

TRAVELWEEKLY  
insight

Produced in association with  
**Deloitte.**

Annual Report 2019-20



Forty-seven million reasons  
to be confident in 2020

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Produced by Travel Weekly, with exclusive consumer research

**Deloitte.**



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### TRAVEL WEEKLY INSIGHT ANNUAL REPORT 2019-20

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TRAVELWEEKLY

insight

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Front cover: Outbound holidays hit a record 47 million in 2018; numbers in 2019 were on a par and exclusive consumer research by Kantar/Service Science for this report suggests demand for overseas holidays in 2020 will at least match 2019 (page 15)

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# EXECUTIVE SUMMARY

## OPPORTUNITIES FOR GROWTH

**Deloitte.**

**2019 has been an eventful and some might say transformational year for the UK travel sector. While consumer confidence wavered in a climate of continued political and economic uncertainty, spending remained resilient.**

Most important, consumers still favour experiences and our research on leisure spending has shown net spending on holidays remains robust and above other leisure categories. However, should the consumer fundamentals change there is concern consumers' ability to pursue their holiday dreams as often or as elaborately may be constrained.

There have been fewer travel company acquisitions over the last year. While this could be linked to the general uncertainties, it is also potentially an indication that longer-term prospects for growth in the sector are being questioned.

The sector is becoming increasingly competitive and a range of operational challenges have put pressure on individual operators as well as the sector as a whole. Cyberattacks, drones and fleet issues have caused service disruptions, and workforce-related challenges – rising labour costs and limited labour supply – have combined with overcapacity to put margins under pressure.

### SETTING A VISION FOR 2025

As 2020 dawns and focus shifts to refining business plans for the next five years, what should travel businesses do to continue to grow? The answer is simple: focus on people – both consumers and employees.

While the outlook for economic growth might be muted, there are still opportunities for growth. Holidays remain special to consumers and a travel business can set itself up for success by understanding what, when and how consumers want their holidays. This is only possible if staff are motivated and feel their contribution is valued.

Technology is a key enabler for improving understanding of the consumer



**Travel companies need to focus on consumers and employees, and work out how to lead with purpose, says Alistair Pritchard of Deloitte**

and there is more the sector could do in using analytics to predict what consumers want next. The sector can also make better use of technologies to operate efficiently and empower staff – for example, by automating more menial tasks and enabling staff to be more insight-led. This can be achieved by extracting more value from the data collectively held on consumers, by collaborating and sharing across companies.

There are indeed signs that consumer preferences are evolving. Holidays are increasingly an opportunity for consumers to enrich their lives and they want authentic experiences. They also want to understand the impact their holidays have on the environment, the local communities and places they visit.

Having a strong brand, interesting offerings and competitive prices might not be enough to succeed in the next phase of growth. In future, a successful company needs to be responsible and purpose-led to inspire and resonate with consumers and employees. This is not about quick wins. Companies need to invest time and effort in working out how they truly lead with purpose. The pressure to do so is only likely to increase. ■

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

# KEY FINDINGS

More than **1 in 2** plan **overseas holiday** in 2020



**6pt** rise in concern at environmental impact of flying

**7 in 10** took a **domestic holiday** in 2019



**6pt** rise in adults 'very likely' to take **domestic holiday** in 2020

No change in planned duration of overseas holidays: **53%** plan 7 nights or less

**6pt** increase in holidaymakers who anticipate **Brexit impact** on holiday decision

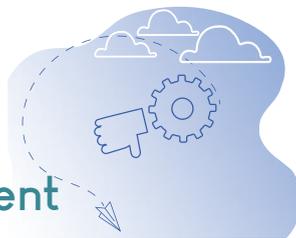


**4pt** rise in booking by smartphone

**2 in 3 under-35s** anticipate 'Brexit impact on holiday'

**2 in 3 over-55s** say Brexit to have 'no impact'

**5pt** fall in expectation of booking with agent



**9 out of 10** to spend same or more on holiday in 2020

**1 in 2** holidaymakers to book **all-inclusive**: **+4pts** on 2019

**5pt** rise in adults planning **hotel stay overseas**

Only **1 in 25** holidaymakers plan **homestay** booking – no change since 2015



# FOREWORD

## FOCUS ON SUSTAINABILITY IS THE ONE CERTAINTY

**Desire for certainty on Britain's future relationship with the EU may be satisfied one way or another by the general election as this report went to press. But we will await clarity on how the process plays out whatever the outcome.**

This is the fourth *Insight Annual Report* since the 2016 Brexit referendum and the main concerns of the travel industry have not changed. The sector requires maintenance of flying arrangements, friction-free borders, thriving economies, stable exchange rates, skilled personnel and so on.

What comes next may not entirely measure up. Yet despite a clouded economic outlook and the preoccupations of the past 12 months, demand for travel remains undiminished.

Trends previously identified have strengthened over the past year. All-inclusive bookings have become such a mainstay of the outbound market that one-in-two holidaymakers intend to book all-inclusive in 2020.

Smartphone bookings are rising, posing a challenge to high street agents. Yet the liquidation of Thomas Cook proved less of a death knell for the high street than an opportunity for renewal as the UK's largest independent agency chain swallowed Cook's retail outlets whole.

Consumer research findings run through this report, along with supporting data, and senior figures at Deloitte provide commentary on the economic outlook, investment, latest trends in technology (especially aviation), cyber security, the workplace and, crucially, sustainability.

Like it or not, this issue will most define the future.

Rapid progress is now required to reduce fossil fuel emissions. The UN Environment Programme (UNEP) annual Emissions Gap Report, published in November, provided sobering reading. It noted: "Greenhouse gas emissions

“**Despite a clouded economic outlook and the preoccupations of the past 12 months, demand for travel remains undiminished**”

continued to rise . . . at 1.5% per year in the last decade. There is no sign of emissions peaking.”

A 55% reduction in emissions by 2030 is required “to put the world on the pathway to limiting warming to 1.5C”. By contrast, business newspaper the *Financial Times* reported: “Existing global pledges to reduce emissions will correspond to more than 3C of warming by the end of the century.”

Growing anxiety about the climate was reflected in a rise in awareness of the impact of flying and the ‘flight shame’ (*flygskam*) movement in Sweden. Whether this will spread remains to be seen, but unchecked growth can't be assumed – perhaps leading to new pressure for carbon taxes or fresh doubt over a third runway at Heathrow.

I am grateful to all at Deloitte for their help in producing this report, indebted to Tom Costley of Service Science for arranging the Kantar research and grateful to David Hope of GfK for his insight on outbound booking trends. Any faults are my own. ■

**Ian Taylor**  
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Travel Weekly  
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THE CHARTS (page 7) represent UK holiday taking in 2019. Figures 1, 2 and 4 are self-explanatory.

Note the increase in overseas holidays among 16 to 34-year-olds and decline among older adults.

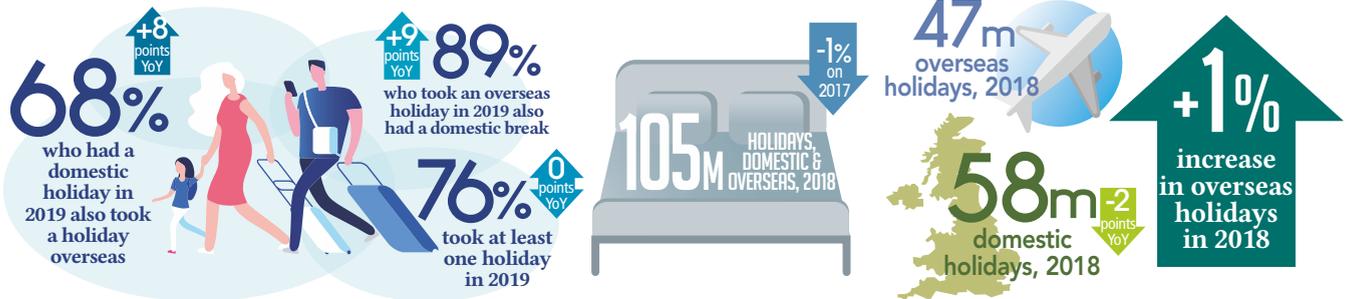
Figure 3 shows a breakdown of those taking overseas holidays by age and the proportion by region; 24% of overseas holidaymakers taking two or more breaks in 2019 travelled with children, 39% were over 55 and 71% in social class ABC1. These are not the same as the proportions within these groups taking two or more holidays – 20%

of those with children, 23% of over-55s and 29% of ABC1s

# UK HOLIDAY MARKET

## KANTAR/SERVICE SCIENCE CONSUMER RESEARCH

FIGURE 1: UK HOLIDAY MARKET



Source: 2018 data – ONS/VisitBritain

FIGURE 2: UK OUTBOUND HOLIDAY MARKET, 2019

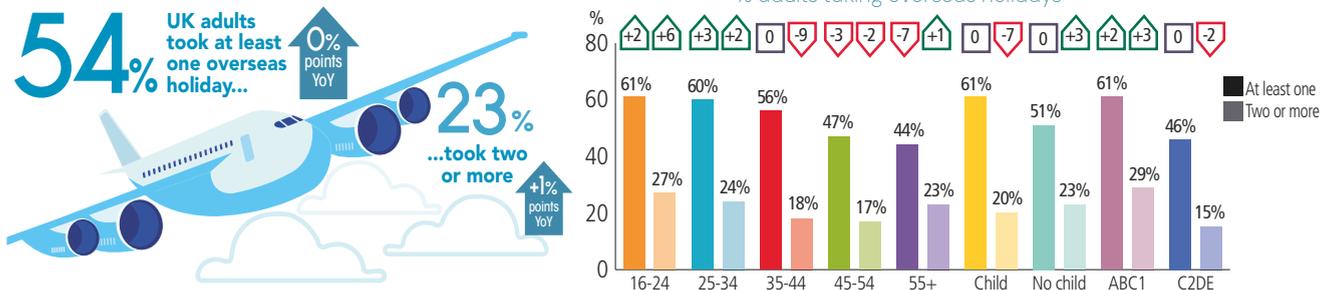
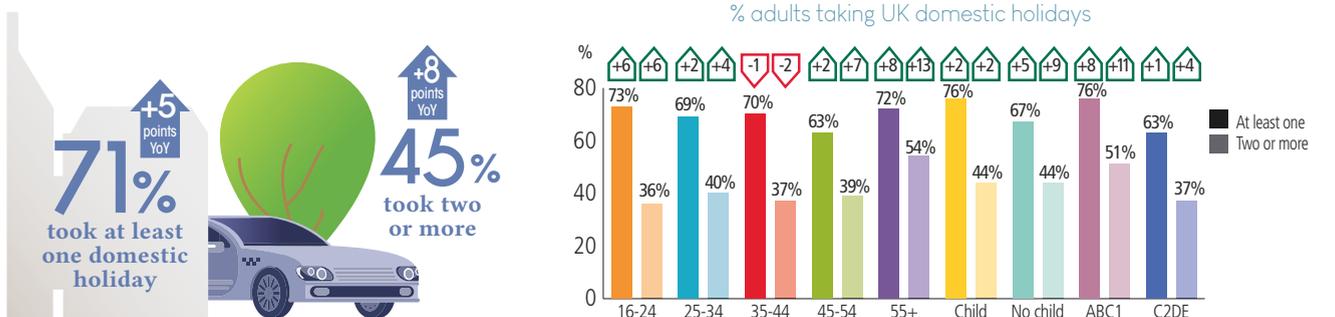


FIGURE 3: WHO TAKES HOLIDAYS?



FIGURE 4: UK DOMESTIC HOLIDAY MARKET, 2019



Source: Kantar/Service Science, October 2019 Base: 1,276 UK adults

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# MARKET OUTLOOK

## CONSUMER CONFIDENCE FACES TWIN PRESSURES

### Political uncertainty hung over everything in 2019, heightened by more than one Brexit withdrawal date and multiple seemingly critical moments.

The sector was treble hit by the impact on business and consumer confidence and by the uncertainty about travel arrangements. It could be considered remarkable, therefore, that the market held up so well. The collapse of Thomas Cook in September barely countered that view since Cook was not brought down solely by events in 2019.

The UK will have a new government in 2020. The December general election appeared likely to produce either a government led by Boris Johnson that would lead Britain out of the EU on January 31 or a hung parliament and maybe a second referendum. A no-deal departure remained a theoretical possibility after Johnson insisted a government led by him would stick to December 2020 as the Brexit transition deadline.

Former Abta chairman Noel Josephides warned a January leave date would be “problematic” for the sector. But an

### Political uncertainty and an economic slowdown could test UK holidaymakers’ resilience in 2020

*OUTBOUND holiday numbers hit a record in 2018 and appeared on course to match those numbers in 2019 despite a relatively slow first few months of the year for bookings (Figure 5). Note the link to GDP growth and the lengthy period of stagnation in numbers between 2009 and 2014, coinciding with the years of post-financial crisis austerity, before a recovery and then a relative plateau since 2016*

agreed withdrawal should at least avoid the risks outlined in leaked cabinet office papers in August of fuel, food and medicine shortages and “a three-month meltdown at ports”.

Industry leaders attending Abta’s Travel Convention in October were warned by Peter Foster, Europe editor of the *Daily Telegraph*, to expect “grinding uncertainty” to continue as the “long-term impacts of Brexit have yet to emerge”.

The uncertainty had an undoubted impact on the outbound booking cycle as explored elsewhere in this report (*page 16*).

Deloitte UK lead partner for travel and aviation Alistair Pritchard agreed with Foster’s assessment, saying: “If the Withdrawal Agreement is ratified, it only deals with the exit terms. We’ll move into a new period of extended uncertainty about what a future relationship with the EU will look like.” He also warned: “I’m not sure [a ratified deal] would have an immediate positive impact [on] bookings. It might take longer for confidence to come back. In March 2019, people thought bookings would come in once we got a Brexit delay. We’ve seen assurances

FIGURE 5: UK HOLIDAYS ABROAD, 2000-19



# MARKET OUTLOOK

## CONSUMER CONFIDENCE PRESSURES

that flights will operate irrespective of no-deal, but that is not the only factor. It's more about certainty."

Pritchard does not foresee agreement on Britain's withdrawal leading to a surge in the value of the pound. He said: "[Currency] dealers have already priced in expectations on the exchange rate. I don't see sterling returning to heady heights."

### ECONOMIC SLOWDOWN

Brexit was not the only source of uncertainty. Alexander Boersch, chief economist at Deloitte Germany, highlighted a "synchronised slowdown" in the world economy when he addressed the European Hotel Investment Conference in London in November.

Boersch said: "Trade growth is at an all-time low if we exclude the [2008] financial crisis. There has been an industrial recession in eurozone manufacturing through the whole of 2019. We see a 20-point fall in investment intentions. There is a two-tier economy. Services and domestic-oriented sectors thrive but manufacturing suffers. Can this decoupling go on? Yes, for now, but not for ever. It could last into next year." He described forecasts of slower but continued global

*THE UK is among the world's top-four source markets for international travel and the number two for travel spending per head, only narrowly behind Germany (Figure 6). Total UK outbound holiday numbers are at an all-time high, although provisional figures suggest a small dip in spring 2019 (Figure 7). The overall recovery since 2008-10 is not reflected in first-quarter figures which remain down on 2008*

growth as "somewhat optimistic".

Yet UK demand for overseas holidays broadly held up and exclusive research by Kantar for this report suggests good reason for confidence going into 2020. It found a small increase to 53% in the proportion of UK adults intending to take an overseas holiday in 2020 and almost 90% expecting to spend as much as or more than in 2019 – when outbound holidays in 2019 appeared set to equal the record of 47 million set in 2018.

Pritchard explained: "The UK

FIGURE 6: GLOBAL TOP-FIVE TRAVEL SOURCE MARKETS, 2018

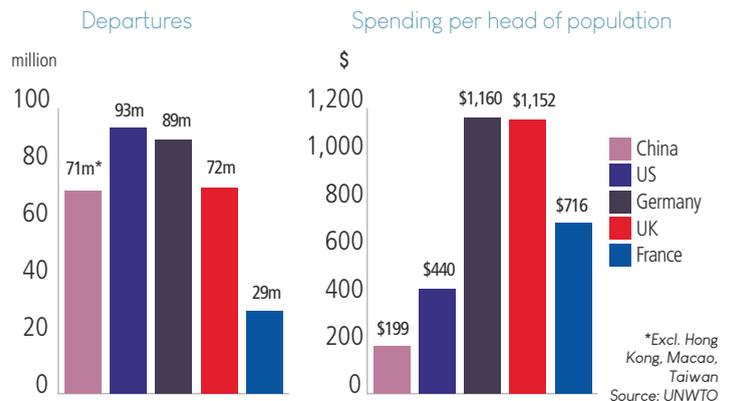
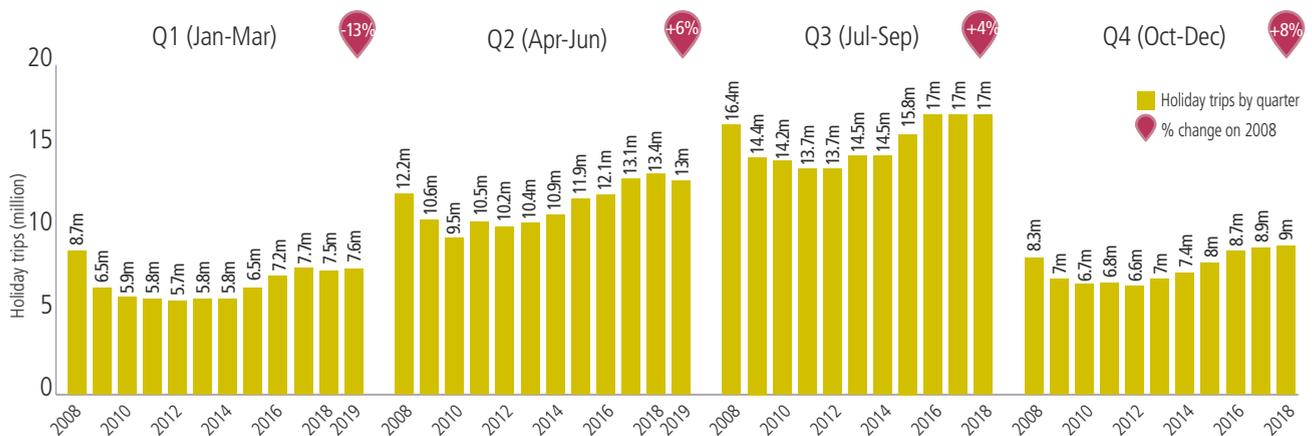


FIGURE 7: OVERSEAS HOLIDAYS FROM UK, 2008-19

Holiday trips by quarter and % change on 2008



Source: ONS

consumer continues to be in a reasonably good place. Over the first nine months of this year we had UK wage growth exceeding inflation, high levels of employment and low interest rates. The one caveat is there are signs things may become more challenging.”

He noted: “There tends to be a lag between business confidence and consumer confidence and businesses have been more cautious for a time. The most-recent figures showed employment falling and that could potentially have a bearing on wages. Consumer spending might become a bit weaker.

“Looking at the global economy, Germany, China and the US all weakened. We have slowing global growth, with tariffs biting. Trade-related matters have created uncertainty and where there is uncertainty you have less confidence to invest and a tendency to retrench and control costs. The risk is that multiple economies tip into recession.”

He acknowledged an added problem: “The ability [of central banks] to invest in fiscal stimulus [cut taxes] is more limited because of the measures already taken. To an extent, we’re overdue a recession.

“Most major economies will see slower

*THE FALL in the value of sterling against the euro since 2016 appeared to have little overall impact on UK holiday numbers to the eurozone at first, possibly as it coincided with a shift away from the eastern Mediterranean. The subsequent impact appears muted (Figure 8). Brexit may have more of an impact (Figure 9). Research for this report suggests 45% of holidaymakers foresee a potential impact, with a sharp difference in view by age*

growth. That does not mean people won’t go on holiday, but it raises the question whether they will go as many times, go away for as long and spend as much. People will still want to travel, but perhaps on a slightly tighter budget. All-inclusive resorts give some certainty about costs so are likely to be popular.”

The Kantar research suggests a four-point rise year on year to 50% in the proportion of UK holidaymakers intending to book all-inclusive accommodation.

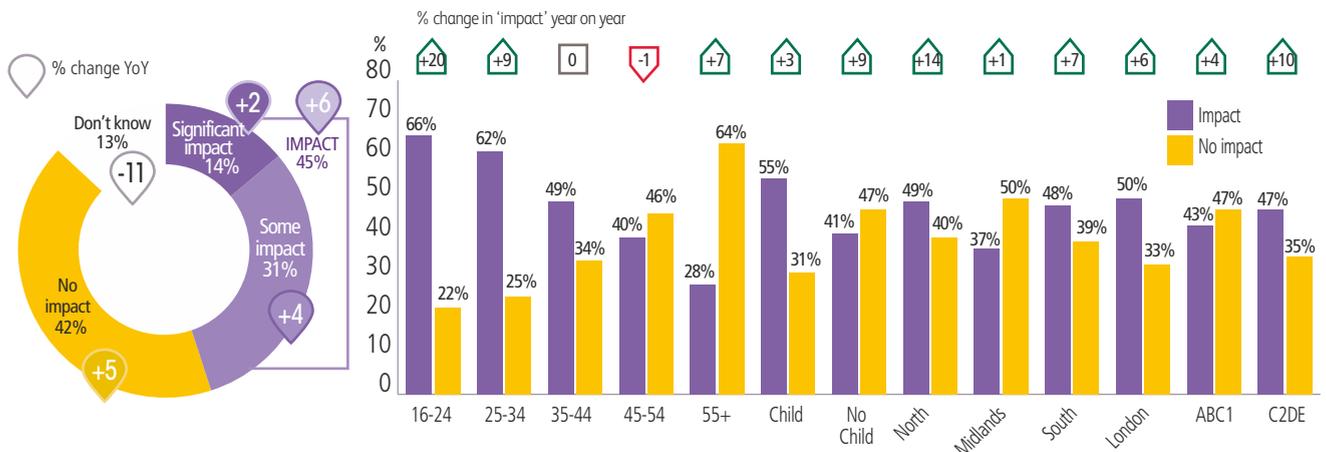
**FIGURE 8: UK-EUROZONE HOLIDAYS\* & EXCHANGE RATE: 2007-19**



\*EU15 states, includes main eurozone destinations but excludes Cyprus, Malta & Slovenia  
 \*\*12 months to June Exchange rate at June 30 Figures rounded Source: ONS/UK Treasury

**FIGURE 9: BREXIT’S IMPACT ON OVERSEAS HOLIDAYS**

How much impact, if any, might Brexit have on the likelihood of you taking an overseas holiday?



Source: Kantar/Service Science, October 2019

# MARKET OUTLOOK

## CONSUMER CONFIDENCE PRESSURES

### THOMAS COOK FALLOUT

Thomas Cook's failure marked the end of a 170-year history, although the group only emerged in its final form in 2007.

The collapse was described by Abta chief executive Mark Tanzer as "a failure of corporate finance". Pritchard, however, attributed the failure to "a range of factors". An overriding issue was the group's debt, accumulated under previous management and expensively restructured in 2011-13. Another was the loss of confidence in a group left fighting for survival after announcing a £1.1 billion "impairment of goodwill" in its UK business in May.

Intense competition and the wider forces reshaping the outbound market and retail sector were also factors.

The pressure on margins was intense. The UK's top-10 Atol-holders increased their capacity for summer 2019 by almost 15%, compared with a capacity rise of just 2% the year before. The increase was due not only to additional capacity but also to previously unprotected sales falling within the new Package Travel Regulations. But industry adviser Alan Bowen expressed surprise at the increase in April, saying: "The short-haul market is enormously difficult. There is huge competition. Airlines are holding constant sales."

“  
If businesses pile back in [to fill the gap left by Thomas Cook], we will probably get back to where there is not a lot of margin

*A SIGNIFICANT minority of holidaymakers (28%) appear concerned about the risk of a travel company failure, a proportion up seven points year on year (Figure 10), albeit the survey was conducted within three weeks of Thomas Cook's failure. The well-documented shift to the western Med of 2015-17 appears over (Figures 11 and 12). The market to Turkey has come back. All-inclusive demand appears at a new high (Figure 13), having risen steadily since 2015. Holidaymakers with children show a clear preference for all-inclusive resorts*

Tui chief executive Fritz Jousen made the same point in May, noting: "All markets are suffering. People have better prices and we have lower margins. Everyone is prepared to put on capacity, to fight for market share. We assume there will be consolidation. There are weak players." In July, Philip Meeson, executive chairman of Dart Group, parent of Jet2, similarly noted: "Pricing has to be continually enticing."

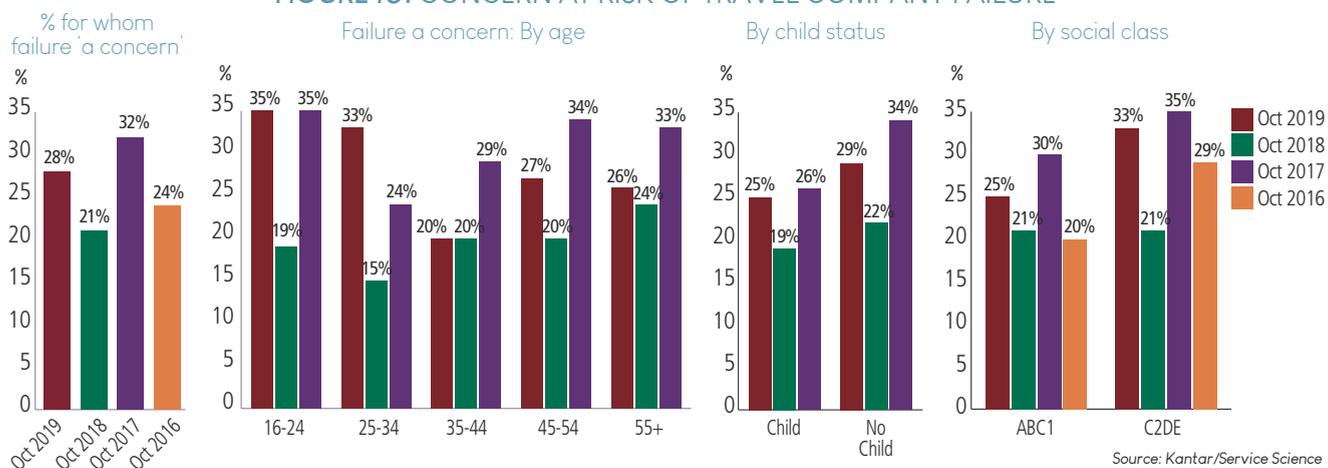
Cook's was not the only failure. Super Break and its parent Malvern Group ceased trading in August. But Cook's collapse was a defining moment.

Jousen attributed the failure to "too little differentiation", noting: "When you have no differentiation, you are head to head with the internet. People are fine with packages because it's comfort. People are not fine being treated like anybody else."

Tui joined other leading players – Jet2, easyJet Holidays, On the Beach – in making clear its intention to fill the gap left by Cook, and easyJet Holidays relaunched in late 2019 with an initial UK capacity of one million. Pritchard noted: "The failures took short-term capacity out, but a number of businesses said they are going to add capacity. If they pile back in, we will probably get back to where there is not a lot of margin."

The *Financial Times* suggested

FIGURE 10: CONCERN AT RISK OF TRAVEL COMPANY FAILURE



Source: Kantar/Service Science

Cook's failure raised "questions over the future value . . . or even the concept of the package holiday". The rush to add capacity challenged that view.

Pritchard likewise dismissed it, saying: "Packages are not a small percentage of holidays, they are a mega part. If anything, consumers want the confidence they get from a package. That is not to say OTAs or flights and accommodation booked independently won't do well."

He is also positive about travel's future on the high street, pointing out: "There are plenty of examples of bricks-and-mortar retailers performing very well."

Hays Travel's purchase of Thomas Cook's shops appeared a significant vote of confidence. By November, owners John and Irene Hays had already reopened 470. But Hays was not the only travel retail chain looking to expand, with Barrhead Travel planning to open 100 new stores.

John Hays offered an insight into his strategy in May when he said: "I try to inculcate in staff the web is their friend. Of people who book in store, more than half have researched their holiday digitally in advance."

The rate of closure of high street agencies also slowed dramatically in 2018-19, retail analyst the Local Data Company (LDC) reported, despite the pressures on retailers

FIGURE 11: UK HOLIDAYS TO WESTERN MED, 2006-18

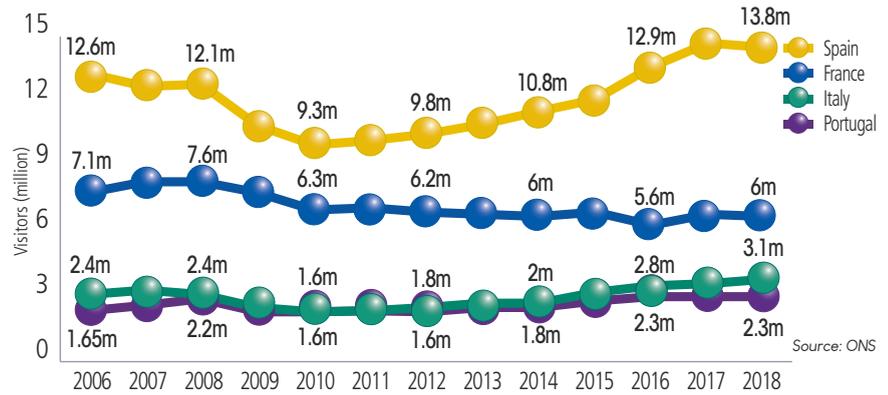


FIGURE 12: UK HOLIDAYS TO EASTERN MED, 2006-18

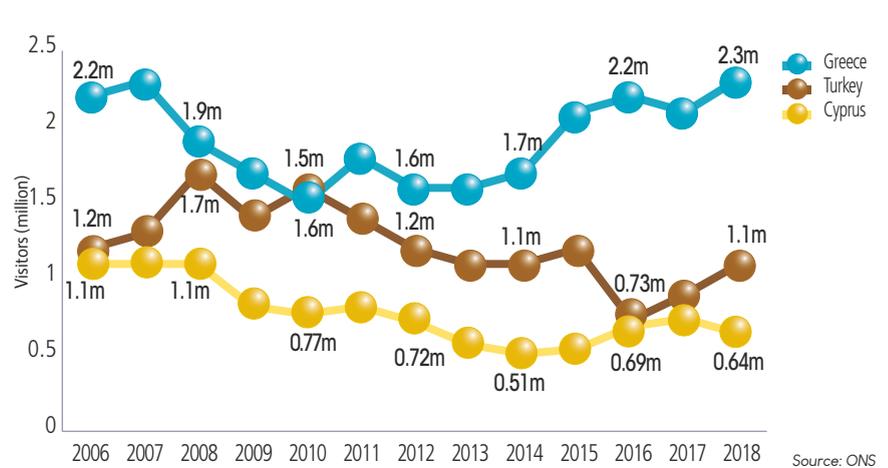
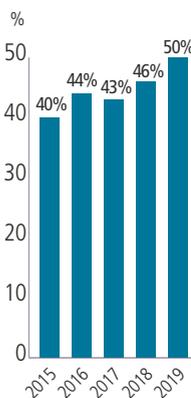
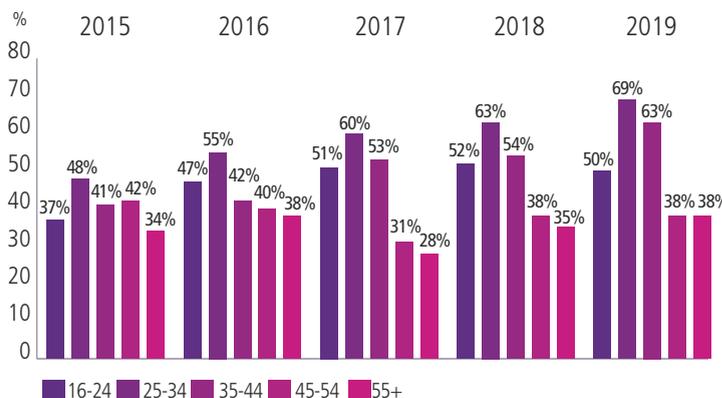


FIGURE 13: ALL-INCLUSIVE DEMAND: 2015-19

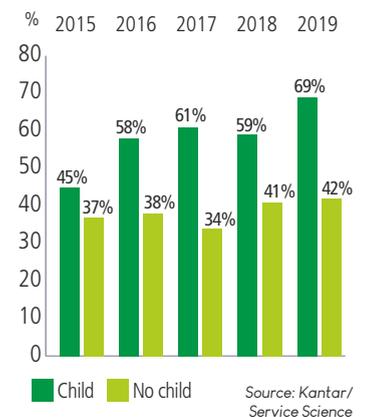
% likely to book all-inclusive for following summer



By age



By child status



# MARKET OUTLOOK

## CONSUMER CONFIDENCE PRESSURES

and high-profile closures of stores such as Debenhams. An LDC spokeswoman described “a resurgence”, noting the sector had been “boosted” by agencies opening “concessions within larger retailers” and “offering experiences for consumers in-store”.

### TOURISM SUSTAINABILITY

Environmental sustainability moved sharply up the agenda amid growing awareness of global warming. As former Greek tourism minister and now MEP

*THERE was little change in the UK's preferred holiday destinations in 2018 (Figure 14). Italy, Greece and Turkey enjoyed the strongest growth of the major destinations. Numbers to the US appeared to plateau, no doubt due to the exchange rate. The gap in spending between older and younger travellers is sharp (Figure 15). Destinations in Europe remain the bedrock of the industry (Figure 16)*

Elena Kountoura told the International Tourism and Investment Conference in November: “There is a climate emergency.”

Outgoing Abta sustainability director Nikki White told Abta's Travel Convention: “There is an awful lot of confusion about what companies should be doing. Destinations are not always aware. Not many governments have a joined-up plan.”

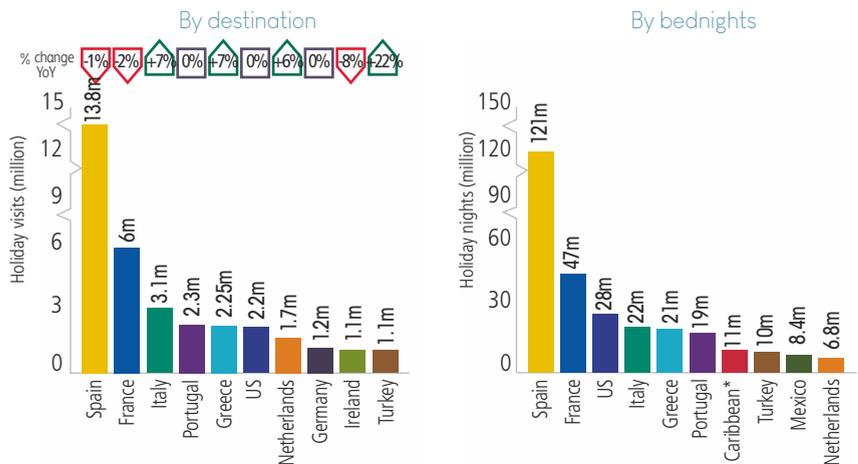
She noted: “There are customers who are more conscious and those who want to forget about sustainability, but whatever the size of a business, everybody has to do something.”

The Kantar research suggests a sharp increase in consumer concerns about the impact of flying, although still only among a minority (pages 45-47) – a finding echoed by CAA research (page 31).

However, concerns appear only likely to grow, along with scrutiny of carbon offsetting. Intensified pressure for carbon taxes on aviation also seems likely.

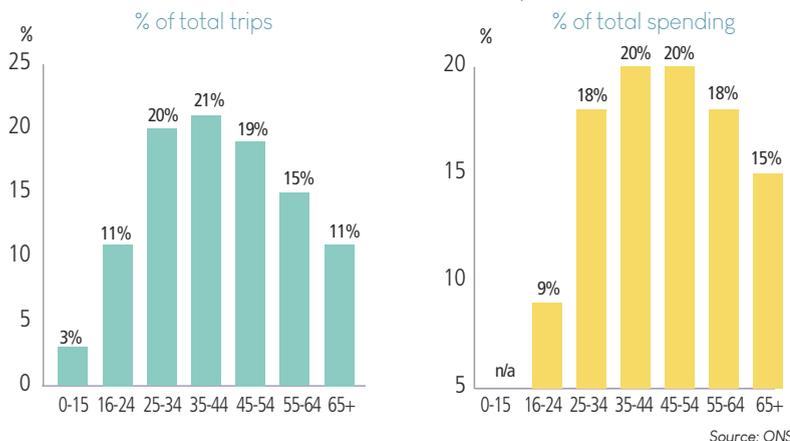
Former US president Barack Obama raised a separate, often neglected issue when he addressed the World Travel & Tourism Council summit in April, noting: “For young women, travel poses specific issues around safety and security and the attitude of men.” It's a good point and one the industry would do well to act on in the era of #MeToo. ■

FIGURE 14: TOP-10 HOLIDAY DESTINATIONS FROM UK, 2018



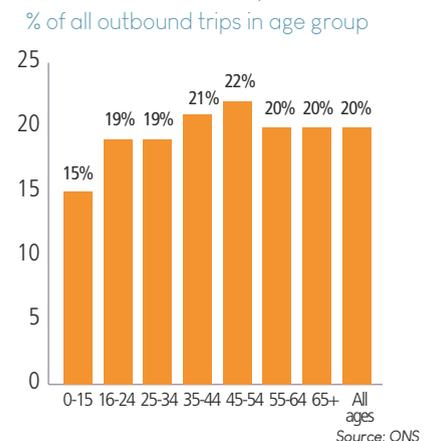
\*Excl. Mexico Figures rounded Source: ONS

FIGURE 15: UK OUTBOUND TRIPS AND SPENDING BY AGE, 2018



Source: ONS

FIGURE 16: UK TRIPS BEYOND EUROPE: BY AGE, 2018



Source: ONS

# UK HOLIDAY MARKET

## KANTAR/SERVICE SCIENCE CONSUMER RESEARCH

### HOLIDAY INTENTIONS, 2020

**28.4m**  
UK adults  
intend to take  
an overseas  
holiday in 2020

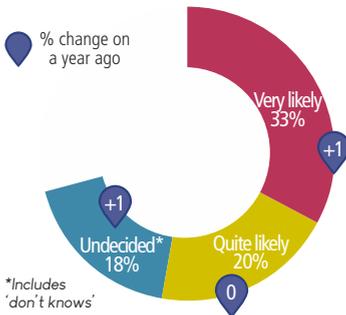
**11.4m** <sup>+3% YoY</sup>  
intend to  
spend more  
on overseas  
holidays

**£13.9m** <sup>+11% YoY</sup>  
intend to  
spend  
the same

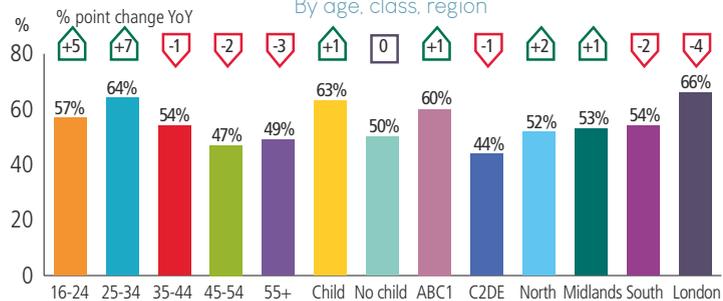
**36m**  
intend  
to take  
a domestic  
holiday  
in 2020

FIGURE 17: HOLIDAY DEMAND FOR 2020

#### LIKELIHOOD OF OVERSEAS HOLIDAY



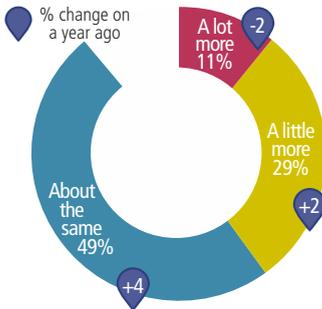
#### % UK ADULTS LIKELY TO TAKE OVERSEAS HOLIDAY By age, class, region



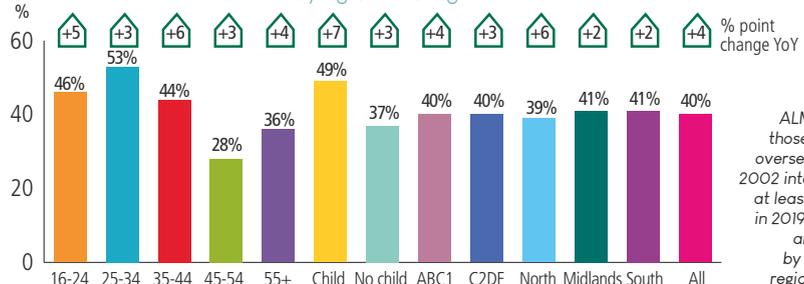
A ONE-POINT rise overall in the proportion of UK adults intending to take an overseas holiday in 2020 masks a sharp increase among 16 to 34-year-olds and a more cautious response among older respondents (Figure 17)

FIGURE 18: SPENDING ON OVERSEAS HOLIDAY, 2020

#### LIKELY SPEND ON OVERSEAS HOLIDAY



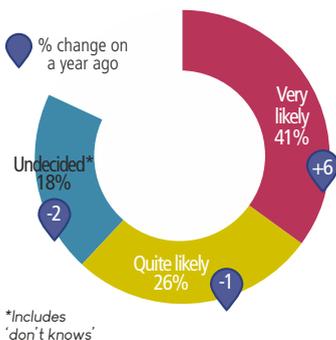
#### ADULTS LIKELY TO SPEND MORE By age, class, region



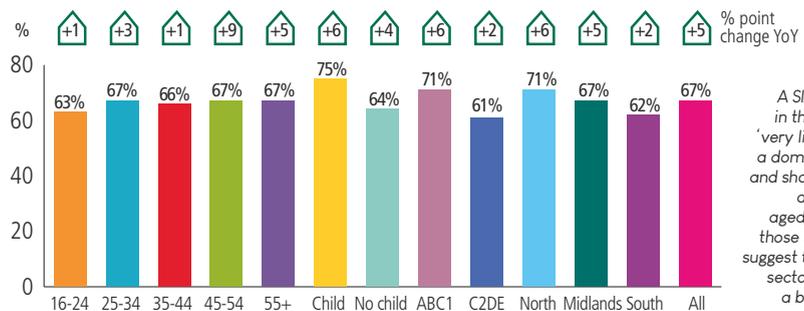
ALMOST 90% of those planning an overseas holiday in 2020 intend to spend at least as much as in 2019, with barely any difference by age, class or region (Figure 18)

FIGURE 19: UK DOMESTIC HOLIDAY DEMAND, 2020

#### LIKELIHOOD OF DOMESTIC HOLIDAY



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



A SIX-POINT rise in the proportion 'very likely' to take a domestic holiday and sharp increases among adults aged 45-plus and those with children suggest the domestic sector could have a bumper 2020

Source: Kantar/Service Science, October 2019

Base: 1,276 UK adults

# OUTBOUND

## SUMMER MARKET DEFIES CHALLENGES

**The outbound sector had a difficult 2019 amid uncertainty about the terms of Britain's departure from the EU, initially set for the end of March, and significant overcapacity in the short-haul market.**

It saw months of tough trading, then something of a reprieve for summer 2019 bookings in late spring and summer before the failure of Thomas Cook in September posed a different set of problems. These factors – overcapacity, Brexit and Cook's failure – plus underlying uncertainty about the economic outlook dominated the year and will largely shape the outbound market in 2020. Yet they remain tempered by the remarkable resilience of holiday demand.

It's worth noting 2018 was a record year for outbound holidays with 47 million UK departures. Industry analyst GfK reported summer 2018 bookings ended 5% up year on year. It would be remarkable in the circumstances if 2019 topped that performance.

The trade went into January 2019 in a strong position, with summer 2019 bookings up 9% year on year and revenue growth in double figures despite a 20% plunge in bookings in the second half of December following a *Sunday Times* front page warning "Don't go on holiday after March 29" (December 16, 2018).

**Sector withstands Brexit delays and overcapacity but summer's end dominated by collapse of Thomas Cook**

It was a pattern repeated through early 2019. By January's end, summer 2019 bookings remained 4% up year on year, but Brexit concerns, amplified by sensationalist media reports, were having a demonstrable effect. When Iata warned flights could be cancelled in the event of a no-deal Brexit, and the UK government warned travellers to check passports were sufficiently up to date for EU travel, they triggered a spate of headlines such as "No-deal threat to 5m tickets" and "Passport chaos: 3.5m could be INVALID".

GfK senior client director David Hope noted: "The market dropped off a cliff." The difficulty was highlighted by Brittany Ferries chief executive Christophe Mathieu, who told an Abta Brexit briefing in March: "We can't offer reassurance when people book. We're unable to give answers other than 'We hope to minimise disruption'."

By late March, summer 2019 bookings were running 7%-10% down year on year each week and season-to-date bookings were barely up on the previous year. The inevitable Brexit delay appeared to have no immediate impact. In early April, Hope reported: "Things are not getting better. Everything is down." By late April, season-to-date bookings for the summer had turned negative.

Discounting halted the decline and pushed summer bookings in May up 1% year on year at the price of a 1% drop

### The Deloitte view

Holidays continued to be important for Britons in 2019. The Deloitte Consumer Tracker showed net spending on holidays has continued to track above most other leisure categories.

Europe remains the most-important destination for Britons. Spain and France alone generated more than £5 billion from outbound UK tourism. Newer destinations such as Bulgaria have continued to gain traction with UK consumers owing to their budget-friendly offerings.

The uncertainty and depreciation of

sterling possibly impacted winter 2019-20 bookings, which have trended below last year's levels.

In the long term, a more significant challenge is likely to be the increasing focus on sustainability and the impact this might have on consumers' decision to travel abroad, for business or pleasure. While the sector is undoubtedly taking steps to limit its negative effects on the environment and to increase the positive impacts it can have on local communities and economies, the consumer is becoming increasingly

demanding and educated about the subject.

It is critical that the sector considers carefully whether it is truly exploring all avenues to continue to offer travel opportunities in a way that is sustainable for future generations. Travel agents will continue to play an important role in the process. As consumers seek more unique, personalised experiences, there is no better time to highlight how agents can help consumers navigate choice and keep holiday experiences exciting and fun.

■ **Danielle Rawson**, director, Travel and Aviation

in revenue. June brought a turnaround as monthly bookings rose 7% on 2018 and season-to-date revenue returned to 2% up year on year. By mid-July, GfK could report “nine consecutive weeks of passenger growth” which it described as “all-inclusive driven”. Hope noted: “The industry has had to price extremely competitively. The tough trading environment has had a significant impact on cashflow.” How significant was yet to be revealed.

By the end of August, season-to-date bookings had recovered to 2% up and revenues 3% up. That was before Thomas Cook went into liquidation on September 23. The failure rendered irrelevant attempts to quantify the overall state of the market at the season’s close.

## OTHER SEASONS

Winter 2018-19 followed a different pattern. Despite a fall from 6% up year on year at the end of December, bookings and revenue remained 4% up to the season’s close – a strong performance given winter 2017-18 ended 4% up year on year for bookings and 9% for revenue.

A good start to winter 2019-20 bookings – the season was 9% ahead of winter 2018-19 at the turn of the year – gave way to eight consecutive months of year-on-year decline. This left bookings down 3% and revenue down 1% at the end of August, with GfK suggesting: “The October 31 Brexit deadline is a major concern.”

Early bookings for summer 2020 were 1% down on the previous year to the end of August, but average selling prices up 3% with family and all-inclusive bookings growing ahead of the market.

*MORE THAN half UK holidaymakers intend their next overseas break to be seven nights or less but, as last year, adults over 45 show a clear preference for longer holidays (Figure 20). Beach holidays are clearly favoured by older adults (Figure 21). All-inclusives are a strong favourite among younger adults, especially parents (Figure 22)*

FIGURE 20: DURATION OF NEXT OVERSEAS HOLIDAY

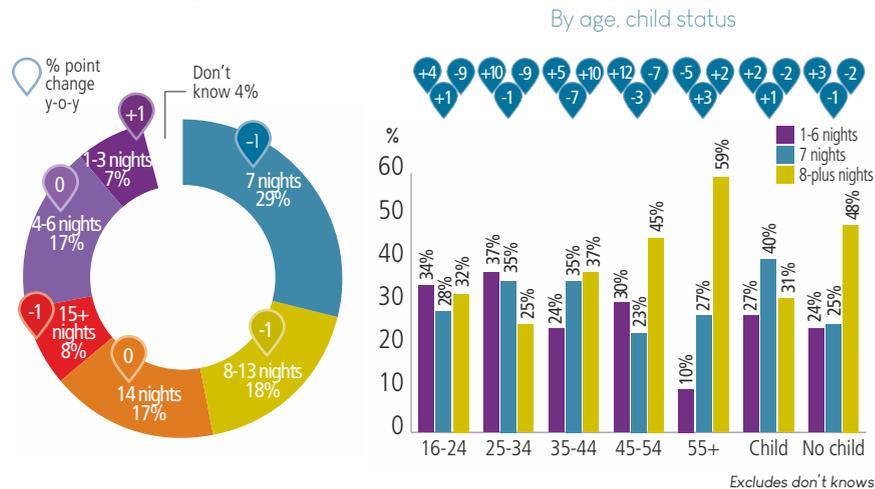


FIGURE 21: TYPE OF NEXT OVERSEAS HOLIDAY

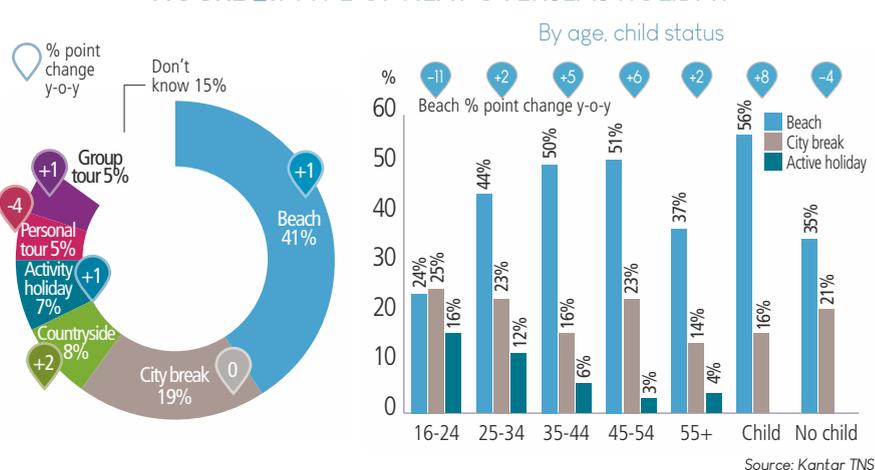
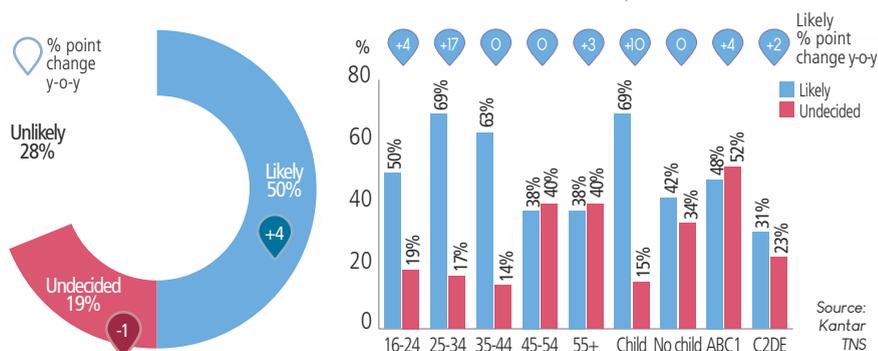


FIGURE 22: LIKELIHOOD OF BOOKING ALL-INCLUSIVE OVERSEAS HOLIDAY, 2020



# INBOUND

## ARRIVALS DIP IN WAKE OF RECORD YEAR

**Overseas visitor numbers to the UK fell last year after hitting a record 39 million in 2017.**

However, numbers remained higher than at any previous time despite signs of a tail-off in visitors from northern Europe at the turn of the year, and visitors in the 12 months to July 2019 were on a par with a year earlier.

A fall-off might have been expected since 2017 set a record for a fourth consecutive year. However, the fillip which sent numbers higher was the fall in the value of the pound following the EU referendum vote in June 2016. Sterling has remained lower against the dollar and euro since, but the impact on some eurozone source markets has clearly diminished.

In February 2019, VisitBritain reported inbound bookings down 10% year on year. Chief executive Sally Balcombe told the UKinbound convention in Glasgow: “The concerns about Brexit are filtering into the results. We see a decline across the board when we look forward. Desire to travel to the UK has decreased in every market [in Europe].” But she described the trend as “particularly strong in France and the Netherlands”. By contrast, Balcombe reported “really good growth” from the US and “fantastic growth from China”. Yet she noted: “However well we do from China or the US, Europe provides

**US visitors overtake French to become UK’s top source market, as inbound leaders hail first tourism sector deal**

two-thirds of our inbound visitors.”

Office for National Statistics figures confirmed a fall in numbers from northern Europe in 2018, with visitors from France down 7% year on year, the Netherlands down 8% and Germany down 3%. That meant the US surpassed France as the UK’s biggest inbound market by volume, with 3.9 million making the transatlantic trip, while the US remained the biggest-spending source market by a huge margin.

### CONFIDENCE

Despite concerns that Brexit was deterring some visitors, the UKinbound association reported a sharp rise in confidence among members early in the year. Its rolling Business Barometer showed its sharpest rise in two years.

In August, the barometer found confidence higher still with 75% of member businesses reporting bookings or visitor numbers at the same level or higher than in 2018 and almost three in five expressing confidence about the next 12 months – eight percentage points up on March and April. Given the uncertainty about future arrangements with the EU, that seemed remarkable.

Industry leaders remain deeply concerned about the impact of post-Brexit restrictions on immigration from the EU. Tourism Alliance director Kurt Jansen told a Westminster Forum on UK

### The Deloitte view

Inbound travel to the UK showed a disappointing drop in 2018, with the number of visitors falling more than 3% and the value of spending down 7%.

ONS figures for July 2019 showed year-on-year growth in both volume and value, but the rolling 12-month average to July still painted a picture of some missed opportunities – visitor spending was down 2% and visits flat. At a time when the UK is keen to enhance its prominence, this could pose challenges not just to the sector but to the economy more widely.

London continues to entice most visitors, with more than 19 million. However, Deloitte research suggests the travelling consumer is more focused than ever on unique, authentic experiences that give a sense of adventure. This means that while traditional tourism hotspots remain important, consumers are also seeking opportunities to go off the beaten track. It offers destinations outside London an opportunity to develop offerings and marketing campaigns highlighting a sense of exploration.

Growth in inbound travel can come in

many forms as lots of traveller segments are still growing at pace – be it solo travellers, those 60-plus or visitors from fast-growing developing economies. With so many opportunities, businesses have to decide which segments to go after and spend time to understand those customers’ preferences to ensure these are reflected in their offerings. A relentless focus on the consumer, using data insight to make decisions, is crucial.

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

tourism in June: “We’re running out of UK nationals who want to and can work in tourism. We’re more and more reliant on EU nationals.”

Employers await the incoming government’s decision on UK Immigration Advisory Committee proposals that businesses be allowed to recruit EU workers post-Brexit only for jobs paying £30,000. UKinbound chief executive Joss Croft told the same forum: “A lot of people in tourism don’t earn £30,000.”

Existing arrangements will only continue until the end of the Brexit transition period even with acceptance of the withdrawal agreement with the EU. So the industry looks forward to the decision on this and to the end of the transition period with trepidation, assuming Brexit goes ahead.

## SECTOR DEAL

The government did at least confirm a first tourism sector deal in June, in one of the last acts of Theresa May’s administration. This promises a new Tourism Data Hub to help businesses “better target overseas visitors” and will create several “Tourism Zones” which can expect to receive government support “for product and promotion development”.

The deal also promises support for an additional 10,000 apprenticeships in tourism and hospitality, and construction of an extra 130,000 hotel rooms by 2025 when the government hopes to see Britain attract nine million more overseas visitors.

The then-PM Theresa May joined business secretary Greg Clark to declare tourism “one of our most valuable industries”. Both were out of government office the following month, although there was no suggestion their successors would dilute the commitment to the sector.

The full benefits of the sector deal are not explicit, but Tourism Alliance director Kurt Janson hailed it as “recognition that tourism is a driving force for the economy”.

FIGURE 23: OVERSEAS VISITORS TO UK, 2004-19



FIGURE 24: TOP-10 INBOUND MARKETS, 2018

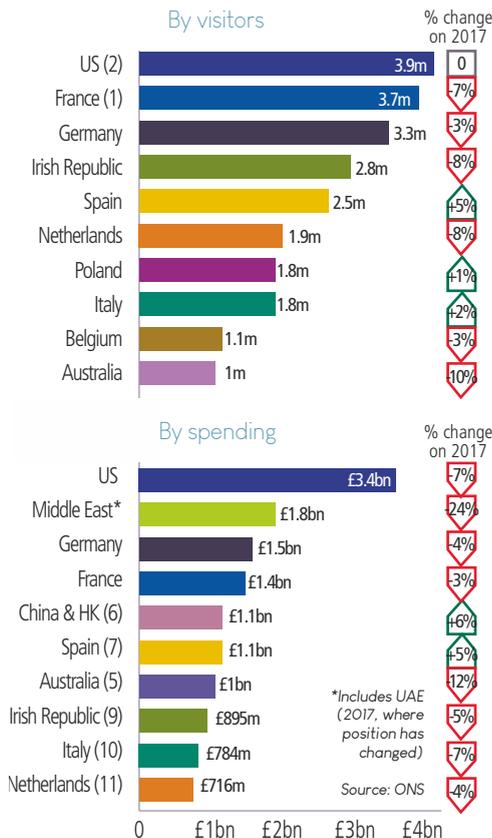


FIGURE 25: INBOUND HOLIDAYS TO UK, 2018



OVERSEAS visitor numbers have dipped since 2017 (Figure 23), with noticeable declines from northern Europe making the US the leading source market by numbers as well as spending in 2018, although the favourable exchange rate meant spending fell (Figure 24)

# DOMESTIC HOLIDAYS AT HOME TO HIT NEW HEIGHTS?

**UK domestic tourism appears poised to surpass the high point of 2009 if forecasts of a Brexit-related boom prove right.**

Consumer research for this report suggested a five-point rise year on year to 71% in UK adults taking a domestic holiday over the past 12 months and an eight-point rise to 45% in the proportion taking two or more domestic breaks.

Seven out of 10 respondents said they were likely to take a domestic holiday in 2020 with 41% 'very likely' to do so, up six percentage points year on year.

Demand for domestic holidays seems to have grown across all ages and in all regions but appears especially strong among families. Three out of four adults with children said they planned a domestic break in 2020. However, under-25s and over-55s showed the sharpest increase in take-up over the past 12 months.

Overall numbers fell a little year on year in 2018 to 58 million, as did total nights to 200 million, despite the June-July heatwave – the joint-hottest summer on record. But numbers were back up by 1.5% to the end of July 2019, despite poor weather in May and June and the year-on-year comparison with the heatwave months. Holiday trips in the month of June 2019 were 14% down on 2018.

The British seaside remains a prime draw for domestic visitors with 36% of

**Demand for domestic holidays appears to have risen across all age groups, while local authorities warm to merits of tourism taxes**

all holidays and 43% of all nights taken at the coast in 2018, unchanged from the previous year.

Strikingly, there appears no great pick-up in demand by domestic holidaymakers for homestay options.

VisitBritain data suggests less than 2% of holidays taken in commercial accommodation and no more than 2% of nights involved homestay bookings in 2018 – a proportion dwarfed by hotel, caravan, campsite, other self-catering and even guesthouse and B&B bookings.

## LOCAL TOURISM TAXES

UK industry leaders are considering proposals that could see the sector ease its opposition to, or even swing behind, introduction of local taxes on tourists if these are matched with a post-Brexit cut in VAT on hotel stays. However, they also want VAT applied to all accommodation providers, including homestay rentals.

Umbrella industry group the Tourism Alliance has been working on proposals for local authority taxes on visitors in return for a reduction in the 20% VAT rate. Tourism Alliance director Kurt Jansen told *Travel Weekly* in June: "If the government reduced VAT on accommodation to 10%, then added a 5% tourist tax, customers and destinations would both win. The government could make up the shortfall by lowering the

## The Deloitte view

Domestic travel accounts for more than 80% of UK travel and tourism spending, above the global average of 73%.

More and more British holidaymakers opted to take domestic breaks this summer and, according to some reports many consumers also had longer domestic breaks in 2019 than in previous years.

While affordability can be a reason to favour a domestic holiday, arguably the perception of convenience has also helped. There are fewer unknowns to consider when travelling in your own country.

The UK travel sector should also be credited for its hard work in offering new experiences. 'Screen tourism' and heritage offerings continue to attract visitors to a range of destinations, while many seaside towns have focused on updating their strategies. These efforts are critical in ensuring strong demand for domestic breaks continues.

Some interesting trends are emerging that could also help the sector. Deloitte research on smartphone use shows consumers increasingly concerned about

how much they use digital devices in daily life. The domestic sector can offer the chance to connect with nature, people and places in real life.

Younger consumers, in particular, are ripe for taking more domestic short trips. The 'Micro-gap' campaign by VisitBritain is a great example of how a combination of experiences and the chance to learn and explore can bring excitement to domestic travel and, hopefully, induce long-term growth.

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

threshold for the accommodation sector to £5,000 [and] pull everyone into paying VAT – [including] if you’re renting out a place full time on Airbnb.” He noted: “There has to be an industry-wide [VAT] threshold in the EU. Outside the EU we would have the ability to be inventive.”

MPs on the All-Party Parliamentary Group for hospitality noted “increasing enthusiasm within local councils” for tourist taxes, given “significant gaps” in funding, in a report in May. Edinburgh council voted to introduce a tourist tax in February, although this requires legislation by the Scottish Parliament. Local authorities in Bath, Liverpool and Cumbria have also shown interest in introducing taxes, as have Mayor of London Sadiq Khan and Conservative-controlled Westminster council in London. The issue appears certain to rise up the agenda.

The rapid turnover of tourism ministers resumed following a period of relative stability through 2018 under Michael Ellis. He moved on in May 2019, replaced by Rebecca Pow, who was duly replaced by Helen Whately in September, only for the government to be dissolved in November ahead of the general election. Whately may return, of course, but the shelf life of UK tourism ministers appears overly brief in light of government insistence that it values the sector’s contribution to the economy (see *Inbound*, page 18). ■

“  
If the government reduced VAT on accommodation to 10%, then added a 5% tourist tax, customers and destinations would both win

A SMALL decline in the domestic holiday market in 2018 (Figure 26) gave way to growth in the first half of 2019 (Figure 27). Hotels, caravans, camping and other forms of self-catering appear vastly preferred to homestays for UK domestic holidays (Figure 28). The seaside remains the premier attraction (Figure 29)

FIGURE 26: UK DOMESTIC HOLIDAYS, 2006-18

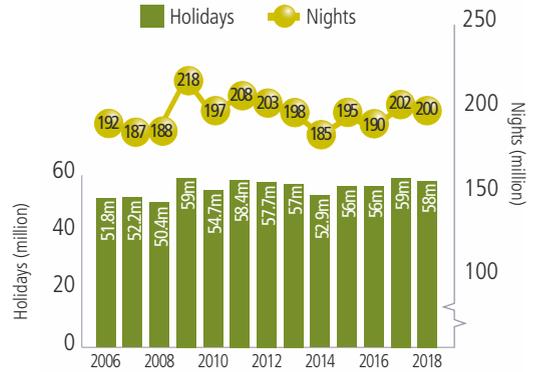
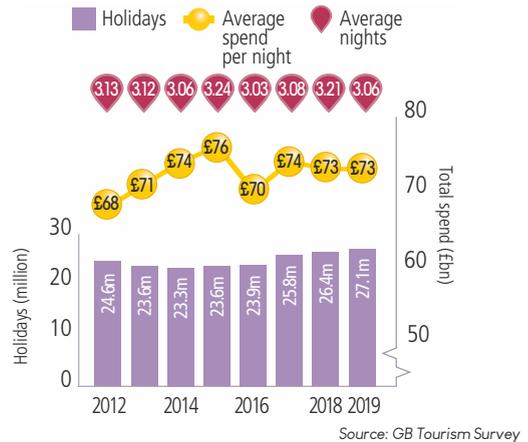


FIGURE 27: UK DOMESTIC HOLIDAYS, H1 2012-19



Source: GB Tourism Survey

FIGURE 28: DOMESTIC ACCOMMODATION, 2018

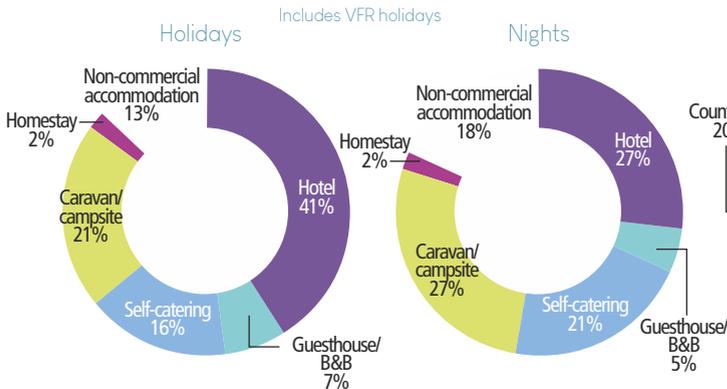
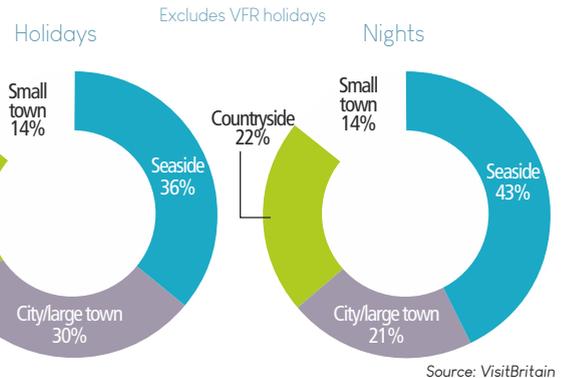


FIGURE 29: DOMESTIC DESTINATIONS, 2018



Source: VisitBritain

# CRUISE

## OCEAN PASSENGERS TOP TWO MILLION

**Cruise remains a small percentage of the total outbound market, but its growth has been remarkable.**

UK and Irish ocean cruise passenger numbers topped two million in 2018, almost double the number of the mid-2000s. Growth has been largely steady, with passenger numbers increasing even through the financial crisis of 2008-09, unlike the mainstream UK market.

The average age of UK passengers rose a year to 57 in 2018, confounding the drive to pull in younger, new-to-cruise clients. More than half of passengers were over 60 and cruise association Clia reported four times as many additional passengers aged over 60 as those under.

The numbers are no less impressive for that and the rate of returning passengers is astonishing. Clia found nine out of 10 passengers intended to book a cruise the following year. It noted an average lead-in time for UK bookings of 32 weeks, up from 28 in 2017, and average duration of 10.1 days, although the single most-popular choice was seven days.

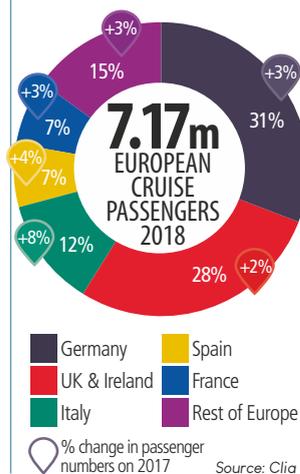
Mediterranean cruises were a little less popular in 2018, with passenger numbers to the central and western Med down 10% on 2016. But numbers were up 17% for northern Europe and 10% for the Caribbean over the two years.

Clia also noted a “significant increase in the number of cruises to exploration

**The sector continues its upward trajectory but emissions rules are likely to tighten**

**FIGURE 30: EUROPEAN CRUISE MARKET, 2018**

% of passengers by source markets



destinations such as the polar regions, the Galapagos Islands and Antarctica”. This remained under 2% of the total and it will be interesting to see whether the trend strengthens.

UK river cruise passenger numbers rose 10% year on year to 232,000, with bednights up 12%, pushing the average duration to almost eight days.

European cruise numbers rose 3% to 7.2 million, with Germany extending its lead as Europe’s biggest ocean cruise market with more than 2.3 million passengers. The average passenger age in Germany was lower than in the UK at 49, but average duration was a day less.

Worldwide, passenger numbers rose 7% in 2018 to 28.5 million.

### ENVIRONMENTAL PRESSURE

Such growth is likely to see the sector come under increasing pressure over its environmental footprint. Cruising’s contribution to ‘overtourism’ in high-profile destinations such as Venice is only one aspect of this and, in the medium term, one of the more manageable.

Ships will be subject to International Maritime Organisation limits on sulphur emissions from January 2020, which cut the permissible sulphur content in fuel from 3.5% to 0.5%. The limits, adopted four years ago, are likely to be just the start of new environmental requirements.

### The Deloitte view

The cruise industry is going through an exciting period of growth, innovation and opportunity. Globally, the sector saw almost 7% growth in 2018. The UK and Ireland cruise industry touched a new milestone with more than two million passengers in 2018, and in 2019 it is forecast to generate £3.2 billion.

Looking ahead, the signs are equally positive. The number of ocean cruises taken by UK and Irish travellers is expected to grow by 22.5% between 2018 and 2023.

The sector has responded by continuing to invest heavily both in terms of tailoring

the product to a wider range of segments and expanding capacity.

The number of new ships is astounding with several cruise companies set to welcome additions to their fleets between 2019 and 2022.

However, the sector will need to continue to innovate to keep demand growth in step with supply.

There is also still more to do to change consumer perceptions of cruise from being a travel experience for the ‘silver generation’ to a holiday that suits youngsters, older

single travellers, honeymooning couples and multigenerational family groupings alike.

While some growth can be achieved by persuading existing cruisers to cruise more frequently, filling the capacity is going to need new-to-cruise consumers and new source markets. New destinations will help attract new consumers.

The growth in expedition cruising has shown consumers’ keenness to explore can be a powerful driver.

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

Claia said its members are “well on the way to full compliance with the sulphur cap”. Broadly, there are three ways of achieving this: switching from heavy fuel to lower-sulphur marine fuel oil, investing in liquefied natural gas (LNG) technology or installing exhaust cleaning systems.

There are issues with all three. Switching to marine diesel oil cuts the sulphur content but the fuel still contains many times more pollutants than vehicle diesel, which is polluting enough.

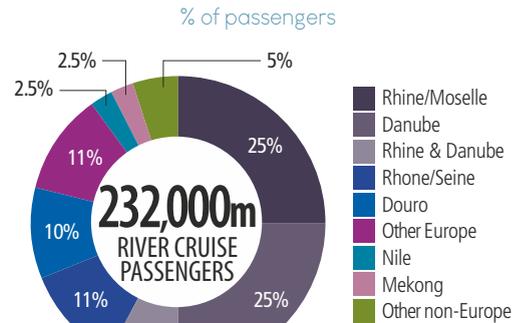
Using LNG reduces sulphur emissions almost entirely and can cut nitrogen oxide by 85% compared with HFOs. But the primary component of LNG is methane, an accelerant of global warming. So it addresses the pollution problem but not the climate emergency. There are also limits to LNG infrastructure, with fuelling stations only slowly being established in Europe. Only about 30 ships will be equipped with LNG by 2025.

The problem with exhaust cleaning systems or scrubbers is that they remove sulphur from emissions by dissolving it in seawater which is returned to the ocean as sulphuric acid or held on ship to be disposed at a land site. China, Hong Kong, Singapore and some Caribbean islands have already banned the release of water from scrubbers and there is a call for them to be banned. Yet 90% of cruise ships are expected to install them.

FIGURE 31: UK & IRISH OCEAN CRUISE PASSENGERS, 2003-18



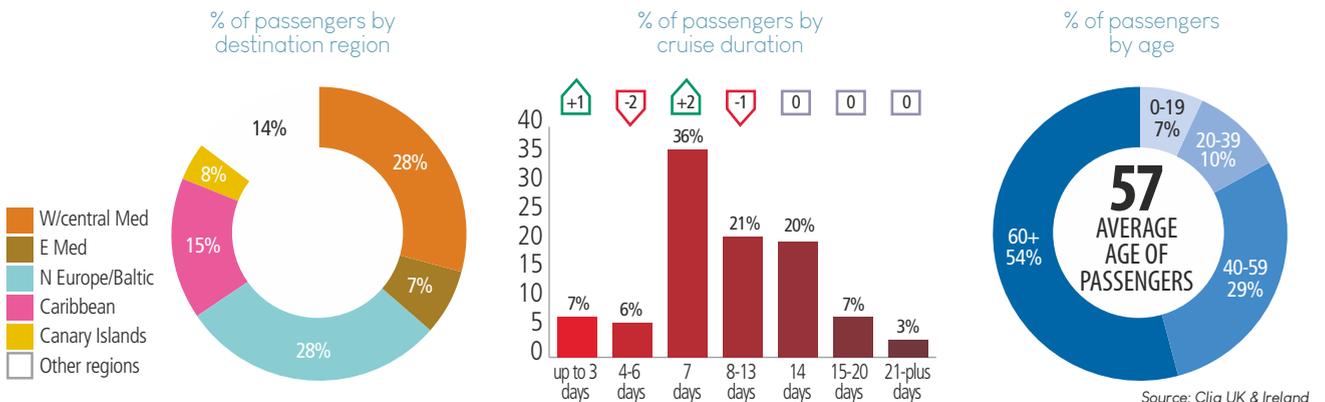
FIGURE 32: UK & IRELAND RIVER CRUISE MARKET, 2018



UK AND IRELAND ocean cruise numbers passed two million in 2018 (Figure 31). River cruise numbers rose 10% year on year (Figure 32). Seven-night cruises remained most popular, but one in two passengers chose longer durations (Figure 33). Growth in Germany again outpaced the UK (Figure 30)

Source: Clia UK & Ireland

FIGURE 33: UK & IRELAND CRUISE MARKET, 2018



# BUSINESS TRAVEL

## SECTOR DIPS SLIGHTLY AHEAD OF BREXIT

**Corporate travel buyers appeared divided on the impact of Brexit on corporate travel demand in early 2019.**

Travel buyer Rudiger Bruss of automotive manufacturer Continental warned in February: “Costs will go down because demand will plummet.” Speaking at the Business Travel Show in London, he said: “I see demand dropping significantly to and within the UK.” However, fellow German Florian Storp, of German travel association the DRV, insisted: “We don’t see a slowing of transactions between the UK and EU.”

UK corporate travel leaders also appeared relaxed. Steven Norris, Flight Centre Travel Group corporate managing director for Europe, reported in February: “We had our largest year-on-year growth to date in the UK.” Clive Wratten, then head of travel management company Amber Road and now chief executive of the Business Travel Association (BTA), said: “We’re not seeing any hesitancy. We’ve got past the point of ‘All aircraft are going to stop flying’.” That was before the Brexit date moved not once but twice, of course.

ONS figures showed a 3% decline year on year in UK outbound corporate trips in 2018 and a 2% fall in the 12 months to June 2019. Indeed, the ONS data shows a progressive decline since 2016, the year of the Brexit referendum.

UK business trips to Germany and

**Upbeat sentiment of buyers and TMCs belied by 2% drop in UK outbound business trips**

France appeared flat year on year in 2018. Trips to the US were down, likely owing to the unfavourable exchange rate, while increased time spent in China and Hong Kong was reflected in a sharp rise in total nights. Yet the figures do not suggest a break from previous trends, merely a degree of caution on spending.

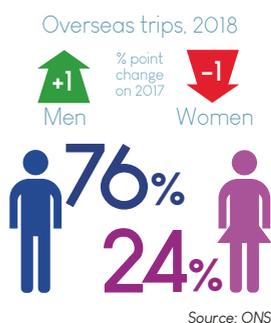
None of this reflects on the health of travel management companies (TMCs), which continue to see strong demand, attested to by the investment interest in the sector (see *Investment*, pages 26-28).

### NDC ‘MILESTONE’

Development of Iata’s New Distribution Capability (NDC) technology, which promises to transform third-party distribution of airline tickets and a core part of travel management, moved forward with collaboration between airlines, TMCs and technology providers to facilitate the first live bookings.

American Airlines, American Express Global Business Travel and Amadeus announced completion of their first NDC bookings in August, hailing a “critical milestone”. Yet the companies acknowledged “full functionality of end-to-end booking flow and service” would depend on “reaching scalable production levels”. Gianni Pisanello, vice-president of Amadeus’ NDC (X) programme, noted the technology was not at the point “where

**FIGURE 34:**  
UK CORPORATE TRAVELLERS



### The Deloitte view

Business travel companies have faced challenging conditions in recent years, with UK corporate trip volumes declining.

However, market analyst Mintel forecast business travel activity would stabilise in 2019. Corporate travel spend in the UK professional services and legal sectors remains largely untouched by uncertainty around Brexit, while other sectors have benefited from localised trends, including an increase in oil and gas exploration activity.

The last few years have seen consolidation and geographical expansion in the

corporate travel sector, although there were fewer transactions in 2019 than in the previous three years. Of the ‘big three’ TMCs, only American Express GBT has been active this year, acquiring a majority stake in Kanoo Travel and the business travel arm of German group DER Touristik. This diversification into the SME corporate market may be a future M&A trend among the large, global players.

SME operators such as Reed & Mackay continued to expand their international networks, in R&M’s case by acquiring

Concierge Travel in Australia while also strengthening its position in the UK with the acquisition of Business Travel Direct. Specialist Key Travel expanded its market share with the acquisition of Raptim Humanitarian Travel late last year.

Although private equity has taken a back seat this year, it’s worth noting all three businesses mentioned are private equity-backed. We expect to see further consolidation in 2020.

■ **Nigel Bland, partner, and Janice Clement-Smith, assistant director, Corporate Finance**

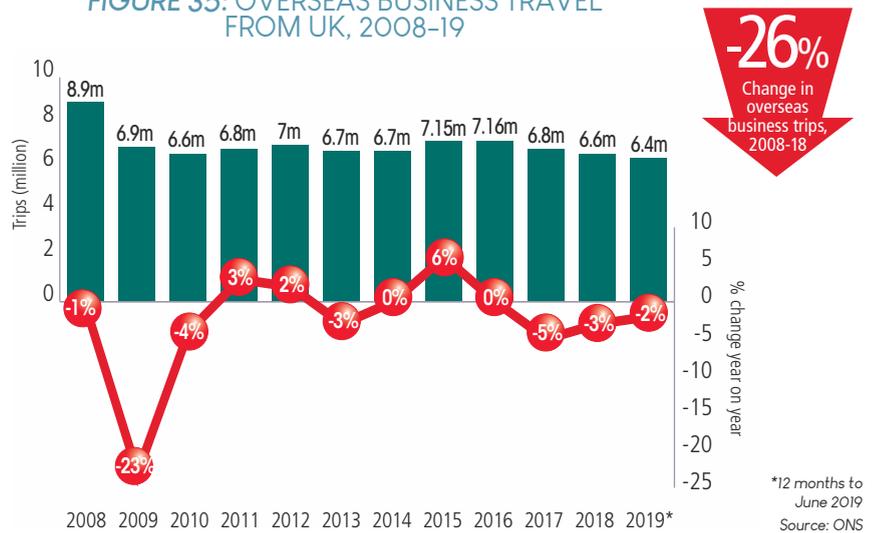
travel agencies can shop, book and service NDC bookings at scale and match current performance”.

Iata conceded in July that it had “underestimated the complexity” of developing NDC. But the airline association set an ambitious target. Senior vice-president for financial and distribution services Aleks Popovitch told the BTA conference: “We have 21 airlines on our leader board and by the end of 2020 we’re confident 20% of [their] indirect sales will be via NDC.”

That target was questioned by senior corporate travel figures. BTA chair Suzanne Horner, chief executive of Gray Dawes, told Iata: “There are still major headwinds.” Ken McLeod, Advantage Travel Partnership director of industry affairs, suggested there was “no way” Iata would hit its target. He said: “The GDSs say they are 70% of the way there, but the remaining 30% is the most difficult. The corporates are growing impatient, [while] TMCs are frustrated by the lack of airline products and services.”

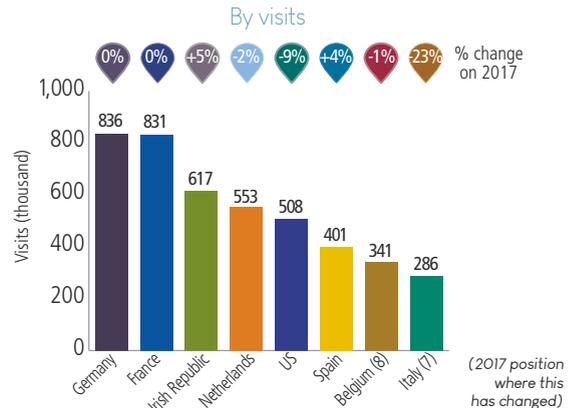
Leading European airlines continue to restrict fares available via GDSs while adding fees to GDS bookings and signing agreements with TMCs to develop NDC technology in return for full content. ■

**FIGURE 35: OVERSEAS BUSINESS TRAVEL FROM UK, 2008-19**

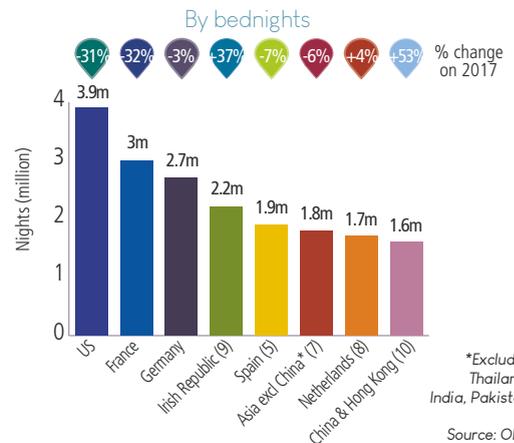
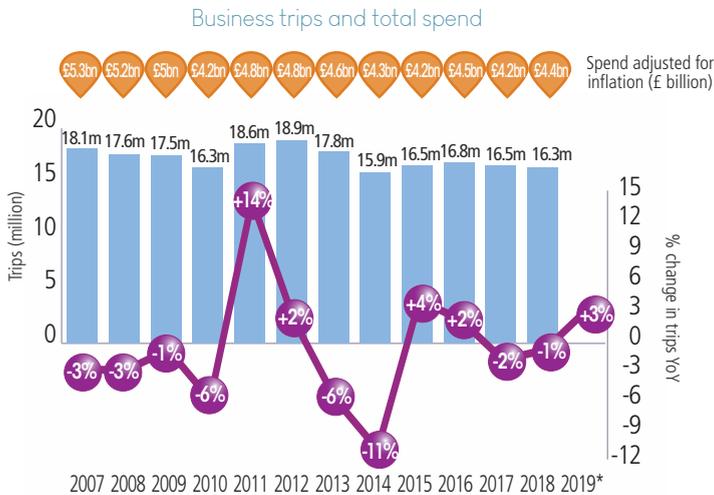


OUTBOUND corporate travel numbers appear becalmed amid the general business uncertainty (Figure 35). A sharp drop in numbers travelling to the US may be cost-related (Figure 36). Domestic business travel also barely picked up (Figure 37). The gender imbalance in the sector remains marked (Figure 34)

**FIGURE 36: LEADING BUSINESS DESTINATIONS FROM UK, 2018**



**FIGURE 37: UK DOMESTIC BUSINESS TRAVEL, 2007-19**



# INVESTMENT IN TRAVEL

## M&A SLOWS BUT INTEREST IN TRAVEL REMAINS HIGH

There was a sharp slowdown in the rate of mergers and acquisitions (M&A) in UK travel and tourism in 2019, in marked contrast to the previous year when “deals flowed thick and fast”, according to the 2018 edition of this report.

No one took this as a sign of investors losing interest in travel and tourism or in M&A. Globally, M&A activity continued to surge, with deals in travel and leisure worth \$7.39 billion in July alone.

However, UK Office for National Statistics data showed a contraction in the value of deals involving UK companies across all sectors, with a peak in transactions abroad by UK companies in 2017 (total value £77 billion) falling to £24 billion in 2018 and £7.5 billion in the first half of 2019. Transactions in the UK by overseas companies peaked in 2016 at £190 billion, falling to £79 billion in 2018 and £26 billion in the first half of 2019.

The reason was not hard to identify. Deloitte’s regular assessment of UK chief financial officers’ sentiment, its Q3 CFO Survey, noted “slowing growth and persistent uncertainty” and “an intense focus on cost control”, with the proportion rating cost reduction a strong priority “higher even than in late 2009”.

Bank of England research suggested “current uncertainties have become

‘Persistent uncertainty’ dulls investor activity but post-Brexit upturn predicted

entrenched” and Deloitte noted: “Investment has slowed dramatically since the EU referendum.” However, the evidence from Deloitte’s Q3 Consumer Tracker was that consumers “appear more confident about their personal finances than the state of the economy... the leisure sector continued to perform well... spending on holidays was slightly lower than in Q3 2018, [but] spending on big-ticket experiences rose compared to a year ago”.

### ECONOMIC UNCERTAINTY

Noting how few M&A deals the sector had seen in 2019, Deloitte corporate finance partner Nigel Bland said: “It’s been hard for anyone to be comfortable buying or selling amid so much uncertainty.

“The uncertainty throughout the year affected consumers and businesses. Investors have been reluctant to commit to transactions in this environment.”

He identified three ‘inhibitors’, saying: “One is Brexit, the second is consumer spending volatility and the third would be the travel business failures we have seen.”

Bland said: “Brexit is going to remain uncertain, so it’s hard to see a busy first half of the year for M&A in 2020.” But he added: “If Brexit gets an answer, it’s entirely possible we will get a consumer spending bounce in January. Then we could see some M&A deals.”

His colleague, financial advisory partner Gurm Dhillon, noted: “Linked to that will be the value of the pound.”

Bland agreed: “Sterling reacted in expectation of a [Brexit] deal. There may be some more bounce to come, but there is still considerable uncertainty.”

He suggested the travel sector failures would “cause anyone on an investment board to pause. Even when the problems were not common, it’s going to make a difference to investors.”

That said, he added: “Stock market investors lost money, but private equity investors have had a high rate of return from the travel industry. There is an element of wanting to evaluate the

THE CORPORATE view of Brexit has not improved: belief it will worsen the business environment reached a new high in 2019 (Figure 38). Almost half of major businesses reported difficulty recruiting (Figure 39). Yet consumer confidence remained broadly on a par with three years ago (Figure 40)

FIGURE 38: BREXIT IMPACT: UK BUSINESS VIEW

% UK CFOs believe environment better/worse post-Brexit



Source: Deloitte CFO Survey

market, wanting to assimilate the failure, but the private equity community is focused on specialists in the industry – on niche higher-growth businesses.”

## DEALS BACKLOG

Dhillon suggested the private equity cycle means many of the businesses involved in transactions in the past four to five years are likely to see changes of ownership in the not-too-distant future. He said: “The vast majority of deals in travel over the last two years have been private equity-backed and businesses come into private equity ownership for a period of years.”

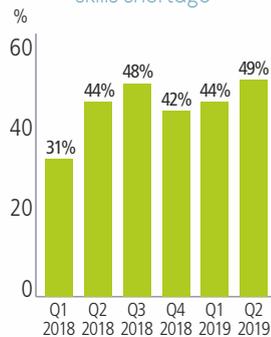
Bland agreed, saying: “When the market comes back, there will be a backlog of private equity assets. We could see more transactions in 2021.”

Dhillon added: “There has been a general slowdown in M&A in leisure, yet the Deloitte Q3 Consumer Tracker showed people are still spending on leisure. The volume of deals has slowed, but there are still some large deals.”

One example was attractions group Merlin Entertainments which was taken private in a £4.8 billion buyout completed in November by a consortium including private equity giant Blackstone, Lego brand owner Kirkbi and the Canada Pension Plan Investment Board.

**FIGURE 39: WORKPLACE RECRUITMENT**

% of CFOs reporting difficulty recruiting/ skills shortage



Source: Deloitte CFO Survey

Dhillon said: “We’ve seen more public-to-private transactions this year than for a while. Private investors see embedded value in these companies.”

Bland added: “Globally, there is growth in travel and tourism and deals have become easier although there is volatility.”

He noted: “There is an ongoing trend of consolidation in distribution. There is significant interest in UK domestic travel, where customer volatility has not been so great, and there remains interest in corporate travel where we continue to see cross-border and domestic consolidation.”

Looking forward to 2020, Bland said: “If Brexit gets off and the early-booking period goes well, we could see businesses coming up for sale in the second half of next year. We would also expect more M&A activity in Europe as relations with Europe settle down post-Brexit. We work across the leisure sector and a lot of deals are waiting to happen.”

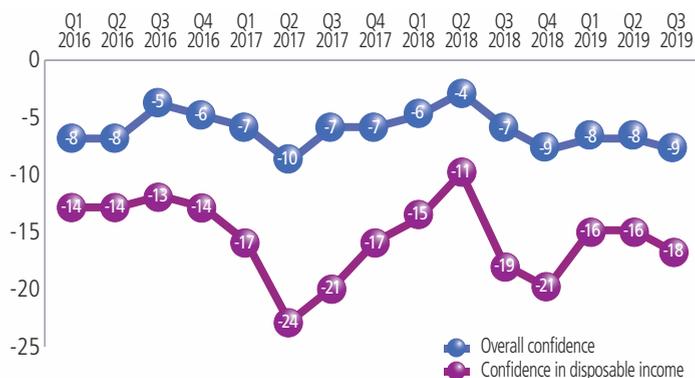
Dhillon agreed, saying: “My view is M&A in travel will resume next year.”

Bland foresees Brexit having limited impact on the leading financial position of the City of London and the consequent availability of finance for deals.

He said: “There has not been the exodus everyone forecast, although the uncertainty is not over. I’m reasonably confident because of the scale and transparency in London. So long as rules are clear, investors will be happy to invest.”

**FIGURE 40: UK CONSUMER CONFIDENCE, 2016-19**

% point difference between those ‘confident’ and ‘not confident’



Source: Deloitte Consumer Tracker

## 2019 ACTIVITY

It would be untrue to say there were no major deals in the past 12 months. Two of the biggest were announced last December and completed in 2019.

Gatwick Airport changed hands in a takeover by Vinci Airports of France, which acquired a 50.01% stake from Global Infrastructure Partners, with the latter continuing to manage the airport. The deal valued Gatwick at £7.5 billion.

Travel technology group Travelport was taken private in a \$4.4 billion buyout by Evergreen Capital, part of US hedge

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fund Elliot Management, and Sirius Capital Group – a takeover completed in May.

A third significant deal, in November 2018, saw technology group Sabre agree to acquire travel tech firm Farelogix. However, that deal was subsequently held up by the US Department of Justice and UK regulator the CMA.

The process of consolidation in the travel technology sector also saw Amadeus acquire Australian airport technology firm ICM in March.

Among airlines, British Airways parent IAG swooped for Air Europa in November, agreeing a €1 billion deal pending regulatory approval.

Virgin Atlantic joined Southend airport owner Stobart Group and US hedge fund Cyrus Capital in acquiring Flybe, to be rebranded Virgin Connect from 2020. The cut-price deal, involving a debt takeover and capital injection of £65 million, saved the regional carrier.

Toronto-based private equity firm

“  
When the market comes back, there will be a backlog of private equity assets. In 2021, we could see more transactions

*BREXIT remains the ‘greatest risk’ to UK business, according to a survey of chief financial officers, but concern about geopolitical risks and trade conflict has risen sharply (Figure 41). Reducing costs is a clear priority (Figure 42).*

Onex acquired Canadian airline WestJet for £2.9 billion in May, and Air Canada agreed to acquire Quebec-based Air Transat for C\$520 million in June before raising its valuation to C\$720 million (£450 million) in August. In Asia, Cathay Pacific agreed to pay \$628 million for low-cost carrier Hong Kong Express in March.

The global hospitality sector saw fewer deals, but Indian group Oyo scooped up smaller hotels at an unprecedented rate and Marriott International acquired Elegant Hotels for £101 million in October.

### UK ACQUISITIONS

In the UK, Phoenix Equity Partners sold Devon-based holiday lettings agency Travel Chapter to ECI Partners in January, having bought the agency in 2016.

Holiday park operator Away Resorts changed hands, sold by private equity firm LDC in May to Swiss fund Bregal Freshstream. Vitruvian private equity acquired Sykes Holiday Cottages from Livingbridge in October for an undisclosed sum – reported to be £375 million. And new parks operator Lakeshore Leisure Group, set up in August by Kings Park Capital, took over two holiday parks in Devon in October.

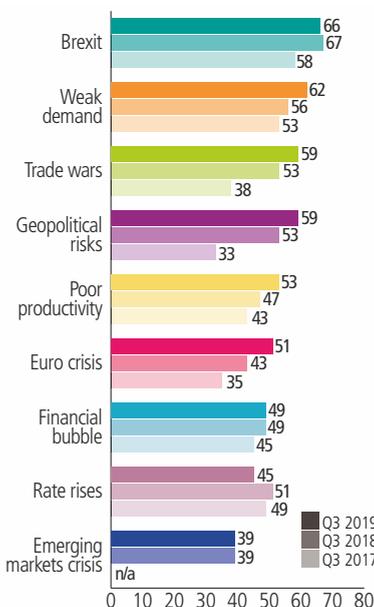
There were fewer deals among tour operators, but Swiss-owned Hotelplan acquired Flexiski from Travelopia in May for an undisclosed amount. Travelopia also sold several brands, including World Class Vacations and Educatours, to WorldStrides in November.

Tui, former owner of Travelopia, sold two of its specialist German operators to German private equity firm Genui for €100 million in August. In the same month, Great Rail Journeys – owned by UK private equity firm Duke Street – acquired Chicago-based Vacations by Rail.

In corporate travel, Gray Dawes bought Amber Road, a TMC, from private equity firm Endless for an undisclosed sum in September, while American Express GBT acquired Frankfurt-based DER Business Travel from DER Touristik.

**FIGURE 41: GREATEST RISKS TO BUSINESS**

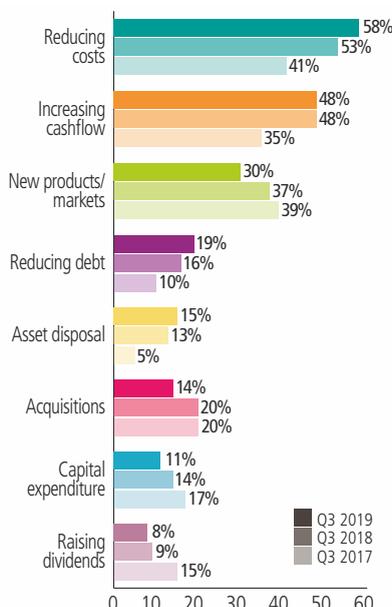
UK CFO average rating, 1-100



Source: Deloitte CFO Survey

**FIGURE 42: UK CORPORATE PRIORITIES**

% CFOs rating as priority in next 12 months



Source: Deloitte CFO Survey

# AVIATION

## AIRLINES FOLD AS GROWTH SLOWS

**Growth in air traffic moderated over the course of 2019 following a 6.3% rise in global passenger numbers in 2018 and 6.6% rise in Europe.**

Airline association Iata reported 3.8% growth in global passenger traffic in September 2019, but with traffic in Europe increasing only 2.6%. Iata noted September marked “the eighth consecutive month of below-average demand growth” and Europe’s figures were “the weakest this year”. This was no bad thing given clear overcapacity in Europe’s short-haul market and increasing pressure on carriers to curb emissions growth. The volume of air freight also fell for an 11th consecutive month in September.

Brian Pearce, Iata chief economist, told the Airlines 2050 conference in London in October: “Business confidence has dipped sharply. Europe has seen a series of bankruptcies. The industry has lost the ability to recover its cost increases. Air cargo is collapsing. In revenue terms it has fallen 10%.”

The 2018-19 edition of this report noted growing pressure on yields and increasing number of airline failures even as major carriers in Europe and North America reported substantial profits.

Those trends continued in 2019, although increasingly the failures stood out. Thomas Cook Airlines ceased flying in September when its parent group went into liquidation, although German carrier Condor continued flying with a

**European carriers rein in expansion as overcapacity bites but major global airlines continue to post hefty profits**

government loan and the Scandinavian operation was reborn as Sunclass Airlines.

Aigle Azur of France and Adria Airways of Slovenia also ceased flying in September, as did XL Airways France – 11 years after one-time parent XL Leisure folded.

UK regional carrier Flybmi called in administrators in February, as did Berlin-based Germania. Icelandic carrier Wow Air – which flew from Gatwick, Stansted and Edinburgh – folded in March. In India, the country’s second-largest carrier, Jet Airways, was grounded in April.

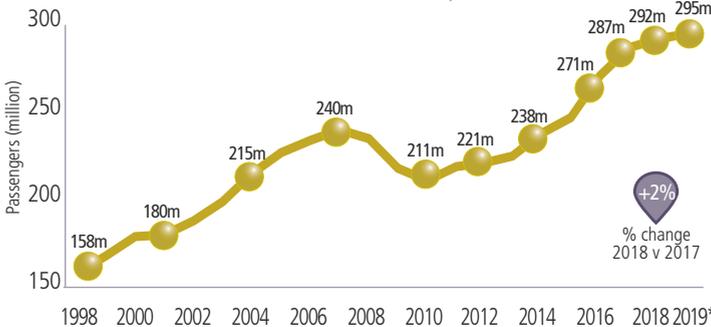
Leading airline bosses forecast further failures. International Airlines Group (IAG) chief executive Willie Walsh told an Airlines for Europe summit in March: “There are airlines in a very weak position.” Lufthansa chief executive Carsten Spohr agreed: “There is an unhealthy element in Europe’s airlines.” And Ryanair chief executive Michael O’Leary suggested: “The industry is moving inexorably towards five airline groups controlling 80% of traffic in Europe.”

Norwegian Air remained the subject of speculation after IAG confirmed in January it had no interest in pursuing an acquisition and sought to retrench following rapid growth. Founder Bjorn Kjos stood down as chief executive in July.

The number of failures led to renewed focus on insolvency and repatriation arrangements. In the UK, the Airline Insolvency Review, set up in the wake of Monarch’s collapse in October 2017,

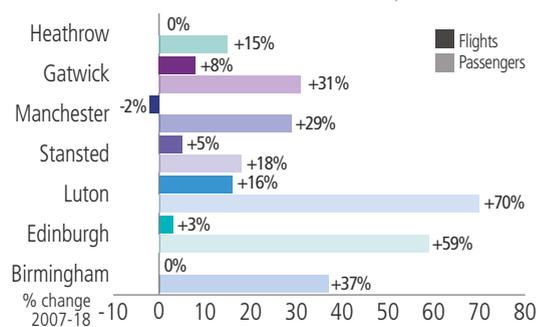
*UK AIR passenger numbers appear poised to pass 300 million (Figure 43). Airport passenger numbers have risen without a corresponding increase in the number of flights (Figure 44)*

**FIGURE 43: UK AIRPORT PASSENGER NUMBERS, 1998-2019**



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

**FIGURE 44: TRAFFIC INCREASE AT UK’S BIGGEST AIRPORTS, 2007-18**



Airports handling 10 million-plus passengers a year Source: CAA

# AVIATION

## AIRLINES FOLD AS GROWTH SLOWS

recommended a new flight protection scheme financed by bonds or insurance and backed by a small levy on all flights. The proposals sparked predictable reactions, with the levy idea welcomed by travel trade associations and denounced by airline bodies. The government delayed responding, only for Thomas Cook's failure to require repatriation of 150,000 UK passengers. Yet full implementation of the review's proposals appear unlikely.

### AIRLINE PROFITS

Leading carriers continued to report substantial profits despite the challenge of diminishing yields.

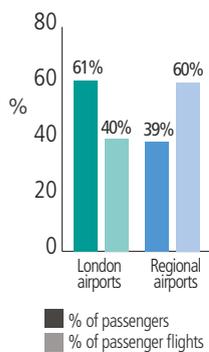
In the US, Delta Air Lines reported a pre-tax profit of \$5.2 billion for 2018 despite a \$2 billion rise in its annual fuel bill. United Airlines followed profits of \$2.7 billion in 2018 and \$3 billion in 2017 by appearing on course to break both figures in 2019, while American Airlines weighed in with a 2018 profit of \$1.9 billion.

In Europe, British Airways and Iberia owner IAG reported a pre-tax profit of €2.9 billion for 2018, 44% up on 2017, and was on course to report similar for 2019. The group could agree a €1 billion takeover of Spanish carrier Air Europa in November.

Ryanair reported a full-year profit of €1 billion for the 12 months to March

“Flights will continue whatever happens [but] there are headwinds facing the industry that aren't due to Brexit

FIGURE 45: LONDON & UK REGIONAL AIRPORT TRAFFIC, 2018



Source: CAA

as annual passenger numbers hit 142 million with the takeover of Vienna-based Laudamotion. The carrier made O'Leary group chief executive as it rebranded its operations in Poland as Buzz and in Malta as Malta Air, and O'Leary emphasised the opportunity in the situation, arguing: "As weaker European airlines are sold and fail, airports are competing to attract Ryanair."

That did not make Ryanair immune to the need to curb expansion. In August, O'Leary announced plans to cut 1,500 jobs by the new year. He told employees: "It's been a challenging summer and we face a difficult winter."

Rival easyJet also reined in expansion, though with less drama and while relaunching tour operator brand easyJet Holidays. Having increased capacity 10% for the 12 months to September, easyJet announced capacity growth in 2020 would be nearer 3%. However, easyJet's purchase of Thomas Cook's slots at Gatwick suggested chief executive Johan Lundgren sees scope for growth. The carrier reported a £427 million profit for the year to September.

BA celebrated a 100th birthday of sorts in August as it launched its first Airbus A350 flights and unveiled a new Club Suite business class. But in September, its first-ever strike by BA pilots cost it €137 million.

Virgin Atlantic revealed designs on

### The Deloitte view

The introduction of any technology brings disruption as well as benefits. This is certainly true of unmanned aviation, covering everything from drones to 'urban air mobility', including air taxis. While drones have been in the headlines for the disruption caused, their benefits arguably offset their occasional negative impact – for example, in delivering life-saving supplies to remote areas.

Drones are a catalyst for three major opportunities: automation, electrification and democratisation of low-level airspace. While the first two are well documented, the democratisation of low-level airspace

deserves more debate. It refers to automation of the airframe as well as the airspace management tools and finance models that govern them. At present, airlines pay a fee for airspace use which is passed on to consumers. This funds the national air navigation service providers and their operations and funding structures are heavily regulated.

However, with projected aircraft movements set to increase more than tenfold in the next five years, it's not feasible for passengers to continue to pay for the airspace use of both manned and unmanned aviation.

For unmanned aviation to develop further in its applications and to realise the benefits it can offer, the financing models, along with the supporting regulatory frameworks, should be revised. Rather than looking at unmanned aviation as a burden on the airline charge, there is an opportunity to change a system of which the principles have not changed in the last 50 years. Once achieved, more people and companies can access, enjoy and benefit from the airspace, thereby lowering the cost per aircraft movement and making it better for everyone.

■ James Cranswick, director, Aviation

becoming a “second UK flag-carrier” under chief executive Shai Weiss who took over in January. The airline led the takeover of regional carrier Flybe in March – in a consortium with Stobart Group and US hedge fund Cyrus Capital – and revealed Flybe would be rebranded Virgin Connect.

## ENVIRONMENTAL ISSUES

There remained considerable environmental and community-based opposition to a Heathrow third runway – leave aside the previous opposition of Boris Johnson, the man most likely to be returned as prime minister in December, and the hostility of Labour Party leaders. There is also the significant obstacle of ground-level emissions restrictions to surmount.

Aviation’s environmental impact loomed increasingly large amid growing awareness of global warming.

It was unfortunate in this context that one of the most fuel-efficient short-haul aircraft in the world, the Boeing 737 Max, spent nine months of the year grounded following the second of two fatal crashes in October 2018 and March 2019. An automated flight control system designed to prevent stalling was implicated in both. The Max remained grounded as the year drew to a close awaiting US regulatory clearance.

Airlines, like the rest of us, still awaited clarity on Brexit and what comes after. But the industry was “in a good place” on the issue, according to Iata UK and Ireland area manager Simon McNamara, who told

ONE IN TWO UK adults flew in the past year, but only one in five took more than two flights (Figure 46). Concern about the environmental impact of flying has risen (Figure 47). Holidays are by far the main reason for flying (Figure 48). London dominates the UK air passenger market (Figure 45)

the Airlines 2050 conference: “Airlines are perhaps in a better place on Brexit than a lot of sectors.” UK Department for Transport aviation director Dan Micklethwaite assured the same conference: “Flights will continue whatever happens.” But he noted: “There are headwinds facing the industry that aren’t due to Brexit.” ■

FIGURE 46: FREQUENCY OF FLYING, 2019

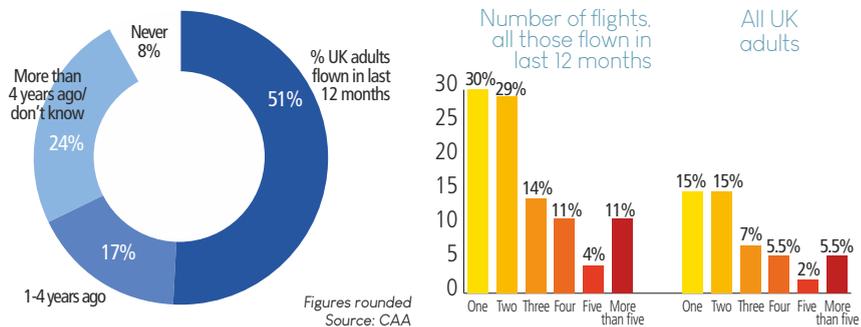


FIGURE 47: CONSIDER IMPACT OF FLYING, 2016-19

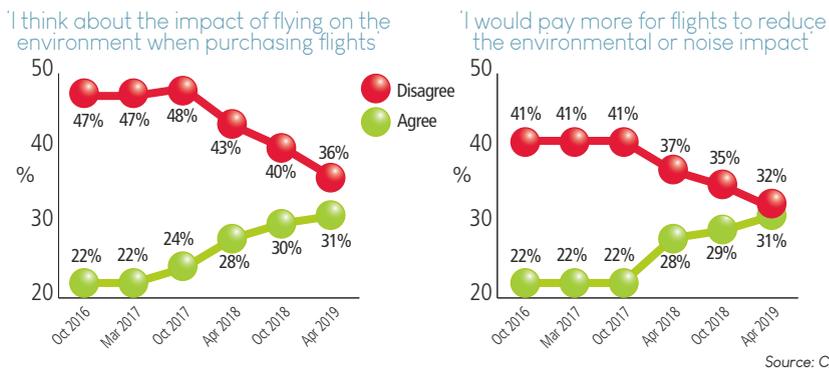
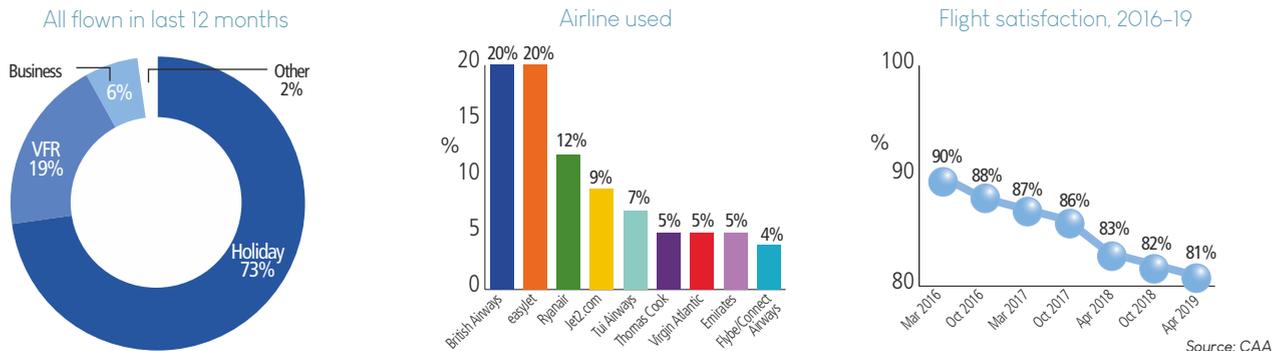


FIGURE 48: MAIN PURPOSE OF LAST FLIGHT



# HOSPITALITY

## GROWTH FORECAST TO SLOW

**A decade-long boom in hotel investment in Europe may be at its peak, according to Andreas Scriven, Deloitte UK lead partner for hospitality and leisure.**

Scriven said: “We’re at the top of the cycle or in slight decline in Europe in a number of markets – earnings results confirm that. Different markets are trading slightly differently.

“The UK leads the way as usual in hospitality. We’ve seen a slowdown in the UK regions, yet the cost base has continued to increase. You have business rates, the rising costs of food and beverage, the increase in the UK national minimum wage and the apprenticeship levy. We start to see some pressure especially on hotel businesses that are aggressively structured.

“In Germany, there is concern that growth is coming down. Secondary city markets there are seeing hotel supply increases of 15%, 20% or 25% in the next two to three years but don’t have the depth of demand of London or Paris and are hugely dependent on conference and exhibition business. There is a degree of volatility in how investors view the European hotel market. The UK and Ireland are at the top of the cycle or post-peak. There is a question mark over Germany. The Mediterranean market has some room to grow. Investors see opportunities in Italy and Portugal.”

**Hotel supply outstrips demand in leading markets, while UK’s biggest concern is filling entry-level roles post-Brexit**

That view was confirmed by Robin Rossman, managing director of hospitality industry analyst STR, who told the European Hotel Industry Conference in London in November: “Demand growth is less than supply growth in many markets.”

STR recorded a sharp fall in revenue per available room (RevPAR) in the Spanish islands of Majorca and the Canaries. RevPAR reflects the average daily room rate and occupancy. It had fallen 6% year on year in Palma, 4% in Tenerife and Gran Canaria and 11% in Fuerteventura.

Scriven added: “The recent travel collapses are a major issue for the whole Mediterranean, especially for independent hoteliers. There is significant exposure among family-owned, independent hotels in Spain, Greece and Turkey.”

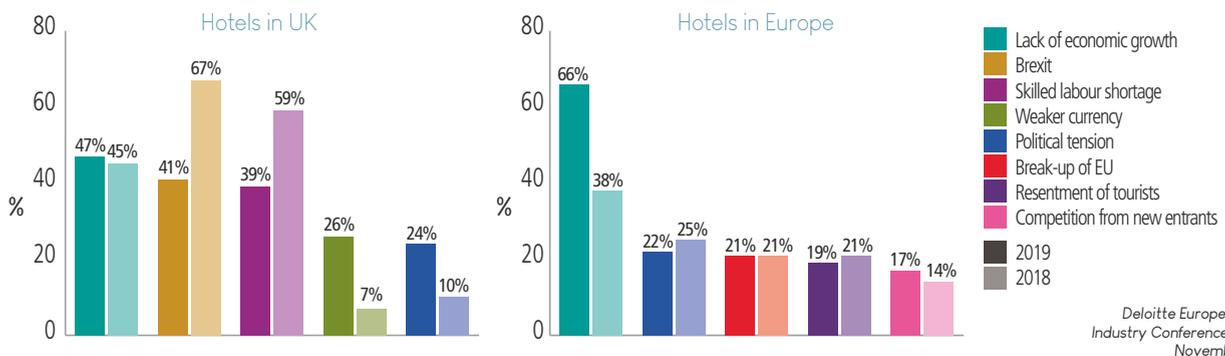
Of Turkey, he said: “The market fell off a cliff [in 2016]. Turkey has clawed its way back, but there is still a legacy and the collapses are not helpful.”

### BREXIT’S IMPACT

Yet despite the possible stall in growth and uncertainty around Brexit, Scriven noted: “London has remained robust. There is not the same amount of Chinese capital [flowing into London] as three to four years ago, but that is more to do with macroeconomic factors. It has little to do with Brexit. London will remain one of the most-attractive places to invest in a hotel.”

*THE STATE of the economy has replaced Brexit as the chief concern among UK hotel investors, with the shortage of skilled labour also a leading concern (Figure 49)*

**FIGURE 49: TOP-5 RISKS TO HOTEL INDUSTRY IN NEXT FIVE YEARS**



Source: Deloitte European Hotel Industry Conference survey, November 2019

Deloitte’s annual European Hotel Industry Survey, released to coincide with the conference, indicated Amsterdam remains the number-one choice of hotel investors in Europe, with Paris in second place ahead of London. Yet Scriven pointed out: “London remains the largest hotel investment market in Europe, worth £6.3 billion in the last 12 months.”

The biggest concern he sees is “how businesses will resource their operations. Will they be able to recruit? Will people be able to come to the UK?”

The sector has already seen “a major drop in those coming to the UK from eastern Europe”, he said, with the impact felt most strongly in London. “A lot of hoteliers say the only way to get enough good people will be to pay more.”

He forecast: “Labour and the quality of labour will be top of the agenda for the next five years. There is a supply of good candidates for middle management. The issues are around entry-level positions. People don’t want to stay on the national minimum wage. The industry needs to be better at communicating the career paths in the industry. It needs to be able to say, ‘You can start at entry level and progress’. Businesses try to bring in qualified people but at the lowest possible cost.”

However, he said: “The industry has proved hugely adaptable. It needs to ensure a voice at the table with government but can’t just rely on the government. It needs to step up how it attracts, recruits, trains and retains people.”

## AUTOMATION AND DATA

Technology is ever-more important in the sector. Yet Scriven insisted: “Where automation is important is behind the scenes – less in the category of robotic vacuum cleaners or robots on the front desk than the back office.”

He dismissed some high-profile tech innovations as “gimmicks”, saying: “Robotics on a check-in desk does the industry the biggest disservice. Interaction with a bot does not add value.

Being told to check in at a kiosk at a luxury hotel would be unacceptable.”

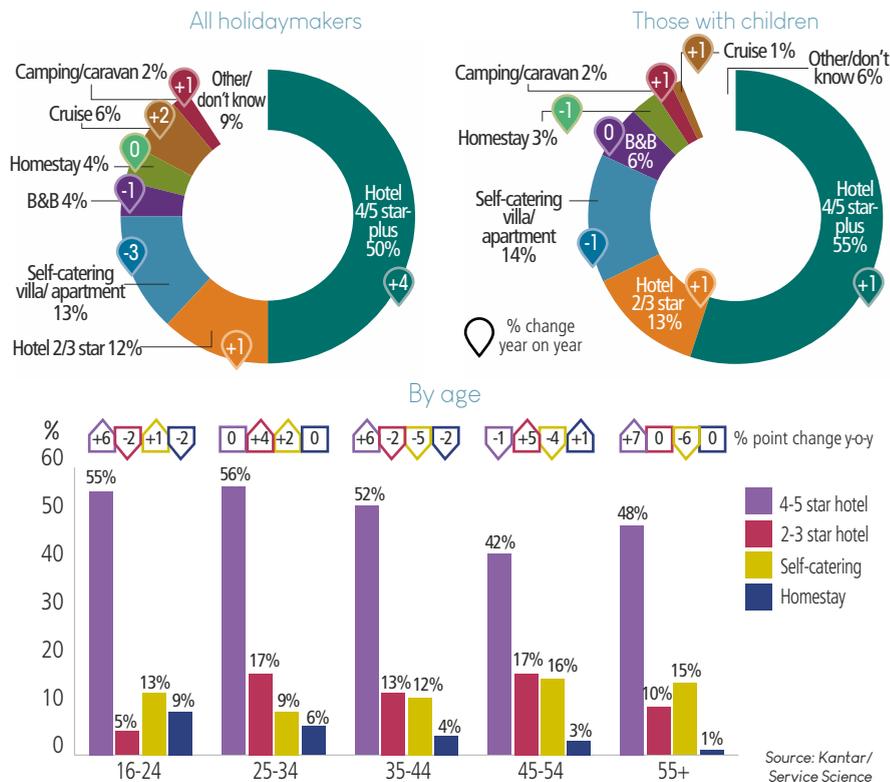
At the same time, he said: “There are hotel companies which still receive printouts of bookings and someone has to type them into the system. The industry needs to allow staff to deal with the customer experience.”

Key to this is customer data. Scriven said: “Data is not the most exciting [topic], but how many times do guests show up at a hotel and it gets their data and preferences wrong? It’s an everyday experience.

“Predictive analytics is clearly where it is heading – understanding the consumer and reaching out to them in a more targeted way.” But he said: “We’re at the beginning of that journey. Personalisation has got better but has not reached a mature state. I can’t point to anyone who has made a leap forward in the last

ONE IN TWO UK holidaymakers plan to stay at a four or five-star hotel for their next holiday (Figure 50). The research suggests no overall increase in preference for homestay or ‘peer-to-peer’ accommodation among UK outbound holidaymakers since 2015

FIGURE 50: LIKELY ACCOMMODATION: NEXT OVERSEAS HOLIDAY



# HOSPITALITY

## GROWTH FORECAST TO SLOW

12 months. We still all get spammed by offers after visiting Spain or somewhere.”

Part of the difficulty, he said, is that “you interact with a hotel chain a few times each stay. Compare that with how much you interact with major online retailers or streaming providers”.

The industry must also balance its thirst for data with “how much guests want to share their data”. Scriven said: “We’ve seen some highly publicised cyber leaks in the last 12 months, and what you give a hotel is more personal than the data you give your supermarket. The attractiveness of the data – card details, dates of birth – means hospitality companies will remain targets. There needs to be constant investment. Yet a lot of times the weakest link is human.”

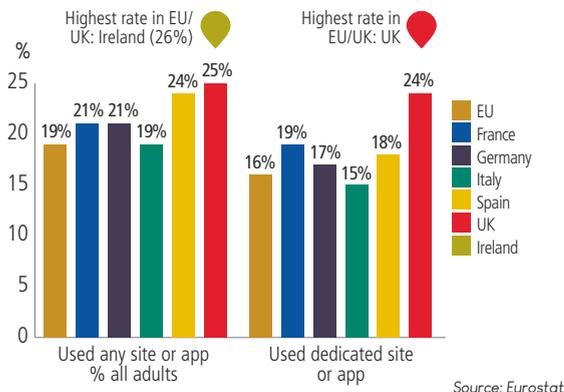
### RESERVATIONS SYSTEMS

Hospitality companies are at different stages of trying to evolve their systems, he said. Some “are struggling with legacy systems. They know what they want to do but can’t do it. Costs can be prohibitive.

“Systems can be 30 years old and companies are competing with platforms that have hugely bigger IT budgets. Then there are start-ups that can buy and bolt on systems with open architecture that did not exist five years ago.

“The heavy hitters face this giant

**FIGURE 53: ‘P2P’ ACCOMMODATION PLATFORM USE**



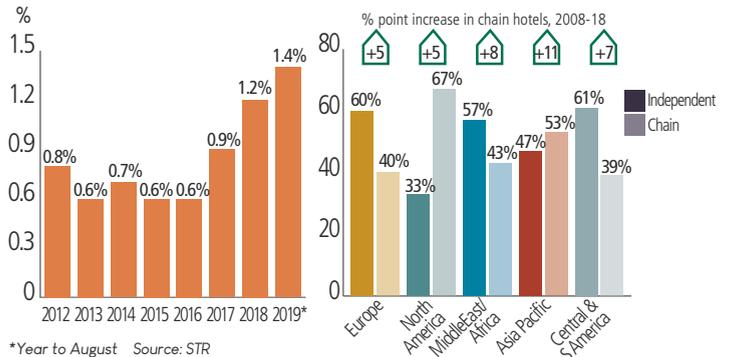
**FIGURE 51: EUROPEAN HOTEL SUPPLY GROWTH**

Annual % increase in room supply



**FIGURE 52: HOTEL SECTOR CONSOLIDATION**

Independent v chain hotels. 2018



“Robotics on a check-in desk does the industry the biggest disservice. Interaction with a bot does not add value

challenge. There is a levelling of the playing field, but people are competing with very different budgets.”

He suggested: “Companies need to recognise they are not technology companies and decide where to compete. That might mean embracing online travel agents (OTAs) and saying, ‘We’re OK with the cost of booking through the OTA.’”

At the same time, he said: “Players will try different things to get direct bookings – through targeting or incentives. There is a huge incentive to do that because the 15%-20% [OTA] commission falls away, although hotels do need to comply with their rate-parity agreements with OTAs. I expect most hoteliers to keep on fighting for direct bookings.”

Scriven sees less conflict in the competition between traditional hospitality and the rising homestay sector. “Home-sharing platforms are eating into the hospitality market, but not to the degree people sometimes think,” he said. “It varies by market and by [the extent of] regulation. There are five to six million listings on the major home-share platforms, available 20-30 days a year on average, whereas hotel rooms are available 365 days a year. The number of directly relevant products is much smaller. There is competition, but it is not as great as people dress it up.”

HOTEL supply growth in Europe hit a record high in 2019 (Figure 51). Despite continuing consolidation in the sector, the majority of hotels in Europe remain independently owned (Figure 52). Use of ‘peer-to-peer’ accommodation platforms in the UK is among the highest in Europe (Figure 53) despite the preference for hotels on holiday (Figure 50)

# TECHNOLOGY

## CAUTION MODERATES SPEED OF TRANSFORMATION

**Digital technology continues to transform all aspects of travel, in the back office and front, in operations, processes, analytics, sales, customer service and management.**

Deloitte travel and aviation partner Andy Gauld identifies three key trends over the past 12 months. First, he said: “There is a wider adoption of artificial intelligence (AI) where humans and robotics work well together. The travel and airline industries are starting to wake up to the possibilities here.

“There has been a shift in understanding robotic process automation. Organisations have seen how this can improve back-office systems. Now we see robotics driving into the operational space, for example in aircraft maintenance.”

He expects to see more of this over the next 12-18 months. However, Gauld describes use of robotics in the ‘front office’, for example at airport check-in desks, as “dabbling” to date.

Gauld said: “This stalled in the last 12 months. You still have check-in assistants helping customers use check-in machines.” Part of the reason, he suggested, is “people like human interaction”.

He said: “Passengers are a diverse group. They don’t necessarily want to use technology.” Even millennials, he suggested, “are not all as millennial as some think. You can split them into those who like technology and those who don’t.”

The second trend Gauld highlights is the use of drones. “More and more airlines are starting to use this technology for pre-flight checks, and there is talk of airports using drones to check passenger flows at airports,” he said. However, he points out there are potential security issues with use of drones at airports – one of the tensions between rapidly developing technologies and cybersecurity (see *Cybersecurity*, pages 49-50).

Third, Gauld identifies “use of smart, digital ways of working”. On the operational side, he said: “There is a need for airlines and airports to share

**Increased collaboration could accelerate the implementation of AI, robotics and biometrics**

data better. If you take a wider view of transport, including rail and freight, organisations increasingly want to share data, to better understand how to improve.” But in aviation, he said: “There is still a lack of willingness to share data between providers. More collaboration is needed. Not a lot has happened [in this respect] in the last 12 months.”

One area of collaboration where there has been movement is at airport borders, where Gauld said: “There is a lot happening. The technology is there for a smart border. The issue is the processes the technology needs to adhere to.”

His Deloitte colleague Martin Bowman, travel and aviation director, agrees. He said: “Collaboration across multiple stakeholders is a priority to better utilise the insights data give us.”

The limits to collaboration are partly reflected in investment. Bowman said: “It’s a challenge to make the case for technology change. The investment case is still largely dependent on the benefits. Aviation is a sector entirely dependent on its component parts – airports, airlines, air traffic control. But when anyone makes a case for investment it is based on the business case for one component.”

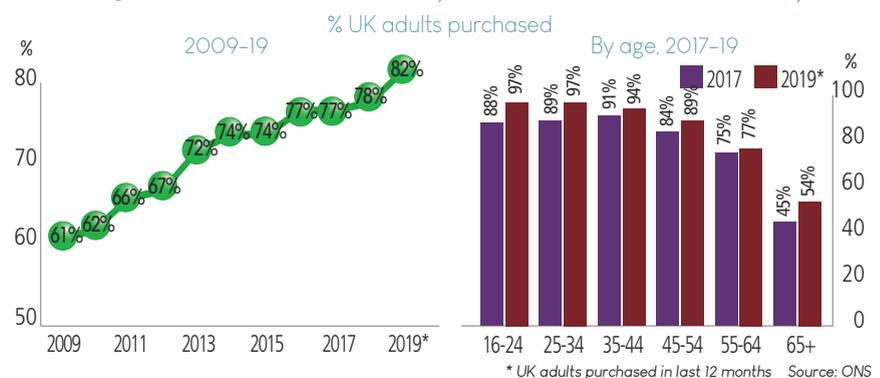
### BIOMETRICS

An area of aviation which is seeing collaborative working is biometrics.

Bowman said: “Biometrics is really

*THE PROPORTION of UK adults purchasing goods and services online must have reached almost as high as it can go in 2019, certainly among those under 45 (Figure 54)*

**FIGURE 54: ONLINE PURCHASING, ALL GOODS AND SERVICES, 2019**



# TECHNOLOGY

## CAUTION MODERATES SPEED OF TRANSFORMATION

starting to come to the fore. We see increasing use across the industry and collaborative projects.

“Biometrics is not new. We see it already at immigration facilities and check-in. But now we’re starting to see integrated processes with biometric tokens passed from one part of the process to the next and between airlines and domestic agencies. There is an increase in collaboration among airlines, airports and government agencies. At an industry level there is so much potential for process improvement and efficiencies, and a single stakeholder trying to do it cannot realise the potential opportunities.

“At the operational level, everyone has

*THE UK and Spain lead Europe’s main markets on rates of accommodation bookings online, which are way ahead of overall retail rates online (Figure 55). The rate of higher-value purchases online in the UK is the highest of Europe’s major markets and far above the EU average (Figure 56)*

woken up to the challenge of capacity. There is a need for optimisation and efficiency, to unlock capacity and to make the capacity there is more resilient.”

For airports, Bowman identifies a second priority, saying: “The passenger experience is high on the agenda – a long-term driver of investment and one of the big drivers of biometrics and for less [human] contact. There is a correlation between the customer experience and retail spending, between happy customers and their willingness to spend.”

### AUTOMATION CAUTION

Developments in AI and robotics hold great promise, but Bowman sees a major check on how far developments may go.

He describes AI as “the combination of analytics and machine learning to enable data to give insight” and said: “We’ve seen a pick-up in the area of ‘digital twins’, taking attributes of the physical world and using data science and analytics to create a digital twin to derive insights.

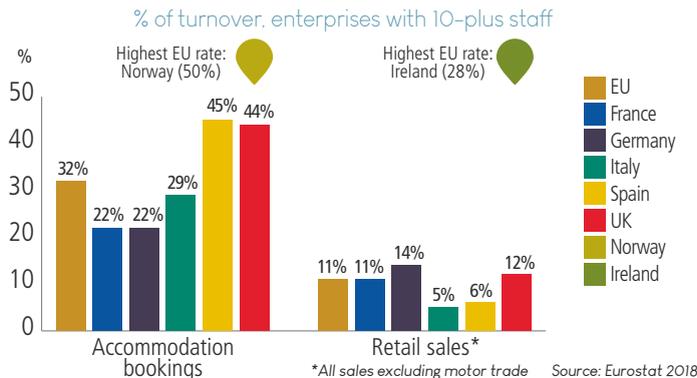
“For example, one US airport is building a digital twin, or copy, of all aircraft movements and decision points – flow on taxiways, runways, stands, queueing – to analyse the time aircraft are on the ground and how it could be reduced. We could create a digital copy of airspace to analyse how better to manage it.”

At the same time, Bowman said: “We’ve not seen a rise of AI in operational processes. The industry is still feeling its way. The emphasis to date has been on how to utilise data and analytics to make better decisions, with humans still in the loop.

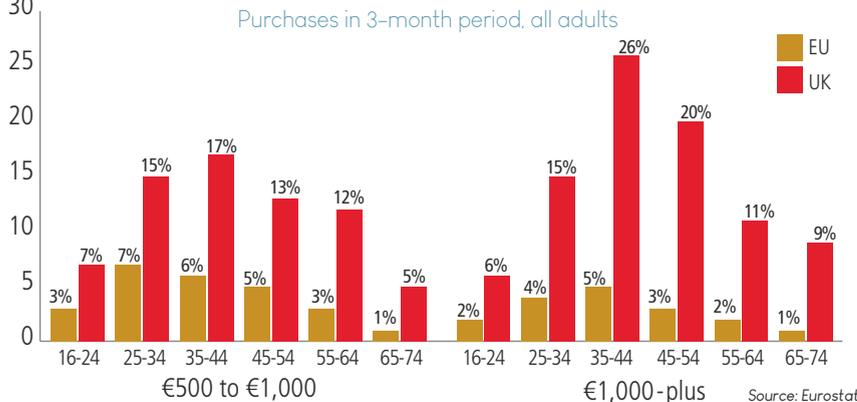
“I don’t see a major tipping point in automation of decision-making processes in operations for some time. Decision-making augmentation is a priority, but there is nervousness about automating too much – a nervousness that we may become too dependent on machines.”

For example, he said: “Full automation of air traffic control is just not on the agenda. The regulatory regime and safety are geared around people having safety

**FIGURE 55: E-COMMERCE ACCOMMODATION BOOKINGS, 2018**



**FIGURE 56: UK/EU ADULTS PURCHASING HIGHER-VALUE PRODUCTS ONLINE, BY AGE**



responsibility. Even if automation could take the place of human decision-making, the regulatory regime would not allow it.”

He insisted: “We’re an awfully long way from this changing. Over time, technologies will converge – the driverless car, the remotely piloted flying taxi, the drone delivery network. But we’re years away from any of these things happening. Every driverless car is capable of autonomous driving now, but there is no regulatory approval for them. The critical point is what is an acceptable rate of failure? We’re miles away from acceptance of computers failing.”

Deployment of these technologies also poses challenges. He said: “There are more drones now than commercial aircraft. How do you blend these airspace users into a system of safe management? It’s a level of complexity the industry has never seen.”

**FIGURE 57: UK ONLINE TRAVEL PURCHASING, 2012-19**



“The critical point is what is an acceptable rate of failure? We’re miles away from acceptance of computers failing”

THE PROPORTION of UK adults purchasing travel and accommodation online has grown, according to ONS figures, but not steeply (Figure 57). Yet growth in smartphone bookings and a fall in face-to-face bookings in travel agencies appears clear from consumer research for this report (Figure 58). The sharpest change on 2018 appears regional, with those intending to book with an agent in the North (16%) down six points year on year and in the Midlands (12%) down 10 points (Figure 59)

**AIRLINE DISTRIBUTION**

When it comes to consumer-facing technology, Gauld said: “We’ve not seen a lot of movement or airlines looking at new ways to interact with customers over the last 12 months.” Part of the reason is “budgetary concern”. He said: “There has been a lot of nervousness around Brexit, and not just among UK airlines. Everyone has been taking stock.”

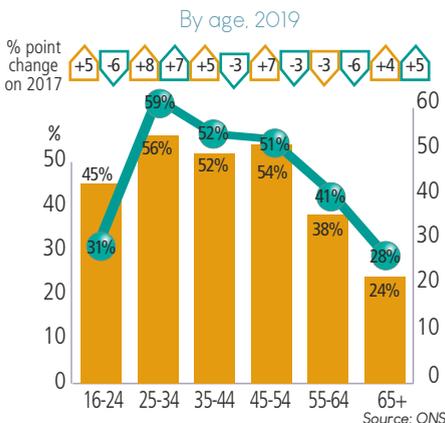
Gauld added: “There is still the fight over [who owns] the consumer, but nothing has really turned up the dial in the last 12 months.”

He suggested this extends to airline development of Iata’s New Distribution Capability (NDC), which aims to enable online retailing, including personalised fare offers, through intermediaries. Airline association Iata has said 21 airlines will be taking 20% of their bookings via NDC channels by the end of 2020, although there is a degree of scepticism about this target in the corporate travel sector.

Gauld said: “NDC is losing momentum in my view. There has been a bigger uptick on it in Europe and lower in the US, but I can see a technology player offering a viable alternative to NDC. It would be a compelling proposition to tap into that data.”

He believes it’s only a matter of time before “one of the big tech giants comes into the [travel and aviation] space”.

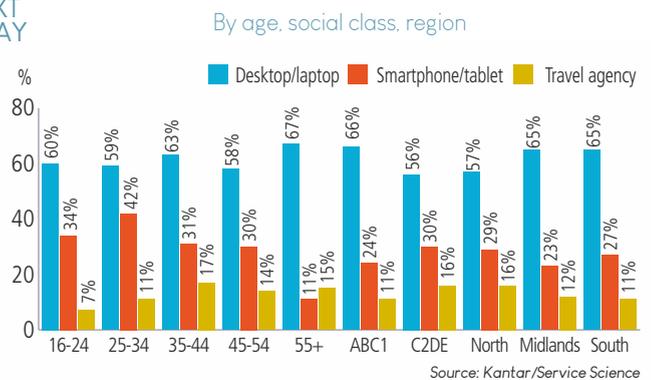
Gauld said: “One or two airlines have



**FIGURE 58: LIKELY METHOD OF BOOKING NEXT OVERSEAS HOLIDAY**



**FIGURE 59: ONLINE BOOKING OF NEXT HOLIDAY**



# TECHNOLOGY

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been working with a tech giant. We'll see one or two make a move in a big way – whether that involves acquisition of an airline or getting agreements with airlines or airports to share data and the tech giant becoming the 'conierge'.

"Someone who could take away the heavy [technology] lifting would change the airline business model. The interaction with the customer would change. The airline would not book your excursion or re-map your trip when there is disruption. The tech giant would be the end-to-end vendor."

He calls this "tech vendor travel" and said: "Airlines have been worrying about this for some time. I expect to see a major disrupter [in the sector]. We're potentially at a tipping point."

### LEGACY SYSTEMS

One of the biggest issues many airlines face is matching technology advances to the legacy systems they use. Gauld said: "Most airlines have systems that take an age to upgrade. The question is whether the benefits [of upgrading] can justify the level of investment required."

Bowman said: "The industry has grown up with legacy systems and these deliver core functions. They are so intertwined [with operations] that phasing these systems out is hugely complex. The priority is less legacy-system replacement than interoperability. If systems can be made more interoperable and easier to access and to extract data from, it becomes easier to mine data and insights." He added: "There will always be a mix of technologies."

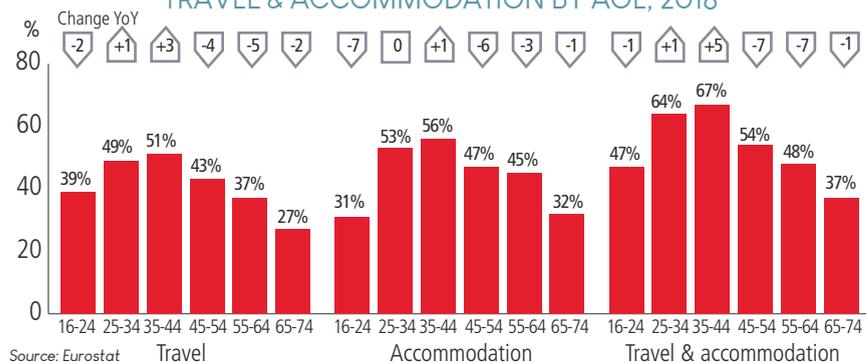
This tension between 'old' and new technologies is reflected in approaches to tech development and use of cloud computing in aviation.

Bowman said: "There is a focus on the cloud around infrastructure rather than as an enabling capability. The industry is focused on how to replace its internal hardware footprint. But cloud providers talk of the cloud as an enabler with a whole series of tools and capabilities."

"There is not a lot of evidence of airports and airlines making this leap to 'What does the cloud enable us to do?'"

*FIGURES from EU data agency Eurostat suggest growth in UK online travel bookings may have stalled in 2018 in all but the 25-44 age group (Figure 60). Those aged 25-54 are most likely to make higher-priced purchases online, but ONS figures suggest a significant fall in more expensive purchases among over-35s in 2019 (Figure 61). Major companies have multiple digital priorities (Figure 62), meaning investment in digital transformation attracts a minor part of budgets (Figure 63) despite being viewed as 'fundamental' (Figure 64). Implementation in many technology areas appears not as far forward as often suggested (Figure 65)*

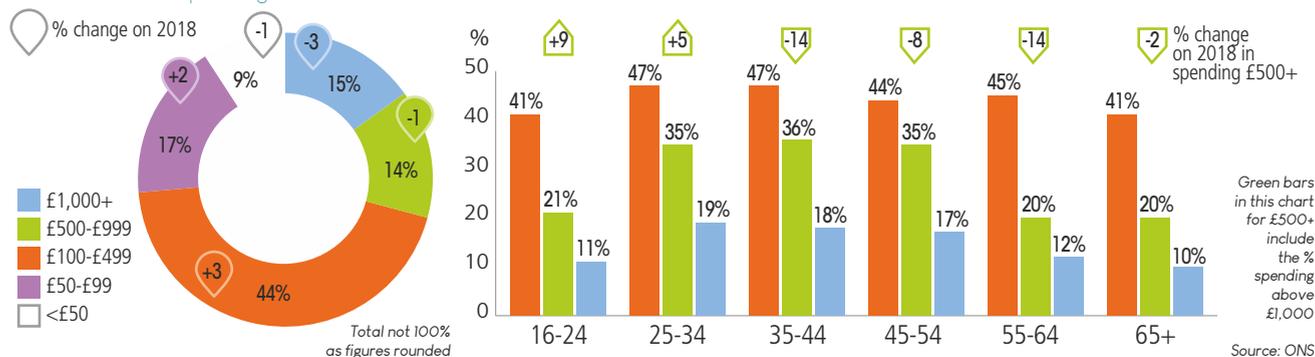
**FIGURE 60: UK ONLINE PURCHASE OF TRAVEL & ACCOMMODATION BY AGE, 2018**



**FIGURE 61: VALUE OF ONLINE SHOPPING**

% UK online consumers' spending in 3 months

Higher rates of spending by age



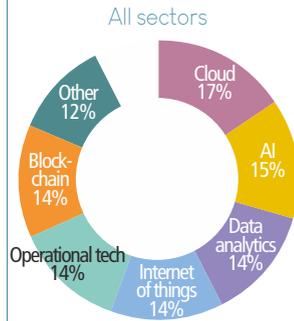
He added: “The historical approach to tech development has been that of big systems, meaning top-down deployment of ‘waterfall’ projects – big projects with large capabilities and four-to-five-year programmes. The digital world does not move at that pace. There is a conflict between the two. We start to see the aviation industry pick up on some of the more-nimble approaches to tech delivery, using the Agile process which is fine for developing digital capabilities, without the massive costs-exposure of the traditional way of developing. We work on a three-month project basis when typical systems deployment can be two to three years. We’ll see a lot more adoption of these types of processes.”

## BLOCKCHAIN

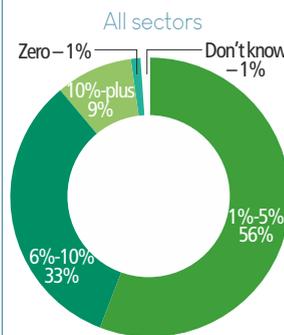
One area where progress has been slower than forecast, despite huge interest, is blockchain. Bowman said: “There is still the sense of a technology looking for a problem rather than a problem needing a technical solution.

“Players in the aircraft leasing market are active in blockchain. There is work on blockchain in the spares market and in traceability of parts because of safety requirements. The fact that blockchain cannot be overwritten makes sense [in this area]. A group of airlines and airports were looking at blockchain as

**FIGURE 62: DIGITAL TRANSFORMATION PRIORITY**



**FIGURE 63: DIGITAL TRANSFORMATION: % OF CYBER BUDGET**



Base: 500 executives with cyber responsibility, annual revenue \$500m-plus  
Source: Deloitte 2019

a foundation for data sharing. A lot of technologists are keen to do something with blockchain, but it’s still early days. The way blockchain was pitched, as almost as important as the internet, was hype. Is blockchain likely to be as big a catalyst [for innovation] as the internet? No.”

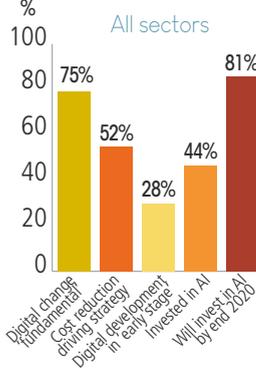
Other technologies are on the cusp of transforming aspects of the sector. In aircraft maintenance, 3D printing and connected aircraft offer a new and potentially more efficient way of delivering parts. Bowman said: “All the big equipment manufacturers are looking at this and the opportunity to blend it with digital insights.”

Voice technology is being used by air traffic control (ATC) organisations “to assess task loads and stress levels of controllers, using a data view of conversations between ATC and flight crew”, he said.

On the consumer side and operationally, the rollout of 5G mobile phone networks holds great promise. Bowman said: “The more 5G is adopted, the less dependency there will be on internal networks which can be resource heavy, certainly in an airport. Content will be so much more consumable.”

Gauld sees the key issues in 2020 as largely unchanged from the previous 12 months, namely: “How to enable AI robotics to improve efficiency, and the need to be nimble on digital agendas.”

**FIGURE 64: EXECUTIVE VIEW OF DIGITAL TECHNOLOGY, 2019**



**FIGURE 65: TECHNOLOGY IMPLEMENTATION, 2019**



# CYBERSECURITY

## TRAVEL FIRMS HIT BY FINES FOR DATA BREACHES

**Cybersecurity poses multiple challenges and no little risk. Breaches no longer threaten just sensitive data but brand reputations and hefty fines.**

British Airways and Marriott International may have been unfortunate to be first in the line of fire when the UK Information Commissioner's Office (ICO) issued notice of its first major fines for data breaches in July 2019 since Europe's General Data Protection Regulation (GDPR) came into force in May 2018.

BA was notified it faces a fine of £183 million after hackers accessed the data of half a million or more customers in 2018. Marriott learnt of the ICO's intention to fine it £99 million for the breach of its Starwood subsidiary, also in 2018, before Marriott acquired it. Those fines contrasted somewhat with a €50 million fine imposed on Google by the French data protection agency in January for breaching GDPR rules on transparency.

Peter Gooch, Deloitte cyber and privacy partner, said: "We've seen regulators flex their muscles with some sizeable notices of intent to fine. The regulatory pressure is very real now. We did not have a benchmark before."

He said: "The ICO notices sent shock waves, showing the ICO is willing to impose large fines. There was an expectation of significant fines, but

**The threat of hefty fines for cyber breaches has propelled cybersecurity up boardroom agendas**

the size caught people by surprise. Historically, there have been bigger breaches.

"It caused a lot of clients to revisit this and ask 'Have we taken the GDPR seriously? Do we really know where the data is? Do we know how protected the data is? Do we need to invest more?' Some had taken superficial steps. There is a realisation now that there is a lot more to do. I know organisations which had cyber budgets turned down previously which now have budgets signed off."

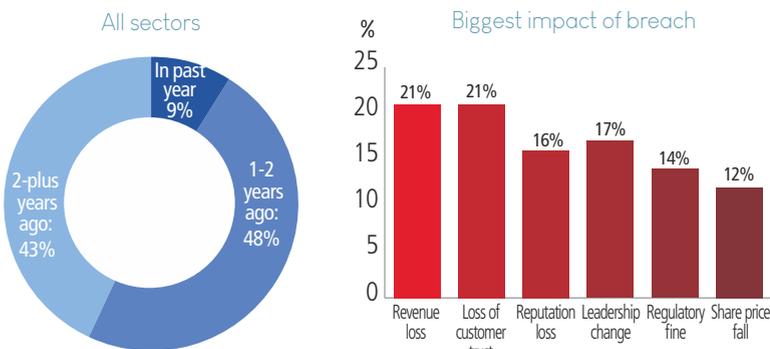
The fact that the two headline breaches involved travel and hospitality companies, Gooch sees as "coincidence". But he noted "the relative immaturity of the sector" as a factor, saying: "Travel and hospitality is probably less well-protected than some sectors. The financial sector, pharmaceuticals, defence and aerospace tend to be more secure."

He added: "Travel and hospitality is less regulated from a cyber perspective and has not invested so much. Awareness is heightened now. There has been an uptick [in interest] in the last six months. Boards are asking, 'How would we respond to a breach?'" But he noted: "The industry still has low margins."

At the same time, Gooch said: "The threat of operational disruption from denial of service attacks is still there. Organisations remain fearful of an attack that could take out their operations."

*COMPANIES suffering cyber breaches report loss of revenue and loss of trust as the biggest impacts (Figure 66)*

**FIGURE 66: MOST-RECENT CYBER BREACH**



*Figures rounded, not 100%. Base: 500 executives with cyber responsibility, annual revenue \$500m-plus. Source: Deloitte 2019*

### FRAMEWORK APPROACH

When advising organisations on cybersecurity, Gooch said: "It's a lot about providing a framework – being able to break it down and make it manageable."

"There are half a dozen common frameworks. We have a hybrid framework which helps to understand where the threats are coming from and what an organisation is most vulnerable to. We pick a system or network connected to the internet and carry out threat and impact assessments to prioritise areas to look at."

The process can be open-ended, he

said: “Normally, there is a lot to address – technological controls, procedural controls, cultural controls. We work with partners to determine a ‘target state’ that is proportionate.” He added: “We do have clients who see technology as an answer to everything. That gives false comfort. If you don’t address training, you only address part of the problem.”

Third-party suppliers provide additional security challenges. Gooch said: “The GDPR helped boost documenting and assessment of third parties.” However, he identified at least two challenges: “One, many programmes are tick-box exercises. They provide evidence that an organisation has been through a process, but is it really getting value from the process? You need a risk-based approach.”

Second, he said: “There is a need for due diligence around third parties when there is an acquisition or an organisation takes on a third party. It could be this introduces new vulnerabilities.”

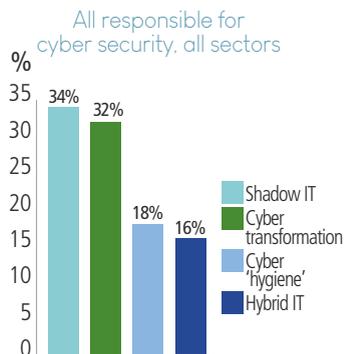
Yet the biggest challenge in cybersecurity remains “the breadth of the topic”, he said. “It’s a genuine struggle for organisations to get their heads around. Boards put cyber at the top of the risk agenda, but it is massively complex. It’s difficult for a board to know ‘Is this money well spent?’”

He also noted: “Cybersecurity is a fragmented and very competitive market, and there is a recognised shortage of cyber skills in the UK.”

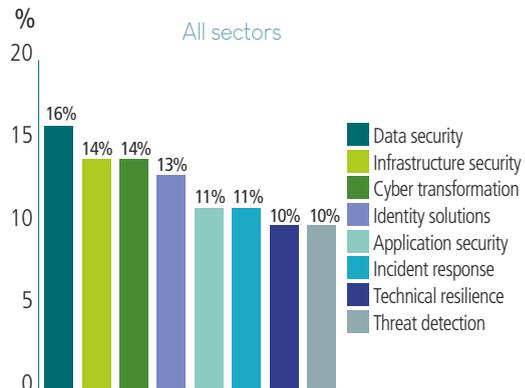
At the same time, Gooch said: “Developing threats are a challenge. You have to be constantly re-evaluating your security. The technological landscape can change. What was good two years ago may no longer be good enough. There may be a big shift to the cloud or to outsourcing. You may need to ask for more money. It’s not an environment in which you can ever say ‘Well done.’”

However, he identified one sign of improved understanding of the risks, saying: “I rarely have to explain what I do these days.”

**FIGURE 67: CYBER RISK: BIGGEST CHALLENGES**

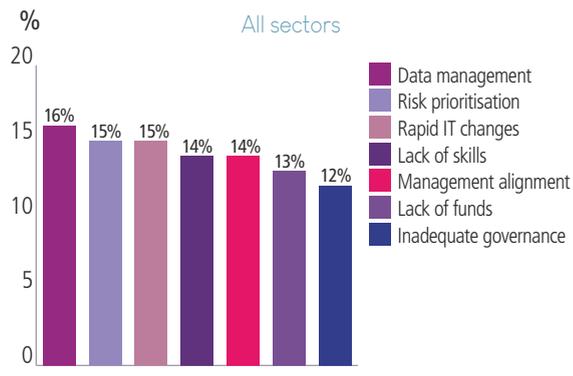


**FIGURE 68: CYBER BUDGET ALLOCATION**

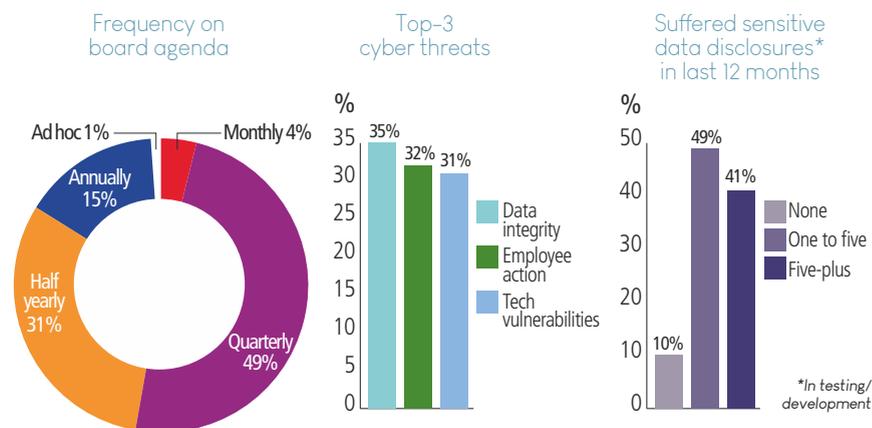


**FIGURE 69: CYBER MANAGEMENT: BIGGEST CHALLENGES**

‘SHADOW IT’ unmanaged by IT departments and cyber transformation top the risks identified by cyber professionals (Figure 67). Data security is only one of the challenges (Figure 68). The speed of change, lack of skills and inadequate funds hamper security (Figure 69), when 90% of major companies suffered a ‘sensitive data disclosure’ in the last 12 months (Figure 70)



**FIGURE 70: CYBERSECURITY AS BOARDROOM ISSUE**



Base: 500 executives with cyber responsibility, annual revenue \$500m-plus. Source: Deloitte 2019

# FUTURE OF WORK

## AUTOMATION NEED NOT MEAN WHOLESALe JOB LOSSES

**Change in the workplace is a given – from increasing use of technology and transformation of roles and skills to increased diversity among the workforce.**

The numbers in work have never been so high, yet warnings of the impact of technology on jobs are widespread. Bank of England chief economist Andy Haldane warned in late 2015 that up to 15 million jobs in the UK – half the workforce – are at risk of replacement by technology.

There was no sign of half the workforce disappearing at the end of 2019, but concerns about people being displaced by a ‘fourth industrial revolution’ based on data, artificial intelligence (AI) and robotics remain.

Shivani Maitra, Deloitte partner in human capital, is optimistic about the impact on work but suggests fundamental changes are already under way. She said: “We talk about the future of work, but it’s happening now and the pace of change is not going to slow. Technology is driving a lot of this, but there are other factors.

“First, the rise in the freelance or contingent workforce is having a big impact. Second, this is the first time there has been such a multigenerational workforce. There are the millennials [born in the 1980s and early 1990s], the baby boomers [born post-war], veterans who are working longer because of longer

**Business should focus on the human in seeking to manage technological and demographic change in the workplace**

lifetimes, and people born in the late 1990s and 2000s joining the workforce.

“Third, the barriers to entry in business are fewer. You can run a business from your mobile phone. You can run a taxi business without owning any cars. Smaller players can disrupt bigger businesses.

“Fourth, the socioeconomic changes around the world mean no group of people is unaffected.”

These changes raise questions about “what this means for work, for workers and the workplace”, she said. “The first issue is how adaptable are you and your organisation? How quickly can an organisation respond to external events?”

“Second, customer and employee experiences are becoming inseparable. The ‘experience’ an organisation offers is not just about the customer but about the worker. Third, organisations need to focus on outcomes, value and purpose rather than processes and profit. Fourth, organisations and people need to focus on capabilities rather than skills.”

### AUTOMATION OF JOBS

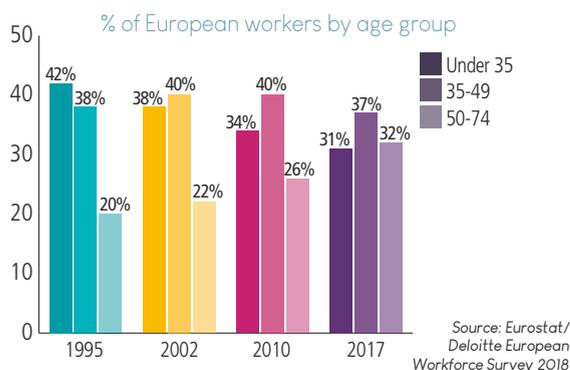
Maitra says forecasts that “45% of jobs will be gone in 10 years” are inaccurate as new jobs will be created and others augmented by technology, but she warned: “Businesses are going to be heavily impacted by automation.”

Citing Deloitte survey data, she said: “Up to 41% of businesses are already using automation extensively and 60% soon will.” In the airline industry, she added: “Most of our clients expect workforce capacity benefits from automation. [They view it] as a way to cut costs and streamline repetitive processes.”

Maitra notes a significant difference between attitudes to automation among business leaders and workers. Among the latter, Deloitte research found 60% believe progress in automation will be slow and few appear to think automation will eliminate their own jobs.

But she argued: “The half-life of technical skills is decreasing rapidly.

**FIGURE 71: AGE COMPOSITION OF WORKFORCE, 1995-2017**



*THE AGE composition of the average workforce in Europe has been transformed since the 1990s (Figure 71)*

The focus needs to be on capability – 30% of businesses we speak to are increasing investment in the capabilities of their workforce through learning and development. There has to be a shift from functional and technical skills [among staff] – which over time robotics can pick up – to human-focused capabilities.”

By capabilities, Maitra means “social skills, social intelligence, emotional intelligence, adaptability and pattern recognition”. She added: “This is not really about training but providing learning experiences – for example, work in cross-functional teams, letting people take personal responsibility for

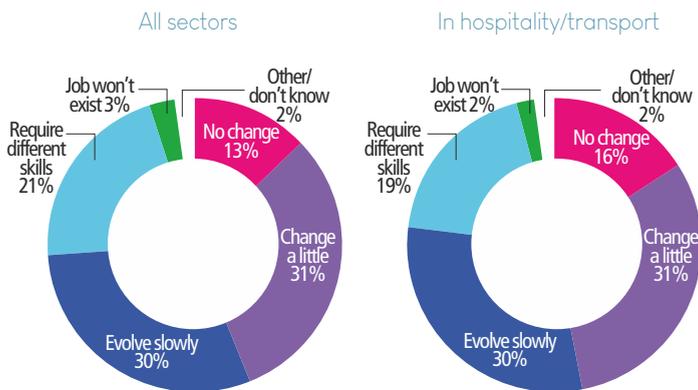
*EMPLOYEE perceptions of the rate of change at work appear at odds with business forecasts – three out of four across multiple sectors don't foresee rapid changes at work, with a slightly higher proportion in transport and hospitality (Figure 72). Only one in four executives feel skills in their business match its digital requirements and two-thirds consider staff training inadequate (Figure 73)*

their development and maybe providing a budget for them to develop their capabilities. There are many strategies. There is a shift from classroom learning to e-learning and micro-learning.

“More and more organisations are also talking about employee ‘experiences’. By the employee experience, I’m not just talking about engagement but culture – recognising crucial moments when employees interact with an organisation, and not just full-time employees but across the contingent workforce because in a world of user reviews and ratings your company could be rated [by employees] as well [as customers].”

Maitra insisted: “Automation is here to stay. But having said that, automation is about augmenting not replacing the workforce. It is replacing jobs but also creating jobs. How many of us talked about data scientists three years ago?”

**FIGURE 72: RATE OF CHANGE AT WORK EXPECTED IN NEXT 10 YEARS**



Source: Deloitte European Workforce Survey 2018

**DEMOGRAPHIC CHANGES**

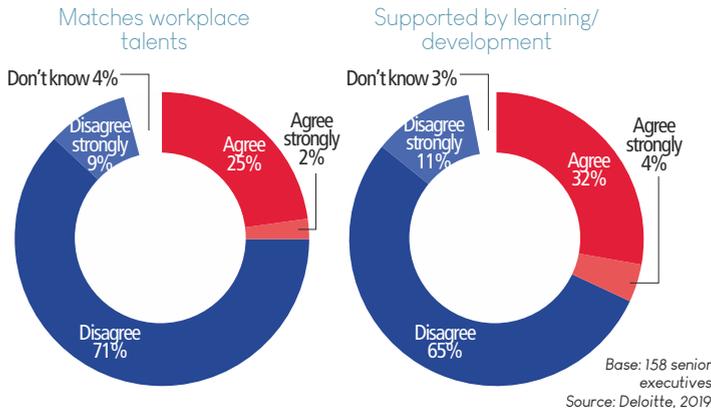
A shortage of ‘talent’ in travel and hospitality is a key issue, and one likely to be exacerbated in the short term in the UK by Brexit. Maitra said: “There were one million job openings in travel and hospitality in 2018. So the sector needs to attract talent.”

An ageing population adds to the challenge – a problem that extends beyond the UK and well into the medium and long term. Alexander Boersch, chief economist at Deloitte Germany, told the European Hotel Investment Conference in London in November: “In the next 10 years, Europe will lose 20 million people of working age. This will have tangible effects on business.”

Maitra argues the issue can partially be addressed by “leveraging the contingent workforce” and deploying “an augmented workforce” – meaning full-time employees augmented by freelance workers.

She said: “The growth in freelance working is faster than the growth in employment. Deloitte research suggests 64% of full-time workers are looking to earn extra income, and older workers

**FIGURE 73: BUSINESS DIGITAL STRATEGY**



Base: 158 senior executives  
Source: Deloitte, 2019

# FUTURE OF WORK

## AUTOMATION NEED NOT MEAN JOB LOSSES

increasingly look to alternative work arrangements to allow them to continue working. In some organisations up to 25% of the workforce is already contingent [freelance]. By 2020, 47 million people in the US will be contingent.”

Maitra concedes freelance working is not new, but argued: “It has become widespread and cuts across professions, skilled and semi-skilled occupations.” For example, she said: “One of the tech giants recently acquired a network of freelance data scientists to augment its workforce.”

Travel and hospitality already employs significant numbers of ‘contingent’ workers. But Maitra said: “Are they using this workforce in the right way? Do they know what workforce they need full time and

“**Organisations need to figure out how to manage diverse generations**”

*JOB SECURITY and pay top employee concerns at work (Figure 74). On-the-job learning is the preferred form of training among all age groups. Online training options are less favoured by all ages (Figure 75)*

what skills from time to time? Businesses are less reticent to use alternative workforces. Even traditional sectors like pharmaceuticals are becoming more open to the idea. The shift the travel and hospitality sector needs to make is strategic.”

### DIVERSE-AGE WORKFORCE

Maitra also views the advent of a multigenerational workforce as “an opportunity to access a broader talent pool”. But to make it work, she said: “Organisations need to figure out how to manage diverse generations. Millennials expect organisations to have a clear social purpose. Generation X [in their late 30s to early 50s] want career advancement, but parents may want to work flexibly or to know how they will be supported when they return to work after having a child.

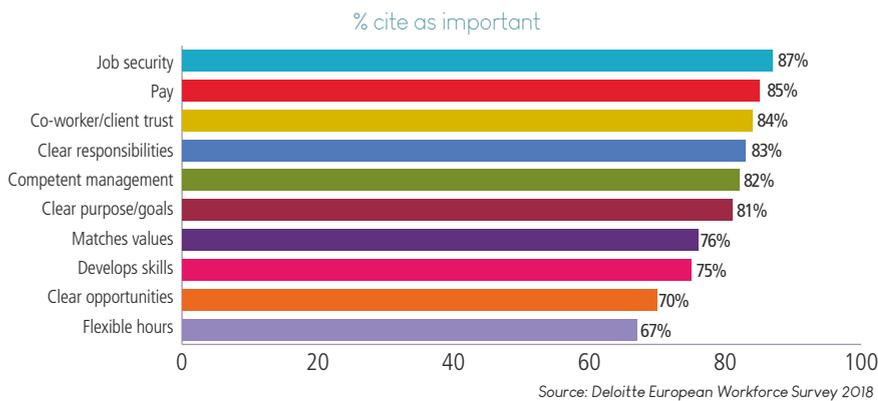
“For ‘veterans’, how do you make them feel part of a team when a business runs on technology?” One way could be “reverse mentoring”, she said, adding: “Some organisations have changed the shop floor so workers don’t have to stand for so long.”

There is also a need for long-term strategies on gender diversity, especially at the top of the industry, Maitra said.

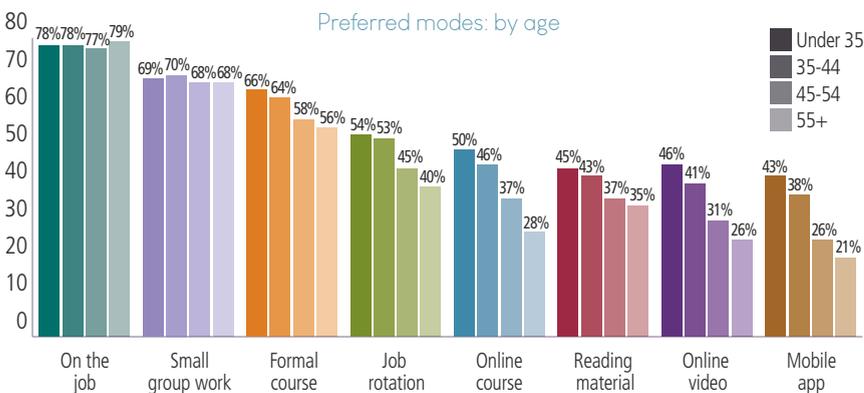
At one level, she argues: “We have gender diversity – there are more women than men graduating from university. But on policies such as parental leave, very few organisations give the same leave to men and women. Can we start to take for granted that a man might take time off for childcare? Childcare [provision] is better in countries where it is state-sponsored. So is there a role for government? Often people leave work for a time [when they have children] because financially it makes no sense to work. When a woman returns to work it’s often assumed they want part-time work and can’t travel. Improving gender diversity needs structural change.”

But Maitra insisted: “I don’t think it’s doom and gloom. The future of work is more about people than technology. If organisations focus on the right things they can create better jobs.”

**FIGURE 74: WORK: WHAT’S MOST IMPORTANT?**



**FIGURE 75: TRAINING AT WORK**



# SUSTAINABLE TRAVEL

## AVIATION FLIES INTO CLIMATE STORM

Venice was severely flooded and “catastrophic” bushfires were raging across eastern Australia as this report neared publication.

While these events unfolded, the International Energy Agency (IEA) issued its annual World Energy Outlook, noting reliance on fossil fuels remains “stubbornly high”.

A report for the UN Climate Action Summit in September 2019 underlined the “growing gap between agreed targets to tackle global warming and the reality”. Entitled United in Science, it noted global carbon emissions hit a new record in 2018 and that 2015-19 “is on track to be the warmest [five years] on record”.

“Widespread and long-lasting heatwaves, record-breaking fires and devastating events such as tropical cyclones, floods and drought have had major impacts...Arctic summer sea-ice extent declined at 12% per decade during 1979-2018. Sea-level rise is accelerating. Seawater is becoming more acidic.

“Levels of carbon dioxide, methane and nitrous oxide have reached new highs. There is still no sign of a peak in global emissions...Despite extraordinary growth in renewable fuels, the annual increase in global energy use is greater than the increase in renewable energy.”

### Consumer and investor pressure puts emissions issue at top of airlines’ agendas

*THERE appears no change in the proportion of UK holidaymakers concerned about sustainability. More than half register some concern, but more than one in three admit to none (Figure 76). However, the research found a significant rise in concern about flying, albeit still among a minority*

This, unfortunately, has to be the starting point for discussing travel and tourism sustainability.

The environmental impact of flying moved sharply up the political agenda, spurred by teenage campaigner Greta Thunberg and the campaign of ‘flygskam’ or ‘flight shame’ in Sweden, and swelled by Extinction Rebellion protests in Britain.

It certainly hit home in the industry. Iata chief economist Brian Pearce told an Airlines 2050 conference in London in October: “Climate is now a material issue for airline investors.”

Dale Keller, chief executive of the Board of Airline Representatives UK, told the same conference: “The message from Extinction Rebellion has got through to the industry.”

Senior aviation figures appear to agree but retain a tendency to argue aviation emissions are a fraction of the global total, leading Department for Transport aviation director Dan Micklethwaite to tell the conference: “Aviation contributes 2.6% of global carbon emissions now, but by 2050 it will be the lion’s share.”

### TOP OF THE AGENDA

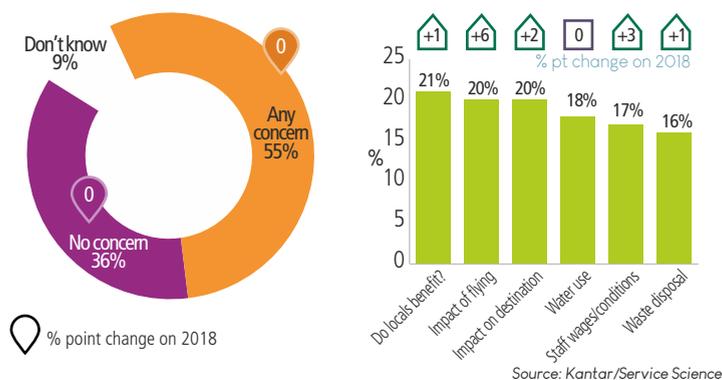
Deloitte sustainability services manager Chris Thompson agrees climate change is now “right at the top of the agenda”. He said: “The consequences are starting to bite now. There has been a real shift. We’re starting to see clients take substantive action around sustainability and reducing emissions, and we’re starting to see investors take notice.

“EU and UK regulators are pushing a market-based approach, forcing investors to consider climate issues and to embed this in investment decision making. There is a real awakening. This will have a growing impact on the travel industry as the consequences of climate change and low carbon transition are priced into financial markets.”

Thompson added: “We have clients considering how air travel will change. There has to be a cap on emissions at

**FIGURE 76: HOLIDAYMAKERS’ SUSTAINABILITY CONCERNS, 2019**

% UK adults planning overseas holiday in 2020



# SUSTAINABLE TRAVEL

## AVIATION FLIES INTO CLIMATE STORM

2020 levels and, if current growth rates in air travel continue without significant reductions in emissions intensity, companies are going to feel the financial consequences.”

He said: “The options for reducing aviation emissions through technological innovation show some signs of promise, but they are not projected to bring the industry down to net zero [carbon]. This is creating calls to change consumer behaviour, and this could become a real challenge for aviation.

“We already have a former secretary of state for energy and climate change talking about banning domestic flights. Engaging with ‘flight shame’ in a positive way will be a real challenge.”

Dutch carrier KLM made an effort to do this with a campaign launched in July calling on passengers to ‘Fly Responsibly’. Chief executive Pieter Elbers said: “Do you always need to meet face to face? Could you take the train? We’re not saying, don’t fly. We’re saying fly responsibly.”

### BIOFUELS

Climate expert Dr Gabrielle Walker told Abta’s Travel Convention in October: “Aviation is the elephant in the room. This industry is in the crosshairs because UN agreements have left out aviation and shipping.” She added: “Biofuels can’t provide the answer.”

“**Despite extraordinary growth in renewable fuels, the annual rise in global energy use is greater than the increase in renewable energy**”

Yet Thompson expressed confidence that technology “is not going to remain static”. He said: “Aerospace manufacturers are putting a lot of investment into alternative propulsion.

“There is going to be a political conversation around behaviour and taxation of heavy carbon activities. The question will be how can government address public concerns around climate change without introducing measures that are perceived to be unfair by segments of the electorate? How can we make taxation equitable and not just increase the cost of goods and services?”

“The real challenge is how we maintain living standards while addressing the carbon challenge. Our lives are carbon-heavy. Is it realistic to expect changes in consumer behaviour? Travel is a hallmark of the affluent lifestyles of the developed world and, at present, that is inherently unsustainable. How do we get to a point where we undertake travel activities that are sustainable or lead to a level of behaviour change?”

### EMISSIONS TARGET

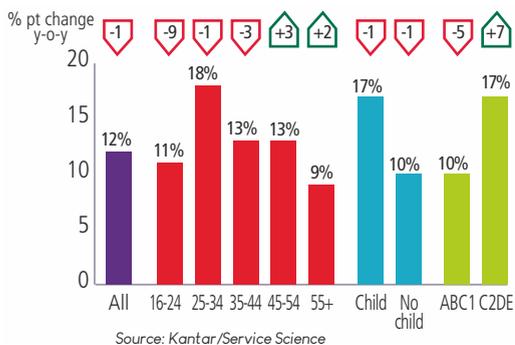
Asked if the industry is doing enough, Thompson said: “The challenge is how to frame the business model around sustainability. There is not a viable alternative fuel yet for aviation.

“Electric flight will probably be

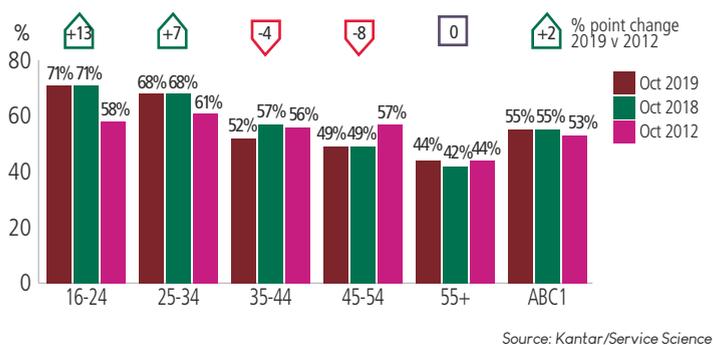
CONCERNS about overcrowding in destinations appear to have fallen among younger adults (Figure 77), despite awareness of sustainability in general rising among the young (Figure 78)

**FIGURE 77: CONCERN AT OVERCROWDING IN DESTINATION**

% UK adults planning an overseas holiday, 2020



**FIGURE 78: ANY TOURISM SUSTAINABILITY CONCERN, BY AGE**



feasible by 2050 – not an electric equivalent of the current fleet, but electric modes that make certain types of flights feasible, say between the Scottish islands.”

However, Thompson noted: “The real challenge on alternative aviation fuels is around trade-offs and secondary environmental impacts. These fuels can just shift emissions, substituting another carbon source.”

Leading airlines are committed to the Carbon Offset and Reduction Scheme for International Aviation (Corsia) agreed by International Civil Aviation Organisation members, due to come into force from 2021. This aims to peg overall airline carbon emissions at the level of 2020 for a period and reduce emissions to half the level of 2005 by 2050.

Thompson describes implementation of Corsia and airline association Iata’s support for it as “a turning point”. But he also notes there is a level of scepticism among experts over its likely effectiveness.

Despite the scale of the challenge, Thompson sees reason for optimism. He said: “The unknown element in this is the development of new technology.”

### TOURISM MANAGEMENT

Beyond aviation, plastics dominated corporate commitments on sustainability with no end of pledges to remove single-use plastic items. This is welcome, and the sooner most plastic items are removed, the better. But a report on the “invisible burden” of tourism, published in March, suggested far more is required for the industry to be sustainable.

The report, Destinations at Risk, warned tourism rests “on shaky foundations” in many destinations.

Produced by The Travel Foundation, sustainability consultancy EplerWood and Cornell University, it argued “a lack of analysis of the cost of managing tourists” left destinations “financing additional infrastructure without recompense”.

Introducing the report, Travel Foundation chairman Noel Josephides noted: “Not enough is changing in the way we manage tourism.”

THE INCREASE in concern about flying since 2012 is striking and appears reflected in all age groups (Figure 79). The growth in concern in the past 12 months, especially among younger adults, is clear (Figure 80)

FIGURE 79: RECOGNITION OF SUSTAINABILITY ISSUES

% point change in recognition: 2019 v 2012

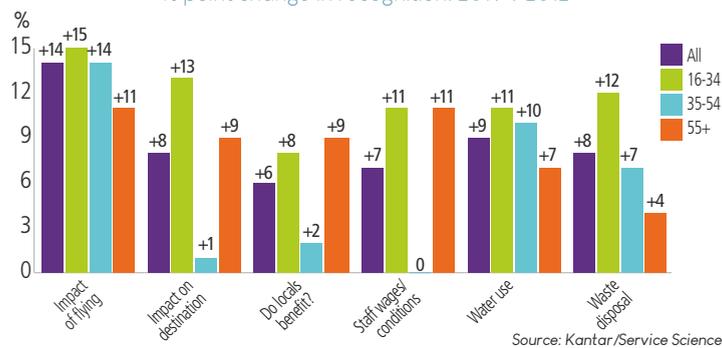
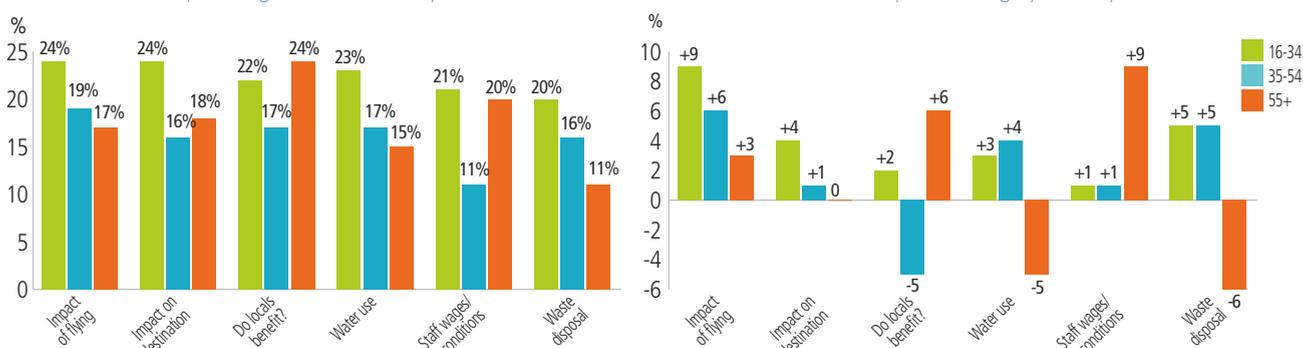


FIGURE 80: SUSTAINABILITY CONCERNS BY AGE, 2019

% of those planning overseas holiday in 2020

% point change year on year



# RESEARCH PARTNERS



Service Science brings insight and expertise together

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

We have four practice areas:

- Think Like Your Customers: using behavioural science techniques, qualitative and quantitative, we provide insight to help understand and influence customer behaviour.
- Online Reputation Management: through the monitoring and management of online reputation we provide the means to increase loyalty and maintain clients' competitive edge.
- Service Quality Measurement: through mystery shopping, brand standards audits and survey tools we ensure clients deliver exceptional service.
- Employee Engagement: our innovative approach ensures our clients' teams are motivated and engaged so they deliver service that sets them apart.

Service Science was founded in 2010 by Clive Nicolaou, a market researcher with 26 years' experience in the hospitality, leisure and tourism sectors. Prior to that Clive was head of hospitality and leisure at Kantar TNS having previously been a successful operator in the hospitality sector. He is a fellow of the Institute of Hospitality and a member of the Market Research Society.

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



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# RESILIENCE

## FIRST TOURISM RESILIENCE CENTRE OPENS

**Travel and tourism resilience is attracting growing interest and study. The first Global Tourism Resilience and Crisis Management Centre, established in Jamaica at the start of 2019, was due to open at the turn of the year.**

The founder, Jamaica tourism minister Edmund Bartlett, noted the world faces “a future of extremes and we must learn to increase the resiliency of our industry”. An assessment of hurricane and seismic resilience will be among the first projects undertaken by the centre, along with a programme to track the spread of sargassum seaweed – linked to ocean warming and agrochemical run-off – and study efforts to tackle it. Satellite resilience centres are planned – the first in Nairobi – along with the launch of a tourism resilience barometer.

The hurricane assessment project was timely after hurricane Dorian smashed across the Bahamas in August – the most powerful storm to hit the islands on record.

The centre will work in tandem with the Global Travel & Tourism Resilience Council, chaired by former UN World Tourism Organisation secretary general Taleb Rifai, which aims to provide “a platform for sharing solutions”. Rifai noted: “Tourism is a vulnerable industry but recovers well from crisis if it has a strong base.”

### CRISIS RECOVERY

That view was confirmed by a World Travel & Tourism Council report in November which analysed 90 ‘crises’ of recent years: 32 natural disasters, 29 terrorism or security-related events, 12 disease outbreaks and 17 episodes of political instability. The study suggested the average time it took tourism to recover following a crisis fell between 2001 and 2018 from 26 months to 10.

The report noted: “Of the four crisis categories, political instability proved the most challenging, while terrorist

**Jamaica centre heralds increased focus on contingency planning as study suggests tourism today recovers quicker from crises than in 2001**

or security-related incidents had the shortest average recovery time.” Recovery following a political crisis on average took twice as long. The report concluded: “Civil unrest is far more damaging to a country’s travel and tourism sector than one-off terror attacks.”

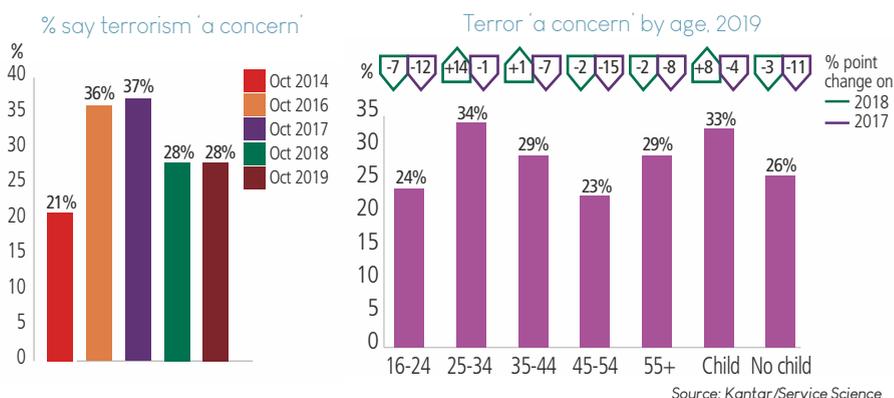
The study drew on the World Economic Forum’s 2019 Global Risks Perception Survey and research suggesting 22% of travellers rank terrorism as “the greatest threat”, despite there being statistically almost no risk of attack. It noted: “Terrorism can impact the sector due to the perception of risk...linked to recent terrorist attacks [in] areas popular among tourists.

“The data suggests the scale of a terrorist attack is less important in determining its overall impact than the context in which it occurs. Terrorist attacks in major European cities including London in 2017 and Brussels in 2016 had relatively limited impact on overall tourism.”

The authors contrast the impact of bomb attacks in Indonesia in 2002 and 2005 with the Madrid rail bombing of 2004, noting: “The Indonesia attacks were different in scale [and] in terms of the death toll, yet the visitor impact was significant – 891,000 lost arrivals in 2002 and 402,000 in 2005.” By contrast, Madrid “recovered within weeks”.

*THE LEVEL of holidaymakers’ concerns about terrorism appears to have plateaued (Figure 81) after peaking in 2016-17 around the height of Islamic State’s activity and terror attacks in Sousse and Paris (2015) and Brussels (2016). However, the ‘plateau’ is at a higher level than before this period. Concerns have generally fallen, but not it appears among adults with young children*

**FIGURE 81: UK HOLIDAYMAKER ATTITUDE TO TERROR THREAT**



# RESILIENCE

## TOURISM RESILIENCE CENTRE OPENS

The report also noted: “Lower international visitor losses tend to be found where minimal structural damage occurred or when travellers were quickly reassured that a destination is safe and the situation under control.”

It suggested: “People are becoming more resilient to shocks especially when they are familiar with a destination.”

### DISASTERS AND DISEASE

The study found recovery times following natural disasters showed the greatest range, “from just one month to 93 months, due to the wide variation in severity of natural disaster events”.

The report noted: “Natural disasters have dramatically increased in both

“**Civil unrest is far more damaging to a country’s travel and tourism sector than one-off terror attacks**”

*EXECUTIVE confidence in organisations’ ability to handle crises appears unmatched by rates of crisis simulation (Figure 82)*

frequency and magnitude, with the number quadrupling between 1970 and 2016. Hurricanes and cyclones are becoming increasingly common disasters, whose severity is projected to increase in coming decades largely due to climate change and human settlement patterns. Sea level rise will cause higher storm surge levels... tropical cyclone rainfall and intensity rates are likely to increase.”

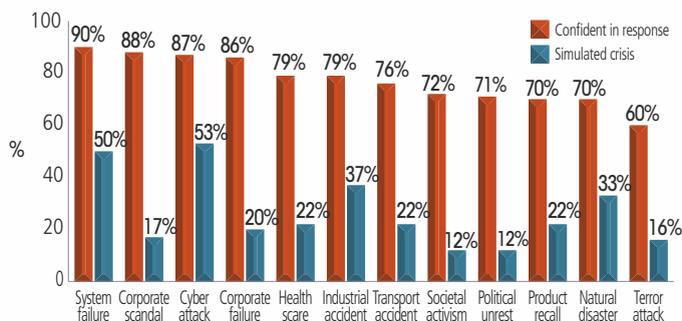
On the impact of disease, it concluded: “Epidemics and [disease] outbreaks have become the new normal. The rise in population density in large urban areas and enhanced international mobility and travel have led to higher exposure to novel diseases and increased potential for transmission.”

However, this is not the biggest problem when it comes to recovery from a disease outbreak. Former World Health Organisation director general Margaret Chan noted: “Rumours and panic spread faster.” The World Bank estimates 90% of economic losses during a disease outbreak result from uncoordinated public efforts to avoid infection.

The report advised: “Effective management of a crisis requires the rapid activation of emergency plans as well as quick, accurate and transparent communication.” It suggested governments “engage with the private sector to improve crisis preparedness, management and recovery plans”.

**FIGURE 82: 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

### The Deloitte view

There is a sense of déjà vu in risk and crisis management, as many of the issues raised in this report a year ago remain valid.

How the UK’s exit from the EU will impact the sector is still to be fully understood, and economic challenges remain. The sector has seen a major travel company collapse, with an impact across the industry.

In the crisis sense, ‘bad actors’ are always looking to exploit ambiguity and fissures in systems. It is consequently vital to guard against company failure risks and ensure

efforts to repatriate and refund passengers maintain appropriate levels of security, regardless of the inevitable consumer or media pressure to resolve things quickly.

Other, more traditional crisis management activities continue to be important in a sector that regularly faces new challenges.

Recent aviation sector incidents have highlighted how third-party risk needs to be managed carefully. Every travel company with a large fleet of assets, or a business

that relies on access to these, should have plans ready in case these become no longer available. This means having plans in place not only to reschedule passengers but also to deal with the various consequences such situations might have.

None of these activities are straightforward but, if not handled sensitively, have the potential to precipitate further challenges for the industry.

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