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travelweekly

insight

Annual Report 2018-19

Hands up if you plan to keep travelling: Resilience in uncertain times

Produced by Travel Weekly, with exclusive consumer research

Deloitte.

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Travel Weekly Insight Report 2018-19

TRAVEL WEEKLY INSIGHT ANNUAL REPORT 2018-19

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Exclusive consumer research by Kantar TNS

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Executive summary

Deloitte.

Sector must reassure and inspire

The consumer fundamentals look more positive than a year ago when consumers were feeling increasing pressure on incomes.

With wages rising faster than expected and inflation reducing on essentials such as food, consumers might have a little more disposable income. Deloitte's Leisure Consumer Q3 2018 report found consumers were spending more year on year in six out of 11 leisure-spending categories.

Big-ticket experiences such as holidays are still at the heart of people's leisure plans – with the proportion of consumers spending more on short breaks and holidays up in the third quarter and older consumers increasing spending compared with a year ago.

Yet we have also seen consumer confidence dwindle, translating into a more cautious outlook on spending. While our research found planned spending on holidays in the final quarter in line with last year, fewer consumers planned to spend on short breaks. Consumers seem to be watching their personal finances to adjust spending if needed.

Warm summer, mixed fortunes

While 2018 was a reasonably good year for the travel sector, the summer season was one of mixed performance. Many domestic destinations received a boost with the glorious weather, but the heatwave softened outbound demand in the peak period – although there were still plenty of passengers travelling through airports as so many consumers had booked trips earlier in the year. Companies with a focus on unique experiences also did well.

The 'lates' market was tough, although it revived a little in the latter half of August and September as consumers spotted some good deals. Destinations with a weak currency offered great value and some low-cost operators increased their weight in the package market. The winners tended to be those with a strong brand and not only good value but also 'experience' at the centre of their offering.

Amid the UK's uncertain economic outlook, travel firms should strive to deliver experiences that delight, says **Alistair Pritchard** of Deloitte

Tackling uncertainty with innovation

Brexit remained a cloud on the horizon. At the time of writing, it was uncertain whether the proposed withdrawal terms would be accepted by the UK Parliament.

Given the ongoing political instability in the UK, travel companies should plan for all scenarios in the near term, including no deal. Businesses need to be ready to adapt to whatever the outcome – those that can do so quickly will be winners in the long term.

The sector needs to continue to focus on the consumer, ensuring it understands and meets expectations. It is commendable how the industry has come together to push the boundaries on supporting future travel demand, with much innovation and technological experimentation – ranging from biometrics to AI – aimed at making the sector more efficient and travel safer and more pleasant. This is critical as, amid the uncertainty, the success of the sector hinges on how it manages to reassure as well as delight customers.

The industry should continue to do what it does best – delivering travel experiences which have people dreaming of their next trip away.

Alistair Pritchard
UK lead partner, travel, Deloitte LLP

Key findings

2017 overseas, inbound & domestic **holiday numbers** at RECORD levels

2018
4 point increase in adults taking overseas holiday

3 in 5 UK **outbound** holidaymakers **concerned about Brexit**

2pt INCREASE in intent to take **overseas holiday** in 2019

Over-45s make up **more than half** of holidaymakers

2 in 5 fear ‘some impact’ of Brexit on travel

three point **FALL** in **intention** to **spend more** on holiday

9pt increase in **outbound holidays** from southern UK

3pt INCREASE in **likelihood of all-inclusive** holiday

9pt FALL in **concern** about **terrorism**

nine point RISE in holiday bookings by **smartphone**

8 point RISE in awareness of ‘**sickness** in resort’

7 point increase of **all-inclusive** among over-45s

Base: 1,261 UK adults Source: Kantar TNS, October 2018

Foreword

Clarity is a rare commodity

The days of 'business as usual' are done. We must be grateful for any certainty, so the announcement of a UK-US agreement on flying rights in late November was welcome, as was an EC pledge of contingency measures to avoid flight disruption in the event of a no-deal Brexit.

This report went to press as Britain awaited MPs' vote on the proposed Brexit agreement, with prime minister Theresa May entitled to feel like *Carry On* actor Kenneth Williams as Julius Caesar proclaiming: "Infamy, infamy – they've all got it in for me."

Yet Brexit is merely one facet of the political crises which continue to reverberate from the 2008 financial crash and by no means the most-extreme example.

Martin Wolf, the *Financial Times'* chief economics commentator, noted on the 10th anniversary of the crash: "The financial crisis was a devastating failure of the free market. [Only] putting sovereign balance sheets behind the collapsing financial system, cutting interest rates, allowing fiscal deficits to soar . . . prevented economic collapse." When the crisis passed, "fiscal policy turned towards austerity. [But] the financial system is much as before . . . It is little wonder populists are so popular given this inertia [and] the miserable experience of so many citizens."

The UK was in the eye of the storm as 2018 ended, with Dover likely to be the epicentre of a no-deal Brexit. Yet there remained ways to avoid such an outcome.

The industry's main concerns have not changed: maintenance of flying arrangements and the exchange rate, friction-free movement, availability of skilled labour.

I suggested in this report two years ago that "clarity seems a forlorn hope". We should not expect it. As Tom Jenkins, chief executive of European travel trade association Etoa, warned in November: "The real discussions and rows will start at the end of March."

We can at least welcome the return of UK holidaymakers to Tunisia and, in significant numbers, to Turkey. We can celebrate the establishment of gender equality as a priority, thanks to the #MeToo movement. We can even welcome government confirmation in November of a sector deal for UK tourism.

Most issues aside from Brexit – flight disruption, Heathrow expansion, airline insolvency, cybersecurity, even terrorism – appear manageable by comparison, bar the impact of a warming climate. The industry can be proud of its resilience. Institutionalising that resilience, and enhancing sustainability, should now be a priority.

The good news from research for this report is that UK consumers show increased intention to take a holiday abroad in 2019 off the back of record holiday demand in 2018. The findings gel with forward-booking data from analyst GfK which showed bookings for summer 2019 up 12% year on year to the end of October. The desire to travel is clearly undiminished.

I am again indebted to Deloitte for its association with this report. Thanks are due to industry analyst GfK for the latest booking trends, and I am grateful to Kantar TNS for the invaluable research on consumer attitudes and intentions.

> 'Most issues aside from Brexit – flight disruption, Heathrow growth, airline insolvency, cybersecurity, even terrorism – appear manageable by comparison

Ian Taylor
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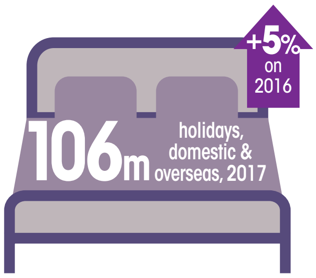
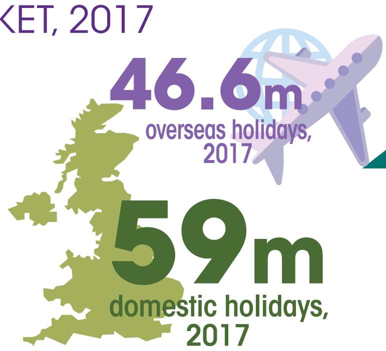
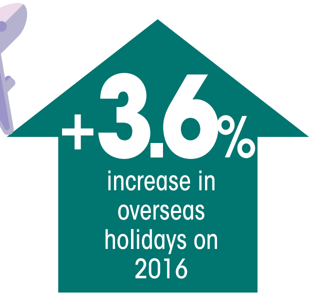
UK holiday market

Kantar TNS consumer research

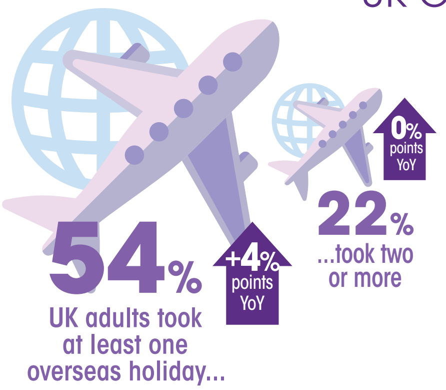
UK HOLIDAY MARKET, 2017

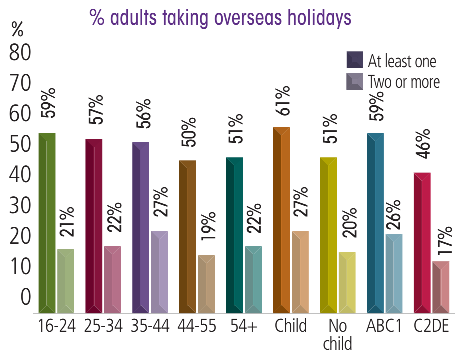


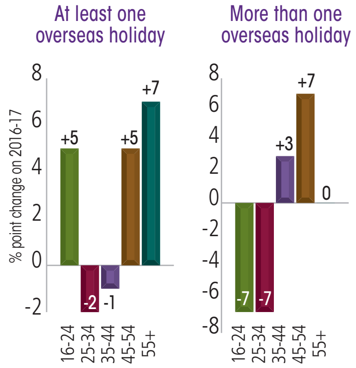




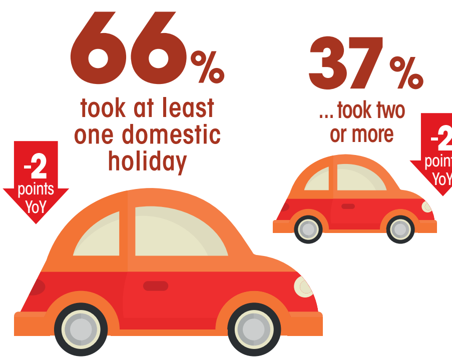
UK OUTBOUND HOLIDAY MARKET, 2018

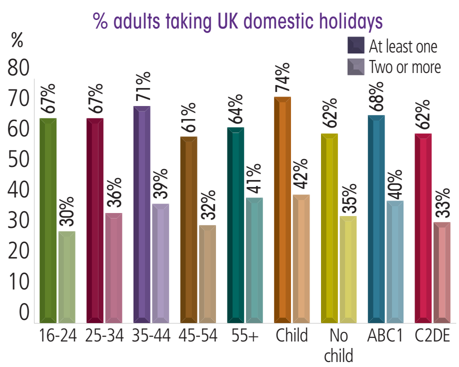


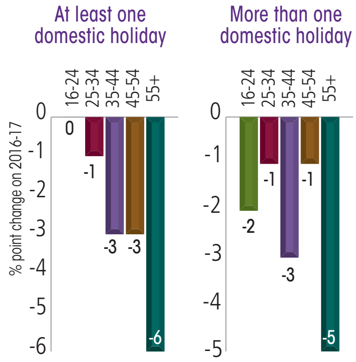




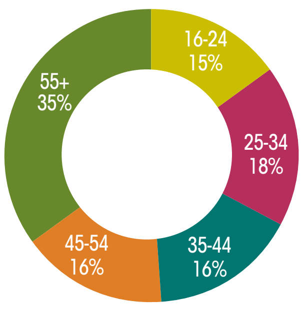
UK DOMESTIC HOLIDAY MARKET, 2018







AGE OF UK OVERSEAS HOLIDAYMAKERS, 2018

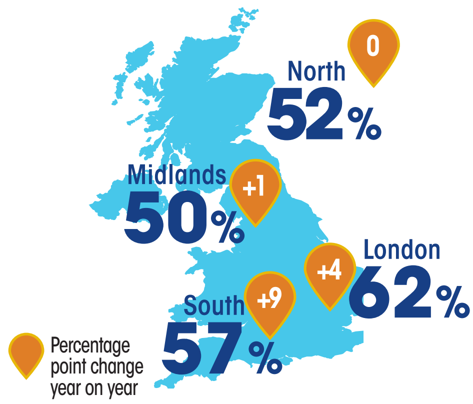


Figures rounded

WHO TAKES HOLIDAYS?

% of UK holidaymakers who take...

PROPORTION OF UK ADULTS TAKING AT LEAST ONE OVERSEAS HOLIDAY, BY REGION



Base: 1,261 UK adults Source: Kantar TNS, October 2018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Market outlook

Demand defies Brexit uncertainties

The UK government's declaration of the 'end of austerity' in November 2018 was hard to take at face value, but we can certainly declare an end of austerity in respect of UK consumers' overseas holiday decisions.

Outbound holiday numbers hit a record of almost 47 million in 2017, more than a million up on the previous high in 2008, and numbers in 2018 appeared set to be higher. The strength of the overseas market also did not come at the expense of domestic travel with a near 6% increase in UK holiday numbers in 2017, while the inbound sector continued to benefit from an advantageous exchange rate.

We cannot know what might have been, but it is hard to find evidence that the lower rate of sterling significantly affected outbound demand. The impact on choice of destination may be more marked – in particular, to the US given the strong dollar.

Ten years on from the 2008 financial crash and the recession which followed, the UK travel sector appears in remarkably good health, displaying a robustness and resilience which stands it in good stead for the period ahead.

The impact of the recession on outbound travel is worth restating because, at bottom, economic factors will shape the landscape in 2019 and beyond. The UK saw a 20% decline in overseas trips between 2008 and 2010. A period of economic stagnation followed, with the market only returning to somewhere approaching its former level in 2015, since when we have seen growth in outbound demand in line with historic rates.

Buoyant forward bookings for 2019 tempered by political and economic concerns in Europe and beyond

OUTBOUND holiday numbers hit a record in 2017 and were set to surpass this in 2018 (Figure 1). A majority of trips were to the EU, of course (Figure 2). Almost one in two EU-bound air passengers departed from UK regional airports, while tunnel and ferry traffic was focused on Dover, from where departure numbers were on a par with Gatwick and almost three times the traffic from Heathrow.

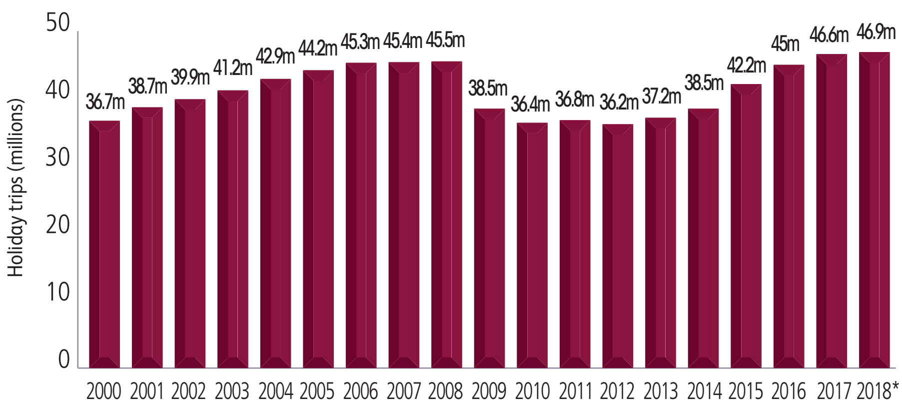
Impossible to predict

In most periods, the state of the economy shapes politics. But in the UK at the end of 2018, politics was poised to shape the economic outlook to an extent rarely seen outside of wartime.

As this report went to press, MPs were due to vote on the draft Brexit agreement between the EU and Britain on or around December 11 and appeared likely to reject it. Where that would lead was impossible to predict. The government might fall or carry on. The deal might be subject to revision or might not. There might be a general election or a second referendum. There could be a no-deal exit or a postponement of Britain's formal departure or an extension of the Brexit transition period. One thing only appeared clear amid the many political fault lines – there was no majority in the UK Parliament for leaving the EU without a deal.

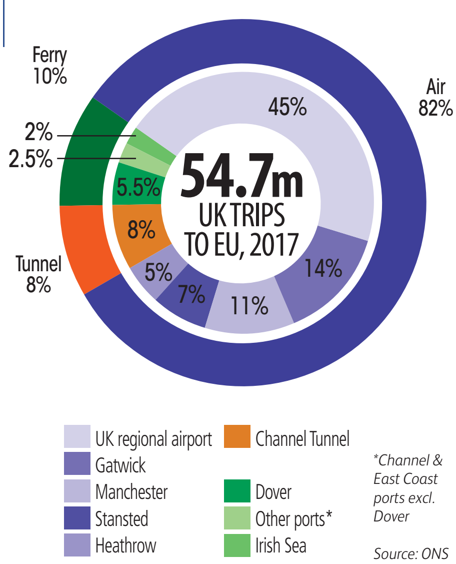
Whatever the outcome, wholesale clarification appeared unlikely, making the impacts on the economy, exchange rate,

FIGURE 1: **UK HOLIDAYS ABROAD, 2000-18**



*12 months to June 2018 Source: ONS

FIGURE 2: **UK TRAVEL TO EU, 2017**
Mode of travel and departure point



*Channel & East Coast ports excl. Dover

Source: ONS

Market outlook

Demand defies Brexit uncertainties

consumer and business confidence difficult to foresee. Graham Pickett, former global lead partner for travel and aviation at Deloitte, took a sober view, saying: "The UK economy is at a crossroads."

He noted the chancellor's Budget forecasts in November constituted "the third downgrade for UK growth this year" and said: "I was expecting a fall-off in consumer confidence a year ago and still think that is coming. There is more uncertainty and a definite dip in consumer confidence and spending."

The latest news on wages and prices, in October, was at least fairly positive. Wage growth in the three months to August was at its highest since the financial crisis, with Office for National Statistics data showing a 3.1% rise year on year in wages excluding bonuses. The Retail Prices Index rose 2.7% in the year to August and 2.4% to September, meaning 'real' wages rose. However, that put UK average earnings adjusted for inflation merely on a par with 2011, still 3.7% below the level of 2008.

"How long will real wage growth continue?" asked Pickett. "It's difficult to see it being positive."

Continued uncertainty

One forecast was possible regardless of events up to March 2019. Pickett said: "Irrespective of what happens on March 29, there will be uncertainties."

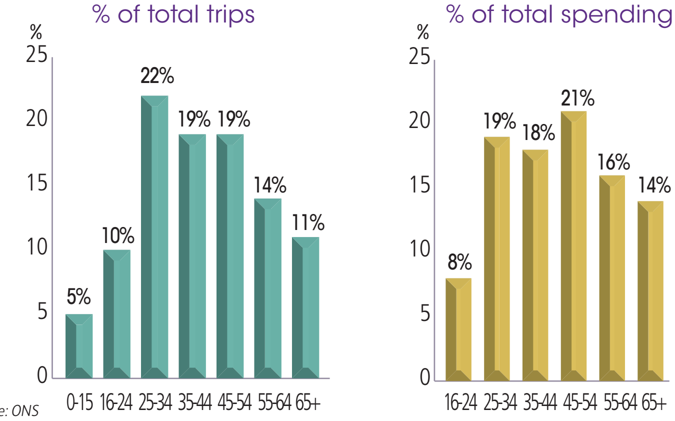
YOUNGER travellers are not where the spending is in travel – those aged 45 and over are responsible for more than half of all spending on UK outbound trips (Figure 3). Corporate travel has declined over the last decade across the EU (Figure 4), illustrated by a chart which indexes outbound leisure and business travel over the 10 years to 2016 against a 2006 baseline of 100. By contrast, UK outbound holiday traffic is at an all-time high, with a recovery since 2008 in all quarters of the year bar Q1 (Figure 5).

He warned: "There may be continuous uncertainty for another couple of years. Decisions made in the transition period will have an impact. Look at aviation regulation – the fine detail won't be finalised for months.

"The fundamental issue [for airlines] is that the aviation arrangements we have relate to the single market. If we are not part of that, how will it work? While the [EU-UK] Political Declaration provides an outline of the future relationship, there is still everything to play for in translating its terms into a legally binding international agreement."

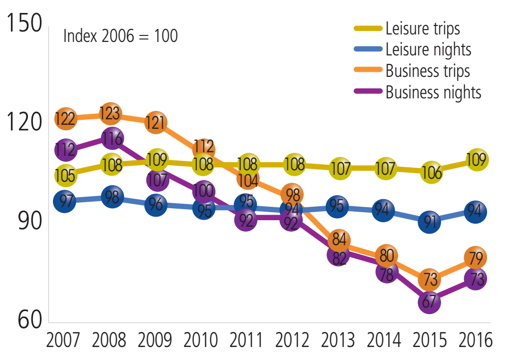
He noted: "There are vested interests on both sides. At the end of the day, my view is

FIGURE 3: UK OUTBOUND TRIPS AND SPENDING BY AGE, 2017



Source: ONS

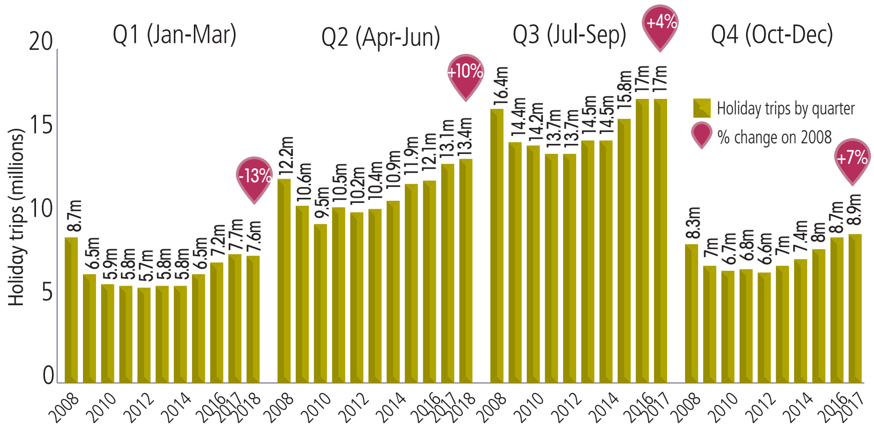
FIGURE 4: EU TRAVEL TRIPS AND NIGHTS, 2007-16



Source: Eurostat

FIGURE 5: OVERSEAS HOLIDAYS FROM UK, 2008-18

Holiday trips by quarter and % change on 2008



Source: ONS

this will be sorted because there is too much to lose on both sides." However, he insisted: "It is the possible effect on the consumer that is the important thing."

Pickett does not foresee a wholesale relocation of financial services from the City of London, regardless of repeated warnings to the contrary. He said: "The banks will have to relocate certain employees to satisfy European regulators, but I don't see London suffering a massive outflow. A lot of the banking fraternity enjoy life in London. Trying to employ people in Europe with the skills there are in London would not be easy and relocating people would be a challenge."

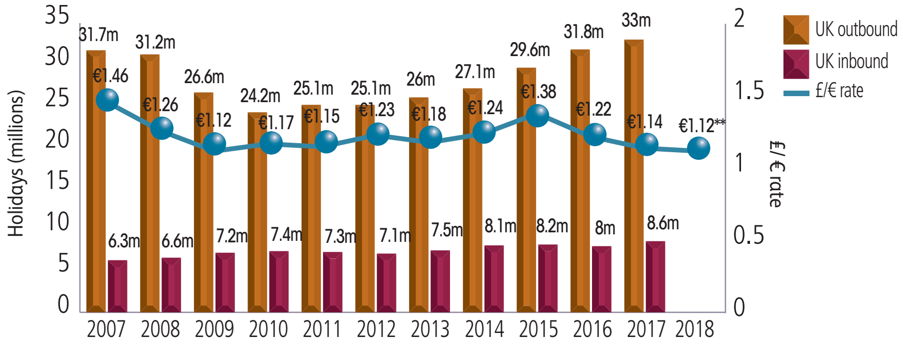
Yet he noted: "Inward investment [to Britain] has slowed. People are sitting on their hands. If people do not see the UK as a good bet, it will put unemployment back on the agenda."

A turndown in the cycle?

The UK economy does not exist in isolation, of course, and the Brexit outcome will feed into pressures from the global economy.

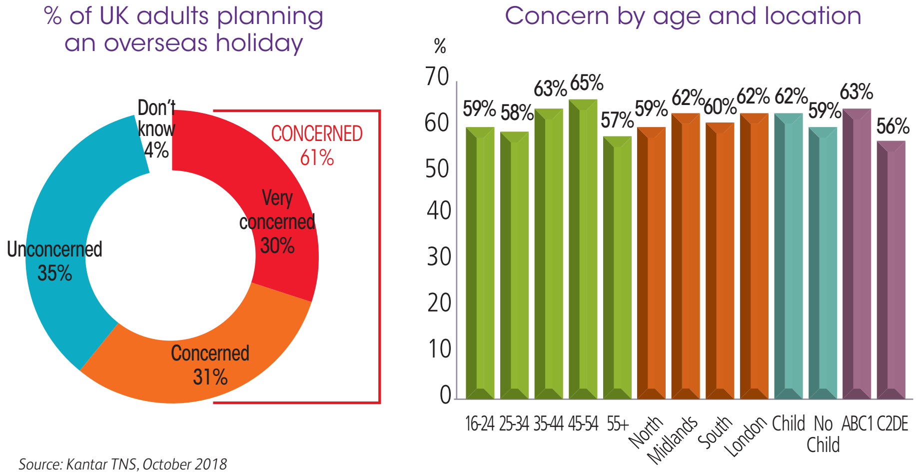
THE DECLINE in the value of sterling against the euro appears to have had little impact on UK holidays to the eurozone (Figure 6). Research for this report found 61% of respondents planning an overseas holiday have concerns about Brexit, fairly evenly spread by age and location (Figure 7). A smaller proportion think Brexit could affect their holidays, with a skew towards concern among younger adults (Figure 8).

FIGURE 6: UK-EUROZONE HOLIDAYS* AND EXCHANGE RATE, 2007-18



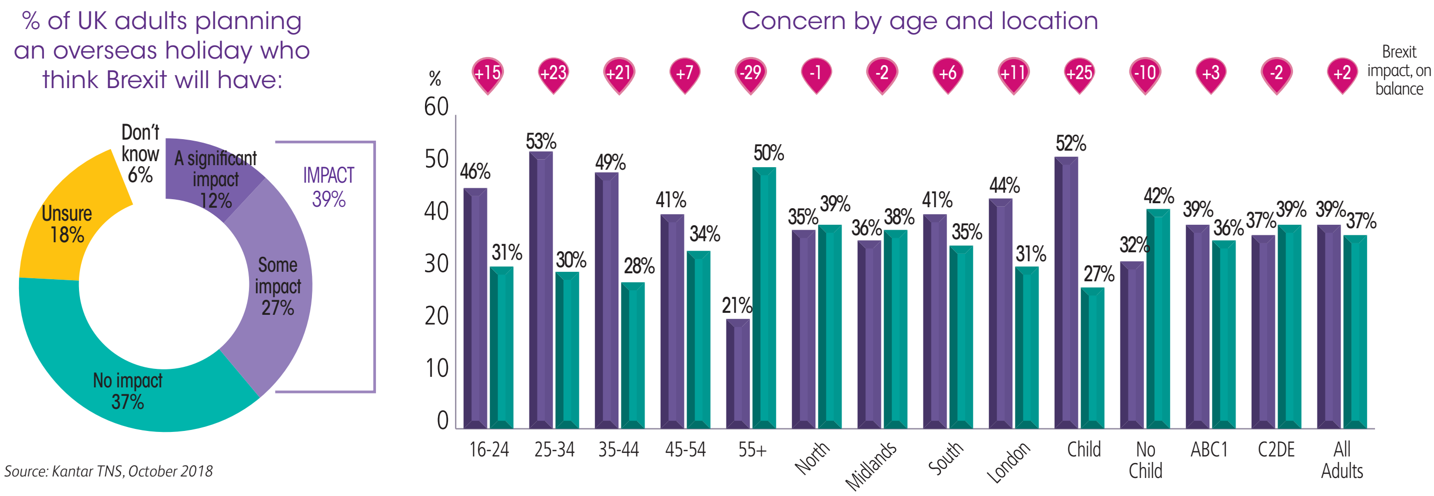
**EU15 states, includes main eurozone destinations but excludes Cyprus, Malta & Slovenia **Sept rate Figures rounded Source: ONS/UK Treasury*

FIGURE 7: HOLIDAYMAKERS' CONCERN ABOUT BREXIT



Source: Kantar TNS, October 2018

FIGURE 8: BREXIT'S IMPACT ON OVERSEAS HOLIDAYS



Source: Kantar TNS, October 2018

Market outlook

Demand defies Brexit uncertainties

Pickett said: "The EU economy is looking pretty dismal. Consumer confidence is draining away in many EU countries. Even Germany is not looking great. The European Central Bank is being very cautious, [but] the easing in the money markets coming to an end will likely reduce liquidity and could have an impact."

More broadly, he said: "We've had 3%-4% growth in the global economy in the last three to four years. That may slow. Are we beginning to see the cycle turn down? The US economy looks reasonably favourable. The spanner in the works is trade with China and the US tariffs. That will have an impact.

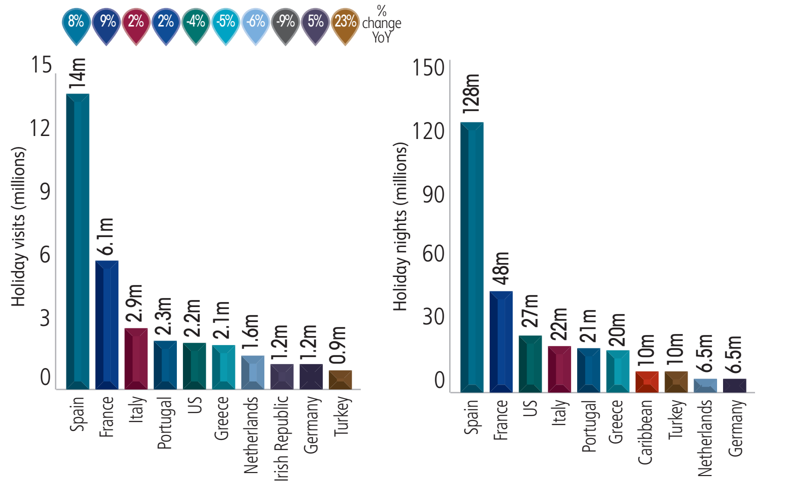
"The other thing is the level of dollar-denominated debt. Many of the emerging market powerhouses have a lot of debt in dollars. When we have seen a strong dollar in the past, we have seen a slowdown in travel. Business travel will be affected, as will the average punter taking a holiday. The volume will be there, but we will not have the same level of spending. Yields could continue to fall.

"The most likely scenario is we will have more economic crises with the increase in dollar debt, and if the US economy powers ahead it will drive a stronger dollar and increase the debt. We've been rolling with growth in the world economy. You would expect this cycle to come to an end."

A sharp fall in the oil price in November 2018 offered some hope of easing the pressure on household budgets as well as on airline and tour operator yields. However, it remained unclear whether the US drive to lower oil prices could be sustained in light of counter pressures on Saudi Arabia and Russia, two of the world's top-three oil producers, and amid US sanctions on Iran. Pickett said: "The general direction of travel [on the oil price] is more up than down."

THE LEADING holiday destinations from the UK are unchanged on a year ago with the exception of Turkey re-entering the top-10 (Figure 9). However, UK holidaymakers' attitudes show some striking changes. Concern about terror appears to have fallen significantly, as has concern about travel company failures, but concern about sickness in resort appears to have risen sharply (Figure 10). The shift from the eastern Med to the west in recent years has been well documented (Figures 11 and 12).

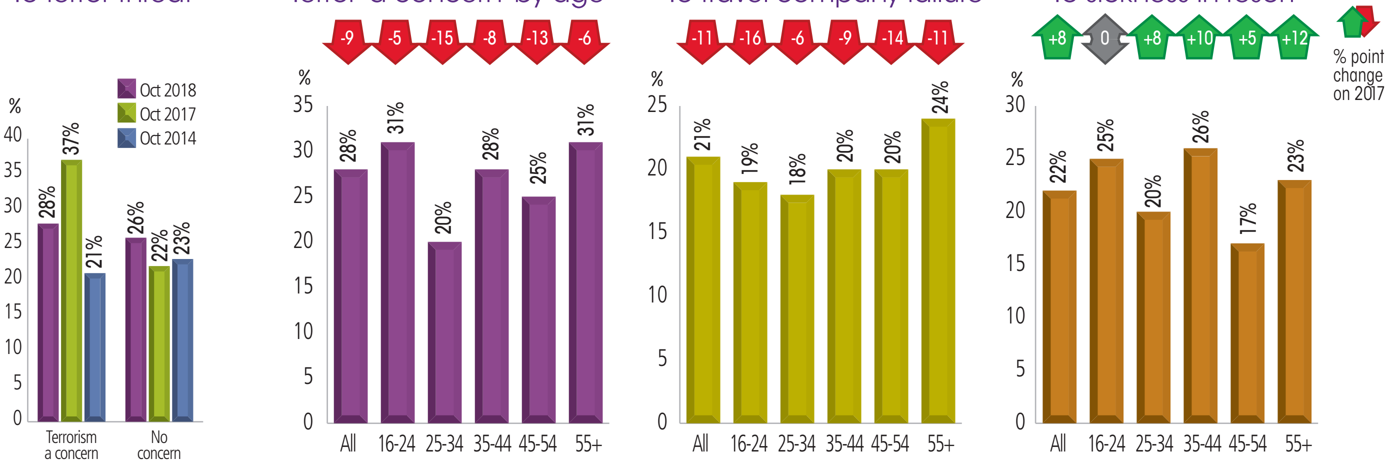
FIGURE 9: TOP-10 HOLIDAY DESTINATIONS FROM UK, 2017



Source: ONS

Figures rounded Source: ONS

FIGURE 10: UK HOLIDAYMAKER ATTITUDES



Source: Kantar TNS, October 2018

The general trend is growth

A high oil price "is one of the biggest challenges the industry faces", according to Pickett. Overcapacity, particularly in the European short-haul market, is another.

Pickett said: "There is a lot of airline and holiday capacity. Some midmarket players have found it quite tough. Yields are falling. We have seen profit warnings. A number of players found the lates market quite tough – I suspect consumers will have spent less."

This view appeared confirmed in late November by Thomas Cook issuing a profit warning, its second in two months, two days ahead of the group's full-year results. The downward revision of £30 million saw the group's shares suffer a sharp fall and chief executive Peter Fankhauser declared 2018 "a disappointing year".

Fankhauser blamed the summer heatwave in northern Europe, which saw "demand reduced sharply" and "restricted planned margins" on late bookings. "We saw a particular hit to our UK business where the slowdown came on top of a competitive market for Spanish holidays," he said.

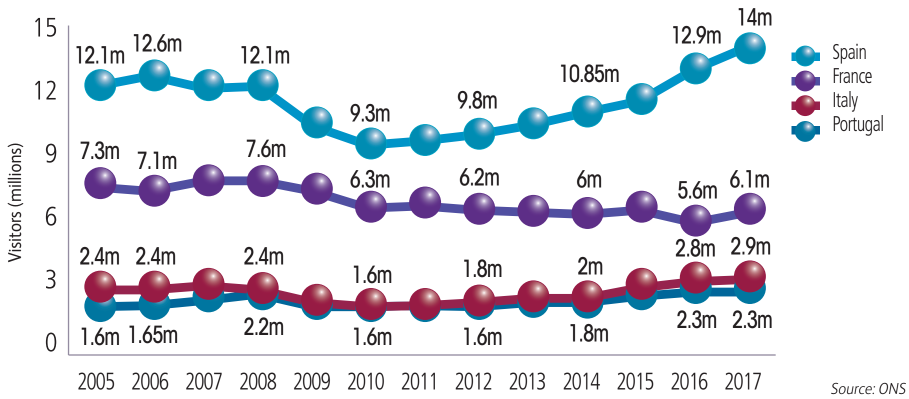
This neatly summarised the challenges in the market as a whole, although Tui Group was noticeably more upbeat in third-quarter results to June, reporting "a very good nine months", while analyst GfK reported summer 2018 bookings up 5% year on year overall and revenue up 9%.

Early bookings for summer 2019 looked even stronger, with GfK reporting passenger bookings up 12% year on year to the end of October, but with revenue on a par, suggesting a reluctance to spend more.

This tallied with Kantar TNS research for this report, which suggested a two-point rise year on year to 52% in the proportion of UK adults likely to take an overseas holiday in 2019, alongside a three-point decline in those intending to spend more.

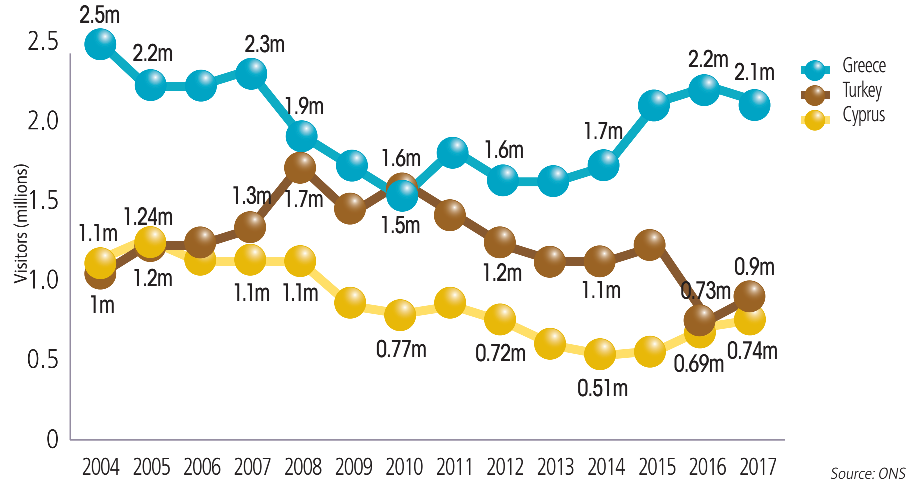
Pickett insisted: "The general trend is continuing growth. The travel market is opening to more and more people [and] it is underpinned by people saying they are still going to have a holiday. But we may see consumers not willing to spend as much."

FIGURE 11: UK HOLIDAYS TO WESTERN MED, 2005-17



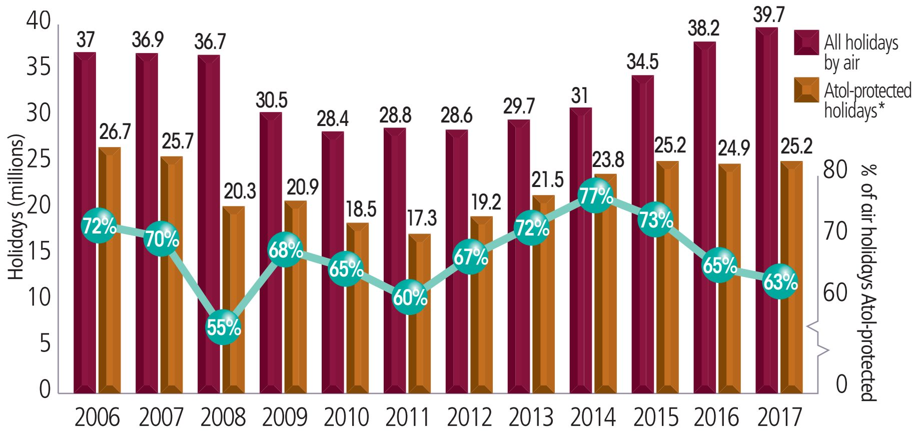
Source: ONS

FIGURE 12: UK HOLIDAYS TO EASTERN MED, 2004-17

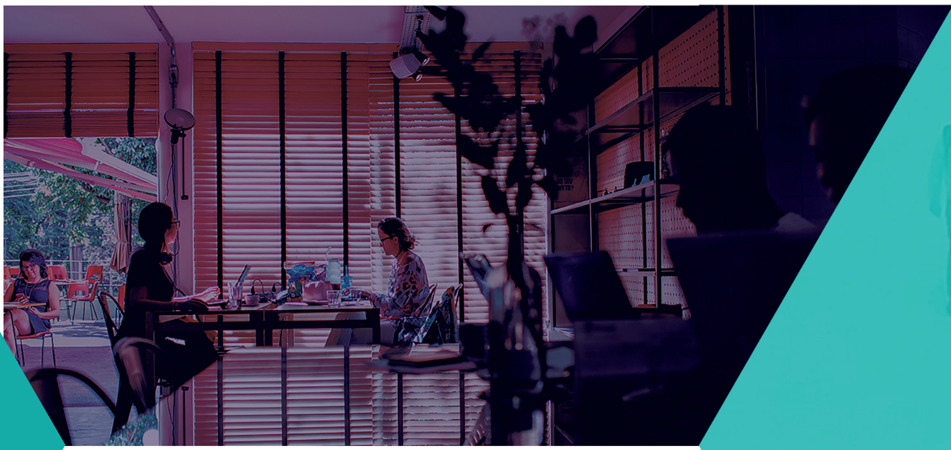


Source: ONS

FIGURE 13: OUTBOUND HOLIDAYS BY AIR AND ATOL-PROTECTED HOLIDAYS, 2006-17



**12 months to March of following year* *Source: CAA/Air Travel Trust*



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UK holiday market

Kantar TNS consumer research

HOLIDAY INTENTIONS, 2019

27.7m UK adults intend to take an overseas holiday in 2019

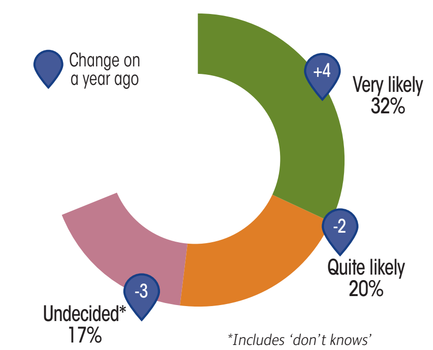
11.1m UK adults intend to spend more on overseas holidays in 2019

12.5m intend to spend the same

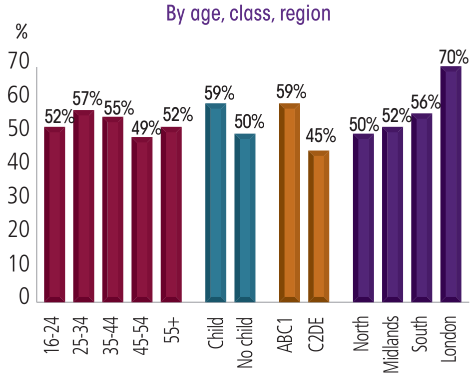
33m UK adults intend to take a UK domestic holiday in 2019

HOLIDAY DEMAND FOR 2019

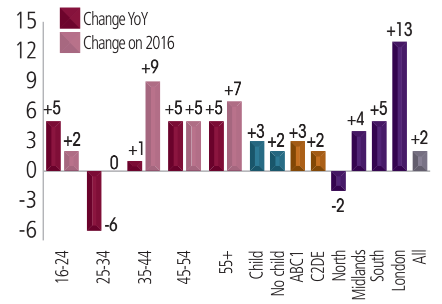
LIKELIHOOD OF OVERSEAS HOLIDAY



% UK ADULTS LIKELY TO TAKE OVERSEAS HOLIDAY
By age, class, region

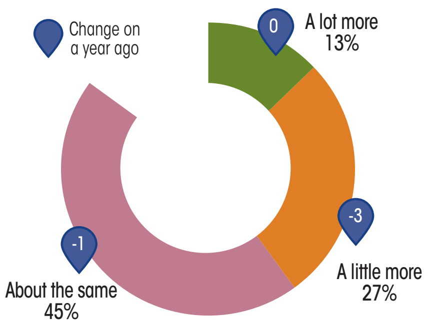


CHANGE YEAR ON YEAR
Percentage points

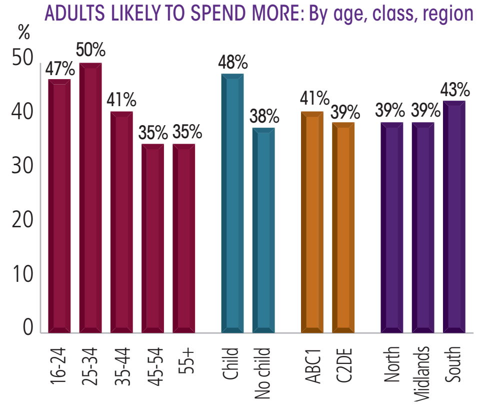


SPENDING ON OVERSEAS HOLIDAY, 2019

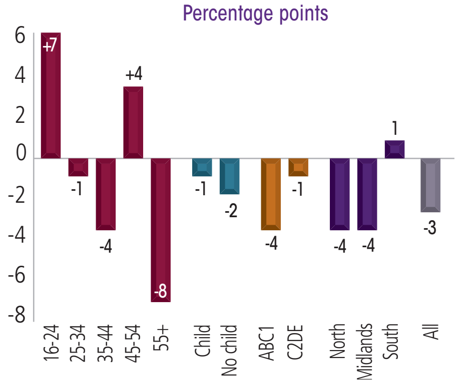
LIKELY SPEND ON OVERSEAS HOLIDAY



ADULTS LIKELY TO SPEND MORE: By age, class, region

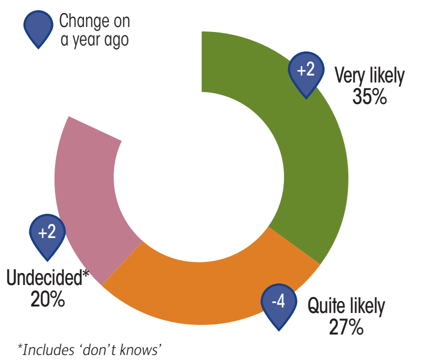


CHANGE YEAR ON YEAR
Percentage points

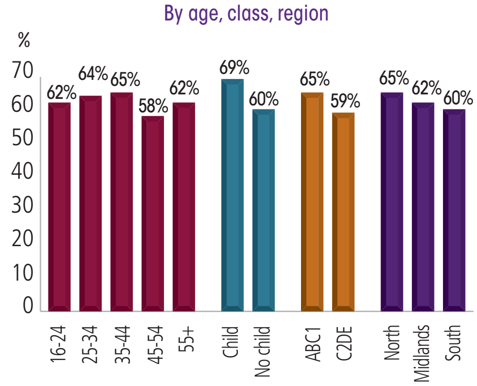


UK DOMESTIC HOLIDAY DEMAND, 2019

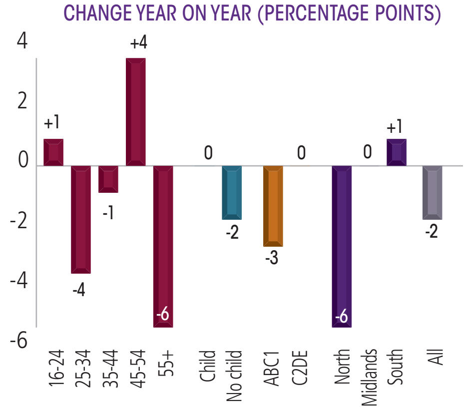
LIKELIHOOD OF DOMESTIC HOLIDAY



% ADULTS LIKELY TO TAKE DOMESTIC HOLIDAY
By age, class, region



CHANGE YEAR ON YEAR (PERCENTAGE POINTS)



Source: Kantar TNS, October 2018

Outbound

Summer 2018 set to break records

The outbound holiday market from the UK remains extraordinarily resilient, having defied all forecasts of a downturn since the referendum vote to leave the EU in June 2016.

Outbound holiday numbers hit a record 46.6 million in 2017, more than one million up on the pre-financial crash record of 2008, and 2018 looked likely to set a new record despite widespread evidence of falling consumer confidence. Office for National Statistics figures for the 12 months to June suggested outbound holiday numbers had risen slightly over the previous 12 months.

This tallied with data from industry analyst GfK which showed season-to-date bookings for summer 2018 to the end of September up 5% year on year and revenue up 9%.

GfK noted: "The season has been challenging for many operators and retailers." This was due in part to a record-breaking summer heatwave, on which Thomas Cook blamed a revision of its profit forecast.

England's footballers and a summer heatwave posed a challenge but GfK figures suggest the summer 2018 market ended 5% up

Bookings for summer 2018

It is worth looking at the course of bookings for the season in some detail. Summer 2018 sales started well, with GfK reporting bookings up 5% to the end of December off the back of a record 2017 for departures.

January saw a 7% increase in summer bookings on the previous year and 8% rise in revenue. The small difference in price reflected "signs of tighter management of holiday budgets", according to GfK. It reported family bookings leading the growth and noted: "Over 90% of the family growth coming from seven-night holidays."

It also noted: "Distinct growth in short breaks for adults [and] package holidays in growth ahead of the market, driven by all-inclusive holidays." These early trends continued throughout the season.

Monthly growth slowed in February but cumulative bookings stayed 5% ahead. March maintained the momentum despite GfK noting: "It was a challenging month for high street agents." Cumulative summer bookings remained 5% up, with revenue up 9% at the end of the first quarter.

In April, winter 2017-18 ended with GfK reporting the season's bookings up 4% and revenue up 9% on 2016-17. This was a remarkable result given passenger numbers the previous winter had risen 11%. Growth in family bookings outpaced the overall market, up 7%, with revenues rising 12%. But durations were shorter, with seven-night holidays accounting for 40% of bookings and six nights or fewer for almost one in four.

Summer 2018 bookings maintained momentum despite a decline in April, with 5% monthly growth in May restoring the season-to-date position.

The Deloitte view

The Deloitte Leisure Consumer tracker has continued to see strong demand for holidays among UK consumers, who have remained confident and resilient in their leisure spending amid macroeconomic uncertainty.

Many airports and airlines reported above average passenger numbers for summer and early autumn despite glorious weather in the UK, suggesting outbound trips continue to play a key part in consumers' travel plans.

'Safer' Mediterranean destinations have continued to appeal, but more cost-conscious holidaymakers have also been lured back to old favourites such as Turkey and Egypt with attractive deals. The package holiday remains a great option for those on a budget, and the push to this segment by some low-cost operators has impacted on some of the more-established players.

Adventurous consumers with more money have been prepared to travel farther afield, with Africa, Asia and the Caribbean all seeing booking increases in 2018. By contrast, bookings to the US decreased, most likely because of the fall in the value of the pound against the dollar. However, those heading across the Atlantic seem to have compensated by booking earlier than usual, resulting in very little capacity left for the summer 'lates' market.

The outlook for UK outbound travel remains uncertain as there are challenges ahead both on the demand and the supply side. Travel companies are likely to see margin pressure mounting as the impact of fuel prices, staff shortages and resulting cost rises become more pressing. There is also uncertainty around when and how Brexit will affect demand. Aspects of demand might change quickly. For example, exchange-rate fluctuations might impact last-minute holiday decisions and make demand more cyclical. However, it may take time to see how consumers weigh desire to go on a hard-earned trip against potential additional costs.

It is important to remember that political changes can also bring opportunities. If the travel landscape changes, companies that not only provide value for money but also help consumers understand and navigate the changes – be it with visa requirements or trip budgeting – can make their mark and gain a more loyal customer base.

Danielle Rawson, senior manager, travel

But it was well the year started so strongly because high summer brought a juddering halt with the World Cup and a prolonged heatwave across northern Europe. Growth in bookings fell back to 2% in June before a 5% fall year on year in July. GfK noted "a negative correlation to England's success in the World Cup". However, it was not enough to wreck the season. Bookings remained 5% up year on year and revenues up 9% going into August, and those figures were maintained into September despite many companies reporting the lates market difficult.

Winter 2018-19 and beyond

Bookings for winter 2018-19 also appeared surprisingly strong amid the uncertainty around the outlook. Season-to-date bookings for the winter were up 7% year on year to the end of September, although cumulative revenue was just 6% up on the previous year, reflecting belt-tightening by consumers.

Winter 2018-19 bookings had opened with a rush in April when GfK noted a 19% rise in bookings year on year. The cumulative position slowly came down over the ensuing months. Yet the position approaching the year's end reflected a highly creditable performance amid signs of diminishing consumer confidence.

The launch of summer 2019 programmes also saw an initial spurt in bookings, with numbers up almost 40% in May, albeit with a fall in average selling price. The rip-roaring start continued into June with bookings up 20% year on year. GfK noted "all-inclusive holidays provided most of the growth".

Season-to-date bookings remained 20% up in August and GfK recorded monthly bookings 3% up in September and revenues up 4%. It reported: "Turkey is now firmly back on the UK agenda." And it concluded: "We feel cautiously optimistic about summer 2019."

MORE THAN half UK holidaymakers intend their next overseas break to be seven nights or fewer, but those aged 45 and over show a strong preference for eight nights or more (Figure 14). Beach holidays remain the most-popular choice, but city breaks are on the up (Figure 15), while all-inclusive demand shows no sign of slacking (Figure 16). Younger adults (16-44) show the greatest preference for all-inclusive, but there appears a surge of interest among those 45-plus.

FIGURE 14: DURATION OF NEXT OVERSEAS HOLIDAY

By age, child status

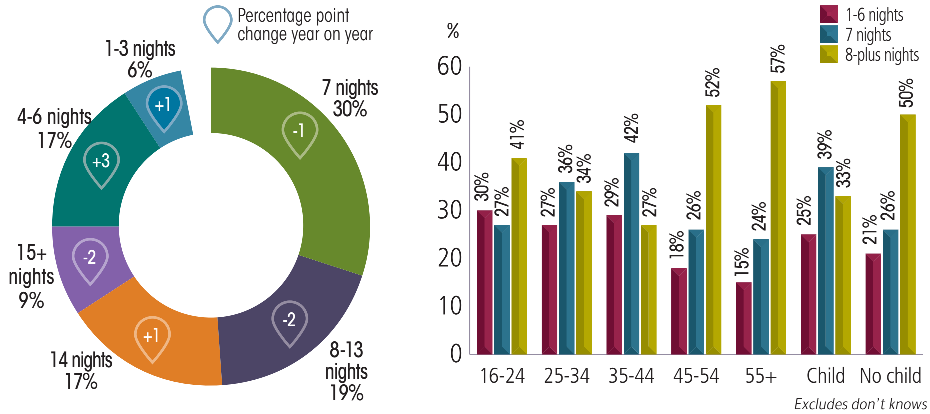


FIGURE 15: TYPE OF NEXT OVERSEAS HOLIDAY

By age, child status

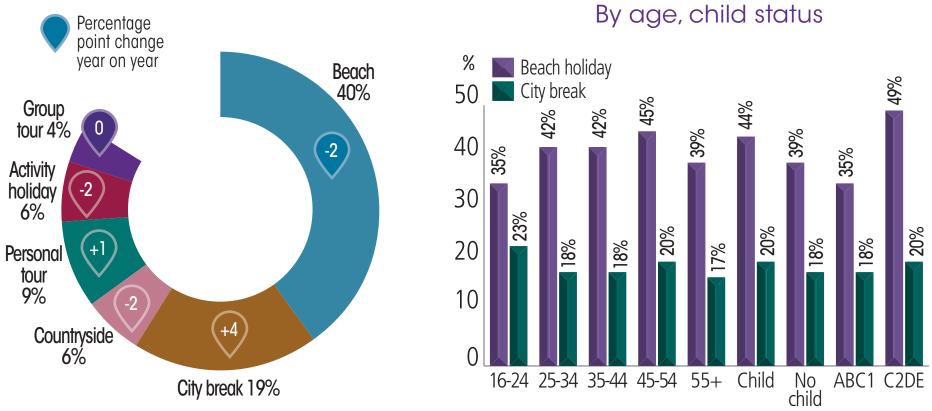
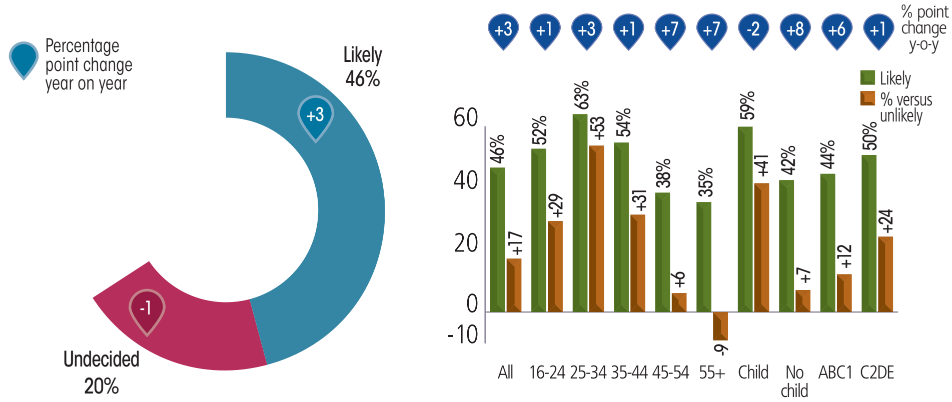


FIGURE 16: LIKELIHOOD OF BOOKING ALL-INCLUSIVE OVERSEAS HOLIDAY 2019



Source: Kantar TNS, October 2018

Inbound

Sterling's weakness boosted sector

Overseas visitor numbers to the UK soared in 2017, with numbers surpassing 39 million for the first time and setting a record for the fourth year in a row.

The exchange rate of sterling remained favourable to visitors through 2017 and 2018 following the pound's post-June 2016 fall in value. However, provisional Office for National Statistics figures for the first half of 2018 suggested a tail-off in overseas tourists. The ONS recorded an 11% drop in visitors year on year in April, a 3% fall in May and a 9% decline in June. It reported spending by inbound visitors in the 12 months to June flat.

The figures, released in October, seemed sufficiently out of kilter with the previous year to lead some to query the data.

Industry association UKinbound noted its business barometer, also released in October, found 71% of its members had recorded visitor numbers or bookings over the summer at the same level or above the previous year, and more than half (56%) expressed confidence about business for the coming nine months – the highest figure the association recorded in 2018. The barometer also reported a surge in Chinese visitors in July and August.

Hospitality data analyst STR also recorded hotel demand in London up 7.5% year on year in August, with average daily rates and revenue per available room at their highest August level since the 2012 London Olympics.

The ONS tempered its sober assessment of the second quarter of the year by noting the comparison was with April to June 2017 when "visitor numbers were the highest ever recorded over the period".

Inbound businesses saw a record-breaking 2017, but there are 'big challenges' ahead

OVERSEAS visitor numbers to the UK have grown steadily since 2010, although provisional figures for 2018 suggested a slight tailing off (Figure 17). Visitors from Europe dominate (Figures 19 & 21), but the most-valuable markets lie outside Europe (Figures 18 & 20).

Visitor trends

The last full year's data we have illustrates trends which extended through 2018. Overseas visitor nights increased by 3% to 285 million, meaning the average duration fell, but spending rose by 9% to a record £24.5 billion, with average spending per visitor rising more than 4%. Overseas visitors also made a record number of trips outside London.

Two out of three visitors came from the UK's top-10 source markets, with France and the US accounting for 10% of the total apiece and Germany 9%. But the US remained far in front as the greatest source of spending, contributing more than double any other market. Visitor numbers from the US were at their highest since 2000.

Total spending by visitors from the Middle East surpassed that by visitors from France and Germany for the first time.

Tourism minister Michael Ellis greeted the 2017 figures, released in July, by declaring: "Britain's tourism industry is booming." However, outgoing UKinbound chief executive Deirdre Wells warned: "We've done well out of the fall in the pound, but it won't last for ever. Increased costs will find a way into the supply chain. We are into a very challenging period."

The Deloitte view

Growing inbound numbers and higher spending have defied predictions of a post-referendum slowdown in inbound tourism, with the affordability of sterling continuing to accentuate the UK's attractiveness as a destination. VisitBritain expected 40.9 million inbound visits in 2018, up 4.4% on the previous year, and tourism spending was forecast to reach £26.3 billion, an increase of 7.1% on 2017.

A rise in visitors from China has been positive not just for the tourism sector but for the economy as a whole. VisitBritain reported Chinese tourists spent three times the market average on trips to the UK in 2017, and every 22 visitors from China created one more job in the UK tourism sector.

The travelling population of China is expected to grow in coming years, with the proportion of Chinese citizens with passports forecast to double from 6% in 2016 to 12% by 2025, offering important growth opportunities for UK tourism, especially given Britain's trade relationships with the EU remaining uncertain. However, the challenge for the UK inbound sector will be to continue to attract visitors from a range of growth segments and to serve them in a personalised way that makes them want to return again and again.

A shortage of staff could prove a more-pressing matter and put the sector under increasing pressure as the UK labour market has little slack and immigration is heading downward. Lack of staff could hinder not only the ability to serve growing segments but also profitability by hiking staff costs.

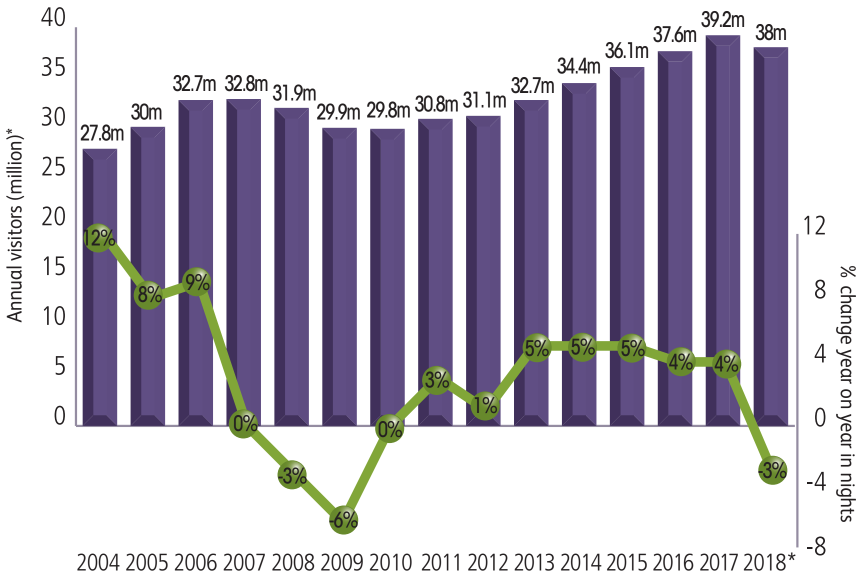
Travel businesses should look to combat this with a focus on improving productivity through increased training, better use of technology and more strategic planning. Such efforts should help to improve staff retention and customer satisfaction.

Aino Tan, insight manager, transport, hospitality and leisure

Wells stood down from UKinbound in the summer after counselling: “Language skills are a concern. The current system for recruiting workers from third [non-EU] countries does not inspire confidence. The demographics [in Britain] are against us and there is low unemployment.

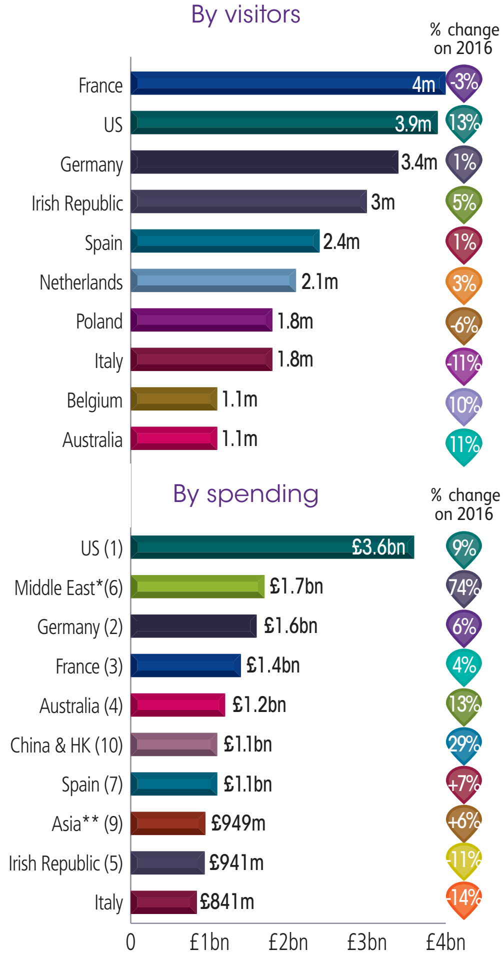
“If we are going to position ourselves as a ‘global Britain’, we need the right messaging and the right visa regime in place. Of course, we’ll do well as an industry. But whether we do as well as we could is another matter. There are big challenges facing the industry. We’re an industry of fun, but also one of the most important to the economy.”

FIGURE 17: OVERSEAS VISITORS TO UK, 2004-18



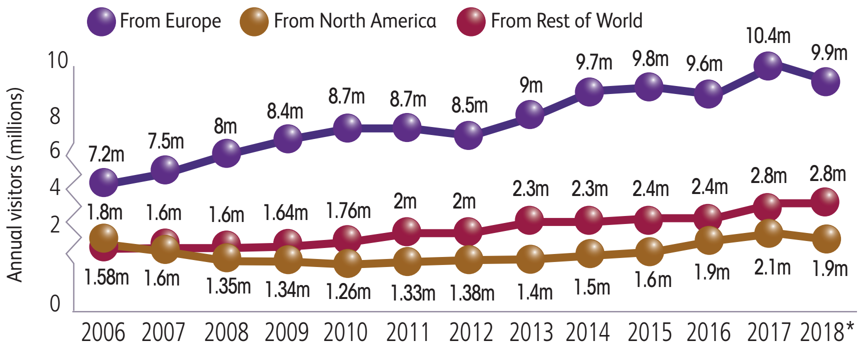
**12 months to June 2018 All visitors, including business & visiting friends & relations (VFR) Source: ONS*

FIGURE 18: TOP-10 INBOUND MARKETS, 2017



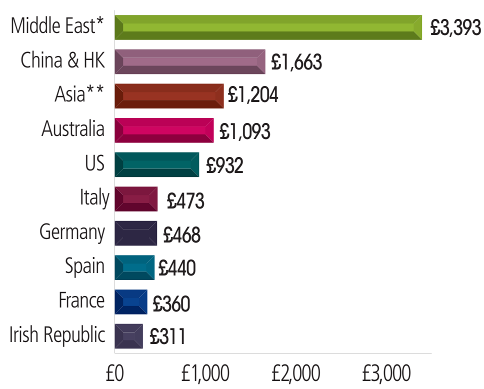
**Excludes UAE **Excludes China, Japan, India, Sri Lanka, Thailand (2016 position) Source: ONS*

FIGURE 19: HOLIDAY VISITS TO UK, 2006-18



**12 months to June 2018 Source: ONS*

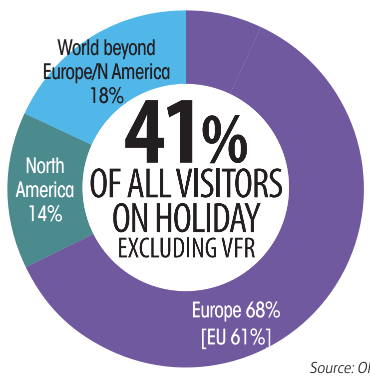
FIGURE 20: SPENDING PER HEAD, MOST-VALUABLE MARKETS, 2017



**Excludes UAE **Excludes China, Japan, India, Sri Lanka, Thailand Source: ONS*

FIGURE 21: OVERSEAS HOLIDAY VISITS TO UK, 2017

% by source region



Source: ONS

Demand for holidays at home heats up

The number of UK domestic holidays hit a new record in 2017 of more than 59 million, up almost 6% year on year.

Domestic holiday spending also rose 6% to £14.1 billion, with total bednights above 202 million. The total number of domestic overnight trips rose just 1% on 2016, with spending up 2.6%, so the holiday market outstripped the corporate and visiting friends and relatives (VFR) markets by some margin.

The 2017 holiday total surpassed the previous high of just under 59 million in 2009, although it fell some way short of the record bednights (217 million) in that year. But it represented a striking performance given 2017 also saw a record number of outbound holidays. The previous domestic high had accompanied a slump in overseas holidays.

GB Tourism Survey figures for the seven months to July 2018 showed the rising trend continuing with domestic holiday trips increasing 4% year on year and spending up 5% despite the increase in bednights (2.7%) not keeping pace.

Kantar TNS research for this report suggests two out of three UK adults took a domestic holiday in 2017-18 and 37% took two or more.

There appears a definite skew towards families in the market, with 74% of parents with children taking at least one holiday in Britain against 62% of adults without children. However, over-55s were the most likely to take a domestic holiday despite an apparent drop in such trips among those in this age group in the past 12 months.

Domestic breaks, fuelled by weaker sterling, hit a new high in 2017, but recruitment issues blotted the picture

Looking to 2019, Kantar TNS found a rise of two percentage points on 12 months ago in those 'very likely' to take a domestic holiday, but a four-point drop in those 'quite likely' to do so, with the balance made up by an increase in those undecided. The research also suggested a fresh drop in intention to holiday in the UK among those over 55. However, the overall intention to take holidays remains strong and any change will be from a record high.

Recruitment and tourism taxes

There was no denying the concerns among businesses in the sector as the year-end approached.

Peter Gowers, chief executive of budget hotel group Travelodge, warned the UKHospitality Conference in July: "We cannot suddenly replace the workforce the day after Brexit – 25%-30% of all hotel workers in Britain are from the EU. In London, it is half."

In November, the Chartered Institute of Personnel and Development confirmed the number of non-UK-born workers in Britain was falling. UKHospitality chief executive Kate Nicholls described the figures as "alarming" and said: "Even more concerning is the government's intention to implement an immigration policy that favours higher-

The Deloitte view

Within the context of sluggish wage growth and increasing inflation, consumers have felt some pressure on discretionary income, particularly in the first half of 2018.

In order to keep their holidays they have looked for ways to reduce costs or at least the initial outlays. This has meant some fluctuation in leisure spending from quarter to quarter, as shown by the Deloitte Leisure Consumer tracker in Q3 2018.

The focus on minimising upfront expenditure, combined with great summer weather, a range of UK celebrations (including a royal wedding) and the perceived convenience of driving or taking the train as opposed to boarding a plane, made the English Riviera and other domestic destinations strong competitors to continental Europe. Staycations have seen a boost, with some surveys predicting almost three in five holidaymakers would take their summer holiday in the UK.

Another trend has seen consumers combine different types of domestic breaks in one holiday. Consumers have begun to visit multiple locations, perhaps starting with a city break followed by a rural trip and finishing with a coastal tour – all as part of a week's holiday.

This has benefited a range of providers, with city breaks, national parks, heritage sights and motorway service stations seeing numbers peaking. Domestic accommodation providers also reported profitable 'late' bookings for the summer season.

Consumers continue to place a high importance on holidays, entertainment and cultural activities. With sterling worth less against the euro and dollar, it seems more Britons are happy to holiday at home.

To make the most of this, travel companies should identify ways to offer great experiences and customer service that distinguishes themselves from the rest.

Many consumers are also looking at destinations 'off the beaten track'. Destinations outside the main tourism hotspots could do well by trumpeting the unique activities they offer.

Alistair Pritchard, lead partner, travel

skilled technical jobs at the expense of others. With unemployment low, businesses need to recruit from outside the UK."

A second issue, local tourism taxation, appeared somewhat peripheral but may ultimately prove unavoidable. Edinburgh led the way in the latter half of 2018 with a city-wide consultation on proposals to introduce a 'transient visitor levy' of £2 per visitor per night up to a maximum of £14.

Edinburgh council, run by a coalition of the Scottish National Party (SNP) and Labour Party, had as yet no legal basis to proceed. But Scotland's first minister, Nicola Sturgeon, promised "a national discussion" on the issue.

The industry remains opposed, with UKHospitality head Nicholls suggesting: "It's like Whack-a-mole. A tourism tax keeps bubbling up and we keep knocking it down." But it may grow increasingly difficult to whack.

The tax plans stem from a deepening crisis in local government funding. In March, Gerald Vernon Jackson, chair of the Local Government Association board for culture, warned a travel industry audience: "There is real pressure on council budgets." He advocated "local taxation on visitors in hotels".

Marketing Manchester director of tourism Nick Brooks-Sykes told the same conference: "Most local authorities are looking at this. You have no other option if you want to fund a destination-management organisation.

"Hoteliers themselves realise something needs to be done."

> We cannot suddenly replace the workforce the day after Brexit – 25% to 30% of all hotel workers in Britain are from the EU

THE UK domestic market continued to grow through 2018 (Figure 24) after domestic holiday numbers in 2017 were confirmed to have been on a par with the record year of 2009 (Figure 23).

Domestic trends

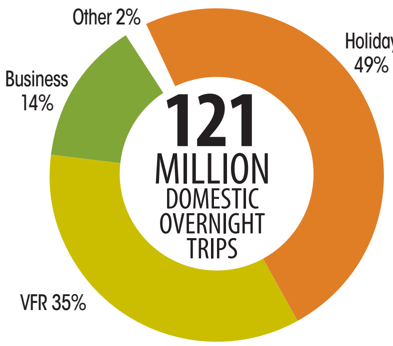
The British seaside remained a popular option for holidaymakers, with 29 million overnight domestic trips to coastal resorts in 2017. More than one-third (36%) of all domestic holidays were taken at the seaside and 43% of bednights, following a 16% increase in overnight trips to the seaside in 2016. It's reasonable to expect that summer 2018, which saw the longest unbroken spell of hot weather for years, will have swelled those figures.

Perhaps surprising amid the fanfare for 'new business models', just 1% of UK domestic trips and a similar proportion of nights (1.1%) involved stays at an Airbnb or other homestay property in 2017, when 17% of nights involved a caravan or camping.

The figures, from the rolling GB Tourism Survey, were not much different for holidays. Just 1.4% of holiday trips and nights were spent in Airbnb or similar properties. By contrast, more than 21% of nights were spent in self-catering accommodation, excluding caravans and camping and almost 40% of domestic holidays were spent at hotels. Guesthouse and bed-and-breakfast accommodation accounted for a further 7% of holiday trips.

Indeed, those holidaymakers opting for hostels or 'glamping' alternatives such as a yurt, tepee or 'eco pod' appear to have outnumbered those using Airbnb for domestic trips.

FIGURE 22: UK DOMESTIC TRIPS, 2017



Source: GB Tourism Survey

FIGURE 23: UK DOMESTIC HOLIDAYS, 2006-17

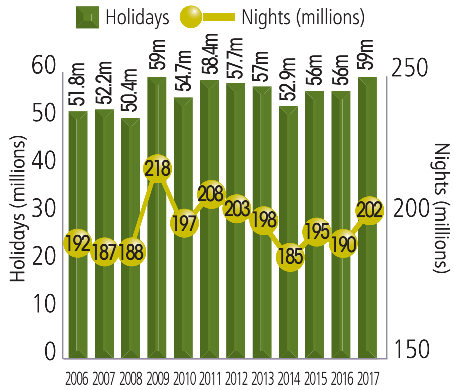
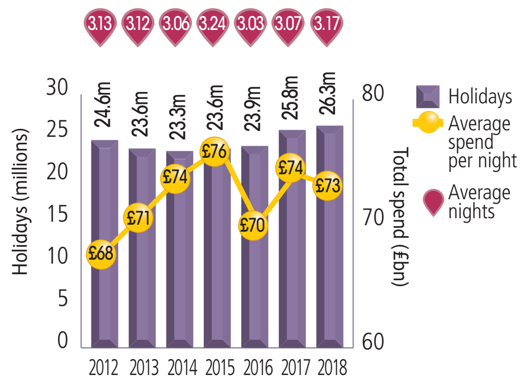


FIGURE 24: UK DOMESTIC HOLIDAYS: H1 2012-18



Cruise

UK ocean sector on brink of 2m passengers

The UK cruise market grew 4.3% year on year in 2017 to a new annual record just shy of two million passengers, with those embarking from UK ports up 6% to 1.1 million.

The number of nights on board rose at a greater rate – by 7.6% to almost 20 million, raising the average duration to 10.1 nights. That remained near a decade-long low for the UK, but it topped average durations of nine nights for western Europe, 6.9 nights for North America and 4.3 nights for Asia.

A seven-night cruise remained the single most-popular duration. However, three in four (76%) UK passengers chose seven to 14-day cruises and 30% 14 days and longer.

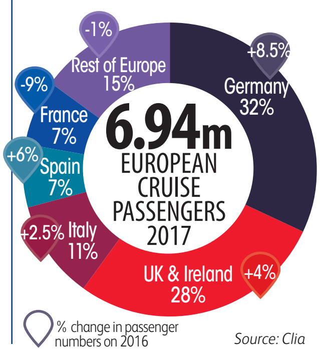
The average age of UK passengers remained high in global industry terms at 56, with more than half of UK passengers over 60. By contrast, the average age in western Europe was 52, in Asia 48 and in the US 46.

Destination choice

The Mediterranean remained the number-one destination for UK passengers, with 37% of sailings and numbers up 12% on 2016. Cruises around northern Europe were the second most-popular choice, with numbers up more than 10% to 27% of the total. The Caribbean was third, drawing 14% of UK passengers – double the proportion opting for the eastern Med – and Alaska the fourth. However, the fastest growth was in itineraries to Canada and New England.

New ships fuel market's growth but sector faces criticism about overcrowding in popular ports

FIGURE 25:
EUROPEAN CRUISE MARKET, 2017
% of passengers by source markets



Source: Clia

Cruise Lines International Association (Clia) UK & Ireland reported: "The value of a cruise became a more important factor to consumers in 2017 with price, value for money and special offers a key driver of choice. The inclusive drinks package became a significantly more important factor."

It noted "[booking] lead times have grown steadily" following a decline between 2007 and 2013, "with an average now of seven months, the longest since 2009".

The level of repeat business remains staggering. Clia reported nine out of 10 UK cruise passengers plan to take another cruise within a year and almost two-thirds (64%) of these within six months.

UK passenger numbers have increased almost 50% over the past 10 years. Yet despite the growth, the UK market fell further behind rival European market and global number-three Germany, where passenger numbers grew 8.5% to 2.19 million.

Three out of four German passengers opted for a European cruise, making the average duration shorter than from the UK at 8.85 nights. Germans opted in greater numbers for northern Europe than UK passengers, as well as for the Canary Islands. But the UK market to the western and central Mediterranean outnumbered that from Germany by 100,000.

UK cruise passengers also showed greater preference for the eastern Mediterranean and the Caribbean than their German

The Deloitte view

Ocean cruise passengers were expected to reach 28 million worldwide in 2018, an increase of almost 5% on 2017. With 12 new oceangoing ships and 15 new river cruise ships launching during 2018, the global picture is one of growth and confidence.

The Cruise Lines Industry Association reported the UK market grew again in 2017 and, with a record 1.97 million people ocean cruising, there remains optimism that 2018 will see the UK figure top two million for the first time. There has now been an almost 50% increase in the last 10 years.

At the same time, river cruising has gone from strength to strength with passenger numbers rising 21% compared with 2016 to 210,000. Almost 90% of these passengers joined European cruises.

What unites both parts of the sector is the amount of investment and innovation. Investment comes in the form of a significant number of new ships. For ocean cruise, these include *Marella Explorer*, *Celebrity Silhouette*, *MSC Bellissima*, Saga's *Spirit of Discovery* and *Spirit of Adventure* and P&O's *Iona* – all of which recently arrived or will be arriving in the next couple of years. For river cruise, a quarter of all ships in service have been built in the last five years, demonstrating confidence in the growth of the sector.

The pace of innovation differentiates cruise from the rest of the holiday market, and new ideas, from methods of propulsion to onboard experiences, drive inspiration for agents and consumers alike.

Shipyards remain full, with strong demand across the board, and demand is set to increase. The challenge for the industry will be to inspire consumers, particularly new-to-cruise customers, at a sufficient pace to keep up with capacity increases.

Some new products are likely to attract younger people and families, while the older generation will continue to be well served with exciting new ships.

The significant investment in products and services is likely to support ambitions for growth in demand over the coming years.

Alistair Pritchard, lead partner, travel

counterparts, although Italy provided the biggest market to the eastern Med.

Globally, the Caribbean remained by far the most-popular cruise destination region attracting 40% of all passengers, almost three times as many as the Mediterranean (14%).

Port 'overcrowding'

Cruise remained somewhat in the spotlight over perceived overcrowding in some Mediterranean destinations despite industry efforts to dispel criticism and tackle concerns.

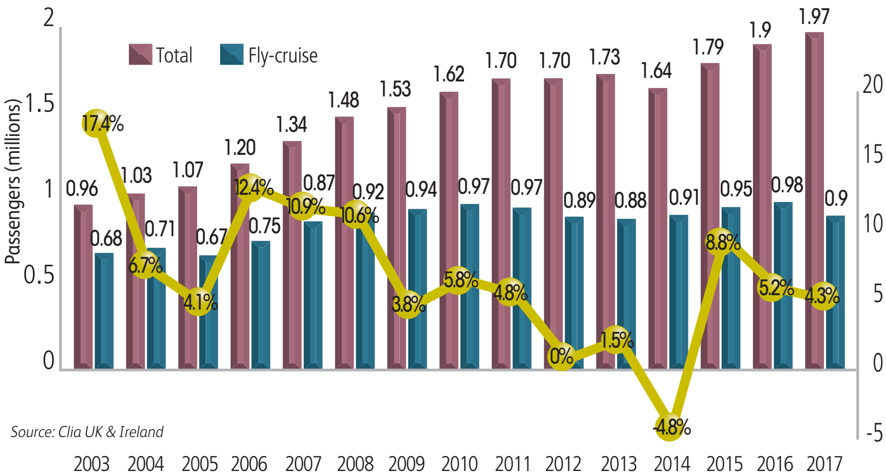
Stuart Leven, Royal Caribbean's UK and Ireland managing director and vice-president for Europe, the Middle East and Africa, acknowledged: "There are pinch points, particularly in the Mediterranean, where a destination can feel overcrowded if several cruise ships arrive around the same time."

But he said: "Cruise is an easy target because the ships are so visible and bring a lot of guests at once, but it's not the only problem. The feedback we get is that destinations want cruise ships."

Adam Goldstein, Royal Caribbean Cruises vice-chairman, told a Travel Foundation forum on overtourism: "Venice is sort of ground zero in this. Our polling suggests most people who live there want the economic activity."

David Dingle, Carnival UK chief executive, said: "We do have to see more dispersion. It's more likely [to be accomplished] by finding different places to take people than by saying, 'Don't go to St Mark's Square.'"

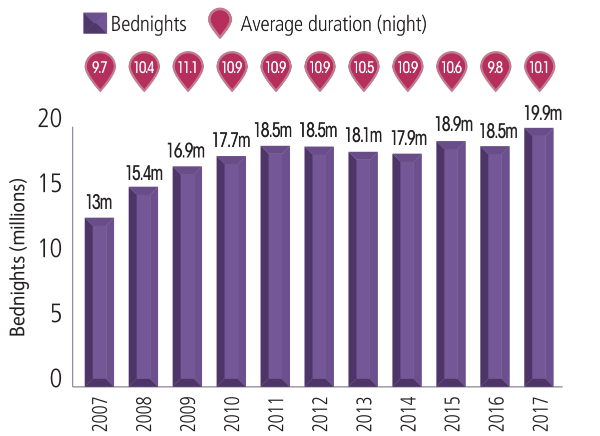
FIGURE 26: UK & IRISH OCEAN CRUISE PASSENGERS, 2004-17



Source: Clia UK & Ireland

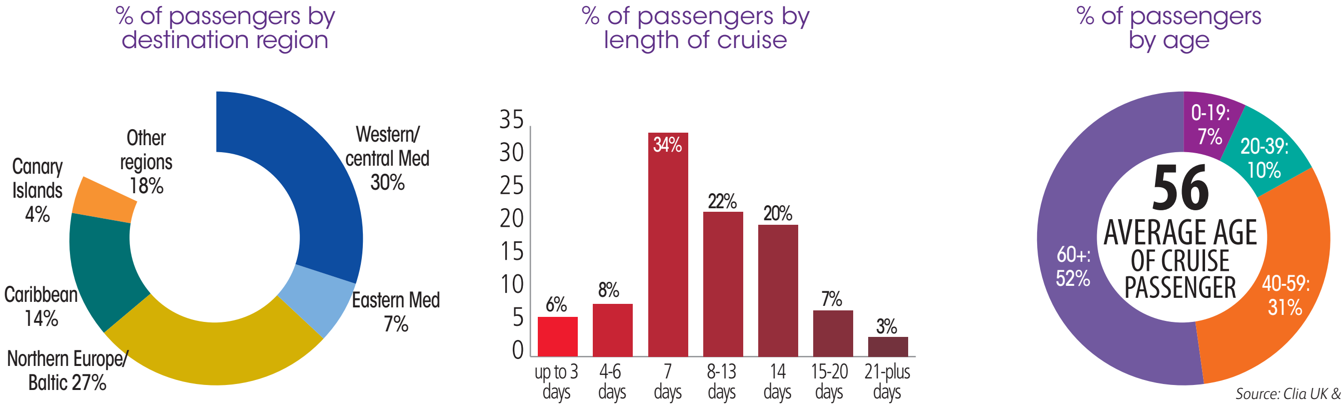
UK AND Ireland cruise passengers should number more than two million for the first time in 2018 after nearing that level in 2017, when UK-departing cruise passengers surpassed one million (Figure 26). The average duration on board increased (Figure 27), while the average age stayed relatively high (Figure 28). But growth in Germany surpassed the UK (Figure 25).

FIGURE 27: UK OCEAN CRUISE NIGHTS & AVERAGE DURATION, 2007-17



Source: Clia UK & Ireland

FIGURE 28: UK & IRELAND CRUISE MARKET, 2017



Source: Clia UK & Ireland

Business travel

TMCs consolidate as market shrinks

The size and importance of the corporate travel sector is reflected in increasing consolidation among leading industry players.

The biggest acquisition in the past year saw American Express Global Business Travel (GBT) buy Hogg Robinson Group (HRG) in a deal bringing together two of the top-three travel management companies (TMCs) in the world. The deal, announced in February, valued HRG at up to £410 million with the combined business set to handle sales in excess of £2 billion a year in the UK alone. HRG sold payments technology subsidiary Fraedom to Visa in a separate deal for almost £142 million.

At a slightly lower level, Reed & Mackay's acquisition of Hillgate Travel for an undisclosed sum propelled the combined business into the UK TMC top 10, handling more than one million corporate transactions a year and a UK turnover of £500 million.

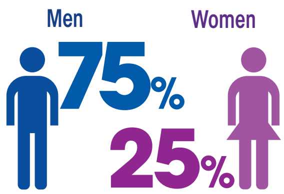
Yet it is worth noting a degree of stagnation over the past decade in the outbound business travel market, which has failed to mirror the recovery in outbound leisure travel over the last three to four years. Office for National Statistics (ONS) figures show overseas business trips from the UK hit an 8.9 million high in 2008, fell by two million in 2009 and have not recovered – remaining about 24% down on the 2008 figure a decade on *(Figure 30, facing page)*.

Data on UK domestic business travel trips and spending show a somewhat different trajectory. There was a much shallower decline in the domestic sector in 2010 in the wake of the 2008 financial crisis and 2009 recession, and a recovery through 2011-12 before a second fall-back through to 2017. Data for the first half of 2018 suggests there could be a recovery, with a 14% increase in the number of trips year on year. However, spending adjusted for inflation remains considerably down on 10 years ago.

Business travel agents agree takeover deals as overseas trips fall by a quarter compared with high of 2008

FIGURE 29: UK CORPORATE TRAVELLERS

Overseas trips, 2017



Source: ONS

Concern about NDC

The outcome of Brexit will have a vital effect on the corporate travel atmosphere in the immediate future. But an industry-specific issue will profoundly shape the landscape – the implementation of Iata's New Distribution Capability (NDC).

This is dealt with in detail elsewhere in this report *(Aviation, page 29)*. But a survey published in October by the Association of Corporate Travel Executives (ACTE Global) and American Express GBT suggests nine out of 10 corporate travel managers are concerned about the cost and policy-compliance implications of NDC.

The ACTE-American Express GBT study, entitled 'The Evolution of Air Distribution', suggests almost two-thirds (64%) of travel managers believe NDC could improve the airline booking experience and half (54%) that it could help in negotiations with carriers.

However, 89 % fear fragmentation due to NDC will threaten cost control and 87 % compliance with travel policy; 90 % expressed

The Deloitte view

There is an element of déjà vu with the continuing dichotomy between business nervousness over the impact of Brexit and expectations for increased business travel spending. Investors are on the bullish side of this equation with strong competition and pricing for assets in the business travel market.

Private equity has taken stakes in a number of business travel companies in the last year and this theme of investing in specialists echoes wider investor interest in truly differentiated businesses. Consolidation continues to be the main M&A theme, particularly among the fast-growing corporate travel groups challenging the Big Three, as they bring their international partners in-house and form strategic partnerships in order to expand their scale in their chosen geographies or sectors. The market has therefore become less fragmented.

The demands of procurement departments are rising, driven by more-complex regulation, greater compliance requirements (in areas such as health and safety, and tax) and the need to manage costs in an increasingly complex pricing environment.

At the same time, the actual users want both intuitive technology and the option of personal service, a combination that requires significant investment. The business travel consumer really values an agent that can filter the myriad options available and provide a few clear choices. In this environment, there are opportunities for investors and businesses which have the scale, systems and specialisms to deliver incremental value across all areas to their clients.

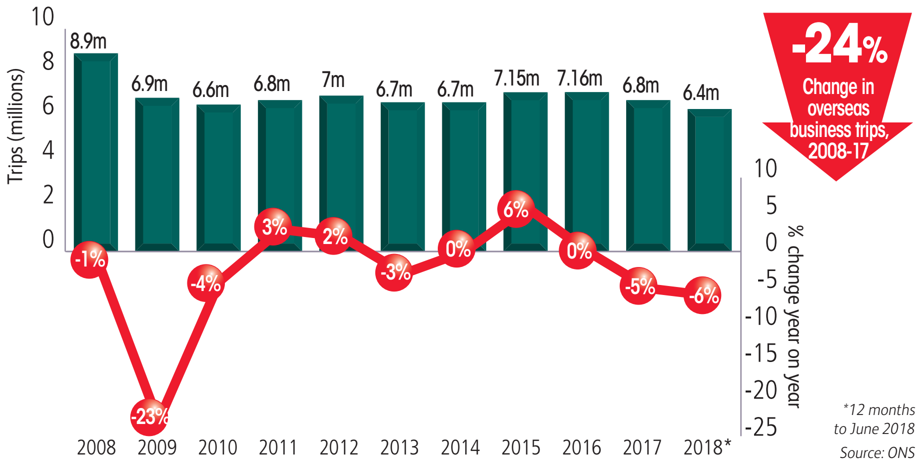
Nigel Bland, partner, financial advisory
Janice Clement-Smith, assistant director, financial advisory

concern about reduced functionality of online booking tools; 89% fear unbundling will lead to higher costs; 88% fear a lack of data; and 88% expressed concern at reduced fare transparency.

The ACTE and American Express GBT said "uncertainty" about NDC "remains pervasive". One-in-four travel managers (23%) said they are "not at all" confident in their understanding of NDC and an additional 58% were only "somewhat" confident. Almost two-thirds (63%) said they were "not exploring any new platforms".

ONS DATA suggests outbound corporate travel has declined since 2016 and remains substantially short of its level a decade ago (Figure 30). Domestic business travel appears on a different trajectory, though spending has fallen when adjusted for inflation (Figure 31).

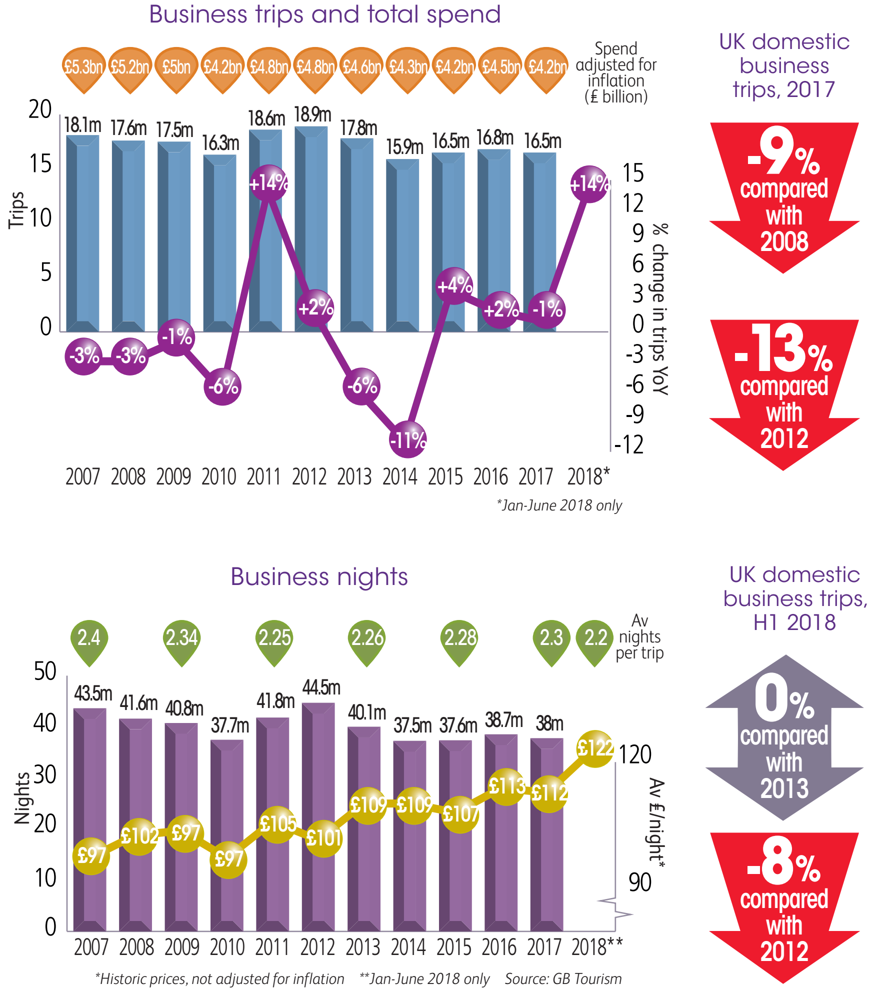
FIGURE 30: OVERSEAS BUSINESS TRAVEL FROM UK, 2008-18



*12 months to June 2018

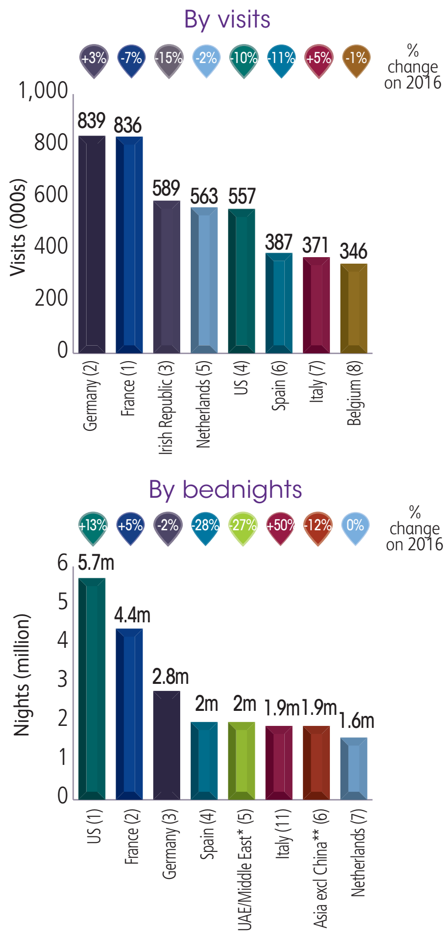
Source: ONS

FIGURE 31: UK DOMESTIC BUSINESS TRAVEL, 2007-18



*Historic prices, not adjusted for inflation **Jan-June 2018 only Source: GB Tourism

FIGURE 32: LEADING BUSINESS DESTINATIONS FROM UK, 2017



*Excludes Israel **Excludes China, Hong Kong, Thailand, India, Pakistan

Investment in travel

UK still a honeypot for investors

Investors show no signs of losing interest in travel. On the contrary, deals flowed thick and fast through 2018 amid renewed interest in acquisitions by some industry players as well as heightened interest from private equity.

Deloitte lead partner for travel Alistair Pritchard said: “We continue to see investor interest in the sector. Assets with successful business models, which are relevant and adjusted to the marketplace, still appeal to investors. Private equity continues to be very interested in travel, with a lot of people competing for good-quality assets.

“We’ve also seen a lot of corporate entities interested in investing over the last 12 months, whether that is investing in niche players or in something bringing a new dimension to their own business.”

Deloitte financial advisory partner Nigel Bland agreed, saying: “A year ago a lot of [M&A] auctions were between four or five private equity houses. This year they have been between three or four private equity firms and one or two travel trade businesses.”

Bland acknowledged: “Up until October, the pipeline was a little quieter. Fewer people have taken a decision to sell their business this autumn. We are not likely to see so many deals completed in the first or second quarter of next year.”

Pritchard agreed: “There have been plenty of transactions completed, but we expect the next few months to be a lot quieter.”

That said, Pritchard insisted: “There is still a significant level of interest, with lots of interested parties. There is still confidence around the UK leisure market and UK leisure spending. There is appetite for deals once there is a bit more certainty.”

He also pointed out: “Travel is a global business. Businesses might look at spreading their presence. There are potential transactions in the EU market that could involve UK or non-EU investors.”

Bland backed his colleague’s assessment, saying: “Pricing and competition [for deals] remain strong because businesses are delivering.” He contrasted the experience in travel to that of the UK restaurant sector where he noted: “There has been a collapse in demand.”

He added: “The exchange rate is bad for UK outbound tourism, but businesses continue to perform. Investors take the view that businesses with the right model will perform even if the economy does not perform so well.”

Pritchard said: “Outbound travel and cruise, in particular, has proved resilient. There are winners and losers, of course, depending on types of holidays and destinations. It’s not just about the exchange rate. The oil price has a bearing, depending on [companies’] hedging strategies, as does how consumers feel about price increases. Spain may be expensive, but there are cheaper places to go. The exchange rate might drive more people back to Turkey.”

Business sentiment can turn quickly

A Deloitte quarterly survey of sentiment among chief financial officers (CFOs), the Deloitte CFO Survey: 2018 Q3 released in October, found business sentiment significantly affected by Brexit concerns.

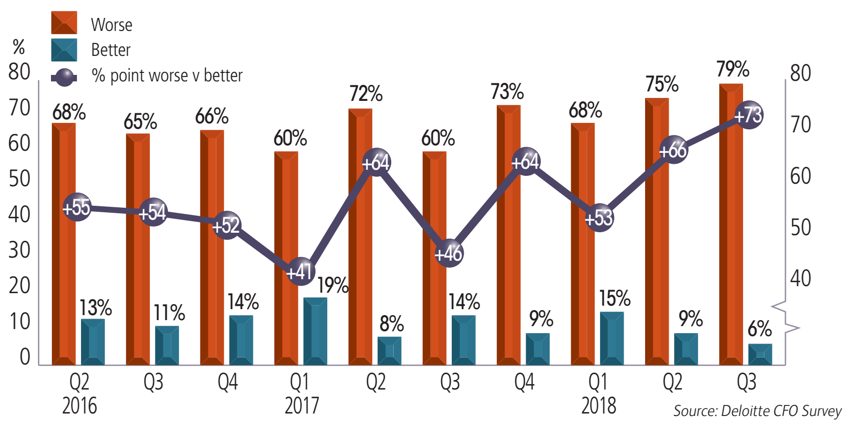
It noted: “The disappointing pace of negotiations and growing speculation about a no-deal Brexit weighed heavily on business sentiment in the third quarter. CFOs have become more pessimistic about the long-term effect of the UK’s EU departure.

“Perceptions of uncertainty have risen

Sector sees flurry of mergers and acquisitions ahead of expected slowdown around Britain’s withdrawal from the EU

THE BUSINESS view of the post-Brexit environment soured through 2018, Deloitte’s rolling survey of UK chief financial officers suggests (Figure 33), and recruitment proved more difficult (Figure 34). A significant proportion of CFOs saw activity decreasing in key areas (figure 36). By contrast, overall consumer confidence remained fairly steady, but confidence in disposable income took a knock in the second half of 2018 (Figure 35).

FIGURE 33: IMPACT OF BREXIT: UK BUSINESS VIEW
% UK CFOs believe business environment be better/worse post-Brexit



Source: Deloitte CFO Survey

sharply. Large corporates are pulling in their horns, with just 12% of CFOs saying now is a good time to take risk. CFOs are more focused on reducing costs than at any time in the last eight years."

The Deloitte report noted: "The paradox is that this [third] quarter's survey took place in the wake of a modest rebound in UK economic activity. UK data has been coming in above market expectations in recent months. In August, the Bank of England's monetary policy committee felt sufficiently emboldened to raise UK interest rates. Brexit is drowning out better news on growth."

Earlier in the year, the announcement of a Brexit transition deal in March had raised business sentiment. Deloitte's Q1 CFO Survey found: "For the first time in two years, CFOs do not rate Brexit as the main risk facing Britain."

Pritchard said: "CFOs are looking to the uncertainty around next March, but CFO confidence can move quickly."

Bland agreed, saying: "CFOs are trying to guess the future. As it stands, it remains uncertain as to whether the proposed withdrawal terms will be accepted by the UK Parliament. If they are not, and the deal is rejected, the likelihood of a no-deal scenario rises significantly. With this in mind, we are unlikely to see many completions in the first two quarters of 2019 but the second half could be better."

Pritchard said: "The first half of next year is likely to be quieter. However, there has been continual uncertainty for a while. If businesses decide they need to enter new markets or need to make acquisitions to protect their markets, there could be more activity in the second half."

Both argue there will be no shortage of capital in the UK mergers and acquisitions market. Bland said: "The sheer weight of capital is pushing up the pricing [of deals]. It is hard to see how capital would shift [from the UK]. Capital will absolutely be there. There will always be capital for fast-growing businesses."

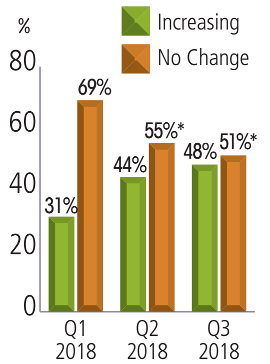
He insisted: "The transparency of the UK capital market and the stability of the UK are enormously attractive to investors. They still see the UK as stable, transparent and simple to deal with. No one changes the rules."

Investors' interests

The travel businesses most attractive to investors fall into a number of categories. Bland said: "Investors are interested in distribution and in true differentiation, or in truly different niche businesses.

FIGURE 34: BUSINESS RECRUITMENT

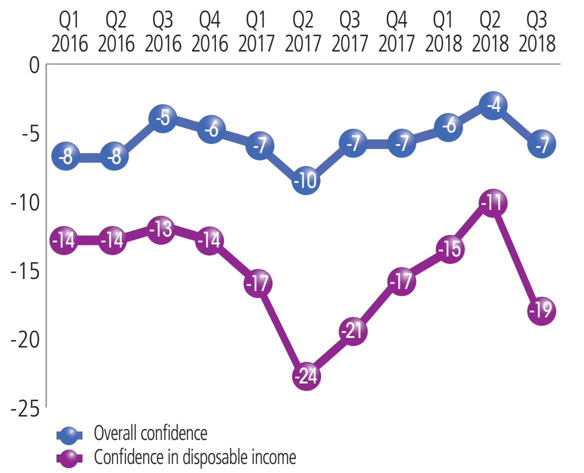
% of CFOs reporting recruitment difficulties



*CFOs reporting 'Decreasing' difficulties = 1%

Source: Deloitte CFO Survey

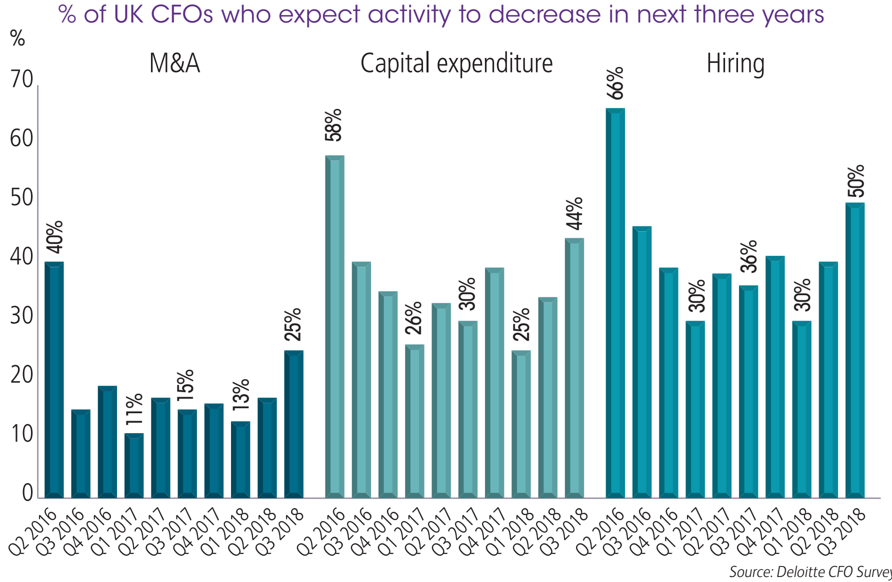
FIGURE 35: UK CONSUMER CONFIDENCE, 2016-18



Source: Deloitte Consumer Tracker

FIGURE 36: BREXIT IMPACT ON BUSINESS SPENDING & HIRING

% of UK CFOs who expect activity to decrease in next three years



Source: Deloitte CFO Survey

Investment in travel

UK still a honeypot for investors

"There is also the drive to specialisation and the creation of large specialists." He cites agency homeworker business Travel Counsellors and specialist tour operator Audley Travel as examples of businesses "built on good technology and differentiated by service".

Travel Counsellors changed hands in May in a deal between private equity groups when Vitruvian Partners bought the company from Equistone.

By contrast, Bland noted that Love Holidays, acquired by Livingbridge for £180 million in May, "is driven absolutely by technology and, along with On the Beach, is disrupting the sector by providing a very flexible and effective online booking site".

In other deals, Hotelbeds agreed to sell its destination-management division back to TUI in a €110 million deal in March. Palma-based Hotelbeds separated from TUI in 2016.

Hospitality giant Wyndham Worldwide completed the $1.3 billion sale of its European rentals business, including Hoseasons and James Villas, to Platinum Equity in May, and AccorHotels completed the €830 million takeover of Australia's Mantra Group. In November, The Minor Hotels group acquired a 94% stake in Spain-based group NH Hotels in a deal worth €2.3 billion.

> Investors are interested in distribution and in true differentiation, or in truly different niche businesses

The US-based Travel Leaders Group acquired Scotland's Barrhead Travel in February. Great Rail Journeys changed hands in a management deal backed by investor Duke Street in June. Neilson Active Holidays was sold in August by Risk Capital Partners to LDC for an unspecified sum, and in October Cox & Kings agreed a £467 million deal to sell schools and activity holidays operator PGL to Midlothian Capital Partners.

Then in a flurry in November, US-based Sabre agreed to acquire travel technology firm Farelogix for $360 million. Melbourne-based WebJet bought Dubai-based Destinations of the World from Gulf Capital in a $173 million deal. And Hotelbeds acquired the UK-based HolidayTaxis Group for an undisclosed sum.

Corporate travel

Bland added: "There is a still a lot of interest around holiday parks and in business travel."

The corporate travel sector saw a number of deals. Reed & Mackay bought rival Hillgate Travel in a private equity-backed deal in May.

The Appointment Group was acquired by new private equity fund Apiary Capital around the same time, and Key Travel was sold by Livingbridge to fellow private equity fund Elysian Capital which then funded Key Travel's acquisition of Dutch firm Raptim Humanitarian Travel. In further consolidation in November, Gray Dawes Group acquired Giles Travel.

Bland said: "Consolidation in corporate travel has some way to run. It will carry on. Corporate travel organisations are bullish."

Yet he suggested: "Consolidation is never as easy as people think. Many markets in corporate travel are hugely fragmented. It is hard to buy something with critical mass if you are not already there [in the market]."

***FIGURE 37:* RISKS TO BUSINESS**

UK CFO average rating on 1-100 scale

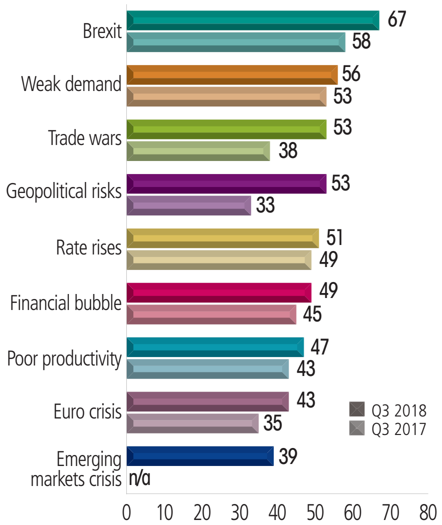
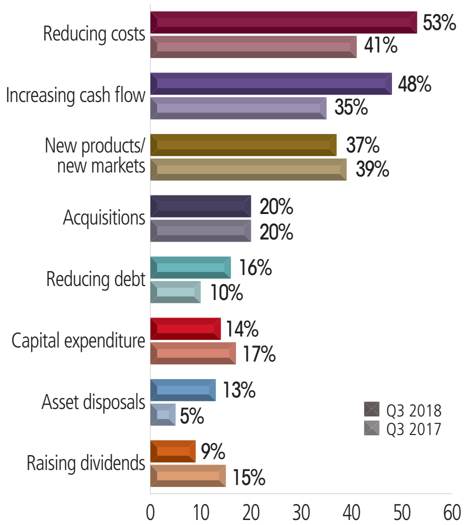


***FIGURE 38:* UK CORPORATE PRIORITIES**

% CFOs rating each a priority in next 12 months



Source: Deloitte CFO Survey

BREXIT topped the list of risks to business, according to a survey of UK chief financial officers, but the sharpest increase in concern in the past year related to trade conflict and geopolitical risk (Figure 37). Costs and cashflow dominated business thinking in late 2018 (Figure 38).

Aviation

Major carriers fly high

Air passenger numbers worldwide exceeded four billion for the first time in 2017, with airline association Iata reporting a 7.3% rise in traffic on 2016 to 4.1 billion.

The growth continued through 2018, with Iata noting global airline capacity rose by 5.8% year on year to September and passenger traffic by 5.5%. Yet Iata also noted in November that "the demand boost from lower airfares" which had kept passenger figures growing was subject to "rising airline cost pressures, particularly fuel".

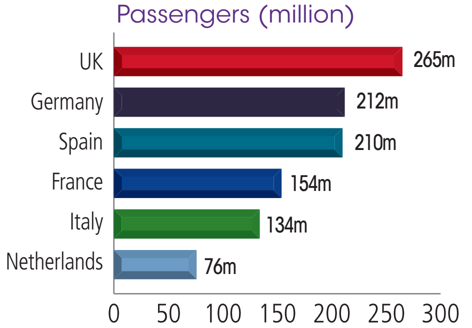
The combination of increased capacity and higher oil prices explained the continuing high profits for major carriers in the US and Europe, while other airlines reported losses and smaller airlines struggled or folded.

IAG, owner of British Airways and Iberia, reported a 17% rise in operating profit for the first half of the year following the group's record full-year profit of €2.4 billion for 2017. Lufthansa posted profits for the nine months to September down slightly but still recorded a €2.4 billion operating profit and forecast its "second-best-ever annual result" following pre-tax earnings of almost €3 billion for 2017.

EasyJet also made hay, forecasting in September that its full-year profits would be at the upper end of expectations – close to £580 million. Ryanair found the going a little tougher amid poor publicity over delays and cancellations as it fought a battle with pilot and cabin crew unions demanding recognition across Europe and staging strikes. However, in September Ryanair still anticipated a full-year profit to March of €1.2 billion.

Record passenger numbers power big profits for leading carriers in Europe and the US but there are capacity issues across the sector

FIGURE 39: EU AIR TRAFFIC: MAJOR MARKETS, 2017



Source: Eurostat

THE UK dominates the EU aviation market, with a passenger market 25% bigger than Germany despite the latter's considerably larger population (Figure 39). UK air passenger numbers have risen consistently over three decades despite a substantial hiccough between 2008 and 2012 (Figure 40). The numbers in these two charts do not tally as Eurostat excludes domestic passengers.

FIGURE 40: UK AIRPORT PASSENGER NUMBERS, 1998-2018

*All passengers, to nearest million *12 months to August Source: CAA*

Airline failures

The downside was illustrated by the failures of Primera Air, Cobalt Air and Germany's Small Planet Airlines in the autumn, and the on-off merger of Iceland's Wow Air with Icelandair in November. Wow owner and chief executive Skuli Mogensen told staff: "The outlook for many airlines has gotten extremely tough."

The difficulties were not confined to the smallest carriers. Norwegian Air, a byword for expansive growth in low-cost long-haul flying, was poised to unveil cuts to its schedule as this report neared publication. Geir Karlsen, Norwegian chief financial officer, confirmed in November: "We are evaluating the whole route programme, long-haul and short-haul. We are struggling with high oil prices."

Questioned as to whether the carrier's low-cost long-haul model remained viable, Karlsen said: "We've been focused on growth. We are making changes to show we can make this possible on a running basis. We need a lower cost base." At the same time, Norwegian began operating domestic services in Argentina.

Lufthansa Group chief executive Carsten Spohr warned in November that the industry in Europe had "reached its maximum growth rate" and suggested airlines give up the "fantasy of growth going on for ever". He said: "We need healthy growth in line with infrastructure, manufacturers' capacity and airline capacity."

Major carriers fly high

Ryanair chief Michael O'Leary was typically more bullish, suggesting in October: "Trading may be positively impacted by other airline failures. We expect more failures this winter."

Rising costs

Graham Pickett, former global lead partner for travel and aviation at Deloitte, said: "We're seeing rises in costs. It's a more challenging market."

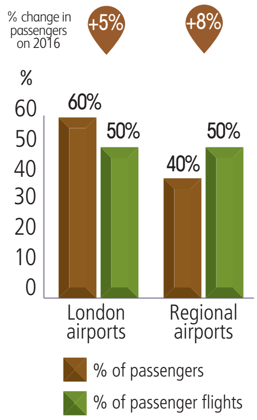
But as he noted in the 2017-18 edition of this report: "There is not a wholesale problem across the industry. We still see more people travelling, but people are paying less so yield is an issue and that is the tale across the world.

"There are also too many aircraft. We've seen a lot of next-generation aircraft come into the global fleet – the Boeing 787, Airbus A350, Boeing 737 MAX and Airbus A320neo. That has reduced operating costs, but airlines have used the old aircraft on expanded routes. Demand is not growing at the same rate as the number of aircraft. We must see airline profitability coming under pressure as costs rise and yields see downward pressure."

That is precisely what has happened. Pickett said: "There will be continuing failures, but of the type of Primera and Cobalt. I don't see major headline failures."

Oil prices fell back somewhat in November, though whether the trend would continue was impossible to say. Yet the impact of higher fuel prices was not felt equally. In the US, the major carriers had rarely enjoyed such an advantageous position.

FIGURE 41: LONDON & UK REGIONAL AIRPORT TRAFFIC, 2017



Source: CAA

Delta Air Lines chief executive Ed Bastian noted in November that the carrier expected to recoup all the higher fuel costs this year from increased fares. He said: "Demand is strong and gives a good opportunity to price. We expect fuel costs to be up $2 billion year on year but we anticipate our overall profits to be flat [at $5 billion]. We recovered almost all the fuel increase." Bastian noted: "It has not been done before."

Rival United also expected to recoup 90% of its increased fuel costs from higher fares, as analysts of the US aviation market hailed "the best revenue environment in recent memory".

Of course, the prime reason is that the US market consolidated almost a decade ago after a succession of airlines went through bankruptcy protection in the years after 9/11.

Pickett said: "The US airlines have become better at controlling their market. North America is by far the most-profitable region in the world. Asia-Pacific is probably the least profitable. There are about 1.8 airlines operating per route in North America, 2.7 in

The Deloitte view

The summer season in the airline industry showed robust capacity and traffic growth. From the demand perspective, both global and UK traffic levels have remained resilient, with Iata reporting record load factors in August 2018.

The airline collapses of 2017 provided a boost for some operators, which were able to increase capacity by buying slots or adjusting network positions by, for example, operating larger aircraft. This, together with increases in other services, especially by long-haul, low-cost operators, meant the UK's largest airports continued to report growing traffic numbers in 2018.

However, there are signs that the top of the cycle has passed. Iata projected industry profits would fall by more than 10% to $33.8bn in 2018. Margin pressure is rising as jet fuel prices increased (as of October) by over 40% year on year. In addition, other input costs including labour, financing and infrastructure are on an upward trend. Simultaneously, global passenger yields excluding surcharges and ancillaries continued to trend lower.

Despite carriers becoming increasingly inventive in their attempts to boost ancillary income, the increased capacity means the pricing environment remains challenging. Political uncertainty amid growing protectionism and security issues add to the pressures.

There is also uncertainty about how Brexit will impact the UK's access to Europe or the transatlantic market. While most carriers have developed plans to maintain air access, the impact on demand remains an unquantifiable risk. As industry margins are still relatively thin and the cost base highly fixed, severe demand shocks cannot easily be absorbed.

In Europe, the consensus is that further airline failures are possible, particularly among those not protected by scale, network or cost advantage. Consolidation may be a solution for specific assets, but given the existing growth plans of major carriers it is likely failures would be allowed to occur.

Industry on-time performance is increasingly under the microscope. European airspace capacity constraints have been exacerbated by disruptive events such as strikes and poor weather, meaning demand for airlines to operate in an efficient and resilient manner have never been higher. Leading airlines are looking to data-driven solutions to help enhance operational decision-making and reduce disruption and its associated costs, but continued growth in air traffic will continue to strain the system.

After a period of relative calm, airline boards will have to adjust course carefully, taking advantage of technology and continuing to innovate in all aspects of their business to navigate to sustained profitability.

John Ruffle, senior manager, travel and aviation

Europe and 4.7 in Asia-Pacific. There is high growth in passengers, but the capacity is way out. There are roughly twice as many airlines on any route in Asia-Pacific as in Europe."

Gulf carriers

Amid the pressure on yields, the major Gulf carriers sought to regroup after enjoying explosive growth for a decade or more.

Dubai-based Emirates' expansion plans continued unabated, but in November the biggest of the three Gulf carriers announced an 86% fall in net profits to $62 million for the six months to September despite a 10% rise in revenue. The carrier noted "relentless downward pressure on yields".

Etihad Airways remained in the throes of a business turnaround plan that saw the carrier reduce its losses for 2017 to $1.52 billion from a near $2 billion loss in 2016. But the airline clearly has a way to go.

Qatar Airways revealed a $69 million loss for the 12 months to March as it tussled not only with the pressures faced by other carriers but also with the boycott of Qatar by a consortium of countries led by Saudi Arabia and the UAE. This closed airspace over Egypt, Saudi Arabia, the UAE and Bahrain to Qatar, forcing the airline to operate longer routes from its Doha hub. It also had to cut services around the region due to the blockade.

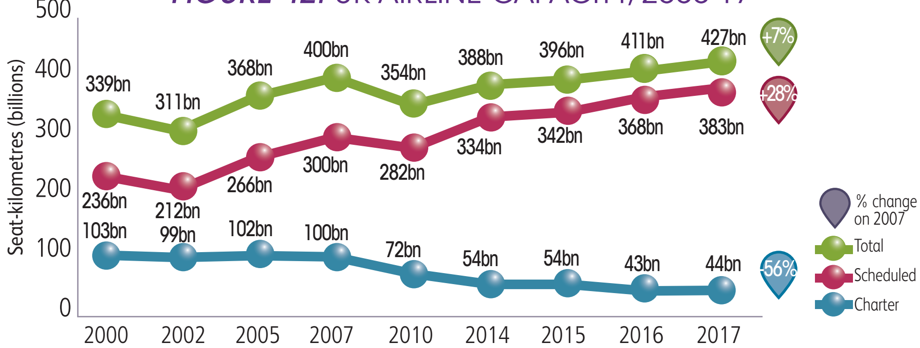
Pickett noted: "The Gulf airlines are more challenged now due to the local economic situation."

The one bright spot for the Gulf airlines were agreements between the US and their respective governments to end the three-year dispute over allegations of state subsidies brought by the big-three US carriers.

Pickett suggested the more-challenging outlook among airlines was also reflected in a reining in of aircraft orders globally, noting:

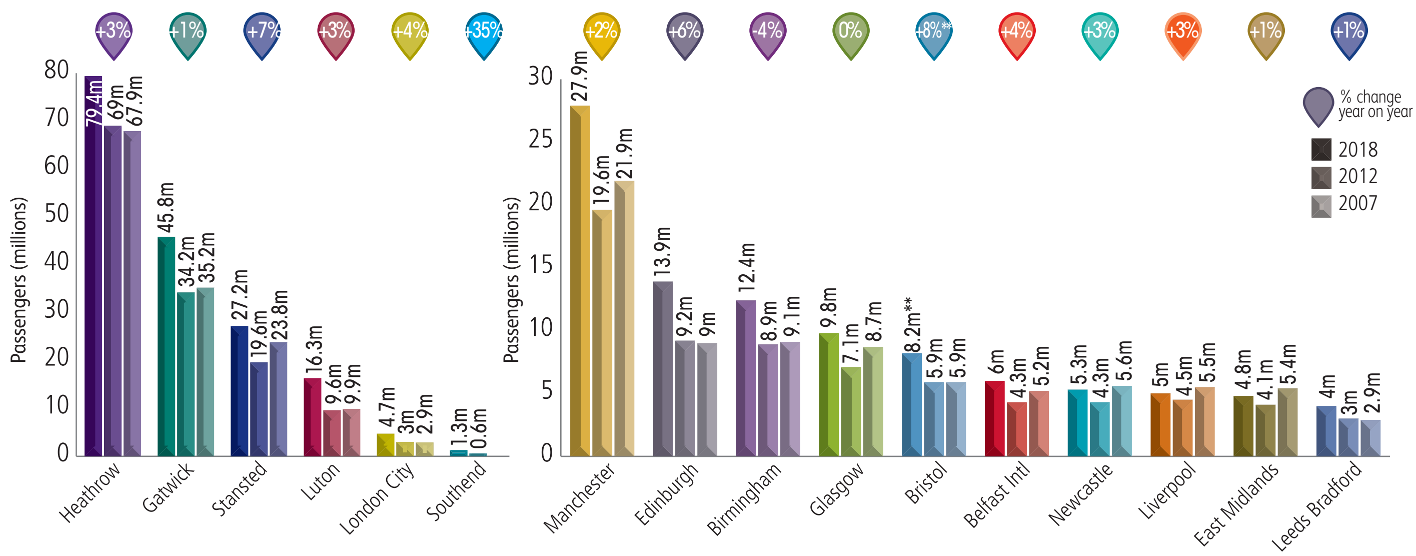
UK AIRLINE capacity growth has suffered two hiccoughs since 2000, in 2002 post 9/11 and in 2008-10. The long decline in charter flying is clear, having been swept up by the low-cost carriers (Figure 42). UK airport traffic is at record levels, including at the larger regional airports, but London dominates (Figures 41 & 43).

FIGURE 42: UK AIRLINE CAPACITY, 2000-17



Figures rounded Source: CAA

FIGURE 43: UK AIRPORT PASSENGER NUMBERS, 2018



**12 months to August 2018 **2017 figure, comparison versus 2016 Source: CAA*

Aviation
Major carriers fly high

"The propensity to cancel orders is now greater than to make new orders."

NDC bookings

Airline distribution remained a bone of some contention as development and adoption of Iata's New Distribution Capability (NDC) standard moved forward. Travelport became the first GDS to manage a flight booking and issue tickets through an agency, Meon Valley Travel, using NDC content in October.

The NDC standard, which aims to enable online Amazon-style retailing for airlines via intermediaries, has been in development since 2012. Its deployment will allow third-party agents to book flights and airline ancillaries via a GDS without incurring a GDS surcharge. Air France-KLM followed the Lufthansa Group and IAG carriers BA and Iberia in imposing a fee on GDS bookings in April.

Gordon Wilson, Travelport president and chief executive, hailed the Meon Valley booking as "a landmark moment", but said NDC's evolution "will continue to take time".

Amadeus appeared to be at a similar stage and in October promised "an industrial version [of NDC] next year". Clare de Bono, its UK head of product and innovation, noted: "Being able to work at scale is crucial [for NDC]."

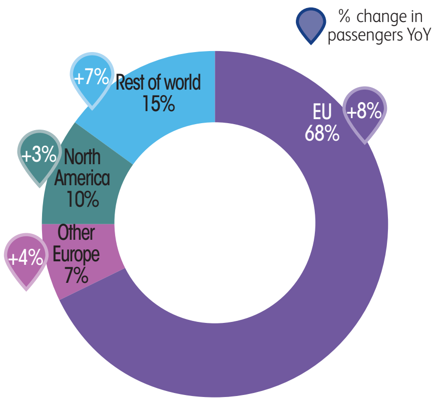
NDC bookings will differ markedly from the GDS system. De Bono explained: "The NDC world is stripped down to 'shop, order, pay'. It will have offers instead of fares and orders instead of passenger name records."

Ken McLeod, president of the Scottish Passenger Agents' Association and director for industry affairs at Advantage Travel Partnership, said that with NDC: "You could get a very different fare depending on your [passenger] profile, and that is a challenge."

He warned: "Until this reaches critical mass, until it's clear what options there are in the market, small agents will not move." Crucially, McLeod asked "Who is going to pay for this? The commercials are not agreed by airlines and GDSs. There is a huge cost. Someone has to pay for this [and] at the end of the day it will be the consumer."

UK TRAFFIC to and from the EU comprises more than two-thirds of the UK aviation market and grew faster than that to any other region in 2017 (Figure 44). Heathrow punches above its weight as an international hub despite capacity constraints (Figure 46), sitting as it does at the apex of the North Atlantic market (Figure 45).

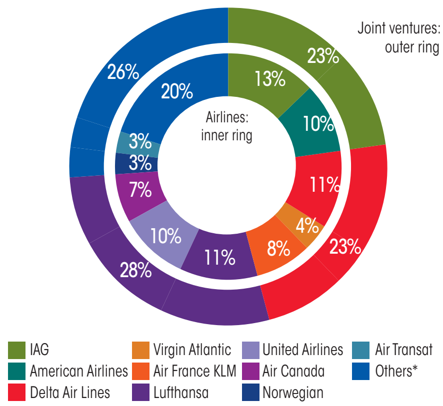
FIGURE 44: UK INTERNATIONAL AIR PASSENGERS' DESTINATIONS, 2017



Source: CAA

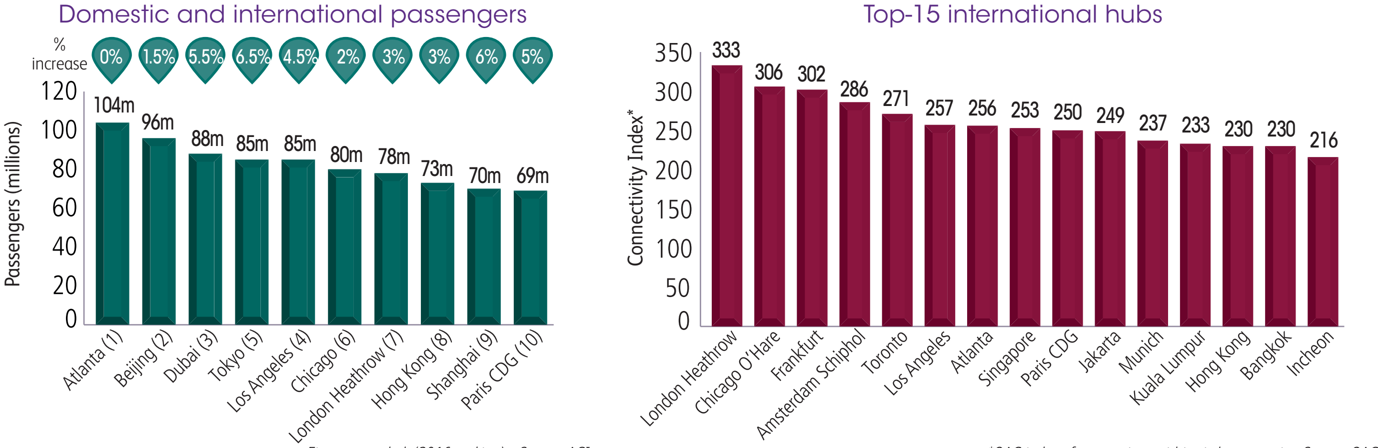
FIGURE 45: NORTH ATLANTIC MARKET SHARE

By airlines and joint ventures



*Includes Air Berlin & Alitalia, both ceased flying October 2017 Source: CAPA

FIGURE 46: WORLD'S BUSIEST AIRPORTS, 2017



Figures rounded (2016 ranking) Source: ACI

*OAG index of connections within six-hour transit Source: OAG

Hospitality

Hotel sector continues to flourish

The hospitality sector has enjoyed an extended growth cycle, with Europe at its core and London a leading light despite the political uncertainties.

London saw an average increase in revenue per available room (RevPAR) of 4% year on year to October 2018, according to hospitality data analyst STR, while the 4.8% average RevPAR growth across Europe surpassed the regional growth rates of Asia and North America. RevPAR is the standard hospitality measure of performance.

European variations

STR business development director Thomas Emanuel said: "Europe had a solid year. Pretty much all markets were up, the majority driven by rate as overall occupancy was up about 1%. Where we saw a decline in rates it was primarily due to supply."

However, he noted: "Barcelona is down significantly, with RevPAR down 9% year on year. There was an overnight decline last year following the Catalan [independence] referendum and it has declined every month since."

Emanuel added: "Spain is down slightly overall [in RevPAR], partly due to Barcelona but the Canaries are also down. However, the country had a few years of double-digit growth so it is not a surprise.

"We are starting to see the demand displacement that sent people to Spain, Greece and Portugal return."

There was a marked flight by leisure travellers from the eastern Mediterranean following the terror attack in Sousse in June 2015, the bombing of a Russian holiday jet at Sharm el-Sheikh in November 2015 and a failed coup in Turkey in July 2016.

Emanuel said: "Turkey had a very strong summer, with RevPAR up 68% year on year in local currency and 17% in euros even with the plunge in value of the Turkish lira. In Istanbul, RevPAR rose 26% in euros."

Deloitte head of hospitality and leisure Andreas Scriven agreed. He said Barcelona was "affected by some controversial tourism policy decisions" but "overall trends are positive in most markets".

"Turkey is back on the map for travellers. It has fantastic hotels and fantastic weather, it's cheap and it's mid-haul. It shows how quickly people forget about events."

However, Scriven suggested: "Investors are more cautious. There was significant appetite for Turkey [and] that has slowed."

He contrasted the situation among investors with Greece where "the hotel industry is a beacon of the economy and hotels outperform most other asset classes".

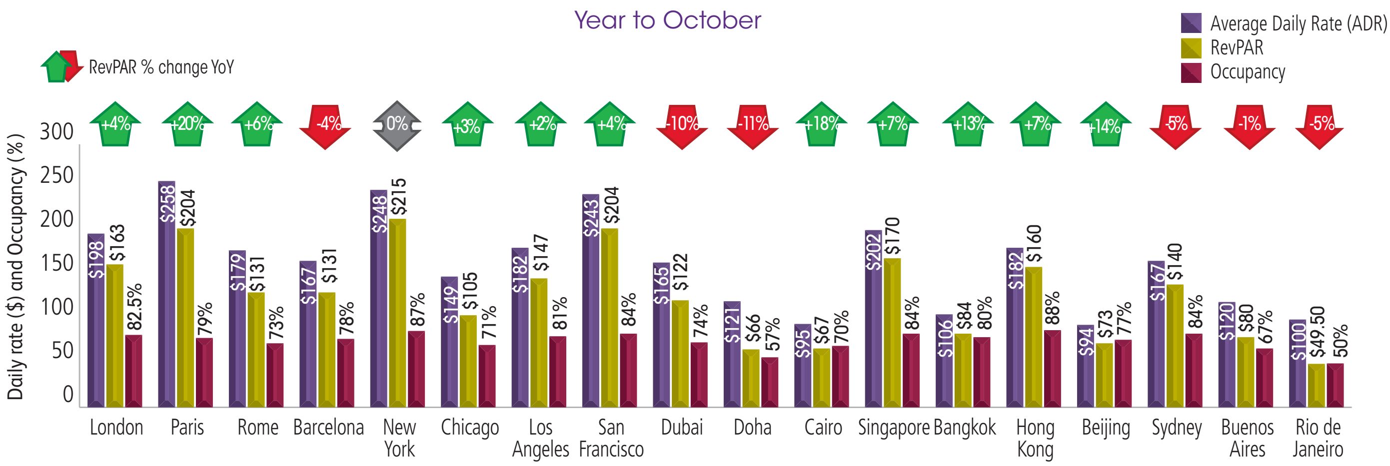
Emanuel noted World Cup-host Russia also had "a fantastic summer", saying: "Growth in Moscow was spectacular. RevPAR was up

> RevPAR keeps growing in most of the world but the Middle East has a supply challenge and the UK is tipped to face increasing pressures

THE GLOBAL hospitality sector has enjoyed an extended period of growth. Paris led growth in the major cities of Europe in 2018, while the Gulf states saw declines in RevPAR driven by supply outpacing demand (Figure 47).

FIGURE 47: GLOBAL HOTEL SECTOR PERFORMANCE BY CITY, 2018

Year to October



RevPAR = revenue per available room   Figures to nearest US$ Source: STR

Hotel sector continues to flourish

more than 200%." However, he forecast "a hangover" for Russia in 2019.

Heatwave brought London 'bounce'

London saw occupancy up 1% to October but supply rose 2.1% year on year. This followed a "particularly good" 2017, according to Emanuel, after the devaluation of sterling.

This year, he said: "The summer heatwave definitely gave London a bounce. July and August were fantastic. Cities in northern Europe generally did very well this summer."

He added: "The pipeline is strong in London. It is due to grow 3% next year – meaning 70 new hotels and 6,878 more rooms by the end of 2019."

Scriven agreed, saying: "There were some signs of softening in London through the first half of this year, but rates held steady and RevPAR bounced back in August. A lot of supply has come into the market. London has been growing steadily for a decade and the city is stretching – people used to want to stay in Mayfair and west London, now it is the East [they head for]."

He added: "There is still huge investment appetite for London. There is no sign of people walking away from hospitality deals."

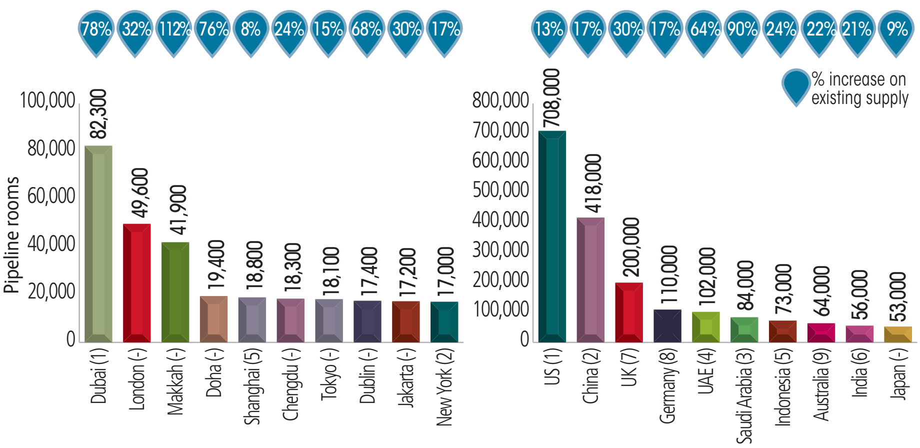
Indeed, Deloitte's annual European Hotel Investment Survey identified London as second only to Amsterdam as the most-

> There is still huge investment appetite for London. There is no sign of people walking away from hospitality deals

LONDON is second only to Dubai in the number of hotel rooms it has under construction or in planning, and the UK is third behind the US and China among countries with most rooms in the pipeline (Figure 48).

FIGURE 48: FASTEST-GROWING HOTEL MARKETS, 2018

Top-10 cities by pipeline rooms   Top-10 countries



In construction or planning, to nearest 100 and 1,000   (Top-10 place, 2017)   Source: STR

attractive city in Europe to hotel investors. More than a third of respondents ranked the Dutch capital top, with one in four selecting London, ahead of Paris and Madrid. The survey of more than 120 senior figures in the global hospitality industry identified Edinburgh as the most-attractive UK investment destination outside London for a fifth consecutive year.

Emanuel said: "The UK regions are doing OK. There is a spilt between cities which have a lot of new supply and those which do not. Manchester, Edinburgh, Belfast and Bristol have a lot of new supply."

Challenges in the Gulf

Beyond Europe, Emanuel noted: "Demand is up across all regions of the world with the exception of Central America."

The US saw 102 consecutive months of growth in RevPAR to August. Growth across North America was up 3%, while Asia recorded RevPAR growth of 3.5% year on year.

Yet Emanuel reported: "RevPAR in the Middle East is down 5.7% year on year due to increasing supply across the region, as well as to the strong dollar, the oil price and the boycott of Qatar. The position across Africa is positive but with huge differences by country. North Africa is up, Egypt is recovering." He reported RevPAR in Sharm el-Sheikh up 48% year on year in local currency. Scriven also identified "a huge bounce back in Egypt", but noted it was "from a very low base".

Both described the Gulf as "challenged". Emanuel said: "RevPAR is down across all markets in the Gulf except Jeddah and Kuwait City. In Dubai, supply is rapidly outpacing demand and rates are struggling. Doha is also struggling with supply up 4.7%. Yet demand is up across all these markets."

Scriven echoed that assessment. "There is a huge amount of proposed hotel development in Saudi Arabia and also in Qatar," he said. Qatar is due to host the 2022 World Cup.

He noted of Dubai: "There are all these hotels being built, but there is no secondary market. It will be interesting to see what investment metrics look like as and when hotels are offered for sale."

Pressures on UK sector

Scriven noted "a number of pressures" on the UK hospitality sector. He said: "Labour availability is set to become increasingly important and there are labour cost pressures as the industry has relied on immigration to fill entry-level jobs.

"Some owners are starting to feel a little pressure and I expect cost pressures to increase. There is the national living wage, the apprentice levy, business rates and the rising cost of food and beverage combined with slowing top-line growth."

He suspects the current growth cycle will stall. Scriven said: "I expect a decline in performance in the next 12-18 months, although I don't expect it to be as severe as 2008-10. What happens next March [with Brexit] could accelerate that or make things not quite so severe. Certain operators have overleveraged and overexpanded. The last trough was in 2007-08 and [the period] from peak to peak or trough to trough is typically seven to 10 years. The last cycle has been atypical." Yet he said: "There is still a huge amount of equity to be deployed."

Scriven added: "There are significant opportunities around data analytics and enhancing the customer experience, and there is a big piece around differentiation and engaging new consumers."

He sees non-room revenues "under threat", but summarised the outlook by saying: "There is a huge number of travellers. There is huge growth. It is enormously positive."

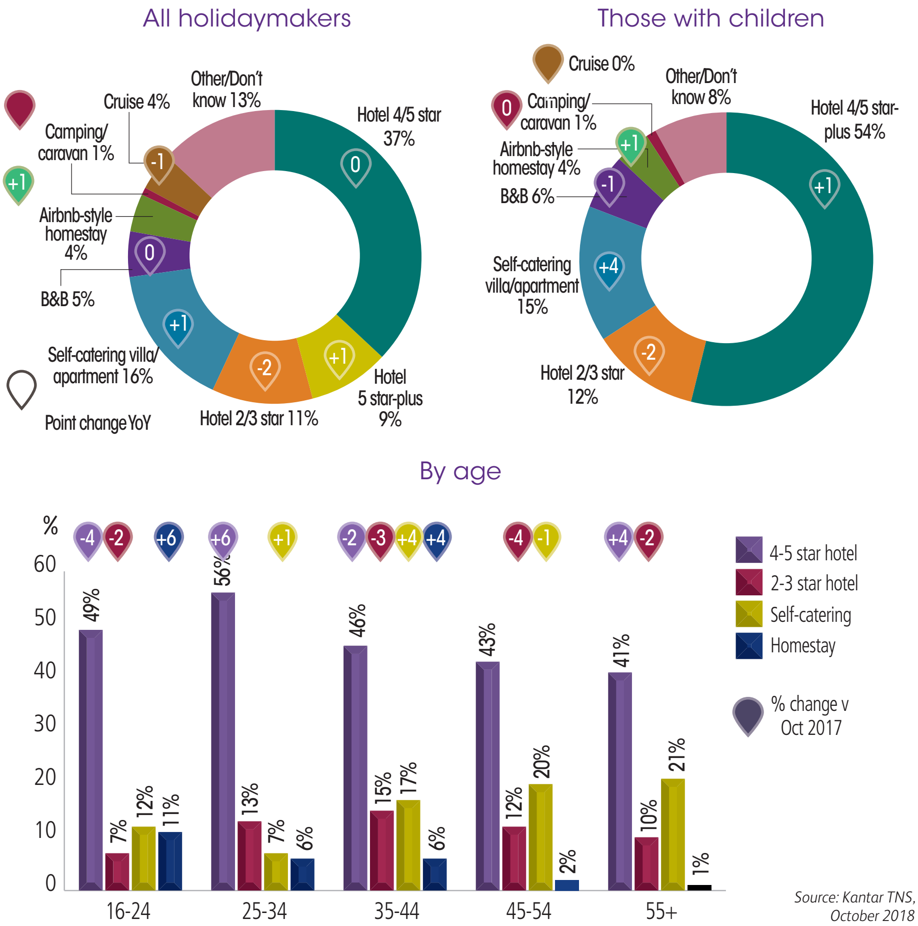
Scriven does not see the outlook being compromised by homestay or Airbnb-style platforms, which he refers to as 'rental by owner'. He noted: "A lot of major hotel companies have invested in Airbnb-style competitors in case the market grows. Airbnb has four million listings, but half are not directly comparable to hotel rooms – they are not in a hotel locality or they involve a shared room. They are also only available 20-30 nights a year in a lot of markets, against hotel rooms available 365 days a year."

He said: "The sector needs to be taken seriously. It will potentially grow, but depending on the market, the rental-by-owner sector is about 2% of the market."

Emanuel agreed, noting an STR study in late 2016 found more than 50% of Airbnb stays in key global gateways were seven nights or more. He said: "The average hotel stay is two to 2.2 nights, so Airbnb is potentially stimulating visitors who would not stay in hotels anyway. Airbnb is 3% to 4% of supply. People are using Airbnb, but the hotel industry globally is growing. We don't see a drastic impact on the industry."

FOUR AND five-star hotels remain the accommodation of choice for UK holidaymakers, selected by close to half of those surveyed for this report. Airbnb-style homestays remain a minority choice, dwarfed by traditional self-catering options, particularly among those aged over 35 (Figure 49).

FIGURE 49:
LIKELY ACCOMMODATION: NEXT OVERSEAS HOLIDAY



Source: Kantar TNS, October 2018

Next-generation tech needs refining

Digital technology and the data it produces have become all-pervasive and the era of artificial intelligence and robotics is upon us, although we remain very much in the early stages of this.

Deloitte consulting partner Andy Gauld said: "The industry is still trying to understand how best to adopt artificial intelligence (AI), and the relation between humans and machines and how it will develop.

Artificial intelligence

"There are a lot of AI use cases now, and a lot of work going on in the commercial space around customer engagement, pricing and how to present content. But there is still head-scratching about how to apply AI in the operational space, although there is progress on a year ago in how to use AI to automate business processes or decision-making."

Gauld's colleague Martin Bowman, Deloitte consulting director, cites "a good example in the airport sector around aircraft-turnaround management, getting an aircraft ready and away from the airport using predictive analytics".

He said: "We've not seen people introducing AI on the operating side yet, but people are looking at it. People are trialling AI and evaluating it."

Gauld believes: "The next stage will be contact with customers through speech and image recognition." He said: "A number of organisations are doing that, with varying degrees of success. These technologies are still evolving."

He suggested: "In five to 10 years, pre-flight checks will be done by machine instead of by pilots." In the mining industry, he said: "There are already organisations in Australia using driverless machines which navigate around mines."

Gauld noted: "It took five-to-six years for big data technology to be widely used. You get pockets of good practice now, but we're five years away from this becoming truly embedded."

> Artificial intelligence and robotics need further development and investment before they are likely to transform the travel sector

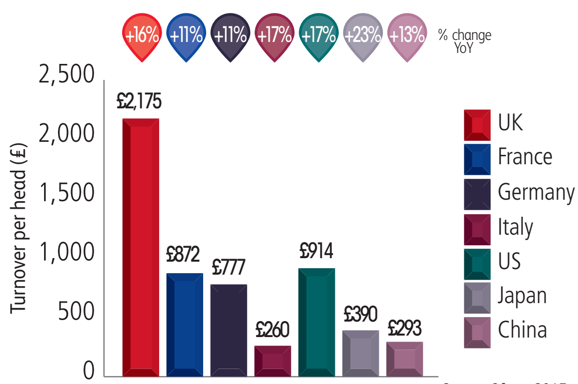
THE UK is far ahead of other markets in the value of its e-commerce, with UK consumers spending more per head than in Germany, France and Italy combined, or the US, China and Japan (Figure 50). Yet e-commerce sales made up only 18% of aggregate UK business revenue, according to the most recent ONS figures (Figure 51).

Robotics

There is obviously a push to bring AI and robotics together. Gauld said: "Robotics is the concept of removing manual processing from an activity." He acknowledges some early use of robotics in the travel industry has been more for show than for practical use. "There is a marketing piece to this, similar to AI," he said. "But there is a lot of work being done introducing bots to help back-office processes."

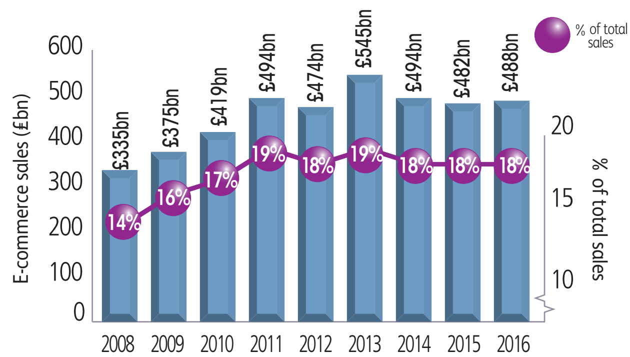
A bot or web robot is a software application which runs an automated online task. Gauld explained: "A number of organisations are trialling bots in financial control and back offices. Businesses spent a period outsourcing resources, then moving [facilities] offshore [to where labour costs were cheaper]. Now a lot of organisations are

FIGURE 50: ANNUAL B2C E-COMMERCE TURNOVER
At £ exchange rate of €1.22 & $1.35



Source: Ofcom 2017

FIGURE 51: UK E-COMMERCE SALES VALUE, 2008-16*
Businesses with 10 or more employees



**Combines website & electronic data interchange (EDI) sales Figures rounded; 2017 data unavailable at time of publication Source: ONS* looking to move back onshore to cut costs. A bot can be almost as cost-effective as 150 people offshore."

He said: "The challenge is to create 'farms' of bots that work together and work together well. I've not heard of any organisation in travel using bots outside of finance and human resources (HR), but where you might see them used in traditional operational processes in future is where multiple people are involved in a process."

He insisted: "Robotics and AI are coming together. The key challenge is how do information management and information capabilities come together? How do you combine AI, data analytics and robotics to gain greater insight and maintain value?

"The challenge in every organisation is that you get pockets of capability. Analytics is maturing at an increasing pace and that includes in travel. Robotics are already in use in HR and being taken into other areas.

"AI is being widely adopted in many functions. The challenge is to ensure these streams come together when you find multiple teams in every organisation trying to do different things.

"The issue is one of business transformation – you need to see these technologies as enablers which need a business-transformation wrapper around them."

IT investment

The days when the travel sector tended to lag big high-street retailers in the use of customer data are gone, according to Gauld, who said: "A number of organisations in travel are now ahead of some retail organisations. They have got their act together."

But he said: "From a cost, computing capacity and connectivity perspective, cloud-computing is the only way to do big data. Some in travel have made the transition to the cloud, others are not there yet." For example, he suggests it is the only way "to ensure airlines in a group are connected".

Gauld also suggests: "The level of investment in IT needs to be higher." He said: "If we're talking about investment in technology enablement to improve business outcomes, there needs to be massive investment. When it comes to rolling out IT, there are four layers – infrastructure, information, insight, and innovation including AI and analytics. In a lot of instances, processes in IT are archaic."

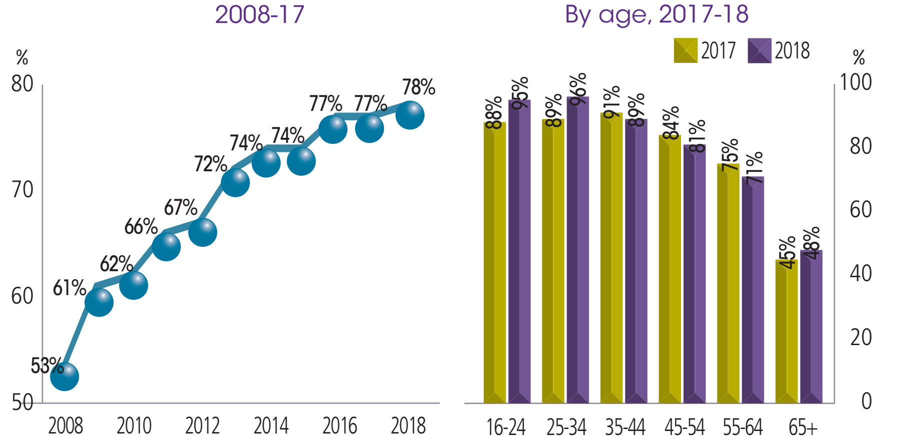
He wonders whether, without that massive investment, existing travel players will be bypassed. Gauld said: "Most organisations are worried about how to own the customer in future. There are probably two or three technology companies which could control the whole agenda."

For example, he said "At present, we might

THE PROPORTION of UK adults purchasing goods or services online may have plateaued, according to latest ONS figures, although total purchases continue to rise (Figure 52). The proportion buying travel or accommodation online may also have plateaued, though not total purchases. Indeed, ONS figures suggest a decline among some age groups (Figure 53).

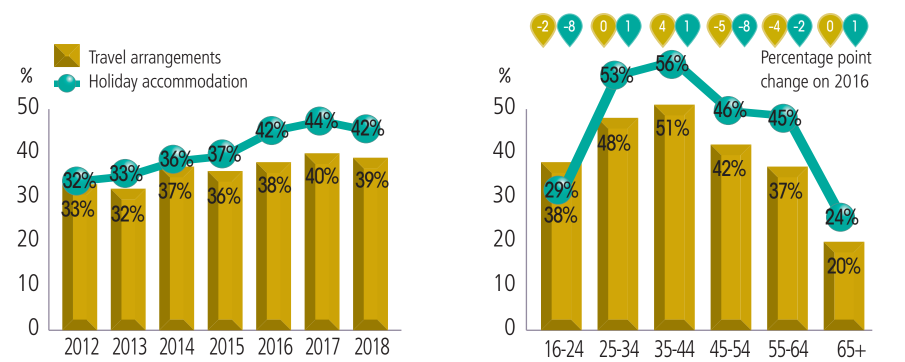
FIGURE 52:
ONLINE PURCHASING, ALL GOODS AND SERVICES, 2018

% UK adults purchased 2008-18



Source: ONS

FIGURE 53:
ONLINE TRAVEL PURCHASING, 2012-18



Source: ONS

have four or five airline apps on a device and four or five hotel apps. But what consumers want is simplicity, a one-stop shop where they can book all their travel and if there is disruption have one organisation fix it for them.

"There is at least one tech company starting to think about that, which is capable of doing it because of the data they have. I can envisage consolidation over the next business cycle and that does not necessarily mean an airline buying an airline.

"The worrying thing is that new technology players will come into the sector. I don't think they have decided what their business model would be, and there is a regulatory angle [for them to consider]."

Yet he suggested at least one major tech company is considering a move into travel and said it "would probably need to make some acquisitions – an airline, a hotel chain – and that would fundamentally change the business model." The question, he said, is: "Do they want to do it?"

Gauld said: "A lot more work needs to be done around the use cases of AI and robotics and the investment required. The business-use cases need to be developed dramatically. If not, there will be those who steal a march on the industry and this will feed into consolidation. It is the key area of disruption."

Collaboration required

Bowman sees a need for greater collaboration and sharing of data, particularly in aviation.

> The business-use cases for AI and robotics need to be developed dramatically. If not, there will be those who steal a march on the industry

A MAJORITY of UK adults shopping online do so with a degree of frequency, but it is those 35 and over who buy online most often (Figure 54).

He said: "There are pockets of progress and some good examples, but the industry could do a lot more.

"One good example is the mobile app Gatwick runs at a community level. Heathrow recently introduced a similar tool and the airports are now sharing data. I doubt that would have happened a couple of years ago."

But Bowman argues progress could be accelerated. He gave an example: "The main UK airports share post-operational data to try to prepare better for events. At present, they share operational data one month after the event. If they were to extend that, we could get to an operational view which updates and adjusts and could provide a dynamic view of what is likely to happen instead of what had happened."

Biometric trials

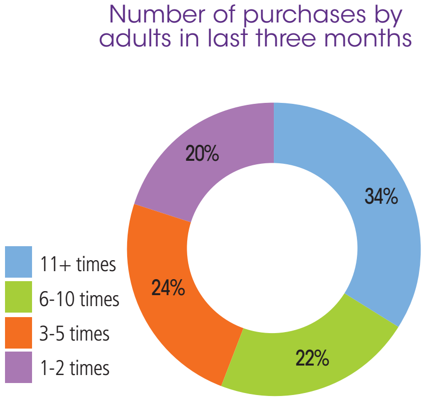
Perhaps nowhere is there a need for more collaboration in aviation than in the development and deployment of biometric identification.

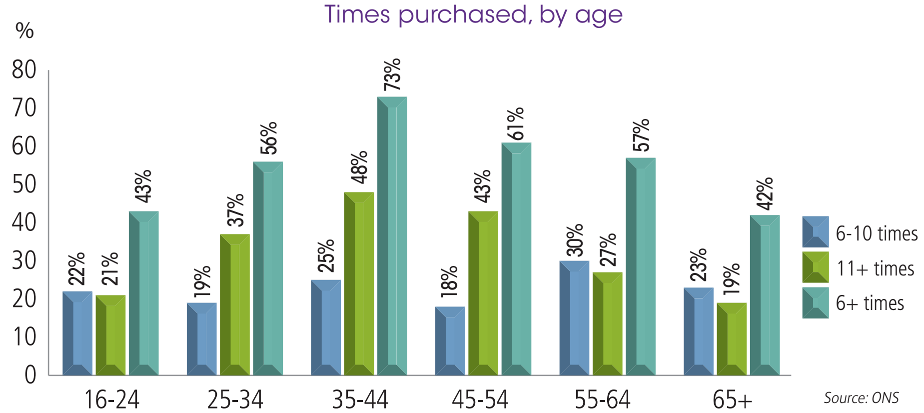
Bowman said: "We're seeing great innovation and rapidly approaching a step change in the use of biometrics. We expect a step change in the next two to three years.

"We're moving to the idea that your face is your passport, to a world where biometrics is part of the core technology of the travel process. You will be identified and approved to travel biometrically."

However, this requires collaboration on

FIGURE 54: FREQUENCY OF ONLINE SHOPPING





Source: ONS

a transnational scale and too often, said Bowman: "It is the classic scenario of a non-alignment of stakeholders."

Heathrow announced plans in October for a £50 million rollout of biometric technology from summer 2019. It aims to enable passengers to pass through airport check-in, bag drop, security and boarding gates solely by use of facial recognition in what it hailed as "the world's largest biometric deployment" to date. The long-term aim is for passengers to be able to walk through the airport "without breaking their stride".

Orlando airport became the first US airport to implement biometric boarding gates in 2018 as part of the US Customs and Border Protection (CBP) Biometric Entry and Exit Programme. The airport had been trialling biometric gates developed by aviation technology group SITA throughout the year, in partnership with British Airways. Trials were also under way at Los Angeles, Miami and New York JFK airports.

Isabel Hill, director of the National Travel and Tourism Office at the US Department of Commerce, said the system had a 97% success rate. She told the International Travel Crisis Management Summit (ITCMS) in London in November: "This is succeeding as a security programme and as a facial-recognition programme. Machines read faces in some cases better than border staff. We can board a 400-seat plane in about 22 minutes."

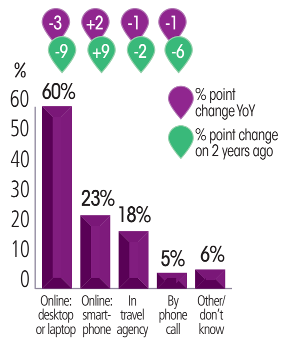
The World Travel & Tourism Council (WTTC) led private-sector involvement in some early pilot studies, getting agreement from the US CBP and UK Border Agency for a first round-trip biometric pilot between Dallas Fort Worth and Heathrow in early 2019, involving airlines, a hotel group, a cruise line, and car hire.

Hill believes the US programme can become the global standard. She told the WTTC summit in April: "We aim to have an exit system in place for 90% of [US] passengers in four years. You will go from home to boarding and home again, never showing a passport or boarding pass. We need everyone to co-create this system."

Yet collaboration could prove a sticking

CONSUMERS show a clear preference for booking overseas holidays online, but with a nine-point shift from laptop or desktop to smartphone on two years ago (Figure 55). Yet booking in a travel agency appears on a par with or ahead of booking by smartphone outside of southern England (Figure 56). Adults over 35 are the real online spenders (Figure 57).

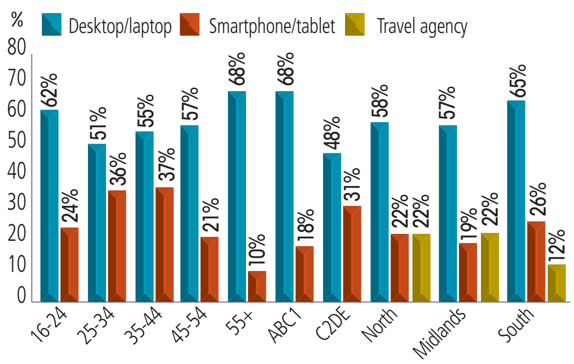
FIGURE 55: **LIKELY METHOD OF BOOKING NEXT OVERSEAS HOLIDAY**



Responses exceed 100%

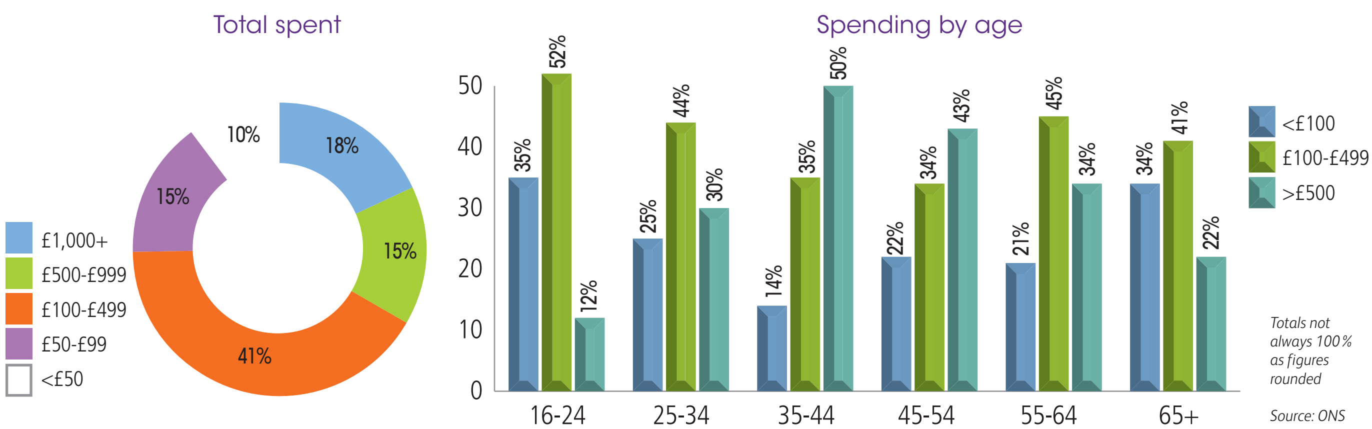
FIGURE 56: **NEXT HOLIDAY BOOKING**

By age, social class, region



Source: Kantar TNS, October 2018

FIGURE 57: **VALUE OF ONLINE SHOPPING**



Totals not always 100% as figures rounded

Source: ONS

Next-generation tech needs refining

point. Matthew Finn, managing director of security consultancy Augmentiq, told the same ITCMS conference the challenges "are significant". He said: "The technology is there – how to do it is the hard part. There is a lot of talk about collaborating but not a lot of people are collaborating – handlers, airports, technology companies. Privacy is an important concern, so is political will and appetite."

A WTTC European Leaders Forum in Portugal in September heard a series of similar concerns. Bento Corriera, chairman of biometric technology company Vision Box, said: "A lot of stakeholders have to participate. Just working with governments is not enough." Kimmo Maki, chief executive of Finnish airport operator Finavia Corporation, told the forum: "We piloted biometric recognition. The challenge is how to handle this data and provide trust to passengers." And Miguel Frasquilho, chairman of airline TAP Air Portugal, said: "Stakeholders have been doing things separately."

Portuguese MEP Claudia Monteiro de Aguiar said: "We are dealing with a big challenge to maintain security on this data. We also have to change mindsets. There are people not so open-minded to implement it. I have colleagues [in the European Parliament] not keen on the technology."

Bowman agreed. He said: "There is a screaming need for standardisation. It needs the political will to do something." But he suggested concerns about the reliability of biometric technology are misplaced.

"No technology is perfect, regardless of how advanced it is. The matching rates [for biometric identification] are in the high 90s [per cent]. It is good enough," he said.

"There are huge benefits in terms of processing times and minimising delays. There is momentum behind this and a groundswell towards it in western countries."

Blockchain

A year ago, Bowman identified blockchain as "an enabling technology" with "potential in combination with other technologies such as biometrics". At the time, excitement about blockchain appeared infectious. Yet progress appears to have stalled and forecasts of the potential applications of blockchain in travel have become more cautious.

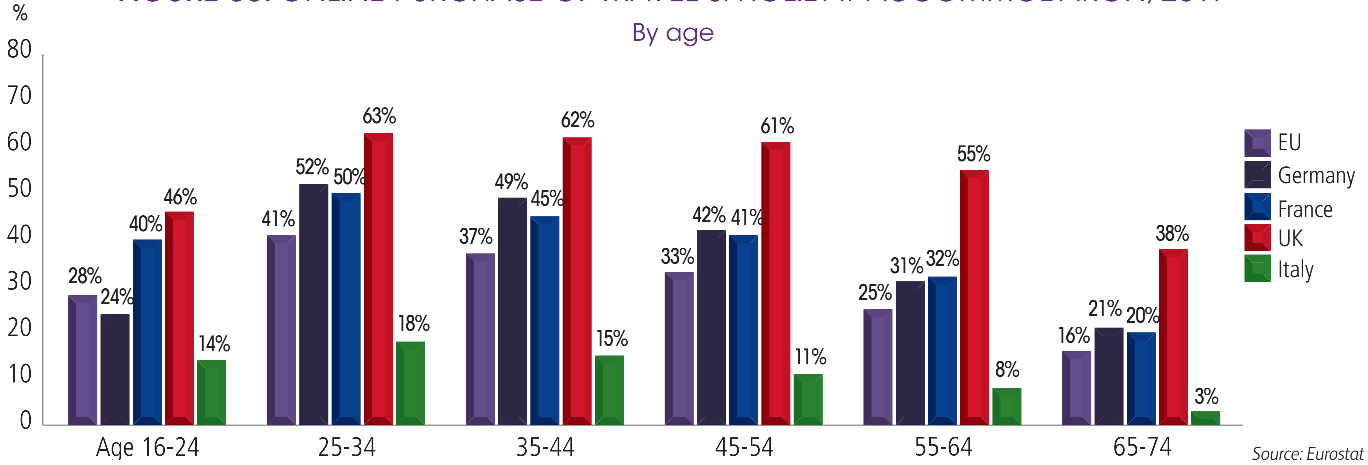
That did not stop Philip Wolf, founder of travel technology analyst Phocuswright, telling Abta's Travel Convention in Seville in October that blockchain technology would "challenge the status quo" in the sector and "eliminate the need for powerful third parties". Wolf argued: "Google is the pre-eminent intermediary between you and the internet. Amazon is the biggest thing between you and online suppliers. Blockchain can bypass all this."

Amadeus vice-president and Asia Pacific general counsel Jackson Pek gave an upbeat

THE UK shows the highest rate of online travel accommodation purchasing of Europe's major markets, with age no barrier (Figure 58).

FIGURE 58: ONLINE PURCHASE OF TRAVEL & HOLIDAY ACCOMMODATION, 2017

By age



Source: Eurostat

assessment of blockchain's potential at the Pacific Asia Travel Association summit in May. He argued blockchain could bring particular benefits in travel "because there are so many providers. Information is stored all over the place. Blockchain will make it easier".

According to Pek, Amadeus has "proofs of concept in four areas". He identified baggage tracing, identification, loyalty programmes and payments, and argued: "Blockchain will be in all our lives. In the next six or seven years it is going to be widely adopted. We will be paying for things in Bitcoin."

Sara Pavan, head of the Amadeus start-ups programme, told *Travel Weekly*: "Blockchain could present many opportunities. The travel ecosystem has many different players constantly exchanging information across different touchpoints, creating flows behind the scenes." But she also noted: "We are still in exploration mode.

"The key is to focus on where blockchain can bring value rather than try to reinvent all the processes we have. The technology is very immature. New challenges will emerge and it will require significant commitment of resources."

Pavan also identified several factors limiting blockchain applications in travel. She said: "Scalability is a big question mark. The capacity to process transactions in real time is not there [at present]. Another challenge is cost. There are significant costs to processing and

> Blockchain has the potential to be a component of significant change, but at the moment it is a solution looking for a problem

ONLINE cross-border sales in the UK have risen sharply (Figure 59), yet a majority in Europe's major markets appear not to buy travel or accommodation across borders (Figure 60).

to integrating technology that is not proven."

Those points were reiterated by Alexandra Limerick, head of international solutions at Wex, the virtual travel payments group, when she addressed the Travolution Europe Summit in London in October. "We're looking at how to use blockchain. [But] there are many blocks in the way," she said. "Blockchain is immature. It is different to every other technology [in that] we have a technology and then ask how to use it? I don't think we are very close at all. In Europe, the costs are prohibitive."

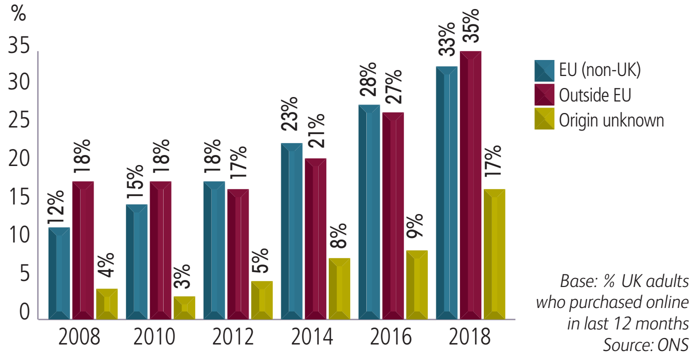
Strikingly, Roberto Da Re, founder of the Travel Ledger Alliance which aims to build a billing and settlement process utilising blockchain, told the same summit: "Blockchain is not built for disintermediation." Instead, he argued: "What will make blockchain mainstream is the gaming industry and applications where people require privacy and security, where people don't want to share what they are doing."

Bowman said: "From an aviation point of view, we've not seen any significant progress [on blockchain]." He still believes: "Blockchain has the potential to be a component of significant change, but at the moment it is a solution looking for a problem.

"Blockchain is still being talked about, but it has not reached a tipping point. It is out there as a component of an ecosystem that is very different from now, but lots of the ideas for blockchain [use] have not developed at all."

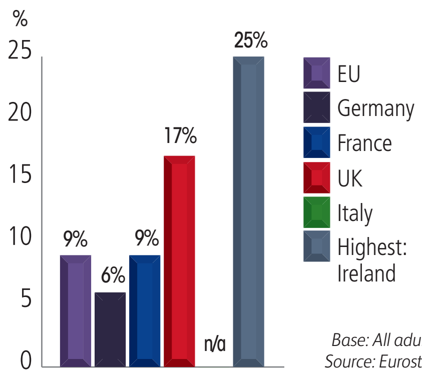
FIGURE 59: CROSS-BORDER ONLINE SALES IN UK, 2008-18

% UK adults purchasing online from non-UK seller



Base: % UK adults who purchased online in last 12 months
Source: ONS

FIGURE 60: ONLINE CROSS-BORDER PURCHASE OF TRAVEL/ ACCOMMODATION, 2017



Base: All adults
Source: Eurostat

Cybersecurity

Lack of investment is cause for concern

A spate of ransomware or 'destruction ware' attacks captured the headlines in 2017. The WannaCry virus paralysed more than one in three NHS hospitals for several days in May 2017. In June the same the year, the NotPetya virus was deployed in a global cyberattack.

Data theft or unauthorised data use has dominated media headlines more recently, be it the exposure of Facebook's involvement with Cambridge Analytica – deemed "a serious breach" of data protection laws by the UK regulator – or the accessing of British Airways' customers' payment card details, revealed in September.

Deloitte risk advisory partner Peter Gooch described an "almost perfect storm" around cybersecurity. He said: "WannaCry and NotPetya led companies to focus on resilience, on keeping their businesses running. More recently we've seen the theft of data, so organisational resilience and data theft are both in the spotlight."

He suggested the attacks we have seen "are not necessarily new", arguing: "Data is always going to be a massive target. The landscape is increasingly complex, and size and complexity introduce more possibilities [of attack].

"There have been some enormous breaches. You hope the controls and mitigation put in place keep pace with the skills of the attackers, but a lot of investment is required [to do that]. Organisations are realising they are more of a target, but everyone wants hold of this data. There is a lot of value in it and more companies are being targeted because of the way they are doing business and processing data.

"Attackers are becoming more sophisticated, phishing scams are becoming more sophisticated and systems are getting more complex. The situation is dynamic and, from a hacking perspective, the rewards can be big."

He added: "Many organisations are not taking cybersecurity seriously. Big companies make huge investments and have huge teams. Cyber is less of a priority for lower-margin businesses. Attackers realise that and go for the path of least resistance.

Risk advisor warns travel is 'one of the less-regulated sectors from a cyber perspective but the potential for disruption is enormous'

"A lot of breaches come to light where we see a combination of technological sophistication and user behaviour."

Connected devices

The proliferation of connected devices, the Internet of Things, is also an increasing issue. It poses multiple threats.

Gooch explained: "Connected devices can be used to launch denial-of-service attacks. Or a connected fridge could be a way into other devices or a speaker could hold data on you.

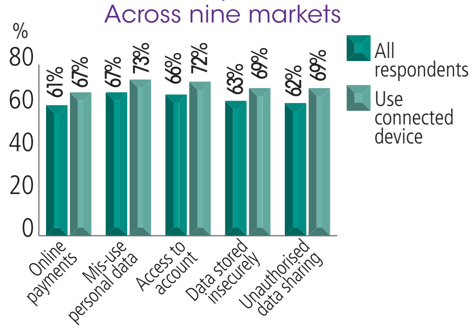
"The good news is that organisations are thinking about this and there is an increasing understanding of the risks. The challenge is getting ahead of the risks. There is a long way to go on this."

He added: "What continually alarms me is the lack of investment a lot of large companies put into this outside the more regulated sectors – oil, gas, financial services." For example, he said: "We see operating systems at the end of their life, and that concerns me.

"Travel is one of the less-regulated sectors from a cyber perspective. Yet the potential for disruption in travel is absolutely enormous as things become more connected and organisations hold more and more data. Transport is fundamental. Imagine if Heathrow was taken out for a month or the Channel Tunnel was taken out."

Gooch said: "There is a sliding scale of investment in cybersecurity in industries. Those which are vulnerable to attack invest heavily. There is less investment on the leisure side."

FIGURE 61: DATA SECURITY CONCERN, BY THREAT
Across nine markets



Base: 9,000-plus respondents in Germany, France, UK, Italy, Spain, Sweden, US, Japan, Australia Source: Ofcom 2017

CONSUMERS show significant levels of concern about data security, with an Ofcom study suggesting between two-thirds and three-quarters of users of connected devices have concerns across a range of issues (Figure 61).

He insisted: "If you compromise [on security] something will happen, that is the challenge."

Network segmentation

When it comes to protecting businesses, Gooch advocates a 'fortress' approach. He explained: "You lock the door of a house, but you may also put something in a safe. There is a shift away from looking after the perimeter [of a system] to looking after data. Some of this is done through network segmentation, some through concentration on mitigating controls."

But he also noted: "Segmenting a network can take a long time and be expensive. It's costly and it's not always easy. The larger you get, the harder it can be to do.

"Where we spend most of our time with clients reflects where an organisation is and what its resources are. We could spend all our time on user behaviour, but while it's an area that needs a lot of investment, it's not as capital-intensive as more technology-heavy controls. Cultural change needs a very strong tone from the top, but it's important to get the right balance between people, process and technology controls."

Gooch identified a key challenge "down the supply chain" of companies. He said: "A business can work with 40,000 suppliers and that does not include those using cookies. It only takes one to cause a problem.

"Third parties are your weakest link, especially when their pockets may not be deep. There is a need to take a layered approach [to security]. It comes down to the value of a contract. There are technical controls a business can put in place."

He added: "There could always be more security. But there is a risk people become a bit blasé. The main thing is the more an organisation takes this up, and takes it seriously, the more it can have an impact."

General Data Protection Regulation

The EU General Data Protection Regulation (GDPR) came into force in May, bringing "the threat of regulatory action and class-action lawsuits" for serious breaches.

Gooch noted the GDPR requirement to notify the ICO of breaches "makes breaches more visible to the public". He said: "The challenge with GDPR is how far you go because it is an all-encompassing piece of legislation. We should start to get a feel for how this will work in the coming months and where the regulator, the Information Commissioner's Office, will focus its attention.

"It is a European regulation, but we see different approaches from regulators across Europe. For example, Ireland's regulator has said it will focus on transparency."

THE RATE of cyber breaches in relation to number of attacks in the accommodation and retail sectors appears alarmingly high (Figure 62). Two-thirds of breaches are not discovered for months (Figure 63).

FIGURE 62: CYBER INCIDENTS BY SECTOR, 2017

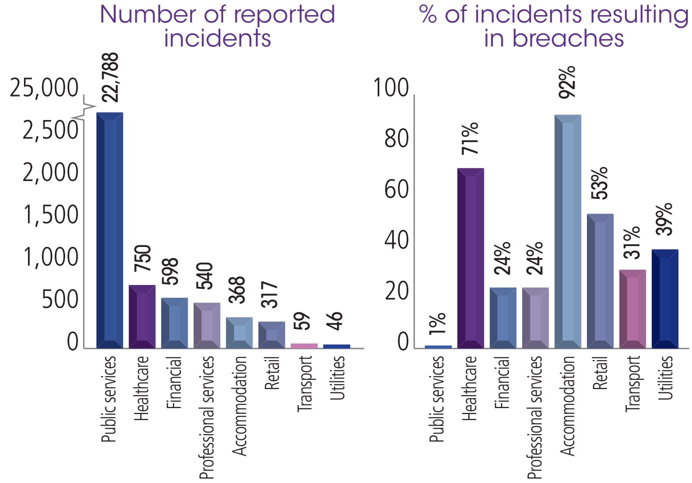
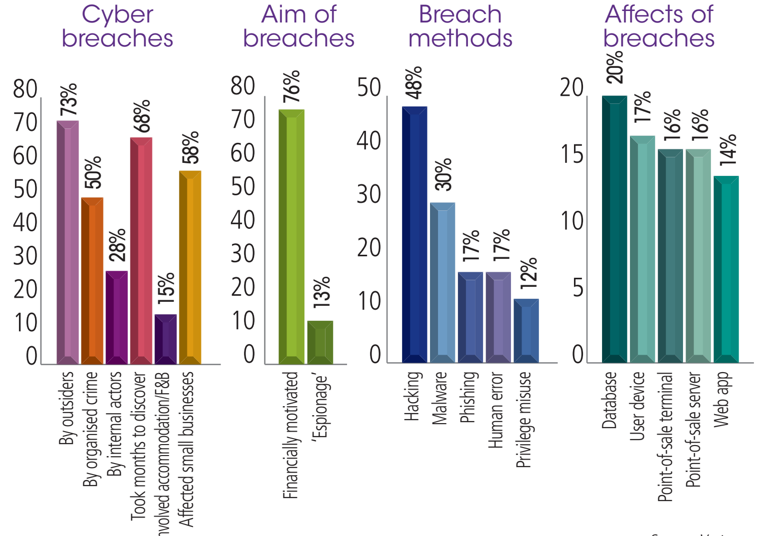


FIGURE 63: CYBER BREACHES



Source: Verizon


amadeus
Live Travel Space
is the new present
We are evolving from a GDS to becoming a Live Travel Space.
This space is where all players can connect and collaborate to address the desires of travellers and deliver memorable journeys.
We personalise our offers for Retail, Online, Business travel agencies and Corporations.
With more than 30 years of expertise, vast investment, passionate people and the Amadeus Travel Platform, we are uniquely positioned to serve travellers around the world.
Join the Live Travel Space!
#livetravelspace
www.amadeus.com/livetravelspace

Sustainable travel

Fires, plastics and overtourism

Multiple events in the past 12 months highlighted the need for rapid adoption of sustainable practice and technology across all areas of society.

The California wildfires in November 2018 were the most-destructive on record, leaving 85 dead and hundreds missing. But this was just one of a series of fires intensified by global warming. In July, fire swept through the resort town of Mati in Attica, Greece, killing more than 90. Fires in the Algarve, in Portugal, in early August took days to control. Fires even raged in Sweden in July – the country's civil contingencies agency declaring the conflagration the most-serious in Sweden's modern history.

In South Africa, a different kind of climate-related emergency unfolded as a water shortage in Cape Town threatened what incoming president Cyril Ramaphosa described as "total disaster". City authorities warned of 'Day Zero', the moment when municipal engineers would turn off the taps and leave four million people to queue at standpipes. In February, city planners braced for that day to arrive in April. By early May it had been pushed into 2019 by what the *Financial Times* described as "one of the most-drastic civic water-conservation campaigns ever". Cape Town residents cut their collective water use from 1.2 billion to 500 million litres a day, enforcing a daily limit of 50 litres per person when the global average is 185.

South African Tourism chief executive Sisa Ntshona told the International Travel Crisis Management Summit (ITCMS) in London in November: "We can never go back to the old ways of using water." Instead, the tourism body referenced the shortage in its appeal to tourists, Ntshona said, arguing: "The issues of climate change are not unique to South Africa. We said to tourists 'Don't stay away, become part of the solution by coming and acting like a local'."

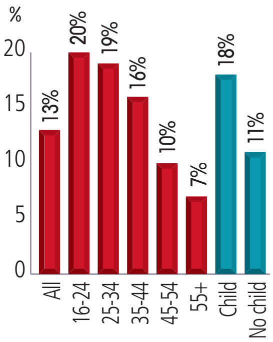
Growing recognition of overtourism

Tourism remained in the spotlight in some communities amid growing discussion of overtourism.

Consumers show increased awareness of tourism sustainability issues as wildfires and drought highlight global warming

***FIGURE 64:* CONCERN AT OVERCROWDING IN DESTINATION**

% UK adults planning an overseas holiday



Source: Kantar TNS, October 2018

Travel Foundation chief executive Salli Felton neatly summarised the situation, telling a group of industry leaders assembled for the World Travel & Tourism Council (WTTC) Summit in April: "There is growing recognition that overtourism can't be ignored."

She noted: "Overtourism is not caused or created by any one party. It's the cumulative effect of our combined actions. We have created overtourism together and the only way to solve it is together."

Intrepid Travel chairman Darrel Wade told the same meeting: "Tourism is supposed to be good for the host community and good for the traveller. We need to keep those in balance. Tour operators have a responsibility to delve into these issues because we live with them."

Representatives of some of Europe's busiest destinations discussed how to manage visitor flows at German trade show ITB in March. Amsterdam Marketing chief executive Frans van der Avert described the situation as "explosive", arguing: "Cities are made by the inhabitants. Growth has to be sustainable."

Van der Avert described a series of measures, including "regulations, strict enforcement, stopping hotels opening in the city centre, using festivals to spread visitors" and called for "Europe-wide regulation" of Airbnb-type platforms, insisting: "The problem won't go away." He dismissed the idea of focusing on quality of tourism rather than quantity, asking: "When you talk about quality, what is it? Are the tourists more wealthy, more handsome? If two students visit cultural attractions but stay in a hostel, are they quality tourists?"

Barcelona city council tourism director Joan Torrella said: "A balance between residents and tourists is essential. It's impossible to just add more people." Dubrovnik city mayor Mato Frankovic explained how the city was working with cruise lines to stagger the arrival dates and times of ships. He said: "We can't restrict numbers, we have to manage it."

Consumer research for this report suggested one in five of those aged under 35 planning an overseas holiday are concerned about overcrowding in destinations.

Sustainable travel

Fires, plastics and overtourism

Pledges on plastics

Moves to phase out single-use plastics gathered momentum, with a range of companies and public bodies pledging action to remove plastic straws, plates, cups, bags and plastic-coated products amid concerns about the environmental impact of plastics, especially in the oceans.

The EU proposed a ban in May and travel companies including Delta Air Lines, MSC Cruises, Hurtigruten and Thomas Cook pledged to act, with Cook announcing in November it would remove 70 million single-use plastic products within 12 months. A survey of 3,000 Thomas Cook customers found 90% considered plastic an issue. Dr Geoff Brighty, technical director at the UK-based Plastic Oceans Foundation, noted: "The travel industry has a major role to play to reduce ocean plastic waste."

Research for the 2017-18 edition of this report found a significant rise in awareness of water use in resort among UK holidaymakers, with an 11-point rise since 2012 in the proportion concerned about water and a sharp increase in more general awareness of sustainability among younger adults. More than four out of five 16-24-year-olds showed awareness of one or more sustainable tourism issues.

The results this year suggest a degree of levelling, with a two-point increase to 55% in the proportion of those planning an overseas holiday who express a concern about sustainability. Concerns about water use appear to have fallen a little, although they remain nine-points ahead of 2012. This time, more respondents (20%) registered concern about local people benefiting from tourism than any other issue. There was also an eight-point increase in concern about the impact of flying on 2012.

The research found no difference in awareness related to income, but it suggests a significant increase in awareness of some issues – waste disposal, flying and tourism's impact on destinations – among older holidaymakers, bringing these more into line with younger adults' thinking.

> I'm not here to talk about restrictions, but it's hard to sell a vacation to a city that has sunk below the waves

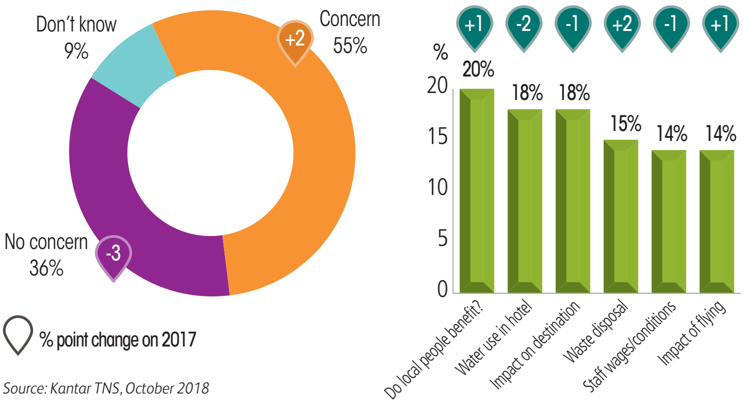
UP TO one in five UK holidaymakers identify overcrowding in destinations as a concern, with younger adults showing the highest rate (Figure 64). There was a two-point rise year on year in overall concern about tourism sustainability, with consideration of whether local people benefit the leading issue (Figure 65).

FIGURE 65:

UK HOLIDAYMAKERS' CONCERN ABOUT SUSTAINABILITY

TOURISM SUSTAINABILITY CONCERNS*

% UK adults planning an overseas holiday



Source: Kantar TNS, October 2018

A warning on warming

The head of the UN Framework Convention on Climate Change (UNFCCC) challenged travel leaders to "be bold" in efforts to cut the industry's carbon footprint. Patricia Espinosa, executive secretary of the UNFCCC, told the WTTC Global Summit in April: "We're running out of time. We only have a short period to keep the global temperature rise to two degrees Celsius. If we don't, there won't be businesses to run.

"Your industry has a carbon footprint representing about 5% of global [greenhouse gas] emissions. I'm not here to talk about restrictions, but it's hard to sell a vacation to a city that has sunk below the waves. There are many actions you could take right now."

WTTC leaders joined the UNFCCC in signing a Common Agenda for Climate Change, pledging to set carbon-reduction targets for member companies.

Yet a landmark report by the Intergovernmental Panel on Climate Change, published in October, warned limiting warming to two degrees may not be enough.

The IPCC Special Report on Global Warming of 1.5 Degree, commissioned as part of the Paris Agreement of 2015 to which 195 governments signed up, was produced by scientists from 40 countries and drew on 6,000-plus scientific studies.

It concluded the world is well on the way to warming by 1.5C above pre-industrial levels and, at the current rate, will do so by 2040 – triggering a mass die-off of coral reefs among multiple dire impacts. Previous reports focused on the impact of a two-degree rise. The latest warned that many effects until now expected decades in the future will be with us by 2040 and at lower global temperatures than previously thought.

The report stated: “Limiting global warming to 1.5C would require rapid, far-reaching and unprecedented changes in all aspects of society . . . transitions in land, energy, industry, buildings, transport and cities. Global net emissions of carbon dioxide (CO2) would need to fall by about 45% from 2010 levels by 2030, reaching ‘net zero’ around 2050. Any remaining emissions would need to be balanced by removing CO2 from the air.”

Renewable energy sources, such as wind and solar, would need to increase from 20% of electricity production at present to 67%, with “heavy taxes or prices” applied to carbon-dioxide emissions.

Allowing global temperature to rise by more than 1.5C would mean greater reliance on techniques to remove CO2 from the air, of which the scientists note: “The effectiveness of such techniques is unproven at large scale and may carry significant risks for sustainable development.”

The IPCC concluded: “Warming is likely to reach 1.5C between 2030 and 2052 at the current rate, will persist for centuries to millennia and cause long-term changes in the climate system, such as sea-level rise.

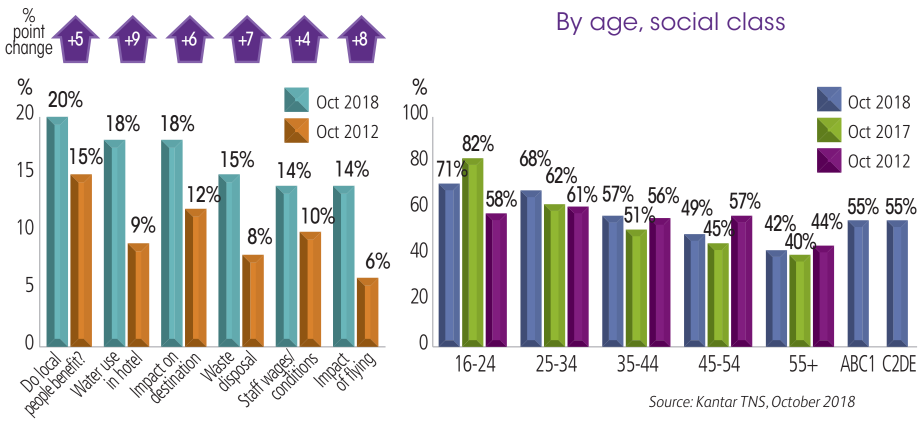
“Pathways limiting global warming to 1.5C . . . are unprecedented in terms of scale . . . imply deep emissions reductions in all sectors . . . and a significant upscaling of investments.

“Estimates of the global emissions outcome of nationally stated mitigation ambitions submitted under the Paris Agreement . . . would not limit global warming to 1.5C. Avoiding overshoot can only be achieved if global CO2 emissions start to decline well before 2030.”

The report was prepared by three IPCC working groups. Debra Roberts, co-chair of IPCC working group 2, warned: “The next few years are probably the most important in our history.”

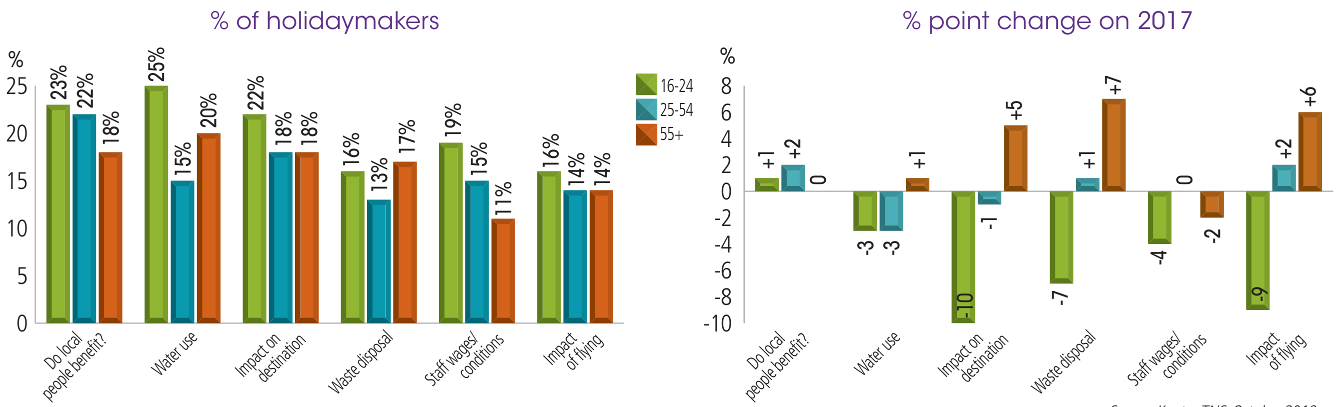
COMPARISON with research in 2012 shows a rise in rates of concern on all the sustainability issues identified, but still only among a minority of holidaymakers (Figure 66). Younger adults are more likely to register concern, but the sharpest increase in awareness appears to be among those over 55 (Figure 67).

FIGURE 66: TOURISM SUSTAINABILITY CONCERNS, 2018 v 2012



Source: Kantar TNS, October 2018

FIGURE 67: SUSTAINABILITY CONCERNS BY AGE, 2018



Source: Kantar TNS, October 2018

Research partners

KANTAR TNS

Kantar TNS is the market leader in travel, tourism and leisure research, says **Simon Wood**

With offices in more than 80 countries, Kantar TNS has more conversations with the world's consumers than anyone and understands individual human behaviours and attitudes across every cultural, economic and political region of the world.

Our knowledge and expertise give us an unmatched ability to offer clients understanding and knowledge with a clear focus on actionable insights.

The Kantar TNS UK team of around 40 researchers specialising in the travel, tourism and leisure sectors conduct the main market surveys which monitor the volume and value of overnight tourism and day visits within Great Britain.

We have a wealth of experience in managing visitor satisfaction studies in the UK and worldwide. By bringing together measurements of brand commitment and visitor experience, we can provide a holistic understanding of the visitor experience. Combining an understanding of visitor experience and brand experience enables us to identify the drivers of authenticity.

Brand and communications research is another area of expertise. We conduct multi-country tracking studies for leading operators in the travel industry, helping them to understand the position of their brands against competitors and establishing the effectiveness of their communications with consumers.

Our clients include all the national tourism organisations in the UK and Ireland, and we carry out research for leading tour operators, airlines, hotel groups, visitor attraction operators and train companies.

Kantar TNS advises clients on specific growth strategies around new market entry, innovation, brand switching and stakeholder management.

We can speak to consumers in real time using mobile technology to capture visitor experiences and flag up issues from minute to minute. This provides our clients with a vital advantage, especially when a disgruntled customer can tarnish a company's reputation with a negative tweet or a TripAdvisor posting.

The development of digital capabilities and expertise has been a key area of focus. We help clients navigate marketing in the digital age, understand the impact of technology and the digital landscape on their business, and identify the best opportunities for growth. We run the award-winning thought-leadership study Connected Life, and we measure the volume, influence and sentiment of social media relating to clients' brands.

Consumers are more savvy than ever, making it imperative for travel and tourism brands to deliver more than just products and services and to focus on engagement.

Kantar TNS understands the challenges and opportunities in the travel and leisure marketplace and can bring our expertise to bear for travel clients.

Simon Wood
head of commercial strategy and offer, Kantar TNS
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tnsglobal.com

GfK

GfK is a specialist in UK bookings data, says **David Hope**

GfK is a leading provider of market insight into the way people think, live and shop across a number of sectors.

We offer the most-comprehensive and accurate picture of forward bookings for the outbound holiday market, covering what people are doing via point-of-sale services and why they are making these decisions.

The point-of-sale service is updated weekly with transactional data from tour operators and travel agents covering where, when, what and how consumers book. This aggregated and confidential data helps our clients better understand both their own and the overall industry performance.

The data is used at a tactical level, supporting clients to make the best product, pricing and marketing decisions at destination and holiday-type levels. Accurate booking statistics are vital for our clients to benchmark their performance and to help identify longer-term strategic opportunities.

During 2018, we have enhanced the point-of-sale service, creating a new, wider read of where and when people are travelling by combining tour operator and travel agent data with GDS flight sales. We now cover one in every two leisure passengers leaving the UK by air at an individual booking level.

The Travel 360 consumer survey complements this, providing details on motivation and factors affecting bookings with a full demographic breakdown.

David Hope
senior client insight director, GfK
david.hope@gfk.com
gfk.com/uk

Crisis management

Confidence requires preparation

Managing risk and preparing for crisis have become fundamental aspects of travel and tourism. The extent of preparedness varies, of course – not every organisation can engage with the subject at the level of the largest corporations. But Deloitte's 2018 Global Crisis Management Survey offers important lessons for all.

Strikingly, the Deloitte report concluded: "Respondents believe they are ready for a crisis, but most have not tested that belief."

The survey of 500-plus senior executives working for large corporations in crisis management, business continuity and risk in five regions of the world found 86% regarded their organisation as 'fairly' or 'very mature' in its crisis preparedness.

Yet the researchers found: "Dramatic gaps between a company's confidence in its ability to respond to different types of crises and its level of preparedness for those crises, inferred from the percentage of organisations which have conducted simultaneous exercises for various crisis situations.

"Nearly 90% of respondents are confident in their organisation's ability to deal with a corporate scandal. Yet only 17% have tested that assumption through a simulation exercise. Similarly, 70% are confident in their ability to manage a product recall, but only 22% had proven that via a simulation."

A survey of senior executives suggests 'dramatic gaps' between the confidence to handle a crisis and a failure to test that belief

THE NEED to respond quicker or 'improve early warning' was the leading lesson identified by senior executives with recent experience of a crisis. The same respondents rated 'monitoring social media' last on a list of priorities (Figure 68). Effective leadership appeared to be the biggest challenge (Figure 69). The gap between executives' confidence in handling various types of crisis and whether their organisation had simulated such an event appears startling (Figure 70).

Deloitte concluded: "This gap suggests companies are setting the maturity bar very low." The findings echo those from a 2015 survey of boards of directors, also by Deloitte, which found a "vulnerability gap" between the awareness of threats and the preparedness of organisations to tackle them.

The latest report draws a number of conclusions, noting:

- "Organisations feel more confident in confronting some types of risks rather than others." The survey found 90% of respondents had high levels of confidence in their organisation's ability to tackle a system failure, 88% a corporate scandal, 87% a cyberattack and 70% a product recall.
- "Organisations should pay attention to whistle-blowers, supplier complaints and cybersecurity reports."
- "Leaders should be aware of their 'go to' leadership styles and surround themselves with others who have complementary skills."
- Organisations should beware of a "faulty assumption that a strong leader under normal circumstances will be effective in managing a crisis. This may not be true".
- "It is crucial to overcome any biases to ensure the board and senior management look closely at risks – even those they believe are not likely to happen."

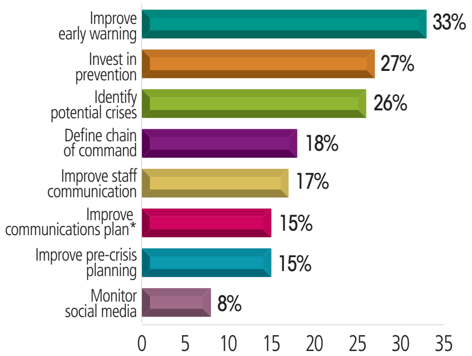
Deloitte recommends running crisis simulations as these "will quickly reveal an organisation's strengths and where it needs to improve. Simulations should not be created and run by people who need to take part in the simulation but be managed by a separate group. Board and senior management participation in crisis exercises is critical."

It noted "crises often emanate from the actions of third parties" and suggested: "Critical service providers, joint-venture partners, resellers, distributors and any other entity that could trigger a crisis or be affected by it should be involved in crisis preparations. They should share contingency plans and provide updates on response readiness. These activities can be stipulated in contracts and agreements.

"Plans for responding to a crisis should be comprehensive, multi-layered and integrated across an organisation. All need to know what

FIGURE 68: POST-CRISIS LESSONS

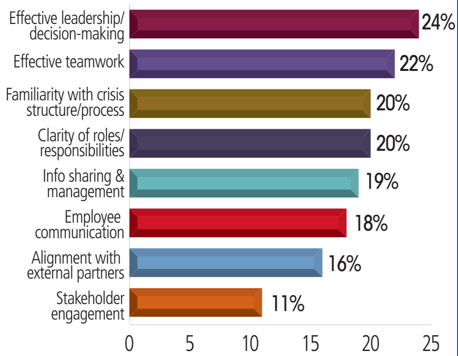
% senior executives experienced crisis in past two years



*Includes communications with partners, customers, suppliers

FIGURE 69: CHALLENGES TO EFFECTIVE CRISIS RESPONSE

% senior executives involved in crisis management



Base: 523 crisis management, business continuity & senior executives
Source: Deloitte, 2018 Global Crisis Management Survey

Crisis management

Confidence requires preparation

they are expected to do. Businesses should implement a 'command and coordination' structure that defines how the various groups will work together."

The report concluded: "The number and sources of crises are not likely to diminish. Bad actors are hacking computing systems in increasing numbers and a corporate scandal could strike at any moment. Global expansion [also] exposes organisations to more risks in environments they may not be familiar with."

Global centre for resilience

Jamaica is the home of a new Global Centre for Tourism Resilience and Crisis Management, the brainchild of Jamaican minister of tourism Edmund Bartlett.

Speaking at the Pacific Asia Travel Association Summit in South Korea in May, Bartlett said: "The Caribbean is the most tourism-dependent region on Earth. Tourism is 40% of our GDP. We are hugely vulnerable to climatic events. [But] the circumstances you find yourself in must not control how you respond. We need to understand how to recover quickly, to create conditions to manage shock and build resilience. We decided to set up a centre for global tourism resilience and crisis management, to give guidance to countries that need technical support."

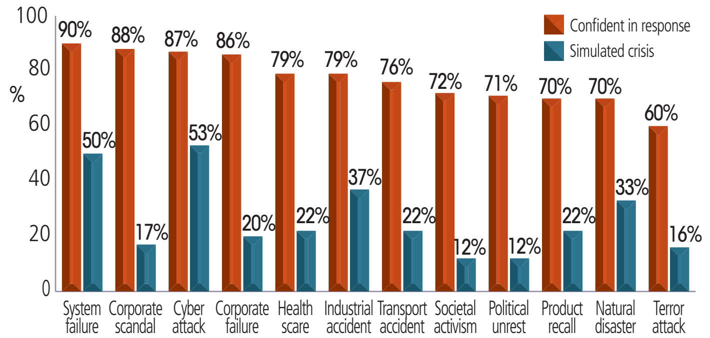
The centre has the support of organisations including the UN World Tourism Organisation, the World Travel & Tourism Council, the Caribbean Tourism Organization, the Pacific Asia Travel Association, the World Bank and the Inter-American Development Bank.

Bartlett is also among the founding directors of the new Global Travel & Tourism Resilience Council, the formation of which was announced at the International Travel Crisis Management Summit in London in November.

Robert Jensen, chief executive of Kenyon International Emergency Services, told that summit: "You can't manage the media, you can't manage the event, but you can manage your response. It's not messaging that is important, it is responding and then communicating how you are responding."

FIGURE 70: **CONFIDENCE IN CRISIS RESPONSE**

% senior executives involved in crisis management



Base: 523 crisis management, business continuity & senior executives
Source: Deloitte, 2018 Global Crisis Management Survey

> Nearly 90% are confident in their organisation's ability to deal with a corporate scandal – yet only 17% have tested that assumption

The Deloitte view

The aviation and travel sectors continued to face headwinds through 2018 and into 2019. Economic uncertainty, not least relating to the UK's EU exit, is changing demand for travel, and airlines and other travel companies have to deal with simultaneous pressure on margins through increasing competition, excess capacity and rising fuel costs.

Terrorism and security remain a constant challenge for the industry and insider threat (action by malign employees or others with privileged access) requires constant monitoring. Additionally, cyber threats increase as travellers want their journeys enhanced through improved technology. Deloitte Global predicts one billion passenger journeys (about one-quarter of all passengers) will have enjoyed inflight connectivity in 2018, as passengers increasingly expect time in the air to be as 'online-enabled' as time on the ground. Where travel businesses offer better connectivity to please customers, it inevitably increases the risk of malicious attacks.

The risks relating to connectivity extend from routine passenger access to control systems, with traditional systems and instrumentation increasingly being computerised. Most modern aircraft, ships and even port systems have at least some computer-based controls and almost all indicators and displays are computer-controlled and frequently widely networked. While specific targeting of control systems (cyber hijack) is unlikely given limited access to outsiders, the risks should not be ignored, especially as state-sponsored attackers are becoming increasingly sophisticated.

The external threat to aircraft from unmanned drones is topical. This could be partially mitigated through increased regulation and training for drone operators, but the growth in drone sales means the overall risks are likely to increase in the short term.

Away from 'safety critical' control systems there is the potential for more exposure. Travel-related computer systems such as check-in, baggage and information boards have greater vulnerability, not least due to the plethora of stakeholders with legitimate direct access. Fortunately, attacks on these systems are unlikely to present a direct risk to life, but they present a serious concern in terms of disruption, reputational damage and economic cost.

Tim Johnson, partner, risk advisory
Bob Judson, director, risk advisory

Deloitte

Deloitte is an industry leader in the travel and aviation sector. The team works across the globe on complex, major programmes and projects for some of the industry's largest companies.

Our dedicated team offers a range of integrated services ranging from audit and tax advice to more specialised advisory, corporate finance, strategy, technology and operations excellence, blending deep industry knowledge with core methods and techniques.

Our team provides insight and understanding of the challenge of today's environment and the ever-changing travel and aviation landscape. We work with most of the world's leading companies and provide an outstanding service – with a focus on maximising value for our clients and enabling them to make informed decisions.

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.

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