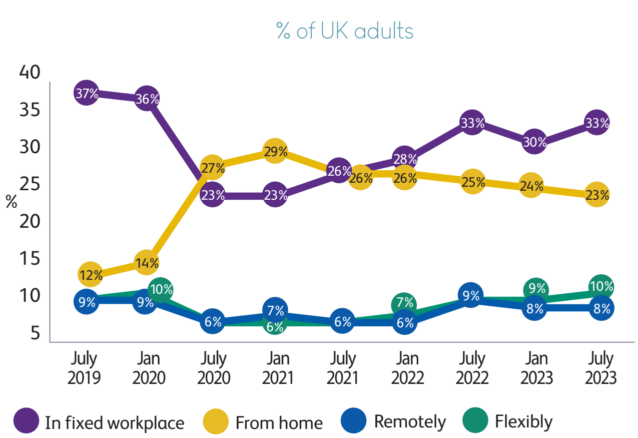
"From a wellbeing perspective, there is an understanding that work is challenging and of the need to be respectful and support one another. That has been under an increased spotlight post-Covid. I see more organisations improving maternity and paternity policies, sabbatical policies, time out policies, those kinds of things – and those can be a true differentiator in recruitment."

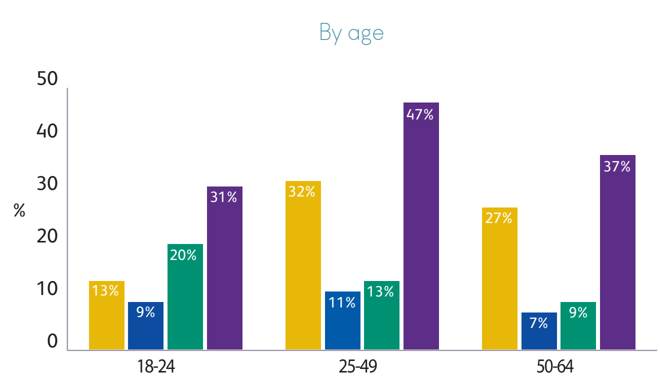
Cooper noted "there are two elements to diversity and inclusion", saying: "Diversity is important because it's about getting a diverse range of the right people in the room. But inclusion is about making sure that diversity is respected, that everyone has a voice and is listened to. And those are two different things. Often, organisations stop at diversity and don't follow through on inclusion. That is where there needs to be more focus."

> Diversity and inclusion are two different things. Inclusion is about making sure that diversity is respected. Often, organisations stop at diversity and don't follow through on inclusion

*FLEXIBLE working and work from home may not be as prevalent as some may think (Figure 32)*

### *FIGURE 32:* WORKING ARRANGEMENTS




*Numbers can exceed 100% due to hybrid working from home/workplace*
*Source:YouGov*

She added: "On the wellbeing side, there is an understanding work can be tough. You might hear the right things, but it can be tricky to take the next step of making sure that is felt throughout an organisation.

"Coming together as a team is a massive part of wellbeing and, with hybrid working, it can be a lot more challenging to understand if someone is struggling. Being able to break through the hybrid barriers and get people talking about their wellbeing is a challenge."

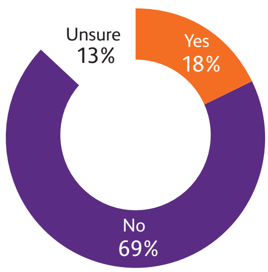
When companies get it wrong, Graves suggested it can be because there is resistance or people have failed to take the issues seriously. He added: "Sometimes it's just thinking, 'Why do we need to do this? We've not needed to before', rather than, 'This could be better for all, and if we do this we're setting a precedent.'"

Graves argued: "When budgets are tight, people will go for keeping the lights on. But let's say a business is going through a redundancy programme, there is a conversation now around, 'We risk damaging people's mental health. We need to make sure people are all right.'

"If I look back to [the financial crisis of] 2008 and compare, I hear more conversations now around, 'We're making a decision that is impacting people. There could be severe consequences for people if this isn't managed properly.'

***FIGURE 33:* BUSINESSES EXPERIENCING LABOUR SHORTAGE**

All UK sectors, December 2023




*Source: ONS*

*LABOUR shortages have eased somewhat (Figure 33) and are expected to ease further (Figure 34)*

***FIGURE 34:* RECRUITMENT/LABOUR CHALLENGES**

% CFOs reporting severe recruitment difficulty/labour shortage in last 3 months


**% expecting difficulty in 12 months' time*
*Source: Deloitte CFO Survey, Q3 2023*

It's not just, 'We have a business to run'. Employers are having to be ever more clued-up around it."

## IMPACT OF TECHNOLOGY

Graves argues generative AI is going to have a big impact on some sectors. He suggested: "The changes in travel and hospitality due to generative AI will be huge. Those serving drinks, working in restaurants, changing beds, are doing work that can only be done by people.

"But other work – booking travel, for example – will fundamentally change. Think about booking an overseas holiday. It won't be long before generative AI can create a great itinerary in seconds. It could have a massive impact on travel and hospitality."

He noted: "There has been talk that this was coming for the past five years. Now it's here, and ChatGPT and technology like it are so easy to use. You might have to edit the output, but you can generate something at speed. There is a fear it will take out roles in certain industries.

"In recruitment, people would traditionally think, 'We need a human for this role'. Now some organisations are considering, 'Do we need a human augmented by technology, or do we just need the technology?' That is the fear. There are going to be new jobs created. [But] have we the capability to do those jobs at this point? I don't think so. I don't know what those jobs are yet.

"There needs to be a conversation around what this means in each industry and in each organisation. We need to ensure we get efficiency without losing effectiveness."

Graves nonetheless believes the technology will ultimately create more jobs than it destroys. He said: "I do think that is the case. We can't just look at technology in terms of what we do today and as taking things away. It will enable something new.

"Transformational events have always done that and AI will be the next one. It will create a raft of things to do – quality control, risk checking. We have to learn how to use it effectively and be more productive."

# FUTURE OF RETAIL
## 'ALL CHANNELS NEED TO WORK TOGETHER'

**'OMNICHANNEL' RETAIL, mixing online and digital shopping with physical outlets, has become the default position for many retailers, with travel no exception.**

Gillian Simpson, Deloitte digital and retail partner, noted "an appreciation of omnichannel shopping", saying: "There is probably still a bit of decline on high streets, but not at the speed of previous years. A lot of high streets, shopping malls and local commercial centres are putting effort into events or pop-ups or farmers' markets to draw people in.

"We also see a lot of shopping malls and retail parks offering non-retail opportunities such as gyms. One London shopping centre has a climbing centre and golf simulator, replacing some of the bigger retail units. Alternatives to shops are starting to proliferate and drive footfall."

Bryn Walton, Deloitte consumer industry insight manager, argued: "People not working in offices so much is having a big impact on high streets and in certain areas in cities. [But] footfall isn't necessarily the be all and end all. You can go to a shopping centre and not necessarily spend money in a store. There can be high levels of footfall, but people go home to buy online or comparison shop."

A consistent customer experience across retail channels is essential

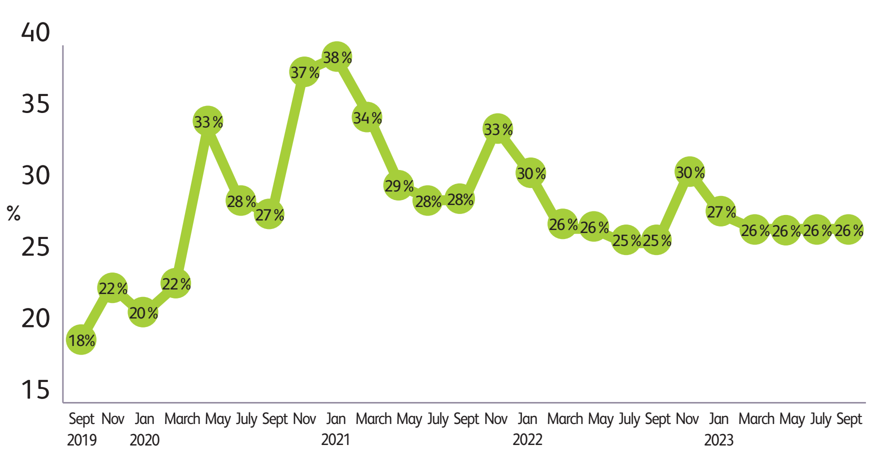
Simpson agreed, noting: "We're seeing companies that previously would only have been in city centres think about their location strategies and a lot more opening in suburban high streets. People coming into the office is compressed into Tuesday, Wednesday, Thursday. But it's still an evolving situation. I don't think we've reached an equilibrium in terms of the number of days in the office."

Every retailer is feeling the pressure of increased costs. Walton noted: "Managing cost pressures is the number-one priority for retailers, and that is going to continue. A decline in the spending power of consumers combined with rising costs of doing business have created an existential threat for some businesses."

Simpson added: "There has been a rise in cash use for one of the first times in ages with people using cash to budget. That is an issue for retailers which stopped taking cash."

*GROWTH in UK online retail sales plateaued in 2023 (Figure 35)*

**FIGURE 35:** UK ONLINE RETAIL SALES
Value as % of UK retail*




*Excludes auto fuel; figures rounded Source: ONS

### DIGITAL TRANSFORMATION

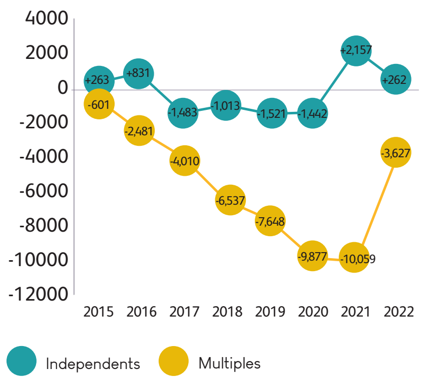
Online retail in the UK appears to have plateaued at about 26%, according to official data, down from almost 40% during the pandemic. Walton argued: "Everyone thought 'We're on a new trajectory' when it hit 40%, but we're on pretty much the same trajectory we were four years ago."

Simpson suggested: "People now understand the online channel isn't going to create all this new revenue growth. All the channels need to work together. Something we talk to a lot of retailers about is how to ensure a consistent customer experience across channels, to be clear about the role of each and not treat different channels in silos.

"People might go into a store to browse and then go home to purchase, or people might research online and make the transaction in-store, especially if it's a big-ticket item. Being able to link behaviours in-store and online

*FIGURE 36:*
UK RETAIL MULTIPLE AND INDEPENDENT OUTLETS

Annual net loss/gain in outlets




*Source: Local Data Company*

*THE RATE of retail closures slowed, with openings by independent retailers marginally outpacing closures (Figure 36)*

is where the real push is, coupled with retailers trying to understand the power of customer data and who their customers are in a physical environment as well as online.

"That is why we're seeing significant activity in loyalty, because loyalty cards identify who you are no matter what channel you're in. So, you might browse online, then go into a store and speak to a sales assistant who can see what you've browsed."

Simpson identifies 'retail media networks' as increasingly important. She explained: "When you go into a supermarket and see banners saying, 'Here is a new chocolate bar', that is retail media. Grocers have done this for a long time, but other retailers are cottoning on to it as digital retail media. So, when you search for something online, sponsored products appear at the top. Brands pay retailers for that.

"This has increased as a revenue channel for retailers over the past 12 months. They can make a lot of money from it because they give brands data on who purchased.

"This isn't just happening with retail. A major hospitality group has its own media network. Airlines will be thinking about this as well – not just advertising in seatback magazines, but the drinks offered on board as well as what people are shown online."

Walton suggested: "The next step is fully formed 'social commerce'. This isn't particularly new. You've been able to buy stuff through links to products on social media, but it has been about advertising and links. That is changing. We're going to see online retail within social [media] sites, which poses a threat to retailers if the social platform takes care of the logistics.

"We could see a big increase in online sales coming through social sites because that is where people spend their time online, not on retailers' sites."

Simpson added: "I would extend that to the gaming industry. We're seeing many more brands show up on gaming platforms in ways they hadn't before. Across social and gaming, the challenge for retailers is to hold on to their customer data. These channels might be new areas of revenue growth, but the customer data is held where the transaction is."

## TRENDS IN PHYSICAL RETAIL

She noted a shift in the experience in stores, arguing: "Before the pandemic, there was a trend in-store to have digital screens and virtual reality kiosks. Retailers are realising the reason people come into a store is to interact with store associates. They are the magic of a store and it's about empowering them with data and insight to allow them to give the best possible service. We see that empowerment through data as a trend that was once just in the luxury space."

"Retailers are realising the reason people come into a store is to interact with store associates. They are the magic of a store and it's about empowering them with data and insight to allow them to give the best possible service

Walton agreed, saying: "Something that has changed in the last year is the idea that the customer experience is based around experiential retail, Instagram-able spaces or being able to play a video game. A large proportion of shopping and loyalty is based on customer experience and the best customer experience involves a helpful, knowledgeable shop assistant. ▶

"We're seeing retailers adopt a 'co-pilot' system where shop assistants have the technology on a phone or tablet so they can take a question and generative AI can give them the information to help someone."

He argued: "This is important in the context of travel retail. People want knowledge rather than just piecing a holiday together themselves. They want an expert opinion and their holiday curated. They're spending a lot of money."

Simpson agreed: "Skills and knowledge are a key differentiator and why you would go to a travel consultant. That is where loyalty comes in. I'm sure many travel consultants have a black book of people who use them for every holiday. You don't need a loyalty programme for that."

She added: "Retailers are interested in generative AI and what it can bring them. However, the use cases are more about internal operations – understanding the data better, the lines that are selling, the performance of stores, and being able to access data more easily and quickly, as well as being able to personalise at scale and generate content on a broader scale.

"We're seeing some customer-experience use cases in the grocery space, like putting a menu together and generating recipes and shopping lists for those. But 80% of use cases are internally focused."

Walton suggested: "A consumer use case relevant for travel is aggregation of reviews. So, when choosing a hotel, rather than looking at how many stars it has and reading several reviews, you say 'I'm taking my kids, their age is this, they enjoy swimming' and the AI can respond, 'This is the perfect hotel'."

## RECOVERY AND SUSTAINABILITY

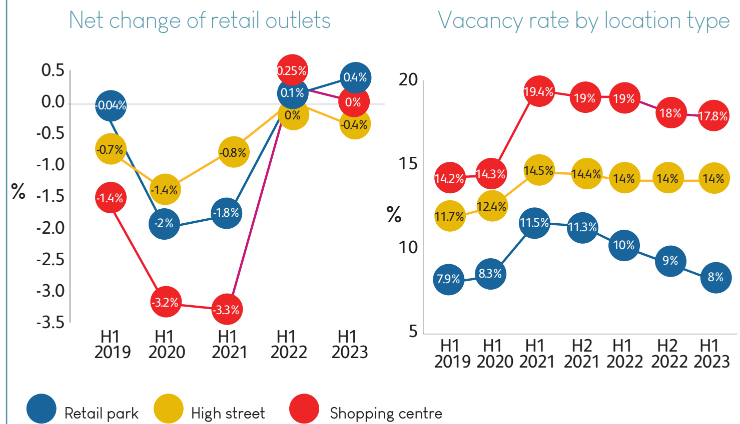
Both Walton and Simpson acknowledged the strength of the recovery in travel retail in 2023, with Walton arguing: "If you're going on a holiday for the first time in four years and your spending is squeezed, you want to make sure you have a good experience and the holiday is worth it. I'm not surprised there is more of a focus on travel agents and consultants. Holidays seem to be the one thing people won't compromise on."

Simpson agreed, saying: "People value their holiday so much they want to minimise the risk of it going wrong. People see the value in having a travel consultant. There is a place in the market for a tailored service."

Both noted the importance of retailers addressing sustainability concerns, but Simpson also noted the challenges in doing so. She said: "Many retailers are going through a struggle to collect data on the makeup of products and where they come from to display to customers, when supply chains can be incredibly complex. Then how far do they go in encouraging customers to be more sustainable and giving a choice? We haven't seen a plateau yet in terms of [sustainability] certification that consumers recognise. People don't necessarily know what 'good' looks like yet."

She argued: "Regulation on financial disclosure is driving sustainability more than consumers demanding it. Businesses are going to have to disclose information on their impacts. There is a lot of work being done behind the scenes to work out what data needs to be collected and where."

*FIGURE 37:*
RETAIL OUTLET CHANGES BY LOCATION, 2019-23




*Source: Local Data Company*

> People are starting to see the value in having a travel consultant. There is a place in the market for a tailored service

*THE RATE of retail closures on the high street was close to zero in 2022-23 and the vacancy rate plateaued (Figure 37)*

# AI

## EVERYBODY WANTS TO SAY 'WE'RE RUNNING GENERATIVE AI'

**THE LAUNCH of the generative AI tool ChatGPT 3.5 in late 2022 sparked a level of excitement that shows little sign of diminishing.**

Deloitte director and digital and analytics consultant Ellena Ronca-Thompson expressed surprise at the reaction, noting: "It's a pre-existing technology and several other technology advancements did not have this kind of reaction." But she said: "I'm delighted people are starting to think about what this means. AI is applying advanced techniques to data, and with generative AI you're applying those advanced techniques but creating an output – text, video, images."

Deloitte partnered with a tech vendor to create its own large language model (LLM) and Ronca-Thompson said: "It's on my desktop every day. I get it to draft some emails, summarise documents, and generate templates and PowerPoint slides."

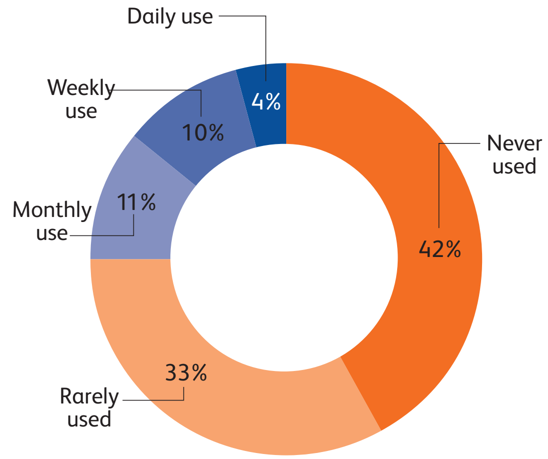
However, her job is advising clients on the technology. She said: "A lot of conversations with senior leadership teams nine months ago were, 'What is Gen AI?' Now the work is a lot more around executing and running proofs of concept [POCs] in a sample area or as a sample use case. There are a lot of learnings for organisations in terms of data quality and readiness in terms of people capabilities. There are also costs.

"Everybody wants to say, 'We're running a Gen AI POC'. I take it back to the corporate priorities and business problems they're trying to solve, then look at Gen AI as a tool to accelerate solving that problem rather than come at it from a 'Let's figure out how to use this' standpoint."

She explained: "A lot of the use cases in consumer product sectors are around rethinking marketing. Businesses are trying to build one-to-one relationships with consumers, so how can they create hyper-personalised marketing? Can they slash the marketing budget? If they're working with third-party agencies on creative content, they can go through the initial cycles generating ideas and shortlisting these much quicker.

**Be advised to start small with an internal use and clarity about the problem you're trying to solve**

*FIGURE 38:* USE OF GEN AI* AT WORK




*Generative AI tools such as ChatGPT
*Source: GBTA, October 2023 Base: 865 GBTA members*

*A MINORITY of corporate travellers appear to be making use of generative AI at work (Figure 38)*

"I see people more broadly using AI in the supply chain to understand the movement of goods. That spans consumer products, retail, wholesale. Industries are trying to map out supply chains end to end to understand their scope one, two and three emissions, and to see how products move from raw materials to generation and distribution, working with partners to simulate business decisions and optimise systems.

"Should something go wrong, say a delivery truck has a flat tyre, can you reroute trucks to pick up the goods? The technology is powerful for those sorts of scenarios.

"A use case I heard about in aviation made use of simulation technology to optimise airport operations. So, when you touchdown and the pilot says, 'Our gate is not ready', airport operations can look at whether to open a different gate and the ripple effect that has. We see airlines looking to optimise how they offload passengers and goods, how they organise cleaning. The technology allows you to think differently about the ▶

# EVERYBODY WANTS TO SAY 'WE'RE RUNNING GENERATIVE AI'

logistics of operations and experiment digitally before trying things.

"Another use case is in IT to auto-generate code. How many travel companies are sitting on creaking technology developed over decades, with the tech not well-documented? With generative AI, you can regenerate code in modern [coding] language and migrate off a legacy platform to run a more efficient system.

"Chief information officers are excited because there is a big productivity angle for them. You can deploy AI to help with testing, reducing some of the risk and security concerns, and get it to generate documentation and training.

"These types of use cases can give organisations a route into experimenting with the technology and identifying some of the risks and shortcomings without going straight to consumers."

## FIRST STEPS

Asked how she would recommend businesses select a use case, Ronca-Thompson advised: "Go back to the problem you're trying to solve. If you use Gen AI, or AI more broadly, what can you do with it that you couldn't do before? There is going to be a learning journey with this. Start small with an internal use case, something that isn't market-facing and that won't cause you reputational damage should it go wrong. Start with a team willing to experiment and see how it behaves. Learn what 'prompt engineering' is about, develop skills in-house and partner with an organisation that knows how to do these things.

"There is a temptation to go after things without a clear rationale. So, the rationale is important. Once it is clear, move through the ethics and risks. What data are you going to use? Is the data of decent quality? How do you know there isn't any bias inherent in the data set? How are you going to monitor it for 'model drift' – so, in three months or a year it's still doing what you expected? How do you set up the right governance mechanisms?

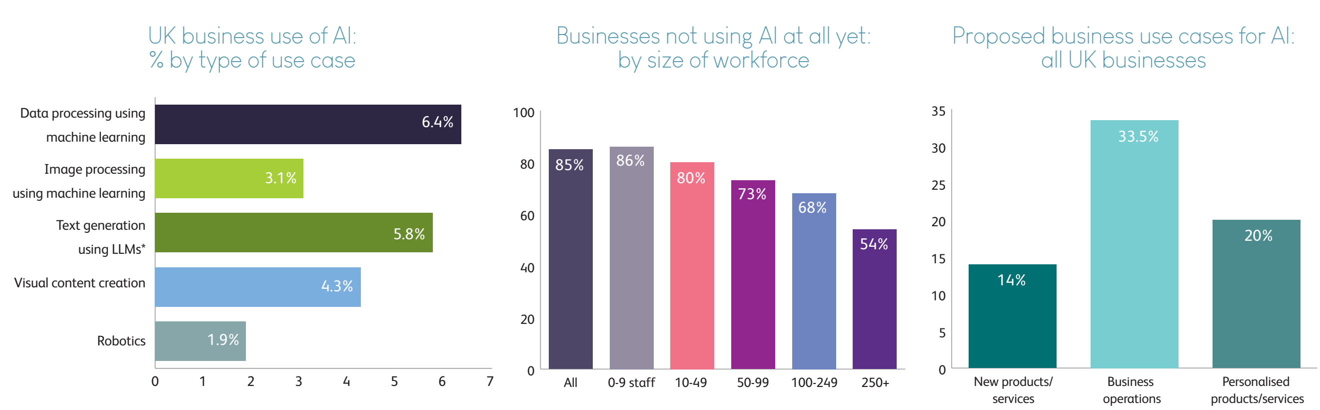
"Then there are the technology costs. These things come at the price of processing vast amounts of data. Get clarity on the costs early and decide whether you want to push into production. How far across the enterprise or your markets do you want to push this functionality? Costs can run away from you if you're not clear about the potential uses, particularly if you're going to push it out to consumers. It's hard to predict how consumers are going to behave.

"Do this with a multifunctional team. If the use case sits in marketing, have a multifunctional team of people who speak different languages with diversity of thought. Have your finance business partner to hand and your

> "The more we can develop the right use cases, the right skills, the better we'll be able to navigate and get around some of the inevitable problems

*A MAJORITY of UK businesses are not using AI, but almost half of large businesses have explored use cases, with business operations the most common area of application (Figure 39)*

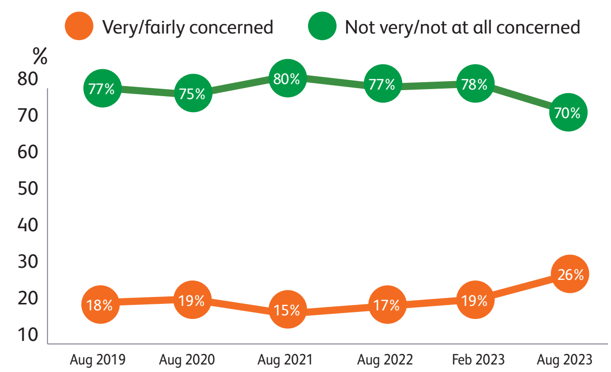
***FIGURE 39:*** **BUSINESS USE OF AI**




*Source: ONS, December 2023*

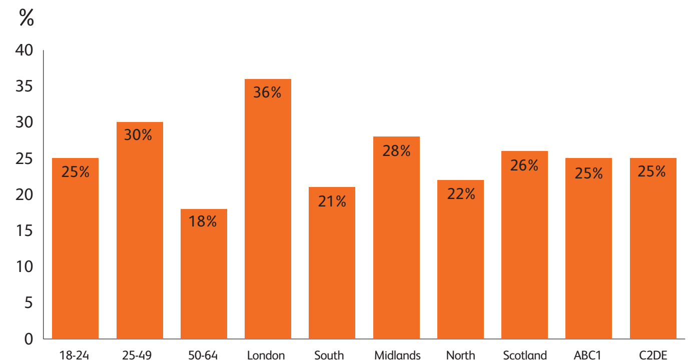
## *FIGURE 40:* CONCERN ABOUT AUTOMATION

Concern for own work




*Source: YouGov tracker*

Very/fairly concerned by age, region & social class




*Source: YouGov, August 2023 Base: 914-1,133 UK adults in work*

IT vendors navigating the use case. Go through the learning process.

"There is a big role here for partnering, particularly in the travel industry. Assuming you don't have an advanced analytics team, it's important to partner with vendors and third parties which can provide advice, help navigate and bring learnings from what others have experienced.

"Good data scientists can help you figure out some of the biases in your data. [But] it's a difficult area. The old chestnut 'Bad quality data in, bad generative AI out' remains true.

"It's essential to keep humans in the loop, particularly as these models will be receiving new data which they have not been trained on. We don't know how these things are going to behave. You will get 'model drift'. It's a case of making sure the model still fits its intended purpose and, if it doesn't, take it out of production and re-factor or re-engineer it."

Ronca-Thompson insisted: "You can't just push stuff into production and forget it." She added: "The environmental impact of this technology is one of the costs and I don't think it's fully understood. We will be constrained [by the impact]. You have to value the benefit against the cost, including the planetary costs."

She is hopeful the technology will be regulated without stifling innovation, saying: "I would like to see enforcement remain strong and have teeth, at least in Europe. I don't want to lose the progress we've made through the General Data Protection Regulation (GDPR), with real penalties that people understand.

"Whether we can do that fast enough, I don't know. I'm hopeful because we've seen much faster movement on regulation than I anticipated. But we need to continue to move at pace. This is not going to slow down. Maybe Gen AI will peter out. But AI, which is a much bigger topic, is not going to slow down. We need to stay abreast of it.

"I hope that over the next 12 months we don't have a Gen AI use case that has some awful unintended consequence. There are people in Silicon Valley who are alarmist about this. From the use cases I see, safety is front of mind. Getting something wrong very publicly could ricochet the industry backwards and we could become far more protectionist about the technology."

She noted: "Those who want to use AI for nefarious purposes won't care. They will push ahead. The genie is out of the bottle. The more we can develop the right use cases, the right skills, the better we'll be able to navigate and get around some of the inevitable problems."

*A SIZEABLE minority of UK adults in work are concerned about the automation of their jobs (Figure 40)*

# TECHNOLOGY
## AI SPARKS SCRAMBLE FOR IMPLEMENTATION

**AI IS "the buzzword" in technology regardless of the industry, according to Deloitte head of aviation Andy Gauld, who said: "Everyone is scrambling to work out how to use it."**

He suggested an analogy with a decade ago "when everyone was saying 'We need big data'. I would say, 'What do you mean by that?' They would say, 'I don't know, but I must need it.'

"Across aviation and travel, all are trying to understand what AI means for their organisation and where to start. Is it about the customer? Is it around improving operations? Every technology vendor is trying to peddle it. So, it's a bit of a 'wild west'. But underpinning everything is the need for good data to feed these models. I'm having conversations with a number of airlines which are trying to work out the place to start and the right use case."

Gauld explained: "AI is about how to make better decisions to drive better outcomes, using models and data to drive those decisions and outcomes. Historically, we would look at different touchpoints in a process and say, 'How can we improve it?' AI is an opportunity to say, 'Here is my starting point. Here is my end goal. How should the bit in between be different?' People don't quite understand that. They see it as about incremental gains rather than fundamentally rethinking a process."

He added: "The game changer has been the speed of computation. The chips are getting faster and faster, allowing us to process data at a speed we've never been able to. We've gone through a period when we called this 'business intelligence', then 'performance management', 'analytics' and 'data science'. Now we're calling it AI, and generative AI is a sub-division. In five years, we'll have the next iteration and be saying 'Wow, what can we do with this?'"

Gauld suggested: "This is fundamentally different in two areas, which the aviation industry will have to grapple with. One is the cultural shift required. AI will challenge perceptions. Second, there are the ethical and security debates around AI and the compliance aspects given the nature of having aircraft in the sky."

His colleague Martin Bowman, director of aviation digital assets at Deloitte, noted: "Safety and accountability are legal requirements in aviation. The regulatory framework has to evolve and we're far from that."

Bowman describes AI as "enabling technology" and hailed the launch of ChatGPT in November 2022 for "taking the technology conversation into the public domain and bringing it to the fore in business conversations".

He said: "This is a capability that has the potential to transform everything, any process. So, you wouldn't go to the most critical areas first but start with low-risk areas. Start with the back office, the call centre, build up knowledge, experience, governance, your risk appetite and risk management."

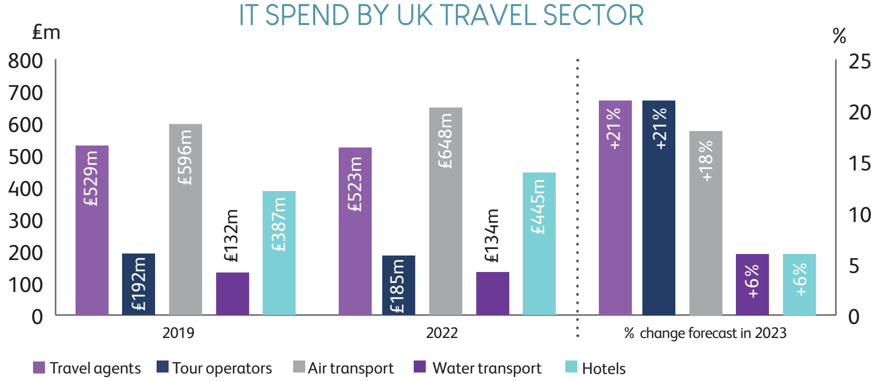
Gauld agreed: "Introducing AI into any core processes or systems makes the process potentially more vulnerable. You're handing processes over to a machine and a machine is vulnerable. You need to tread carefully."

He added: "AI doesn't have consciousness. These models don't think. They act on how they have

Generative AI 'has the potential to transform any process' but there is also a need to 'tread carefully'

*IT SPENDING is rising across all sectors of the travel industry (Figure 41)*

*FIGURE 41:*
IT SPEND BY UK TRAVEL SECTOR




*Source: ONS/Travolution*

been programmed. So, a model is only as good as we are."

Gauld acknowledged the sustainability concerns around training AI models, given the level of energy consumption, saying: "There need to be discussions around sustainability and AI. It will take the energy providers, the G7 countries and a host of other bodies to come together. It's a challenge that needs to be tackled quickly."

## TECH PRIORITIES IN AVIATION

The strong recovery in travel "is allowing airlines to spend more on technology", according to Gauld, who identified three priority areas for investment.

"First, legacy evolution – there is a lot of activity in modernising platforms, moving legacy systems to the cloud. Second, getting to know the customer better and entice them into buying. Third, the experience itself – using data and AI to know where the customer is in their journey, to ensure they are getting the best experience."

Bowman identified another area in which "we've seen momentum" involving "the business change impact of technology", saying: "This is what I would call 'connected operations', by which I mean enabled operations that allow you to make smarter decisions.

"The traditional way of innovation in aviation has been 'Here is a new bit of tech, let's put it in place and optimise a silo.' Now we see more of a holistic view. So, if I have solutions A, B and C across processes X, Y and Z, what does the integrated insight allow me to do differently and how can I leverage those insights to deliver more efficiency? It's about new ways of working off the back of insights, and we're seeing that at both airport and airline level. It should mean better decision-making."

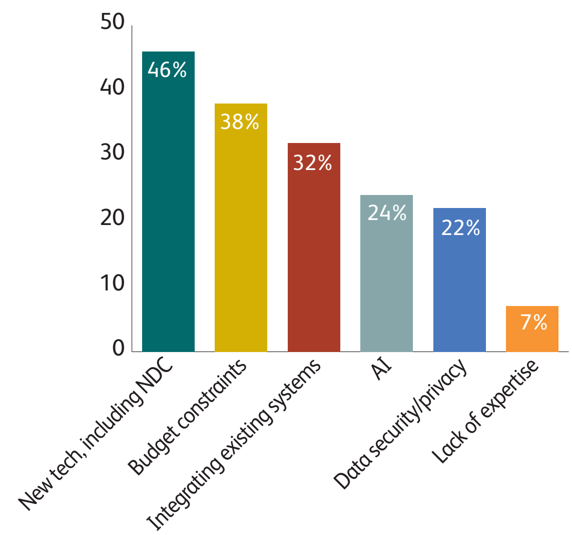
There has been less progress on 'digital identity' and 'seamless travel'. Bowman insisted: "There is nothing wrong with the concept of a device-enabled or face-enabled process. The challenge is the readiness of end-to-end players to allow the integration.

"For example, I'm working with

> "Introducing AI into any core processes makes it potentially more vulnerable. You're handing processes over to a machine and a machine is vulnerable

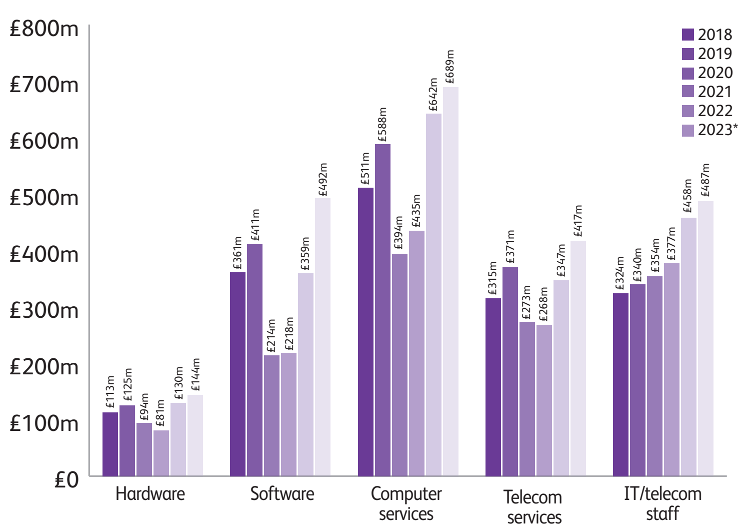
*AIRLINES' New Distribution Capability (NDC) is rated the biggest tech challenge by travel management companies (Figure 42). UK travel spending on computer services tops all other tech categories (Figure 43)*

### *FIGURE 42:* TECH CHALLENGES: BUSINESS TRAVEL AGENTS




*Source: GBTA, October 2023*
*Base: 865 GBTA members*

### *FIGURE 43:* UK TRAVEL IT SPEND BY TECH CATEGORY




**Estimated spend Source: ONS/Travolution* a European hub airport that has a new facility for the EU Entry/Exit Scheme with more kiosks than I've ever come across. But the Entry/Exit Scheme is not ready. They have the infrastructure, but the end-to-end system is not ready."

Gauld added: "It's also a process and planning issue. I've travelled with Eurostar and had no problems getting in and out of France. There is seamless integration. I've flown into Europe and the longest queue I've had was 45 minutes. But when I've been to the US it has taken two to four hours to clear immigration."

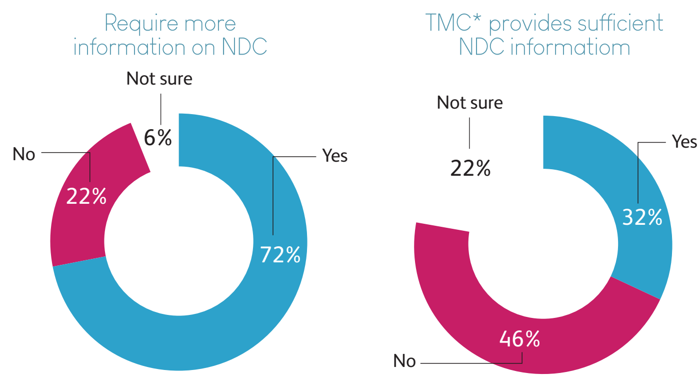
Both finally see some progress in the development of airlines' New Distribution Capability (NDC) for third-party distribution. Bowman said: "We're seeing 'proper' activity under the 'one order' banner – the 'Amazonisation' of the buying experience. Amazon basically made every transaction accessible via API. That is what 'one order' is about and we see a lot of interest in that.

"Does that mean we're going to see things flip? No, we're not going to get away from traditional distribution systems. Airlines are going to have to maintain legacy systems alongside what they're doing. The systems are going to co-exist. A large organisation we're working with is building coexistence. It's not planning to move away from legacy systems for the foreseeable future."

Travel management companies complain they can struggle to service NDC bookings as soon as there are any changes. Bowman noted: "Any complex integration is going to have challenges. We're still talking about early adopters, but we see a strategic recognition that this is the right thing to do."

Gauld agreed: "A number of airlines are trying to think differently about how to price flights, looking at how other industries price things, asking, 'Is there a better way of enticing consumers with a price, or with the experience?'"

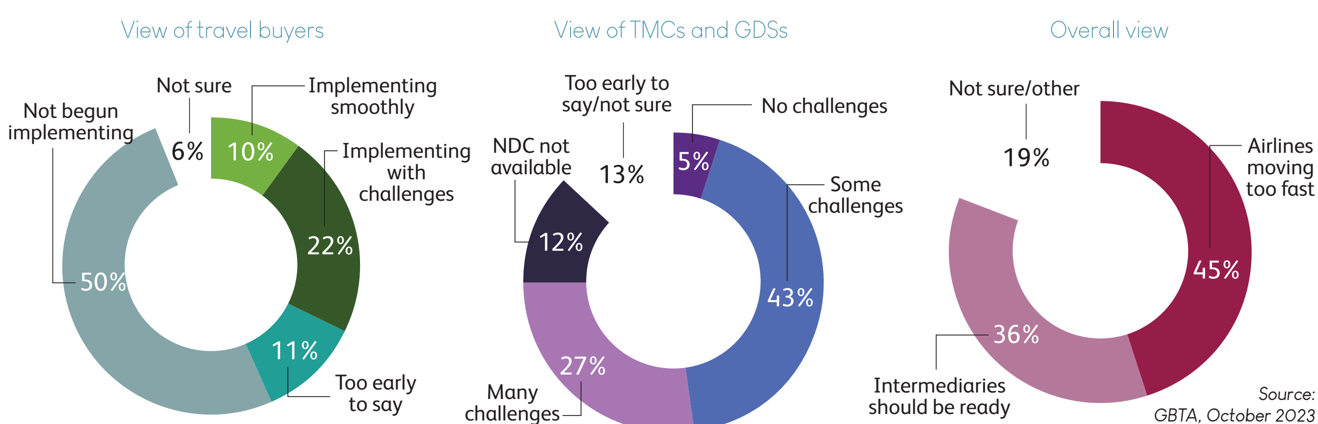
**FIGURE 44:** TECH CHALLENGES: CORPORATE TRAVEL BUYERS




*Travel management company
*Source: GBTA travel buyers, October 2023*

*CORPORATE travel buyers want more information on NDC (Figure 44) and a majority in the sector see challenges in implementing NDC (Figure 45)*

**FIGURE 45:** IMPLEMENTATION OF NEW DISTRIBUTION CAPABILITY (NDC)




*Source: GBTA, October 2023*
*Base: 865 GBTA members*

# INVESTMENT IN TRAVEL

## TRAVEL M&A POISED TO RESUME OFF THE BACK OF RECOVERY

**THE TRAVEL industry showed remarkable resilience to come through the pandemic and meet the levels of demand it did in 2023. So there is plenty of cause for optimism in 2024.**

Alistair Pritchard, Deloitte lead partner for travel and aviation, said: "There is probably a bit more optimism across the travel sector than across some other sectors given booking levels and consumers' appetite for travel."

He argued: "There are inevitably concerns, but 2024 booking levels remain strong. While there are still challenges, inflation has fallen, interest rates have probably peaked, and businesses are more optimistic that we've come through the worst. The expectation is that most countries will avoid a recession. It probably means slower growth for the next few years and slightly higher interest rates. But there should nevertheless be some growth."

The strong recovery enabled businesses to pay down pandemic-era debt despite the rise in interest rates.

Pritchard noted: "Large businesses took on significant levels of debt during the pandemic. In most cases, they are now generating significant cashflows and most have either been able to pay down that debt earlier and quicker than they thought or been able to raise equity to pay down some debt.

"There is a significant level of private equity (PE) investment in the sector and, by and large, PE supported businesses through the pandemic. Some of that support was raised through debt and some by additional equity. Most businesses have seen strong trading which puts them in a stronger financial position."

He added: "The CAA took a pragmatic view during the pandemic. Some businesses had to provide additional security, but the CAA has a risk-based approach to larger Atol holders. That can be a downside in times of certainty. However, the benefit is the CAA has been able to vary its expectations based on risk and a business's financial position. It has been to the benefit of the industry that the CAA has not applied 'one size fits all'.

"Most companies in the sector will say they had to provide additional security or ring-fence cash. But the counter to that is that we haven't seen many failures. It helped the resilience of the industry."

Businesses also benefited from being able to pass on cost increases, Pritchard noted, adding: "We may see some varying cycles develop. I have a few clients who had a strong 2022 and slightly softer 2023 but whose bookings for 2024 look good. I also have some that had a strong 2023, bookings for 2024 are softer, but early bookings for 2025 are strong.

"There was clearly a bounce-back post-pandemic because everybody wanted a holiday, but will we start to see some changing booking patterns? Some people took big holidays in 2023. Might they take a different type of holiday at a different cost level in 2024? It's a bit early to say, but that is one of the question marks around when mergers and acquisitions [M&A] kick back in."

Financing is more readily available since the recovery, but also more costly due to the sharp rise in interest rates.

Pritchard noted financing for bonds had become more accessible and pointed out: "A lot of merchant acquirers withheld funds from the sector during the pandemic. We've seen a return to a more normal state over the last 12 months with acquirers releasing funds.

"That said, there is a potential challenge with the CAA's Atol reform. If there is going to be a requirement for trust accounts or ring-fencing cash, a few businesses will need to think about their funding structure. It may require new sources of funding. Some businesses would inevitably be impacted if they need to ring-fence clients' money, although increasingly businesses are trying to set themselves up so they don't have significant prepayments through the negotiation of terms with suppliers.

"The challenge is dealing with the

**Investors have confidence in the resilience of the industry but will be keen to see demand remain strong**

# TRAVEL M&A POISED TO RESUME OFF THE BACK OF RECOVERY

airlines, particularly low-cost airlines. We see companies taking less risk by ensuring deposits are at least sufficient to cover the amounts they have to prepay to secure flights."

## THE RETURN OF M&A

M&A activity overall has fallen dramatically. But activity in travel picked up as 2023 progressed. Flight Centre acquired luxury tour operator Scott Dunn in January. Then a flurry of deals followed in June, when Wayte Travel Management acquired Quintessentially, PE investor Perwyn bought Cruiseline, Intermediate Capital Group bought Direct Ferries and Hyatt Hotels acquired hospitality platform Mr & Mrs Smith.

In August, Clarity Travel purchased travel management company Agiito, and in September, Good Travel Management acquired the corporate travel division of Wexas and Primary Capital invested in Diversity Travel. Hays Travel completed a series of acquisitions, including that of Just Go Travel in September. *Travel Weekly* owner Jacobs Media Group acquired Online Travel Training (OTT) in November and prevented the company going into administration.

There were deals too in aviation, although these remain subject to regulatory review. British Airways and Iberia owner IAG resurrected its deal to buy Air Europa in a €400 million takeover, and Air France-KLM and US private equity firm Castlelake had a $1.175 billion bid for SAS Scandinavian Airlines accepted in October.

Deloitte financial advisory partner Gurm Dhillon explained the more general picture in M&A, saying: "Interest rates caused the slowdown. The cost of capital has gone up. But it's relative. There was a golden period because the cost of capital was low. M&A volumes and values now are probably on a par with 2019. But it feels like a correction was due in the M&A market, in particular around pricing.

"There is a lot of private debt available, it's just more expensive and pricing expectations have to come down. We're starting to see deals come

> "We'll see some transactions in the first half of 2024, but we might see more in the pipeline as people gain confidence about 2024 and some visibility on 2025 bookings

*CUTTING costs and increasing cashflow were the top priorities of businesses going into 2024 (Figure 46)*

through. Most people feel we'll see more M&A in 2024 than 2023, probably from the second quarter onwards."

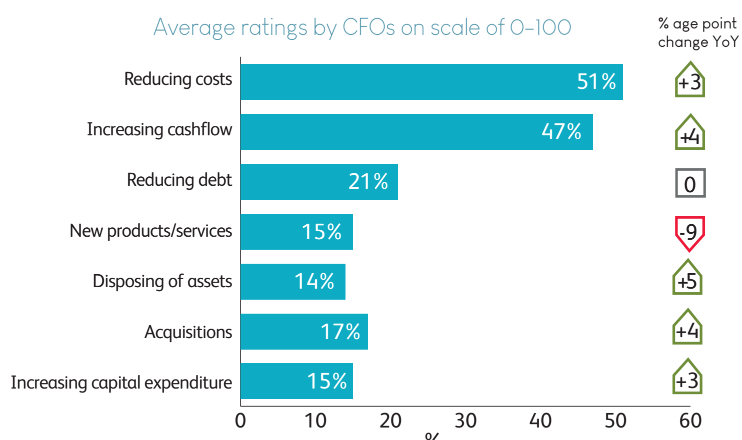
He noted: "Travel and hospitality have been buoyant post-Covid. We've seen a lot of M&A in the hotel sector and that will continue. Fundamentally, people believe in the resilience of travel and hospitality.

"There is also a stack of online travel agencies and tour operators owned by private equity which invested in 2016 to 2018. Most PE investors put in extra equity over the Covid period and there is a need to realise a return on that. Most of these businesses had a great 2023, therefore 2024 is a logical time to try to exit. The issue all investors will be considering is, 'How sustainable was the demand in 2023?'

"What investors think will depend on the type of business. Experiential travel, luxury and group travel are probably more resilient because of the customer demographic. It will depend on the segment a business is focused on and the level of forward bookings."

Dhillon added: "Valuations are going to be impacted by the price of debt. They will come down, but it will vary by business. A UK business with potential to grow in the US would likely attract a higher valuation than a UK-centric business which doesn't have much

### *FIGURE 46:* CORPORATE PRIORITIES IN 2024




*Source: Deloitte CFO Survey, Q4 2023*

overseas growth capability. It's going to vary by the type of business, the sub-sector it's in, the state of evolution of the business, its growth aspirations and how digitally enabled it is.

"A lot of businesses will trade to private equity again. Travel is a bit of a darling for private equity because of its resilience and the cashflows. But there could also be some strategic acquisitions where a business is the right fit for a buyer looking to have a hold in the UK or broaden out strategically."

Pritchard suggested: "The question for any business looking to transact in the next 12 months will be what is a new acquirer going to do with that business over the next four to five years that allows it to sell the business on afterwards?"

Both Dhillon and Pritchard foresee further consolidation in corporate travel. Dhillon noted: "We've seen plenty of consolidation on the corporate side. There are synergies. In effect, you're acquiring customers when you consolidate in corporate travel."

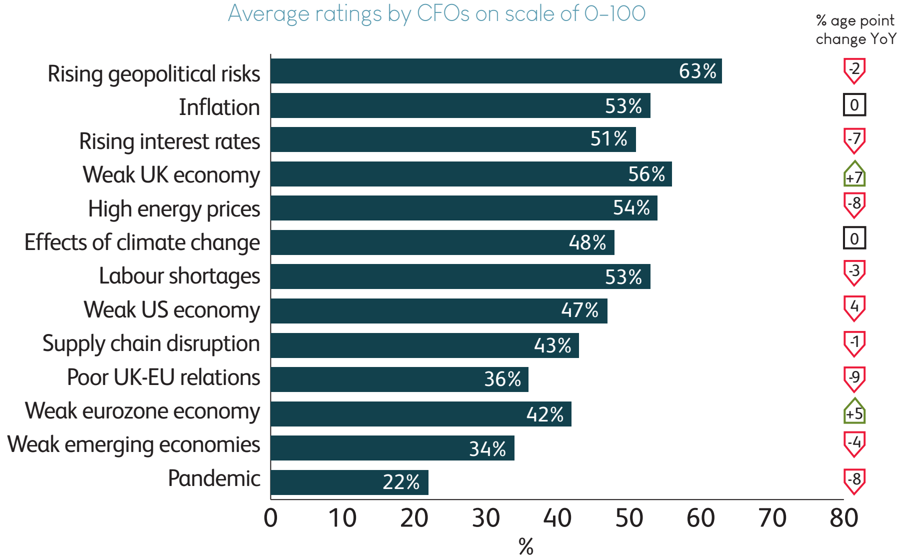
Pritchard agreed: "There is more consolidation to come, particularly as corporate travel has been slower to recover. While 2023 was undoubtedly better with more people travelling on business, corporate travel is more impacted by sustainability issues. The big corporates have all set policies around people travelling. There has been a bounce-back. But will people travel as often? Will they combine trips? That is going to drive consolidation in business travel as corporates look for cost savings and efficiencies."

He argued: "It's a little different on the leisure side. Consolidation in leisure travel tends not to work that well. If businesses buy in the leisure sector, it will be because there is a strategic opportunity in part of the market."

Dhillon insists recognition of travel's resilience will outweigh any perception of risk among investors. He argued: "Travel continued through Sars, wars, the financial crisis. Covid was obviously different because everything stopped.

### *FIGURE 47:* RISKS TO BUSINESS IN 2024

Average ratings by CFOs on scale of 0–100




*Source: Deloitte CFO Survey, Q4 2023*

*RISING geopolitical risks were a greater concern to UK chief financial officers than inflation and high interest rates at the turn of the year (Figure 47)*

When we've done deals, we've looked back 10-15 years at how businesses coped with shocks and you see some flattening out. You don't see big falls.

"That view isn't going to change. PE investors will continue to be interested in travel. However, they will think harder around the leverage required in reaction to the CAA's Atol reform if cash is ring-fenced. That area will need more work for PE to be comfortable."

Dhillon pointed out: "Two or three businesses have been mentioned in the media as early transactors in 2024. I wouldn't be surprised if other businesses in private equity hands start thinking about transacting, more towards the back half of 2024, especially when we have some visibility around bookings for 2025."

Pritchard suggested: "We'll see some transactions in the first half of 2024, but we might see more in the transaction pipeline as people gain more confidence about 2024 and some visibility on 2025 bookings. Some businesses will want to demonstrate 2023 wasn't a one-off. There are more discussions going on in the sector and more companies thinking about when a transaction may be appropriate."

# REGULATION

## 'WE'RE IN A SIMILAR POSITION TO A YEAR AGO'

**THE CIVIL Aviation Authority (CAA) and Department for Transport confirmed a delay to Atol reform in January 2024, blaming the "complex" work required following analysis of industry responses to a CAA Request for Further Information issued a year earlier.**

They asserted there "remains a strong case" for reform, noting: "The CAA continues to observe a considerable number of Atol holders using advance customer monies to fund operational expenditures." However, the announcement gave no indication of when the reform, which began with a consultation in April 2021, will proceed.

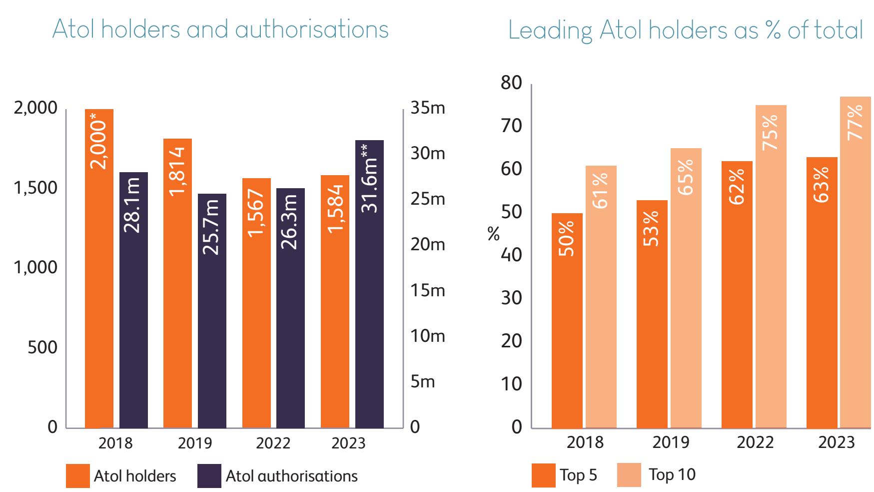
Deloitte legal director Luke Golding pointed out: "We're in a similar position to a year ago, in that there is reform proposed to two key pillars of travel regulation – the Package Travel Regulations (PTRs) and the Atol scheme – and we don't have clarity as to what that reform will result in."

Golding argued: "The travel industry has proved very resilient. It had a good summer 2023. Yet we have headwinds in terms of high interest rates and the cost of living which may impact on demand. So, the industry really needs a period of stability and certainty, and the delay in Atol reform doesn't help.

The industry awaits clarity on key proposals for Atol reform as well as the Package Travel Regulations

*ATOL authorisations were at an all-time high in October 2023, with the dominance of the largest Atol holders increasing (Figure 48)*

### *FIGURE 48:* ATOL AUTHORISATIONS, 2018–23




**March 2019, figure rounded **October 2023, authorisations for 2024*
*Source: CAA/Travel Trade Consultancy*

"It had seemed from the consultation documents that the CAA had a relatively certain view of what it wants [and] segregation was the path it was heading down. It will be interesting to see whether the delay signals a change in approach or whether it's a reflection of the fact that government attention is elsewhere in the run-up to a general election.

"I would be surprised if it resulted in reform not happening. The CAA has been so clear and consistent in its desire to see this through. Even if there is uncertainty and a lack of ministerial attention, I would expect the CAA to still be pushing this reform and be surprised if it dropped off the table.

"The CAA has emphasised segregation is still its preferred approach. But it doesn't look like trust accounts are going to be mandatory and client accounts are the only realistic alternative."

Golding added: "There is going to have to be a relatively long lead-in time to allow people to prepare, both from the technical perspective and from the point of 'How do we fund our business?' It's going to be some time until changes come in. The industry could do with knowing precisely what the changes are so businesses can start taking steps to accommodate the requirements."

### REFORM OF THE PACKAGE TRAVEL REGULATIONS

The Department for Business and Trade published a Call for Evidence on PTRs reform in September and the proposals include revising or removing the regulations on Linked Travel Arrangements (LTAs).

Golding explained: "My view is LTAs should go. They're not well-used or understood and difficult to enforce. Airlines are where LTAs fit most comfortably. The question is, are people avoiding creating them or are they being created but there is not the recognition?"

His colleague Danielle Rawson, Deloitte CFO Advisory director, added: "How do you capture whether a booking is an LTA or not? If a consumer clicks to another website within a short space of time [after booking a flight], who is capturing that data and who is responsible for reporting it? It isn't clear and it's almost impossible to capture completely and accurately."

Golding acknowledged there is a potential risk in removing LTAs that some businesses could find ways around selling a package. But he argued: "LTAs are defined so narrowly, I'm not sure how likely it is package organisers would start selling these types of arrangements to avoid selling a package. Of the two types of LTA, type A involves a single visit to a trader with separate selection [of services] and separate payment. Would organisers start splitting up sales entirely, sell a flight, then accommodation etc? That would have a detrimental impact on the customer experience. How many organisers would see that as preferential to PTR compliance?

"Type B involves separate bookings sold in a targeted manner. If an organiser said, 'I'm no longer going to sell packages, I'm going to sell a flight then send a targeted advertisement for accommodation', it's a leap of faith that the customer will make that second booking. Given how complex LTAs are, it would be sensible to remove them."

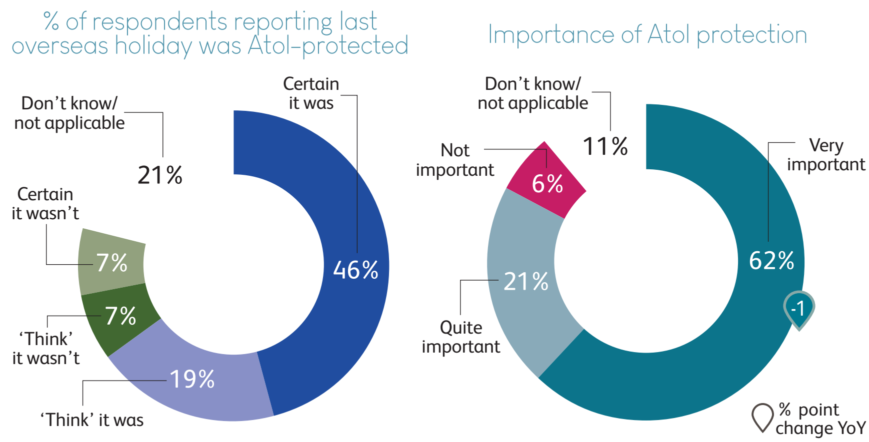
He described a proposal to allow package organisers to combine not only trust accounts and insurance to provide insolvency protection but also trust accounts and bonds as "sensible" and noted: "The government also sought views on the interaction of the PTRs with card-related consumer protection and the chargeback mechanism. It will be interesting to see how bold they are on that, whether they take an approach that when a customer pays with a credit card, the organiser need not provide 100% financial protection because there is a mechanism for the customer to recover their money via the card provider."

But Golding said: "One of the themes of the consultation is to strike the right balance between consumer protection and business freedoms but also deliver clarity for consumers. I'm not sure how much clarity that would deliver for consumers. It would certainly be welcomed by the industry."

The Call for Evidence asked whether domestic packages should be retained or removed from the PTRs, or removed unless they include transport. Golding suggested: "There is a good argument that consumers don't need the same level of protection for domestic holidays. [But] I'm more persuaded to remove domestic packages when there is no transport. You can envisage a scenario where a customer books a coach package around the UK, the organiser goes into insolvency with customers in northern-most Scotland and they need help getting home."

There is also a proposal to remove lower-priced holidays, which has attracted criticism. Golding noted: "The consultation states the aim would not be to disadvantage less-well-off consumers.

### *FIGURE 49:* ATOL-PROTECTION OF HOLIDAYS




Source: CAA Consumer Survey, October 2022 Base: 3,500 UK adults

> "One of the themes of the consultation is to strike the right balance between consumer protection and business freedoms but also deliver clarity for consumers

*A MAJORITY of UK holidaymakers viewed Atol protection as 'important', according to a CAA survey, but a smaller proportion were certain their last holiday was Atol-protected (Figure 49)*

# REGULATION
## ‘WE’RE IN A SIMILAR POSITION TO A YEAR AGO’

But it’s hard to see how that would not be the practical effect. I would be surprised if the government took that forward.

“The other point is the limit could apply to the total price, the average cost per customer, the size of deposit or something else. Depending on what they go with, it has the potential to create so many loopholes to avoid creating packages.”

Given the difficulty of paying refunds during the first months of the pandemic, the proposals also raise the prospect of a new category of “extreme extenuating circumstances” to waive the 14-day refund rule. Golding noted: “The interesting point here is how that will be defined. We have a definition of ‘unavoidable and extraordinary circumstances’ in the PTRs already. One would assume ‘extenuating circumstances’ would need to be different.”

In the same vein, the proposals raise the prospect of clarifying an organiser’s right to seek refunds from suppliers for cancelled packages. In the meantime, a High Court ruling in October secured just such a refund for On the Beach from Ryanair.

Golding noted: “The question in On the Beach v Ryanair was, does Regulation 29 of the PTRs confer a free-standing right of action for organisers to recover losses caused by third parties? The High Court found it does and in a summary judgment, with the judge deciding the issue did not need to go to a full trial. That was fantastic news for the industry in terms of its ability to recover monies from suppliers where they’ve had to pay out under the PTRs.”

### DIGITAL MARKETS, COMPETITION AND CONSUMER BILL

The Digital Markets, Competition and Consumer Bill (DMCC) is a major piece of legislation due to come into force this year. Golding explained: “The key thing from the industry’s perspective are the new powers to be given to the Competition and Markets Authority (CMA) to enforce consumer law.

“Currently when the CMA suspects a breach of consumer law, it faces a long, drawn-out process. The CMA can take criminal and civil actions, but it relies on the courts, which is time-consuming and expensive. Partly as a result, a lot of CMA actions are resolved by seeking undertakings from businesses.

“That is going to change. The DMCC gives the CMA powers to investigate suspected infringements of consumer law, to decide whether there has been a breach and to take action ranging from requiring a business to comply with directions to imposing fines of up to £300,000 or 10% of relevant turnover.

“The CMA has had a focus on the travel industry going back almost a decade. But when it has suspected non-compliance with consumer law, it has been disincentivised from taking enforcement action by the current process. Now it will be able to make its own decisions and levy fines, so it will change how consumer law is enforced. The onus will be on businesses to contest CMA rulings in the courts.”

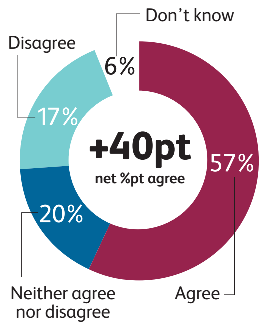
He added: “The government is also revoking Consumer Protection from Unfair Trading Regulations and recreating the legal effects under the DMCC. An area it has said it will consult on is a ban on fake reviews, and a ban on hosting reviews without taking reasonable steps to check they are genuine. A lot of travel businesses host online reviews, so businesses would be obliged to show they had taken reasonable steps to ensure the reviews were genuine.”

The government has also promised a consultation and action on ‘drip pricing’, in particular by airlines. Golding said: “I understand the concern around drip pricing, but many airlines would say, ‘It just reflects the variety of choice.’ Does everything have to go in the upfront price, every possible add-on? If so, how do you present the price in a way that isn’t offputting?”

Deloitte audit and assurance director Tim Robinson noted: “The consumer wants comparability, so it needs to be a realistic price, not a headline price that no one pays in reality.”

### *FIGURE 50:* AIRLINE FARES COMPARISON

‘It’s easy to understand cost of flights and to compare airlines’




*Source: CAA Consumer Survey, October 2022 Base: 3,500 UK adults*

*MORE than half UK consumers found it ‘easy’ to compare airfares, according to a CAA survey, despite the government considering regulating ‘drip pricing’ by airlines and others (Figure 50)*

# AIR TRAVEL
## 'DEMAND HAS OUTSTRIPPED CAPACITY'

**IATA RAISED its airlines' profits forecast for 2023 at the close of the year, estimating carriers made a collective $23 billion and predicted a rise to almost $26 billion in 2024 on the back of record revenues. Yet Iata noted a net margin of just 2.7% remained "well below the cost of capital".**

The association forecast global passenger numbers would reach 4.7 billion in 2024, exceeding the 2019 total of 4.5 billion. It forecast the number of flights in 2024 would top 40 million, up from 36.8 million in 2023 and 39 million in 2019.

Iata director general Willie Walsh hailed the figures as "a tribute to aviation's resilience" and forecast "more-normal growth patterns from 2024" while noting: "The pandemic cost aviation about four years' growth." But Walsh argued: "Industry profits must be put into perspective. A margin of 2.7% is far below what investors in almost any other industry would accept. On average, airlines will retain just $5.45 for every passenger [in 2024]. That is far too little to build a future resilient to shocks."

Air traffic in Europe remained about 7% below 2019's level, in part due to a capacity shortfall owing to delays in deliveries of new aircraft and parts. Walsh noted: "We would have seen more capacity without supply chain delays. Demand has slightly outstripped capacity. [Manufacturers] continue to disappoint with delays to deliveries and spare parts."

The big winner was Ryanair which operated 25% more capacity in the summer than in 2019, with chief executive Michael O'Leary reporting the carrier had "taken enormous swathes of market share in almost all markets". O'Leary suggested "a huge amount of [rival] capacity has been weeded out" and argued overall capacity would remain constrained "for the next four to five years".

There was no repeat of the extensive disruption to flights in summer 2022 although the better performance was seriously marred on occasions. Serious delays at UK arrivals at the start of the Whitsun bank holiday were caused by the failure of all 270 e-gates due to a badly timed system upgrade.

> Airlines returned to profit and air operations to 'normal', but the challenge of decarbonising hung over aviation

*AIR passenger numbers in the UK neared the 2019 level in 2023 (Figure 51)*

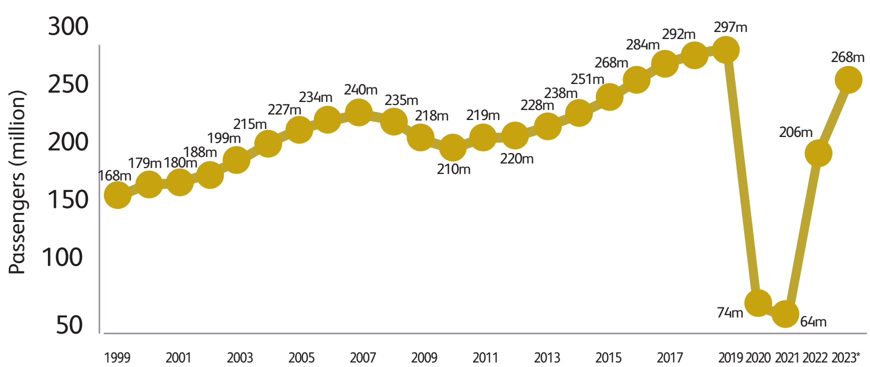
But that was nothing compared with the August bank holiday shutdown of UK air traffic control (ATC) by system provider Nats which delayed hundreds of thousands of passengers. An independent review of what happened, set up by the CAA, was due to report in January. Although its focus was on Nats, the review was also asked to consider the impact of "delays and cancellations" and how airlines and airports "met their passenger rights obligations", including "communication, timeliness of rerouteing and rebooking, and management of vulnerable passengers".

The Nats failure was separate from ATC issues at Gatwick where a shortage of controllers caused delays and cancellations periodically through the year. The CAA held regular meetings with Gatwick and Nats "to ensure resilience" which were due to continue until March this year.

### SUSTAINABLE FUEL

Virgin Atlantic's operation of a flight between Heathrow and New York using 100% sustainable aviation fuel (SAF) in November was the standout event

**FIGURE 51:**
**UK AIRPORT PASSENGER NUMBERS, 1999-2023**




*UK and international passengers, outbound, inbound and domestic, to nearest million *12 months to Oct 2023 Source: CAA*

# AIR TRAVEL
## 'DEMAND HAS OUTSTRIPPED CAPACITY'

*FIGURE 52:* FLIGHTS ON TIME AT MAJOR UK AIRPORTS

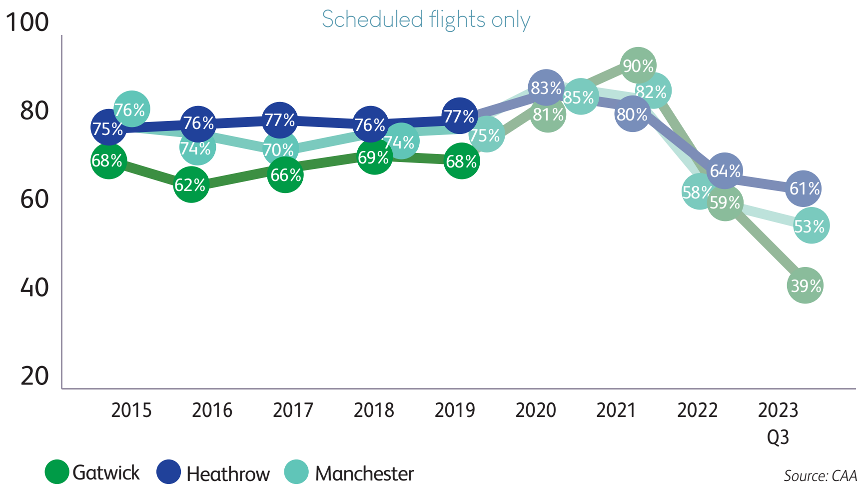



*FIGURE 53:* UK FLIGHT PUNCTUALITY & CANCELLATIONS

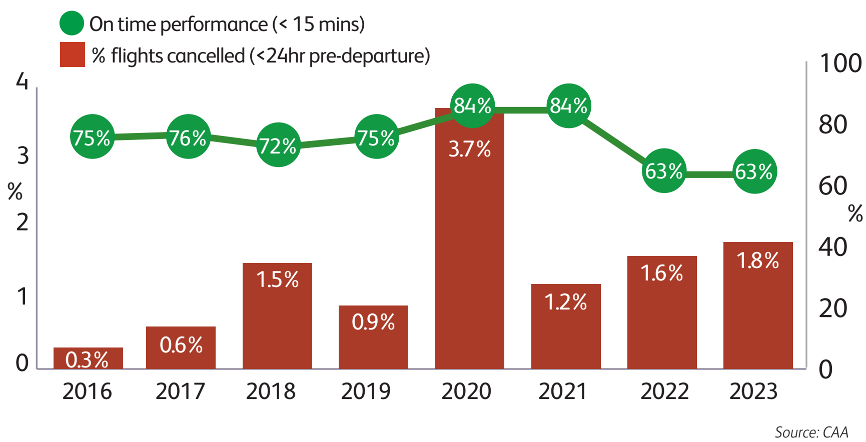
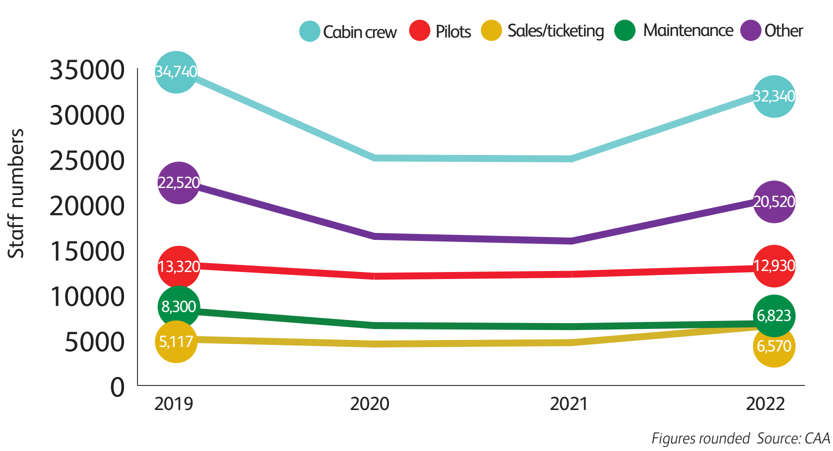



*FIGURE 54:* UK AIRLINES' STAFF NUMBERS




in relation to aviation technology and decarbonisation. It was hailed as "a milestone" by industry leaders, but that view was contested.

Rob Griggs, policy and public affairs director at Airlines UK, insisted: "It showed a glimpse of the future. It demonstrated this technology works." He told a Travel Weekly Sustainability Summit: "SAF is going to have to do the heavy lifting in reducing aviation emissions for the next couple of decades. But to make that happen we need volumes of SAF at a cost airlines can afford." However, Cait Hewitt, policy director at the Aviation Environment Federation (AEF), insisted: "We're decades away from a genuine zero-emissions flight that could cross the Atlantic." She argued: "Even 100% SAF will reduce emissions by zero per cent."

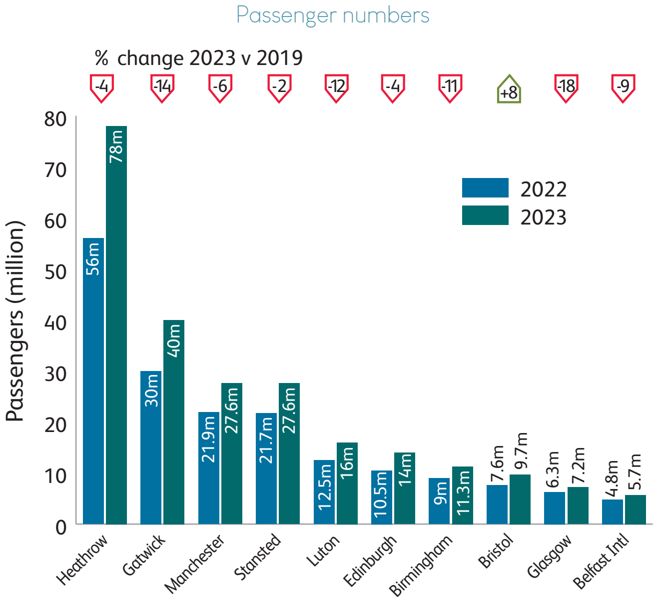
The fuel Virgin Atlantic used was mostly produced from cooking oil and Hewitt noted: "By definition, a waste-based fuel can't be scaled up sustainably." Griggs conceded the fuel "is the least scalable SAF and probably has less lifecycle benefits [than alternatives]." But he argued: "The SAFs we want to make in the UK are second-generation fuels from waste carbons and organic waste that are harder to process but more scalable."

The government's Jet Zero Strategy commits to having five SAF plants under construction in the UK by 2025. Just one SAF plant, on the Humber, has begun operating to date. At the time of writing, the government was still analysing the feedback from a second consultation on its 'SAF mandate' issued in April. It proposes to require SAF comprise 10% of jet fuel by 2030.

Airline chiefs criticised both UK and EU leaders for failing to provide financial incentives for SAF production. Lufthansa group chief executive Carston Spohr pointed out in March: "If all the SAF produced in the world went to us now, it would last five days. If the European aviation industry had it, it would be gone in one day.

"We buy all the SAF we can, but right now SAF is five times the price of

*FIGURE 55:* UK TOP-10 PASSENGER AIRPORTS




**12 months to October 2023 Figures rounded Source: CAA*

fossil fuel. The intention of the industry is to go to net zero, but it involves huge investment and infrastructure."

## AIRPORT EXPANSION

The Climate Change Committee which advises the government warned in July that the UK is making slow progress on reducing emissions and should halt airport expansion.

The committee made 27 "priority recommendations" of which "no airport expansion without a UK-wide capacity management framework" was one, with a framework "operational by the end of 2024". Thereafter, "there should be no net airport expansion unless the carbon intensity of aviation is outperforming the government's emissions reduction pathway and can accommodate the additional demand".

The committee noted aviation was responsible for 7% of UK CO2 emissions in 2022 despite air traffic being 25% lower than in 2019. UK aviation emissions will be required to fall 17% on that 2022 figure by 2035 to hit the government's reduction target – less than every other sector of the economy. But the committee warned aviation still won't hit its target without blocking airport expansion.

However, Department for Transport aviation director David Silk told industry leaders in November: "Our approach [is] to reach 'net neutrality' by 2050 while allowing growth. We want people to fly to generate the revenue to be able to decarbonise."

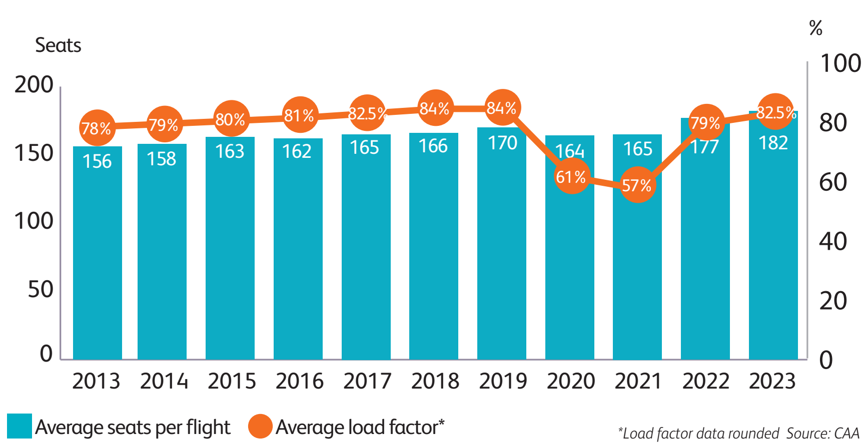
*FLIGHT punctuality has declined at the UK's biggest airports compared with 2019 (Figures 52 & 53). Airline staff numbers have recovered post-pandemic (Figure 54). Heathrow recovered more strongly than other UK airports in 2023 (Figure 55). The average number of seats on flights is rising (Figure 56)*

## SAFETY CULTURE

The new year was no sooner under way than a disaster was only narrowly avoided when part of the fuselage on a Boeing 737 Max 9 aircraft blew out at 16,000 feet. All passengers and crew on the Alaska Airlines flight from Portland to California landed safely, but the Federal Aviation Administration (FAA) ordered the grounding of 171 similar aircraft.

The incident raised fresh questions about the safety culture at Boeing since the Max, introduced in 2017 and the fourth generation of 737, was grounded from March 2019 to November 2020 after two fatal crashes due to a faulty flight control system. Max production lines were already subject to delays, forcing Ryanair – which operates a wholly Boeing fleet – to cut its winter schedule after O'Leary complained Boeing "have yet again delayed deliveries". The delays appear likely to continue.

*FIGURE 56:* AVERAGE SEATS & LOAD FACTORS ON UK FLIGHTS




**Load factor data rounded Source: CAA*

# HOSPITALITY

## EXPECT A RETURN TO MORE NORMAL PERFORMANCE

**THERE WAS no let-up in the post-pandemic recovery of demand for hospitality. The Deloitte hospitality and leisure team described the last 12 months as "very strong", noting: "Some of the performances, particularly in the Mediterranean, have been exceptionally strong, well above 2019 levels, especially on average daily rates and especially in the luxury segment.**

"What seems also to have happened is the shoulder periods have extended as people looked at the pricing in peak season."

However, the team noted: "There are headwinds, especially on the cost side. The lack of 'distress' is surprising given we don't just have increased costs, we have higher interest rates. From an investor perspective, that is applying a lot of pressure. The only reason that has not filtered through is because average [room] rates have gone through the roof.

"London had a strong recovery. The average daily rates (ADRs) at the top of the market were eyewatering, though below what was achieved in some Italian cities and a good 10%-15% below Paris.

"Corporate travel is not fully back. A Deloitte survey looking at the corporate travel recovery in the US and Europe found the overarching sentiment was that we would be at a normalised level by Q3 2024.

The pent-up, post-pandemic demand may have worked through the system

"The survey also looked at how many companies track their carbon footprint, how many recommend how to travel, how many restrict ways to travel and how many forbid certain types of travel. A huge percentage have an indication of their impact but are not mandating certain types of travel. That is going to change. There is going to be an increasing focus on this in corporate contract negotiations. We have clauses in our contracts around working flexibly and wherever possible looking not to travel."

### LABOUR AND COST PRESSURES

"We thought cost pressures were going to have a more severe impact, but people have found ways to mitigate some of the pressures around labour. The big issue is interest rates. For an investor, if your debt servicing has doubled, that is a big chunk out of your bottom line.

"The jobs market has cooled a bit and people have adapted their operating models, having staff work more flexibly and in some cases paying them more. Businesses have also thought about how to create a better working environment.

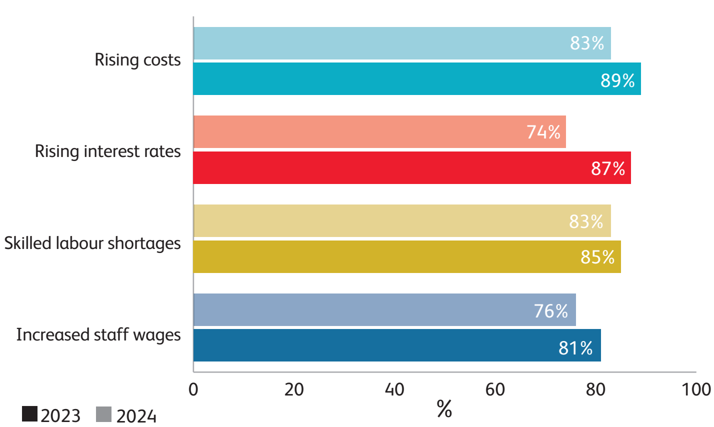
"One of the great things about hospitality is it creates a huge number of entry-level positions with not huge amounts of training required. But the working hours can be unsociable, with split shifts. The challenge is how to get rid of some of that when competing for staff. There is a lot of talk at industry events about how to create a career path. Historically, you could start working as a waiter or at a front desk and work your way up. We don't think people see hospitality the same way as 20-30 years ago. So, there is an educational aspect.

"There have been a couple of initiatives to showcase career paths. There have also been initiatives around bringing in people from more economically or socially challenged backgrounds. But this

*HOSPITALITY leaders see skilled labour shortages remaining a challenge in 2024, ahead of rising costs (Figure 57)*

***FIGURE 57:*** RISKS TO HOSPITALITY IN YEAR AHEAD

% of hospitality leaders & investors




*Source: Deloitte European Hospitality Investment survey, November 2023* is a longer-term game. We need to get the message to teenagers coming into the workforce. How do you get the best of that group to come into hospitality? A study a couple of years ago on the appeal of different sectors to 15-to-20-year-olds found hospitality ranked only above mining and waste management.

"We've just done some work for a client in the Middle East, looking at best practice in recruitment for a hospitality workforce, and the systems that seem to work are where jobs in the industry are regarded as good jobs. In Switzerland, for example, there is an apprenticeship system. You get properly trained. People talk about Lausanne, but there are good technical hotel schools which teach people the trade. People come in, earn a good living and see career progression. If they work in a five-star hotel, that is well-regarded. If you tell somebody in other countries you work in a hotel, they shrug their shoulders."

## PROGRESS ON SUSTAINABILITY

"A lot is being said and done because it's the right thing to do from a corporate responsibility and marketing standpoint. You can't be seen to do nothing. That said, we've not really made much progress. There are continual modest improvements, but has there been a step change?

"The issue is you don't get rewarded for doing it. The customer is not rewarding you in a meaningful way. There are many surveys and, depending on who instructs the survey, either consumers are hugely driven by ESG [environmental, social and governance issues] or it doesn't matter to them. It's an influencing factor not a deciding factor for most people when they travel. If you give people a choice of staying in two identical hotels and one is ESG compliant in some way and the other one isn't, they will stay at the ESG-compliant one. But before that, it's about price, location and how many loyalty points you get.

"Institutional investors and government regulation are the key drivers of change, which means it's not fast enough

> "The most interesting indicator [for 2024] is probably the US, where we've started to see a softening [in demand] and declines in certain markets

because we all know how long it takes for regulation and reporting to come in.

"An eye-opener to us was a survey around who, based on volume of voice, seems to care most about ESG. Everybody points to the younger generation, but if you look at who is making day-to-day meaningful changes like recycling or reducing their carbon footprint, it is people aged 45 to 50-plus. They are making changes, whereas younger generations shout about it but don't adapt their behaviour. That younger group is becoming the largest in terms of travel and hospitality, and they're not changing. That is a challenge.

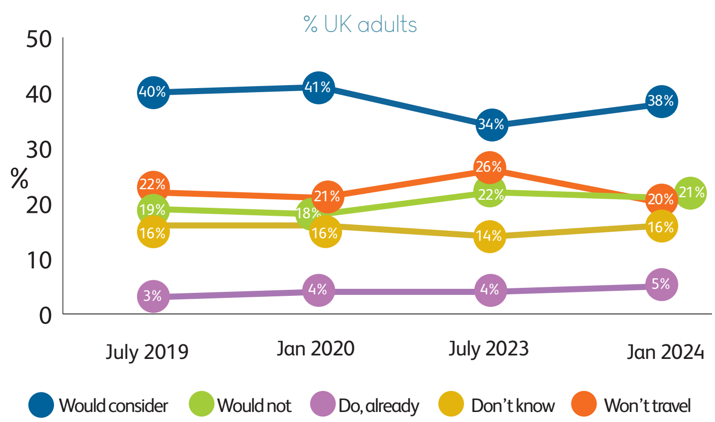
"Hospitality investors are taking sustainability seriously. If you're a private equity investor with a five to seven-year hold period, a lot can change in that period. So, people are looking at it very seriously. They can see two major risks. One, guest perception changes and they stop coming. Two, the assets are not ESG compliant and institutional investors say, 'We can't invest in those types of properties anymore'."

## IMPACT OF GENERATIVE AI

"There is a lot of impressive technology in use around sales and marketing and back-of-house automation. But has there been a game-changing application

*ALMOST two in five UK adults say they would consider an 'eco-friendly' hotel for a holiday, but only a small percentage do with the choices available (Figure 58)*

**FIGURE 58: 'WOULD CHOOSE ECO-FRIENDLY HOTEL FOR A HOLIDAY'**




*Source: YouGov Base: 1,958-2,027 UK adults* of generative AI for the travel or hospitality industry? Probably not.

"A travel platform in the US is trialling generative AI which allows you to enter the type of holiday you want, the number of days, the countries you want to visit or the experience you want, and it comes up with a detailed itinerary you can book. That is overnight disintermediation. So, you can see how things will be disrupted.

"The technology can also change personalisation into hyperpersonalisation and redefine loyalty. Points-based loyalty has a significant appeal. But travel businesses' points-based programmes have to extend so they're on your credit card and you're constantly earning points to get enough volume to earn something. That is not what loyalty is.

"Loyalty is when you go on a trip and stay at a hotel you stayed at six months earlier and at the bar they remember you enjoy a glass of pinot noir and say, 'This is on the house'. Now you're going to tell everybody about that. You're not going to tell somebody you stayed at a hotel and got 362 points. Learning what you like, predicting what you would enjoy is where the technology becomes interesting."

## OUTLOOK FOR 2024

"There will be a return to more normalised performance patterns, subject to there not being major unforeseen events. The growth rate is not sustainable. The most interesting indicator is probably the US, where we've started to see a softening [in demand] and declines in certain markets. Historically, the US has been a lead indicator for Europe.

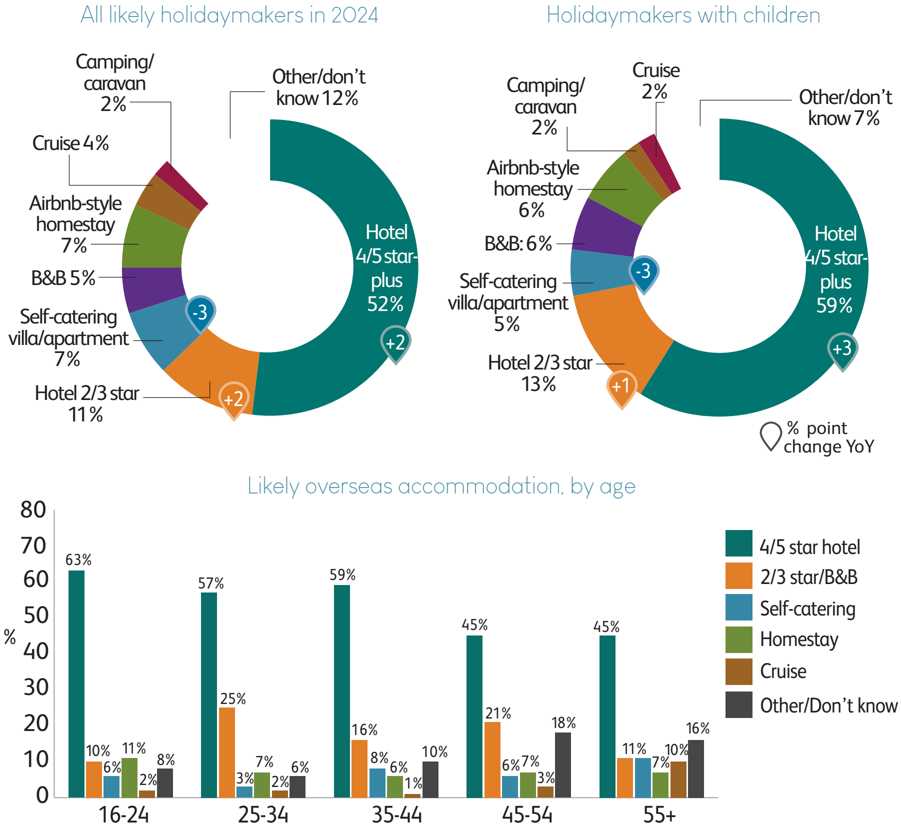
"It appears the pent-up demand has worked through the system, with full levels of supply coming back. [Hospitality analyst] STR expects a decline in rate performance in certain segments, not just a softening in growth to more normalised rates of 3%-5% a year but declines.

"However, something underpinning the [strong] performance has been that it is virtually impossible to get new hotel developments funded. So, you don't have additional supply coming into the market and that is not going to change in the short term. There is just not the appetite from lenders. Construction costs have also gone through the roof.

"Lenders will want to see how their overall exposure in real estate plays out. Supply pipelines are extremely low. Part of that is due to a lag because it takes at least 24 months to get a property built and there was no development during the pandemic. So, it's partially the lag keeping rates strong.

"The sector has proved resilient. Some of the pressures have moderated. But the top line is going to moderate. The performance is likely to look less rosy in 2024. But we'll have a more normalised, healthy industry that has recovered from the most disruptive event to where we won't talk about the performance in 2019 anymore."

*FIGURE 59:*
LIKELY ACCOMMODATION: NEXT OVERSEAS HOLIDAY




*Source: Service Science/Kantar, November-December 2023*

*FOUR and five-star hotels are the preferred accommodation of three out of five UK holidaymakers (Figure 59)*

# OUTBOUND

## CONSUMERS 'GRAVITATE TO VALUE' BUT 'PROTECT THEIR HOLIDAYS'

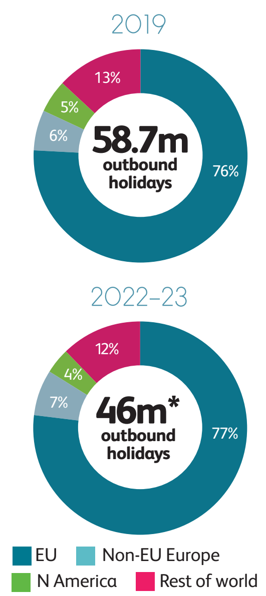
Demand in the UK outbound market was the strongest in Europe in 2023 and showed no sign of flagging going into 2024

**OUTBOUND BOOKINGS in 2023 trumped even the most optimistic forecast and appeared to roll into 2024 despite concerns about the strength of the UK economy and the impact on household spending of the highest interest rate since 2008.**

The strong demand led Atol holders to seek licences for 31.6 million package customers in the 12 months to September 2024, 20% up on the previous year.

Jet2 overtook Tui as the largest Atol holder, adding 7% capacity year on year for summer 2023. It reported selling 4.3 million packages in the six months to September, 15% up on the previous year and 71% of its total passenger numbers, with the average package selling price up 11% on summer 2022. Jet2 increased its seat capacity a further 21% year on year for winter 2023-24

*FIGURE 60:* UK OUTBOUND HOLIDAYS BY REGION




*2022 outbound holidays total
Source: ONS

and 12% for summer 2024. In half-year results, chief executive Steve Heapy noted the attraction of the package product "for price-conscious customers".

Tui reported passenger numbers up 14% year on year in its Northern Region, dominated by the UK, in the 12 months to September. The group reported a €1 billion operating profit from full-year revenue of €20.7 billion, up 25% year on year, and Tui chief executive Sebastian Ebel forecast group revenue would rise at least 10% in 2024, pledging to "expand our market share".

In the UK, Tui sought to increase sales via independent agents while also launching a dynamic packaging platform offering accommodation and flights beyond its own.

Ebel accused the media of "exaggerating" wildfires in Rhodes in July which gave a taste of what lies in store as temperatures rise, but he said the group would offer fire insurance in future. He rejected a suggestion that holidaymakers might be less attracted to the Mediterranean in peak summer because of the increasing heat yet acknowledged: "There will be changes. The season will start earlier and end

### The Deloitte view

With many businesses returning to or surpassing pre-pandemic passenger volumes, 2023 saw a strong recovery in outbound travel.

Net spending in the leisure sector improved for a third consecutive quarter, according to the Q3 2023 Deloitte Consumer Tracker and the travel industry reaped the rewards of a busy summer as pent-up demand fuelled spending.

Despite continued pressures on consumer budgets, outbound travel demand is forecast to remain robust in 2024 as consumers prioritise travel over other spending. However, in an effort to control spending, there is evidence of consumers reducing the number of days away and choosing to travel during shoulder seasons, between the peak and off-season, to get better deals. Predicting traveller demand and matching it with product supply will be a key challenge in 2024.

There has been no progress with regulatory reform since the last *Insight* report a year ago, causing some uncertainty for the industry. Although there will be further consultation and time for implementation, any changes will likely lead to additional compliance costs.

In 2024, businesses should focus on:

- **Growth:** It's worth considering whether the growth trend will continue. Once post-pandemic savings are depleted and the backlog of pre-Covid planned holidays is exhausted, will demand change? It will be important to keep an eye on the traditional summer holiday sector as capacity planning seems to assume that the industry will not be affected by the cost-of-living crisis.
- **Generative AI:** We are all aware of the anticipated impact of generative AI and the disruption it is predicted to cause. While we consider the key impacts remain a number of years away, it will be interesting to see how businesses in the travel sector explore generative AI use cases this year.
- **Mergers and acquisitions (M&A):** There have been delays in transactions, especially involving businesses backed by private equity, during the recovery process in 2023. But 2024 could be intriguing in this regard. Management teams may need to allocate time and resources to prepare for potential M&A activity.

■ ***Tim Robinson, director, Audit and Assurance, and Danielle Rawson, director, CFO Advisory*** later. Other destinations will become stronger, like the Canary Islands or Portugal, and we'll focus on new destinations like the Nordic countries."

EasyJet reported tour operator easyJet holidays carried 1.9 million passengers in the 12 months to September and recorded a £122 million pre-tax profit "in only its second year of trading".

Johan Lundgren, easyJet chief executive, forecast easyJet holidays would more than double its profits in three to five years. He argued customers "continue to protect their holidays and gravitate towards value" and dismissed a suggestion that rival carriers could seek to emulate easyJet holidays' success. Lundgren argued: "If any low-cost airline knew how to do this, they would have done it. We have a network no other airline has. We have a reputation no other airline has. We have relationships with hoteliers. I don't know who else could replicate it."

The three largest online travel agencies in the UK market – Loveholidays, Booking.com and On the Beach – went into 2024 licensed for more than two million Atol-protected customers apiece. On the Beach handled transactions worth more than £1 billion for the first time in the 12 months to September, with chief executive Sean Morton noting: "The highest potential growth is in mainstream holidays offered through travel agents [and] we have a very small share of that market."

The hike in capacity for 2024 was not universally celebrated, amid concerns it would prove too great. Travel Trade Consultancy director Martin Alcock spoke for many smaller operators when he noted in November: "I can't see there is enough demand for them all [the major operators] to achieve that [capacity]."

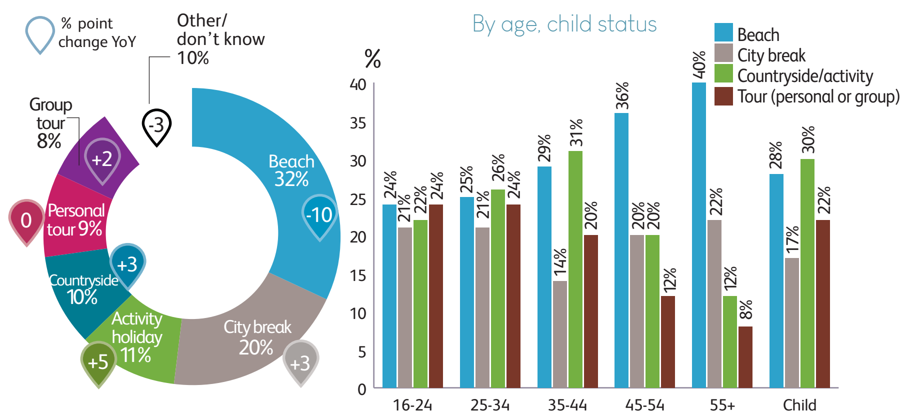
The top-two operators signalled important corporate changes. Jet2 founder and executive chairman Philip Meeson announced his retirement from the board and move to non-executive chairman after building Jet2 from a small regional mail and cargo carrier he bought in 1983 into the UK's third-largest airline and biggest package-holiday provider.

Tui prepared to cut its corporate links with the UK with a proposal to de-list from the London Stock Exchange at its annual general meeting in February 2024 in favour of a more prominent listing on the Frankfurt stock market, although the group insisted the UK remains "the most important market for us".

*MORE than three out of four overseas holidays from the UK are to EU destinations (Figure 60). The preference for a beach holiday in 2024 appears down markedly year on year (Figure 61). Spain remains the number-one destination, but the UAE and Turkey showed the highest growth in 2023 (Figure 62)*

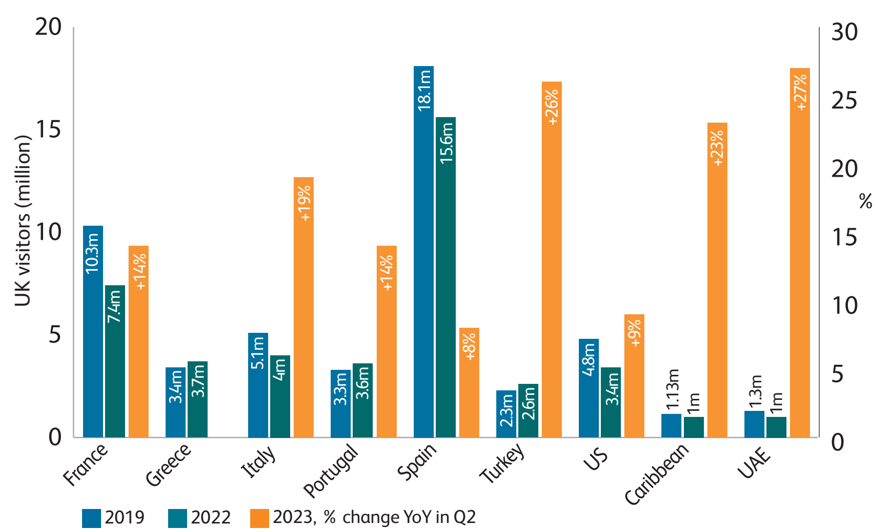
## *FIGURE 61:* TYPE OF OVERSEAS HOLIDAY, 2024

% UK adults planning an overseas holiday




Source: Service Science/Kantar, November-December 2023

## *FIGURE 62:* UK VISITORS TO SELECTED DESTINATIONS




Source: ONS

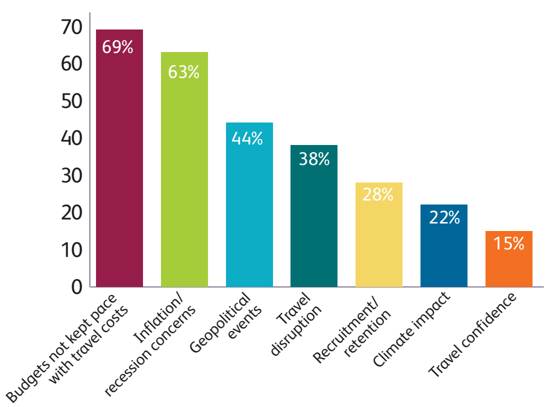
# CORPORATE TRAVEL

## REVENUES RETURN BUT WILL VOLUMES HIT PLATEAU?

**CORPORATE TRAVEL volumes recovered in 2023 but there were conflicting views on the extent of the recovery.**

A Deloitte survey of corporate travel managers and executives in Europe and the US, published in April, suggested the sector was unlikely to return to pre-pandemic volumes due to pressure on companies to cut carbon footprints, although it forecast spending would recover to 2019 levels by 2024-25. It warned: "Climate concerns will likely put a cap on corporate travel gains for several years to come."

### *FIGURE 63:* BIGGEST BARRIERS TO BUSINESS TRAVEL IN 2023




Source: GBTA, October 2023
Base: 865 GBTA members

Climate concerns 'will likely put a cap' on corporate travel gains, according to a Deloitte report

*RISING costs are rated the biggest barrier to business travel (Figure 63). Outbound business travel from the UK remains some way down on its pre-pandemic level (Figure 64). Corporate travel globally has yet to recover fully (Figure 65) and there appears something of a shift away from premium corporate travel (Figure 66). UK domestic business travel also appears to have remained well down in 2023 (Figure 67)*

The survey found 86% of large corporates in Europe and 79% in the US were looking to cut travel per employee by 10% or more by 2030 to meet sustainability targets, and 40% in Europe and 33% in the US to reduce travel by 20% or more. The authors noted: "42% of respondents in the US and 45% in Europe are in the process of implementing a structure to assign carbon-emission budgets alongside financial budgets."

The report also found flexible working arrangements were affecting travel volumes, noting: "Distributed workforces make it more complicated to arrange in-person meetings."

Yet the Global Business Travel Association (GBTA) celebrated an "accelerated rebound" in corporate travel in August and forecast in its annual Business Travel Index (BTI) Report that global business travel spending would surpass the pre-pandemic level in 2024.

UK corporate travel leaders hailed a strong recovery at the Business Travel Association (BTA) conference in September, with Suzanne Horner, chief executive of Gray Dawes and chair of the BTA, noting: "Most people report being ahead of 2019." Kevin Harrison, managing director of Good Travel Management, conceded "the whole market may not be there" but insisted: "Demand in the

## The Deloitte view

If 2022 was the year of 'the new normal', then 2023 was the year the industry adapted to the reality of the change in corporate travel.

The two biggest headwinds affecting business travel are the continued focus on sustainability and ongoing pressure to reduce costs due to the uncertain economic environment. Most organisations have committed to being net zero by 2050 or earlier, and one of the most influential levers they can pull is how and when they travel. In addition, with economic and political uncertainty expected to continue in 2024, organisations are seeking to cut costs.

Travel businesses which place sustainability and cost control at the core of their offering will be well-positioned to capitalise on these trends. Technology and artificial intelligence will play a crucial role in enabling businesses to address sustainability and cost objectives. Significant investment is expected in these areas.

The value of in-person interactions is still clearly recognised, so the way in which organisations go about their travel is changing as they look to achieve business growth and profitability while reducing costs and CO2 emissions. There are still clear benefits to in-person interaction, but businesses are experimenting with smarter and more efficient ways to go about their business meetings. One example relates to length of stay.

With the changing nature of corporate travel, including longer stays and less flying, as well as the increasing focus on employee welfare, companies need to adapt business travel programmes to better support their employees.

There is a substantial opportunity for businesses that can help organisations tackle their challenges head-on. We expect to see further consolidation across the industry.

■ *James Leggo, assistant director, and Jon Bolger, head of Business Travel* managed travel sector is stronger [than pre-Covid]. SMEs have come in which were previously unmanaged." Flight Centre Europe chief financial officer Adam Murray agreed, suggesting "it's the unmanaged space" which remained down.

However, major network airlines reported business travel volumes significantly below 2019 levels. British Airways parent IAG and the Lufthansa Group reported corporate bookings up to 40% below 2019 levels in second-quarter results, with IAG chief executive Luis Gallego suggesting corporate bookings had "plateaued" since March. He reported BA corporate travel revenues at "around 69% and volumes 61% of 2019 levels".

Lufthansa Group chief executive Carsten Spohr similarly noted business travel had "recovered to about 60% of pre-crisis passenger numbers" and suggested: "German corporate travel will remain structurally smaller."

## CONTRASTING ASSESSMENTS

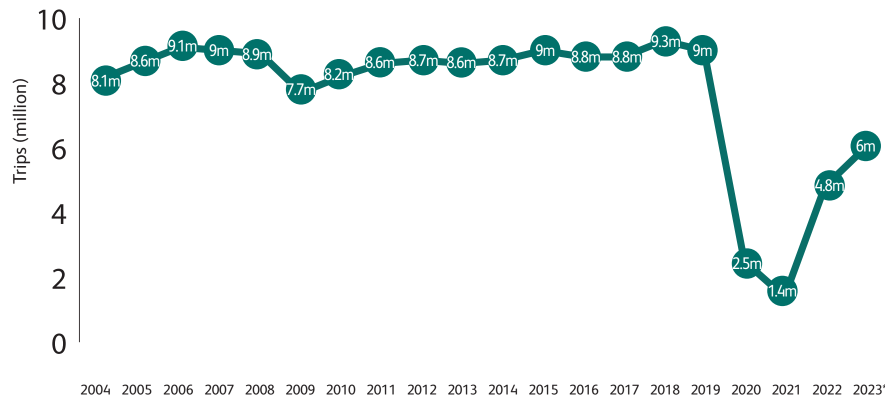
Senior industry figures acknowledged the contrasting assessments. Pat McDonagh, chief executive of Clarity Travel, told *Travel Weekly*: "Transactions are not back at 2019 levels. [But] revenue is back because airfares have risen." He noted: "You have more distributed workforces, airlines have restricted capacity [and] corporate rail travel is not back because of the state of the rail network. Confidence in the railways is shot to pieces."

The government hardly bolstered confidence by scrapping construction of the planned HS2 high-speed rail link between Birmingham and Manchester in October on the grounds that costs had "more than doubled", a move condemned by the BTA.

Despite the shortfall in trip volumes, a study by CBI Economics on behalf of the BTA estimated corporate travel was worth more than £27 billion to the UK economy in 2022, with £10.4 billion attributable to travel management companies (TMCs).

The drive by major network airlines to transform third-party distribution through New Distribution Capability (NDC) technology triggered a serious dispute in the US where American Airlines withdrew more than 40% of its fares from GDSs from April, making full content only available through NDC channels. The American Society of Travel Advisors (Asta) called for an anti-trust investigation by the US Department of Justice (DoJ), alleging an "abuse of market power". The UK Institute of Travel Management called for "transparency around airlines' motivation", warning of "a deluge of complaints from travellers about fares being visible but not bookable".

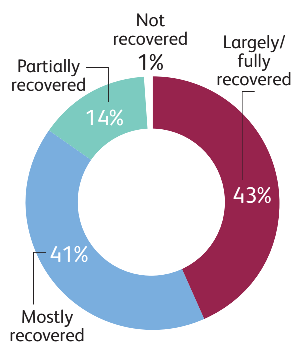
### *FIGURE 64:* OVERSEAS BUSINESS TRAVEL FROM UK




***12 months to June 2023 Source: ONS*

### *FIGURE 65:* BUSINESS TRAVEL RECOVERY

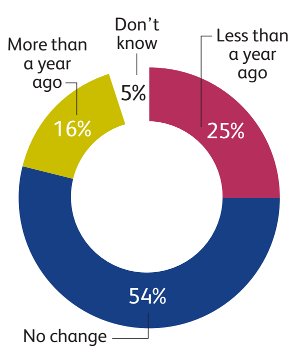
% companies rating sector




*Source: GBTA, October 2023*
*Base: 865 GBTA members*

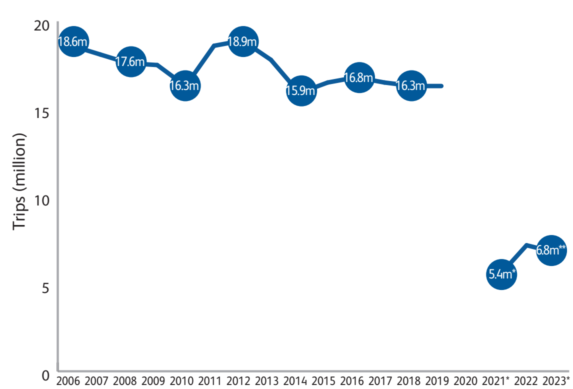
### *FIGURE 66:* PREMIUM CORPORATE TRAVEL

As at October 2023




*Source: GBTA, October 2023*

### *FIGURE 67:* UK DOMESTIC BUSINESS TRAVEL




**April-Dec 2021 **12 months to June 2023 Source: GB Tourism Survey*

# CRUISE

## SECTOR REBOUNDS STRONGLY BUT EMISSIONS CHALLENGE LOOMS

**THE CRUISE industry recovered strongly in 2023, with cruise association Clia asserting the sector "continues to be one of the fastest-growing" in tourism.**

Ocean cruise passengers were forecast to overtake 2019 levels. But with capacity growing, Clia noted the sector would need to attract four million new-to-cruise passengers by 2025.

Cruise groups reported results in line with the recovery. Carnival posted record fourth-quarter and full-year revenues despite an annual loss of $74 million and reduced its debt by $4.6 billion to just over $30 billion. Chief executive Josh Weinstein noted: "We consistently outperformed in all four quarters."

Cruise lines reported consistently outperforming forecasts throughout last year

Royal Caribbean Group reported a $1.4 billion profit for the nine months to September and "accelerating demand for 2024", with president and chief executive Jason Liberty earlier reporting "a step change in booking volumes and pricing". Norwegian Cruise Line Holdings similarly reported record revenue and bookings.

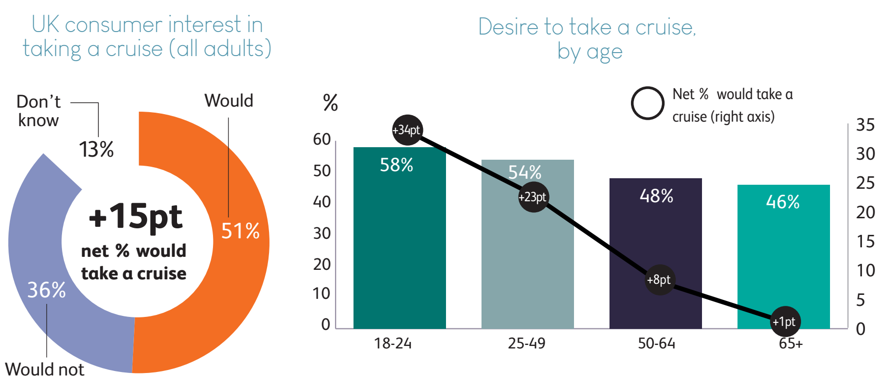
UK cruise demand proved equally robust, although 2023 data was not available in time for this report. Demand in 2022 switched somewhat towards European sailings, rising from 67% of all passengers in 2019 to almost 79%. This came largely at the expense of the Caribbean, to which the proportion of UK passengers fell by one-third on 2019.

The UK average duration remained close to 10 days against a global average of seven, and the average passenger age fell slightly to just below 56 – 10 years above the global average.

Clia noted member cruise lines' fleets would exceed 300 ships for the first time in 2024, with capacity set to grow 19% to more than 746,000 berths by 2028.

That raises the pressure for emissions reduction at sea and in ports. Clia reported

### *FIGURE 68:* CONSUMER INTEREST IN CRUISE




*Source: YouGov, November 2023 Base: 4,065 UK adults*

## The Deloitte view

The cruise industry experienced a return to some level of normality in 2023. While occupancy levels did not quite reach the pre-pandemic levels of 2019, prices were strong, making it a successful year for the industry.

The US market was particularly buoyant, benefiting those operators for which it is a key market. However, the UK and Europe lagged the US. The Far East was the slowest to pick up due to the lengthier restrictions in place.

Early signs for 2024 are positive, with volumes expected to exceed the same period last year. Some cruise lines have forecast occupancy rates in the first half of 2024 will be higher despite the increased capacity. However, pricing seems to be more challenging and we may witness some price softening, driven by increased capacity and competition.

Against the backdrop of economic uncertainty and continued cost-of-living crisis, consumers still face pressures on their ability to spend in discretionary categories. However, consumer surveys including the Deloitte Consumer Tracker indicate consumers tend to prioritise leisure travel over other forms of discretionary spending. Cruises remain a good value-for-money option compared to land-based holidays, especially given the recent increases in average daily rates across the hotel sector.

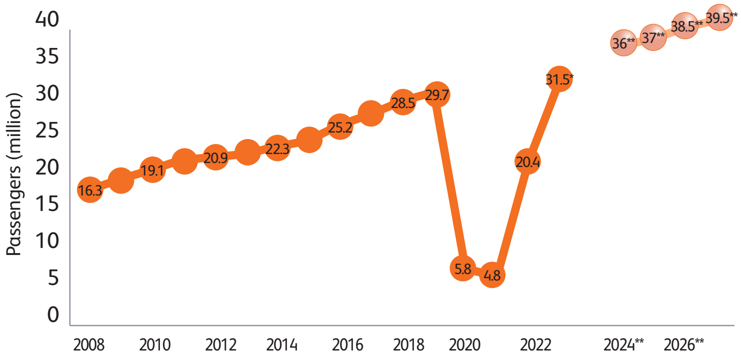
Sub-sectors such as expedition, luxury and river cruising remain popular as consumers strive for new experiences, and all-inclusive packages help control budgets.

New ship deliveries continue to create capacity despite fleet retirements. In the decade leading up to the pandemic, demand typically exceeded supply, limiting growth to how quickly new ships could be built. With supply now exceeding demand over the next couple of years, this may create a more competitive environment, but is also likely to prompt a renewed emphasis on attracting new cruise guests away from traditional land-based alternatives.

A lot of new ships use cleaner energy, including shore power and liquefied natural gas (LNG), which is a positive step towards reducing their environmental impact. The cruise sector still faces challenges in reducing its emissions, so industry leaders must focus on this issue for the foreseeable future.

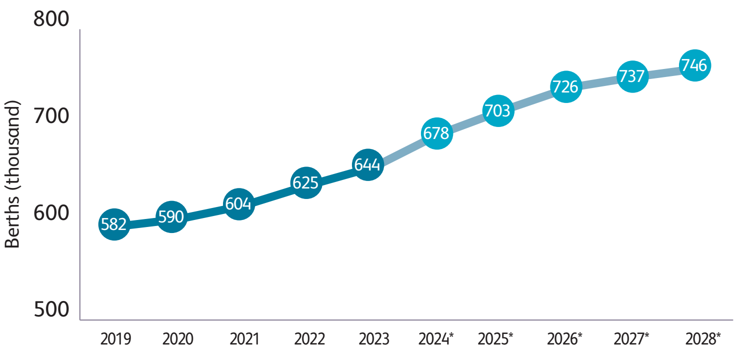
■ *Alistair J Pritchard, lead partner, Travel and Aviation*

### *FIGURE 69:* GLOBAL OCEAN CRUISE PASSENGERS




** 2023 estimate ** Forecast numbers Source: Clia*

### *FIGURE 70:* GLOBAL OCEAN CRUISE CAPACITY




**Forecast capacity Source: Clia Cruise Forecast*

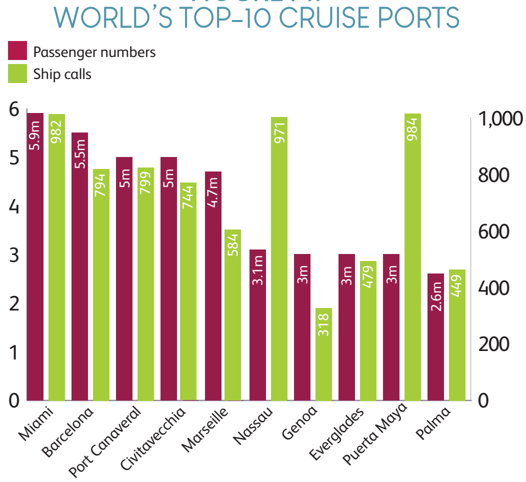
60% of ships due to launch by 2028 will rely on liquefied natural gas and 15% have battery storage and/or fuel cells. However, the average age of the fleet remains above 14 years, so retrofitting will be key. Clia also noted only 3% of cruise ports are due to have shore power by 2025.

Flexibility of fuels will be key to reducing emissions, according to Royal Caribbean Group head of sustainability Nick Rose, who insisted the sector can reach 'net zero' by 2050.

He told *Travel Weekly*: "Flexibility is important because the amount of fuel required for shipping is not going to be there. Middle-aged ships will be retrofitted to use biofuels and new-builds use a mix of new fuels and new technologies." Rose added: "We can probably get 50% to where we need to be with existing technologies, but we need new technologies to get to net zero."

Cruise forms a small part of global shipping, which is governed by the International Maritime Organisation and the IMO has been slow to set emissions-reduction targets, delaying investment in the infrastructure needed. An IMO agreement in July 2023 set "indicative checkpoints" rather than binding targets, with a minimum 20% cut in emissions sought by 2030 and 70% by 2040.

### *FIGURE 71:* WORLD'S TOP-10 CRUISE PORTS




*Figures rounded Source: Clia*

### *FIGURE 72:* UK & IRISH OCEAN CRUISE PASSENGERS, 2003–22


*Source: Clia*

# INBOUND

## COMPETITORS ATTRACTING VISITORS 'AT OUR EXPENSE'

**VISITBRITAIN estimated international visitor numbers hit 37.8 million in the year to December, 92% of 2019's level, with spending at a record £31.7 billion, 12% up on 2019 but 8% down adjusted for inflation.**

That was up on the forecast in July after ONS data put inbound visits in the nine months to September at 28 million and visitors' spending at £23 billion, with the average spend per trip up from £684 in 2019 to £817 and average duration increasing from 6.4 to 7.3 nights.

Visitor numbers in the nine months remained 8% down on 2019 although 30% up on 2022. However, VisitBritain noted the recovery "hit a plateau" in the summer, with visits in July to September slipping to 89% of 2019 levels.

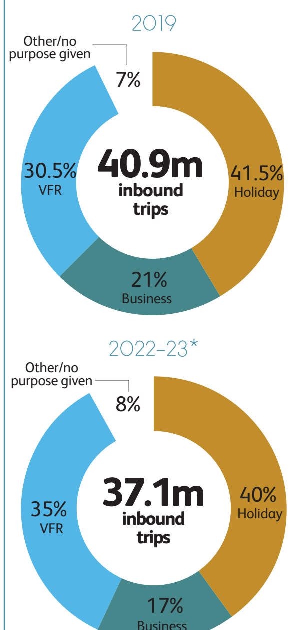
Holiday visits remained 6% down on 2019 over the nine months while visits to friends or relatives rose 3%. Business trips remained 29% down on 2019.

US visitors led the inbound recovery with spending 28% up on 2019 even adjusted for inflation, and VisitBritain forecast the US market would be worth £6.7 billion in 2024, contributing 20% of all inbound spending. However, the pace of recovery from Europe slowed as 2023 progressed, with spending in real terms remaining just below the 2019 level.

China, the UK's second most-valuable inbound market in 2019, continued to lag following the country's late lifting of travel restrictions, but VisitBritain forecast the Chinese market would recover sufficiently in 2024 to be the fourth-most valuable.

Arrivals last year neared 2019 levels and spending hit a record, but policy challenges remained

*FIGURE 73:* INBOUND TRIPS TO UK BY PURPOSE




*July 2022–June 2023
Source: ONS

### 2024 FORECAST

VisitBritain forecast 5% growth in overall visitor numbers in 2024 to 39.5 million, or 97% of the 2019 level, and a return to pre-pandemic levels by early 2025.

It noted the global economy had slowed in recent months, explaining: "This, plus the slowdown in recent inbound data, is the main reason why visits and real-terms spending are not forecast to recover to 2019 levels immediately. The eurozone economy has been sluggish throughout 2023 and is forecast to remain slow in early 2024. The US economy performed well in 2023 but consumer spending is forecast to be weaker in 2024."

Inbound association UKinbound hailed 2023 as "a strong year" but noted: "Our competitors are doing better." Chief executive Joss Croft suggested: "We had some significant success [in lobbying], with the government listening to our calls to allow school and youth groups to travel on ID cards rather than needing a passport – at the moment this just relates to France, but we hope to see the list expanded to other safe countries."

He argued the economic case for reintroducing VAT refunds on

## The Deloitte view

The number of inbound visitors to the UK has been on the rise since the end of the pandemic, with a 24% increase in visits from April to June 2023 compared with the same period in 2022.

VisitBritain data shows this corresponds to a drop of only 5% on the 9.9 million inbound visits in the second quarter of 2019. European visitors accounted for 63% of visitors to the UK in the second quarter of 2023 compared with 72% during the same period in 2022. The change in proportions was driven by an increase in visitors from North America, which recorded a record two million visitors during the period – a 27% increase on pre-pandemic levels.

Inbound business travel increased after a steady 2022, with a 31% rise in the second quarter of 2023 over the same period in 2022. We expect inbound business travel to remain significant. However, the escalating cost of flights and increasing emphasis on sustainable business practices could result in lower growth in 2024.

While it is encouraging that many people continue to travel to the UK, Deloitte's ConsumerSignals data suggested consumers' financial wellbeing declined in September and October 2023 after several consecutive months of growth. Consumers appeared to remain optimistic despite this, with 41% of those Deloitte surveyed expecting an improvement in their finances in the 12 months ahead, up from 35% a year earlier. Whether the UK inbound travel sector can build on its strong growth in 2023 will depend on the extent to which this optimism translates into travel spending.

■ *Ed Knight, director*

goods bought by overseas visitors (the VAT Retail Export Scheme) "has been made", insisting: "We know our competitors are successfully attracting high-spending visitors at our expense. We just need the political movement to get the scheme reintroduced."

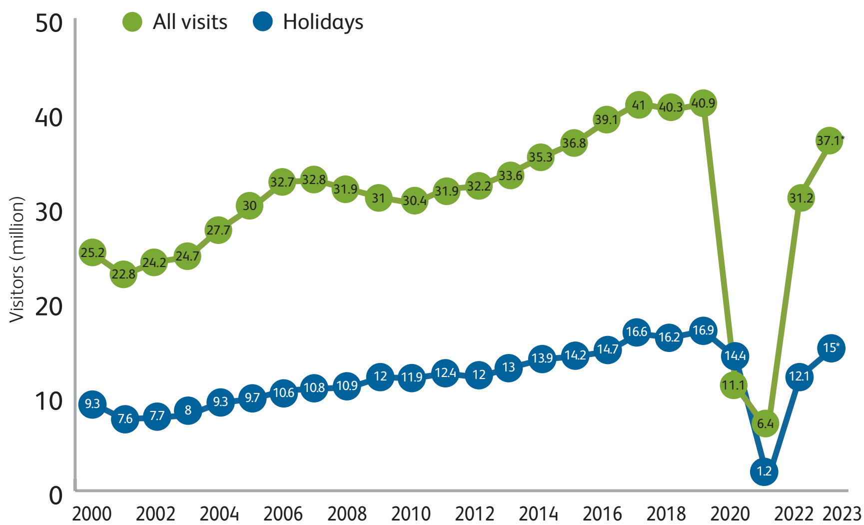
Croft added that "there are also a significant number of demand and supply side issues to fix" including costs and access to visas, the skills shortage and lack of available accommodation.

## VISA FEES HIKE

Tourism leaders hit out at the government in the summer when it announced a hike in visa fees from the autumn. UKinbound joined industry coalition the Tourism Alliance to denounce the increase as "catastrophic", warning the move made the UK "uncompetitive with many countries, including our nearest competitors across the EU".

The government nonetheless raised visitor and business visa fees by 15% and other visas by 20%. The changes meant the cost of a five-year, multiple-entry visa rose from £670 to £770.

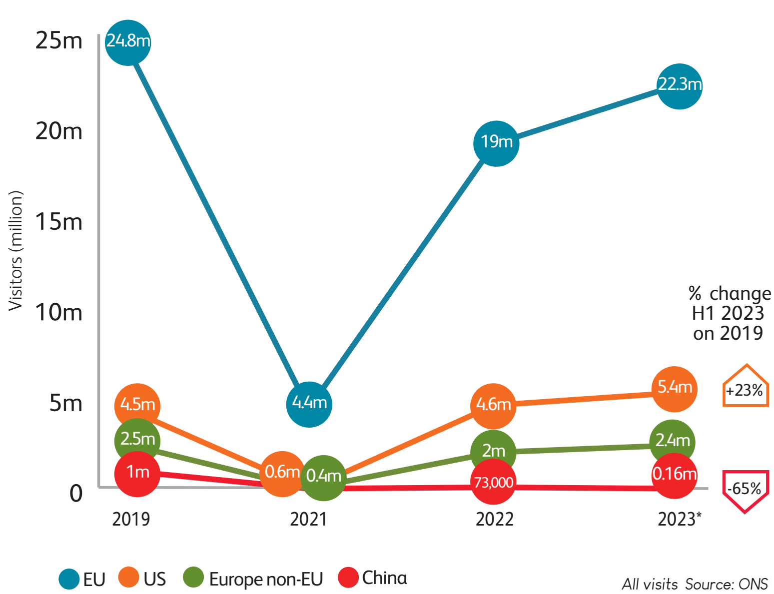
*FIGURE 74:*
OVERSEAS VISITORS TO UK, 2000–23




**Visits/holidays for 12 months to June 2023. All visits include business and visiting friends & relations (VFR). Source: ONS*

*INBOUND travel and tourism to the UK has recovered strongly but not yet back to the 2019 level (Figures 73 & 74). However, US visitor numbers have soared (Figure 75)*

*FIGURE 75:*
INBOUND VISITORS BY KEY MARKETS




*All visits Source: ONS*

Addressing a Tourism Alliance policy conference in September, acting tourism minister Sir John Whittingdale insisted the government "recognises the challenges the sector faces", saying: "I know skills are high on the list of immediate challenges [with] the sector carrying a 20% vacancy rate, [and] I know you're concerned about Level 3 tourism courses [which are to lose funding]."

He also acknowledged the issue with visa fees, noting "we do seem to make it difficult for people to come here" and expressed "frustration at sitting behind a desk at DCMS [when] time and again decisions are taken elsewhere".

Whittingdale noted: "We're outspent many times by some countries." But he said: "I don't anticipate being in a position to increase marketing spending."

Tom Jenkins, chair of the Tourism Alliance and chief executive of European tourism association Etoa, told him: "We have a really tough sell in markets requiring visas."

# servicescience

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**Service Science is a market research agency specialising in the hospitality, leisure, tourism and travel sectors. We work with clients to bring actionable findings, from their customers, people and supply chain, to help improve the customer experience.**

We have four practice areas:

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- Online Reputation Management: through the monitoring and management of online reputation we provide the means to increase loyalty and maintain clients' competitive edge.
- Strategic Online Data Intelligence: using multiple sources we unlock the power of online data to provide insights and travel intelligence tools to destination managers, tourist organisations and operators.
- Service Quality Measurement: through mystery shopping, brand standards audits and survey tools we ensure clients deliver exceptional service.

## Clive Nicolaou

Service Science was founded in 2010 by Clive Nicolaou, a market researcher with 30 years' experience in the hospitality, leisure and tourism sectors. Prior to that Clive was head of hospitality and leisure at Kantar TNS having previously been a successful operator in the hospitality sector. He is a fellow of the Institute of Hospitality and a member of the Market Research Society.

## Tom Costley

Tom is the most experienced researcher in the team with 40 years' experience in market research from both a client and agency perspective. He has wide-ranging experience but especially in travel, transport and tourism research. Prior to joining Service Science in 2018, Tom headed the travel and tourism team for Kantar TNS, the UK market leader in travel, transport and tourism. His client portfolio included national tourism organisations, leading operators, airlines, hotel groups and travel firms. He is a fellow of the Tourism Society.

**Clive Nicolaou**
**managing director,**
**Service Science**
*clive@servsci.com*

**Tom Costley**
**associate director,**
**Service Science**
*tom@servsci.com*

# DOMESTIC

## UK HOLIDAYS HIT 2019 LEVEL BUT AVERAGE SPEND LAGS

**THE NUMBER of UK domestic trips returned to the level of 2019 as Covid restrictions were lifted in 2022, and data for the first half of 2023 suggested no tailing off in the frequency of trips despite an adjustment in spending.**

VisitBritain recorded more than 29 million overnight UK domestic trips in the second quarter of 2023, 6% up on the same period in 2022, with spending in the quarter at £8 billion, up 11% year on year in nominal terms and 2% taking account of inflation. However, the £272 in average spending per trip was down 3% in real terms despite the spend per night (£96) being up 5% in real terms, reflecting a reduction in average duration.

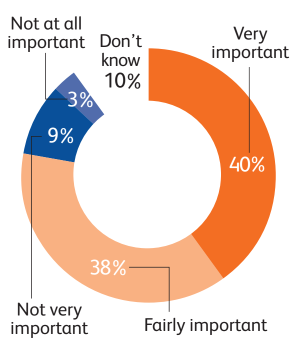
The release of third-quarter 2023 data, due in December, was pushed back to February 2024 – too late for this report – but day-trip data for July to September showed a similar trend. The 311 million day trips recorded by VisitBritain in the quarter was 1% down on 2022, but the £13.4 billion spent was 8% up, with visitor attractions accounting for 20% of all trips in the quarter. Trip numbers for the year to September were up 9% and spending up 10% at £35.75 billion.

VisitEngland's annual attractions survey showed the Tower of London was the most-visited paid-for attraction in 2022, attracting two million visitors, followed by Kew Gardens (1.96 million). The Natural History Museum was the most-visited attraction with free entry in 2022, attracting 4.7 million, ahead of Brighton Pier (4.6 million) and the British Museum (4.1 million).

Demand for UK breaks continues with almost four in five UK adults intending to take an overnight domestic trip in 2024

*FIGURE 76:* 'HOW IMPORTANT IS UK TOURISM?'

% UK adults




*Source: YouGov, November 2023*
*Base: 1,699 UK adults*

### OUTLOOK

VisitBritain's December 2023 domestic sentiment tracker suggested no flagging in demand for 2024, with 78% of UK adults intending to take an overnight domestic trip in the next 12 months, up from 69% a year earlier. However, 'the rising cost of living' was identified as the number-one barrier to taking a trip by 35% of respondents. More than one in four (28%) planned a trip in January to March 2024, up nine percentage points year on year, and 43% planned a trip in April to June, up eight percentage points.

London was the most-popular overnight domestic destination in the first quarter of 2024 and the southwest the most popular in the second quarter.

One in three respondents (34%) stated a preference for taking a domestic holiday over travelling overseas, up three percentage points year on year, with half of these stating UK holidays ▶

## The Deloitte view

The domestic travel market enjoyed sustained demand for holidays in 2023. Following two years of pandemic restrictions, consumers continue to have a strong appetite for travel and tend to prioritise holiday spending over other discretionary goods or services.

However, despite a significant bounce-back, data released by the Office for National Statistics (ONS) suggested growth in outbound holidays in 2023 was lower than in 2022.

The Deloitte Consumer Tracker for Q3 2023 found a net decrease in spending intentions for short and long-haul holidays in the fourth quarter. If that trend continues, it could benefit the UK domestic holiday market in 2024.

A VisitBritain domestic travel survey which asked about overnight trips in the next 12 months found 34% of respondents preferred a holiday in the UK over overseas.

The term 'bleisure' or 'workcation' refers to a growing trend of combining business trips with leisure activities, and flexible working policies have led to an increase in some consumers planning domestic breaks to improve their work-life balance.

Another trend that might be on the rise in 2024 is for domestic road trips which offer the flexibility to explore at your own pace and allow travellers to discover places they may not otherwise have found.

Technology is expected to play a significant role in domestic travel in 2024. Hotels and resorts that offer high-speed internet, smart home technology and other tech amenities are expected to be popular choices, as are destinations that offer virtual and augmented reality experiences.

With the travel sector highly affected by surging input costs, particularly labour costs, it is crucial businesses identify opportunities to stabilise or reduce overall costs or increase prices to maintain margins in a year when we are likely to see continued pressure on disposable incomes.

■ ***Danielle Rawson, director, CFO Advisory***

# DOMESTIC
## UK HOLIDAYS HIT 2019 LEVEL BUT AVERAGE SPEND LAGS

were 'easier to plan', 'cheaper' and 'avoid airport queues or cancelled flights'.

However, two-thirds (68%) of those in the VisitBritain survey said they were being 'cautious and very careful' with spending or 'cutting back' due to the cost of living and one in four (27%) said they would reduce the number of overnight trips they took.

Research for this report suggested an increase of three percentage points year on year in UK adults likely to take a domestic holiday in 2024, with three out of four parents with children (76%) expecting to do so and more than four out of five (83%) of those planning an overseas holiday also intending to have a holiday in the UK.

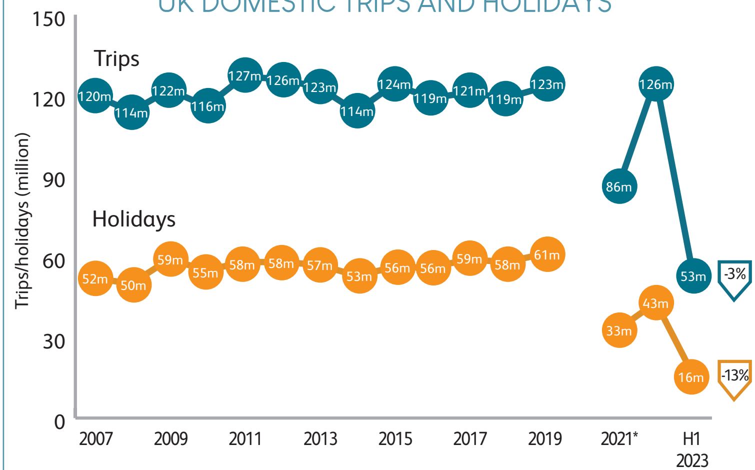
### MINISTERIAL CHANGES

The ministerial merry-go-round at the Department for Culture, Media and Sport and office of tourism minister continued, with tourism remaining just one of a number of responsibilities for the incumbent. MP Lucy Frazer succeeded Michelle Donelan as culture secretary in February 2023, with Donelan having taken over from Nadine Dorries in September 2022. Julia Lopez was appointed minister for tourism, media and creative industries in February 2023, succeeding Stuart Andrew who in October replaced Lord Syed Kamell who, in turn, had taken over in September. Lopez was then replaced by former culture secretary Sir John Whittingdale in May while she went on maternity leave, returning just before Christmas.

Amid the changes, Abta director of public affairs Luke Petherbridge at least noted of Whittingdale: "He is a safe pair of hands, knows the levers to pull to get things done and has a tourism background. It works for us to have someone experienced in the role."

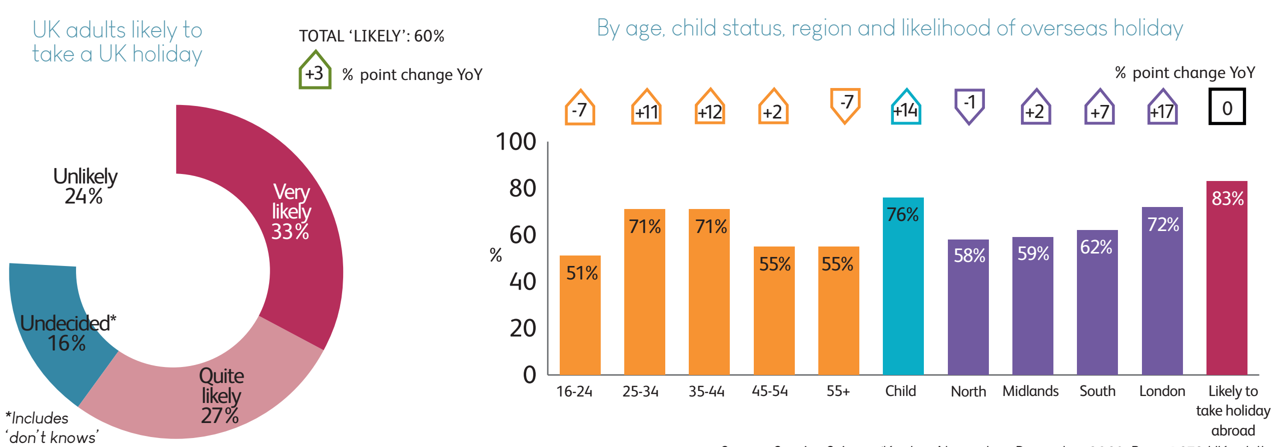
*MORE than three out of five UK adults see UK tourism as 'important' (Figure 76). Domestic holiday numbers in the first half of 2023 were 13% down year on year, possibly reflecting cost-of-living pressures (Figure 77). However, research for this report found 60% of adults were likely to take a domestic holiday in 2024 (Figure 78)*

**FIGURE 77:** UK DOMESTIC TRIPS AND HOLIDAYS




*April-Dec 2021 Source: GB Tourism Survey
2020 figures not available as survey suspended

**FIGURE 78:** UK DOMESTIC HOLIDAY DEMAND, 2024




Source: Service Science/Kantar, November-December 2023 Base: 1,279 UK adults

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## TRAVEL WEEKLY INSIGHT REPORT 2024

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If you would like to discuss any of the topics in this report, or our services, please contact one of our travel and aviation specialists.

### Contributors

**Alistair Pritchard** lead partner, Travel and Aviation *ajpritchard@deloitte.co.uk*
**Debapratim De** senior economist *dde@deloitte.co.uk*
**Martin Bowman** director, Aviation Digital Assets *martinbowman@deloitte.co.uk*
**Andy Gauld** head of Aviation *agauld@deloitte.co.uk*
**Danielle Rawson** director, CFO Advisory *darawson@deloitte.co.uk*
**Gillian Simpson** partner, Retail *gisimpson@deloitte.co.uk*
**Gurm Dhillon** partner, Financial Advisory *gdhillon@deloitte.co.uk*
**Oliver Graves** director, Human Capital *ograves@deloitte.co.uk*
**James Meadowcraft** partner, Risk Advisory *jmeadowcroft@deloitte.co.uk*
**Tim Robinson** director, Audit and Assurance *timrobinson@deloitte.co.uk*
**Ed Knight** director, Tax *edknight@deloitte.co.uk*
**Luke Golding** director, Legal *lgolding@deloitte.co.uk*
**Jon Bolger** head of Business Travel *jbbolger@deloitte.co.uk*
**James Leggo** assistant director, Financial Advisory *jleggo@deloitte.co.uk*
**Ellena Ronca-Thompson** director, Consulting *eroncathompson@deloitte.co.uk*
**Bethany Hawkings** senior manager, Risk Advisory *bhawkings@deloitte.co.uk*
**Gabriella Cooper** senior consultant, Human Capital *gabriellacooper@deloitte.co.uk*
**Amy Pickett** senior manager, Audit and Assurance *amypickett@deloitte.co.uk*
**Devi Santosh** assistant insights manager, Consumer Industries *devisantosh@deloitte.co.uk*

*deloitte.co.uk/THS*

**Alistair Pritchard**
lead partner,
Travel and Aviation

**Andy Gauld**
head of Aviation

**Martin Bowman**
director,
Aviation Digital Assets

**Danielle Rawson**
director,
CFO Advisory

**Tim Robinson**
director,
Audit and Assurance

**Ed Knight**
director,
Tax