2022-23

TRAVELWEEKLY

Insight Report

Produced in association with

Deloitte.

Ensuring recovery, building resilience

Cost of living and climate dominate outlook for travel

Produced by Travel Weekly, with exclusive consumer research

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TRAVELWEEKLY Insight Report

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EXECUTIVE SUMMARY

RESILIENCE AND SUSTAINABILITY ARE KEY TO TRAVEL'S FUTURE

The desire for certainty is unlikely to be met. Business leaders must adjust to unpredictability, argues Deloitte's Alistair Pritchard

In March 2020, the World Health Organization declared the Covid-19 outbreak a pandemic and within days people were told to stop all non-essential travel. Within a month, the travel industry stopped as international travel became impossible.

The end of the pandemic proved no less disruptive. As travellers returned this summer, staff shortages caused severe disruption with many flights delayed or cancelled. Yet despite consumer confidence declining for a fifth consecutive quarter, the Deloitte Q3 Consumer Tracker recorded spending growth on holidays and hotels in the quarter compared with the previous three months due to persistent pent-up demand.

The industry made a good recovery in summer 2022. However, a combination of geopolitical instability, surging inflation, higher interest rates and tightening monetary policy brought fresh headwinds and prevented the sector's full recovery.

Deloitte data showed consumers expected to spend less across all leisure categories in the final quarter of 2022, with the biggest declines expected in holiday spending. Continued high inflation, higher taxes and rising interest rates will mean the income for discretionary expenditure will fall in 2023. In the circumstances, demand is likely to remain subdued, in volume terms at least, until energy and food price inflation ease notably, with spending in the travel sector tempered by household attempts to save money.

What business leaders most want is certainty. Yet the series of shocks the world has experienced in the past two years mean, on the contrary, that leaders have to learn to manage businesses in an environment of increasing unpredictability.

Notwithstanding this uncertainty, the difficult choices businesses have had to make through the pandemic and now the economic slowdown should make them more resilient to disruptions. In the face of unpredictability, businesses have increased their focus on developing the capability to flex operations while continuing to deliver value.

Enforced changes, such as the accelerated shift to digital channels and solutions to interact with consumers and faster adoption of technologies to counter shortages of labour, can provide new opportunities, as can recognition of the financial gains from engaging in the ESG transition.

The travel sector will need to continue to focus on identifying gains in operational efficiency wherever possible while also cutting costs as a volatile environment can be expected for the foreseeable future.

Long-term structural problems in the sector became apparent during the pandemic and the recovery period, highlighting the need to tackle operational inefficiencies and reduce travel's impact on the environment. The industry's future depend on its leaders taking responsibility to drive the sector's transformation beyond their current tenure. Investing in rethinking and redesigning the travel sector in the face of the climate crisis should be a key priority.

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

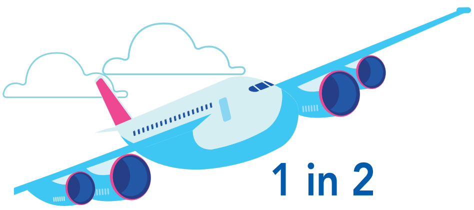
Alistair Pritchard, lead partner, Travel and Aviation, Deloitte LLP

KEY FINDINGS

42% plan an **overseas holiday** in 2023, +4pts YoY, but -11pts on 2019
(44% had a holiday abroad in 2022)

2 in 5 will **reduce nights** away to save money

55% of adults plan holiday **outside peak**, but only 1 in 4 with children



1 in 2 adults with **children** plan a holiday abroad

50% planning overseas travel will take **fewer breaks**

70% planning **holiday abroad** to travel outside peak

3 in 4 UK adults say **cost of living** may affect holiday decision

43% expect to **spend more** on holiday in 2023

3 in 5 plan a main holiday of **7 nights or less,** +8pts YoY

1 in 3 concerned about **climate change** won't change travel behaviour, +4pts YoY

3 in 5 aged 16-34 had an **overseas** holiday in 2022, but just 1 in 5 aged 45+

15% concerned at **flying's** climate impact, -7pts YoY

35% will **change behaviour** due to climate concern

2 in 5 want **refund** guarantee and/or **Atol** protection

1 in 2 to book holiday with **'trusted company'**

42% plan a **beach** holiday, +7pts YoY
17% plan a **city break**, -6pts YoY

Source: Service Science/Kantar Graphics: Shutterstock

FOREWORD

INDUSTRY MUST RISE TO A NEW CHALLENGE

The UK travel industry emerged from the Covid-19 pandemic when the government lifted restrictions in March to encounter a welcome but at times overwhelming surge in demand.

To accelerate from a near standing start to 75%-80% of pre-pandemic capacity was always likely to prove challenging. Given the numbers of workers in the sector – and, in particular, the number in aviation – who quit the industry in 2020-21, it proved impossible to operate as scheduled. Cancellations and delays became endemic for a period and, although never quite as bad as the daily media reports of 'chaos' suggested, travellers suffered and it put a dent in the recovery.

No sooner was the worst of the disruption addressed, with August passing remarkably peacefully, than it became clear the rising inflation of the previous months would not subside without a recession. Hopes of negotiating the transition from recovery to downturn with a minimum of drama were torpedoed by the mini-Budget of the short-lived Truss government, ushering in a new period of tax rises and austerity to add to soaring energy bills, rising interest rates and a general crisis in the cost of living.

When Virgin Atlantic chief executive Shai Weiss addressed the Airlines 2022 conference in November, he expressed a general incredulity in the sector at "the looming recession", asking: "Who would have thought after the years of pandemic we would be facing such a difficult situation?"

Weiss described summer demand as "robust" and said: "From Covid, I take the lesson that we can rise to any challenge." But he added: "Optimism is not a virtue in planning. We can't fight the [economic] cycle. It's going to be a tough 2023." UK household disposable income is forecast to fall 7.1% over the coming two years.

The economic outlook will dominate in the short term, compounded by Russia's war in Ukraine and its impact on energy prices. Businesses will need to adapt to the changed circumstances to continue to display the resilience shown during the Covid crisis.

> "The economic outlook will dominate in the short term. Businesses will need to adapt to display the resilience shown during the Covid crisis

Abta partnered with Deloitte to produce a Climate Action Guidebook in October to help businesses start the process of decarbonisation which will dominate over the longer term. The World Travel & Tourism Council produced the first detailed calculation of the industry's carbon footprint in November at 8.1% of global CO2 emissions. This may sound manageable but is colossal for a sector reliant on hard-to-abate aviation fuel and forecast to double in size while others cut their dependence on carbon. The industry will not be able to rely on demonstrating reductions in carbon intensity per passenger and distance to escape sanctions if total emissions fail to fall.

The consumer research which runs through this report suggests no shortage of demand for holidays although this is likely to remain below pre-pandemic levels and financial concerns will shape the decisions of many customers.

I am indebted to Tom Costley of Service Science for facilitating the research and to Deloitte and the many Deloitte contributors who gave their time and expertise.

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

PICTURE: STEVE DUNLOP

MORE than two in five UK adults (44%) took an overseas holiday in the 12 months to October according to the Service Science/Kantar consumer research undertaken for this report, a higher proportion than almost anyone could imagine in the first two months of 2022 (Figure 2). Younger adults predominated among those travelling, with 60% of 16-34-year-olds taking at least one holiday compared with one in three (33%) aged 45 and above. Almost two-thirds of UK adults (63%) took a UK domestic holiday in the same period (Figure 4)

UK CONSUMER RESEARCH

SERVICE SCIENCE/KANTAR SURVEY

FIGURE 1: UK HOLIDAY MARKET

23.7m UK adults took at least one overseas holiday in the past 12 months

23.1m intend to take an overseas holiday in 2023

UK adults took at least one domestic break in the last 12 months

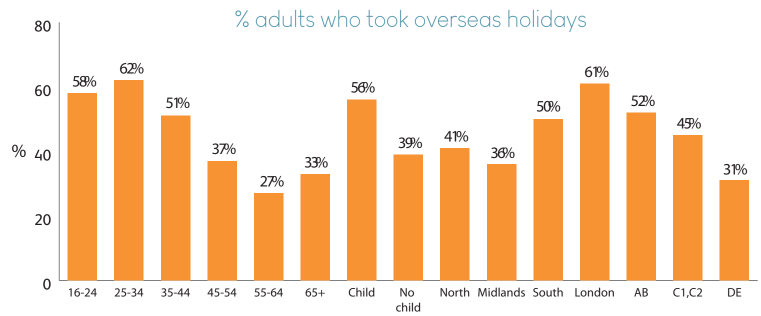
31m intend to take a UK break in 2023

Figures based on Service Science/Kantar consumer research, October 2022

FIGURE 2: UK OUTBOUND HOLIDAYS, 2022

44% of UK adults took at least one overseas holiday

21% took two or more



Base: 1,291 UK adults Source: Service Science/Kantar, October 2022

FIGURE 3: UK HOLIDAY MARKET: 2019 AND 2022

60% of UK adults aged 16-34 took one or more overseas holidays in 2022

Overseas holidays, 2019

50% of UK adults took at least one overseas holiday

24% of adults took two or more overseas holidays

58% of adults with children took one or more overseas holidays

Domestic holidays, 2019

67% of UK adults took at least one domestic holiday

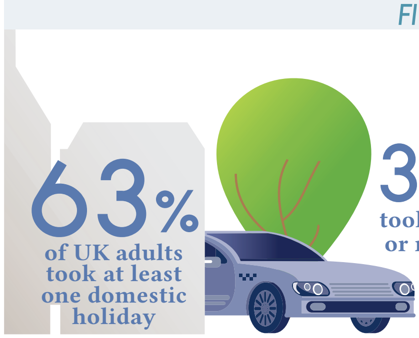
40% took two or more domestic holidays

75% of adults with children took one or more domestic break

31% of UK adults aged 55-plus took one or more overseas holidays in 2022

Source: Service Science/Kantar consumer data October 2019 and October 2022

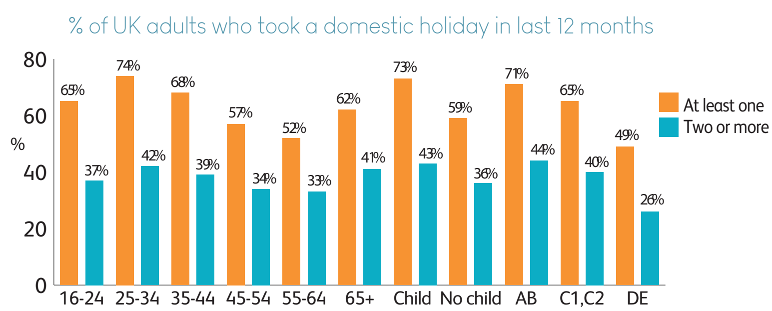
FIGURE 4: UK DOMESTIC HOLIDAYS, 2022



63% of UK adults took at least one domestic holiday

38% took two or more

GRAPHICS: SHUTTERSTOCK



Source: Service Science/Kantar, October 2022 Base: 1,291 UK adults

MARKET OUTLOOK

RECESSION CLOUDS OUTLOOK FOLLOWING STRONG SUMMER REBOUND

Demand for international travel rebounded sharply as the UK's Covid entry restrictions were lifted in March, although it was the summer before the US reopened and cruise lines fully returned, and long-haul destinations opened more slowly.

Severe labour shortages replaced Covid-19 as the main cause of disruption to travel, causing endemic delays at busier airports through May, June and July, leading at one point to cancellation of as many as one in 20 flights.

Daily media focus on the "chaos" had a dampening effect. Tui Group reported summer bookings, which hit 120% of 2019 levels before the disruption, fell back to 85% after it cancelled 200 flights in May and June. Yet bookings recovered to 100% by August as the strength of demand defied concerns that fuel prices sent soaring by Russia's invasion of Ukraine and the highest inflation for decades would hinder the recovery.

By August, Ryanair was reporting a "double-digit increase in fares" despite raising its capacity for the summer to 15% above the 2019 level, and Ryanair chief Michael O'Leary was forecasting "a three-to-four-year period of fares growth". EasyJet chief Johan Lundgren acknowledged the "pressures on households" but argued: "Travel is one of the last things people sacrifice."

> The expected fall in UK household spending due to recession could be small, but 'we don't know what parts of the economy could struggle'

THE CORRELATION between economic growth and overseas holiday demand is clear although pandemic restrictions exaggerated the effect in 2020 (Figure 5). It's inconceivable that demand will remain unaffected by a recession in 2023

Luis Gallego, head of British Airways parent IAG, shrugged off Heathrow's attempt to limit the disruption by capping the daily passenger volume at 100,000 – not least because BA had stripped out one-fifth of its schedule anyway – and insisted: "We don't see any sign of weakness in booking behaviour."

However, the outlook darkened by late September. The transition came abruptly in Britain when, following a period of official mourning for the Queen, the short-lived government of Liz Truss unveiled a disastrous mini-Budget. Within weeks, a promise of £45 billion worth of unfunded tax cuts had turned, under the replacement Sunak government, into £55 billion in spending cuts and tax rises. In between, the pound sank to a record low of \$1.04, interest rates rose, and business and consumer confidence plunged.

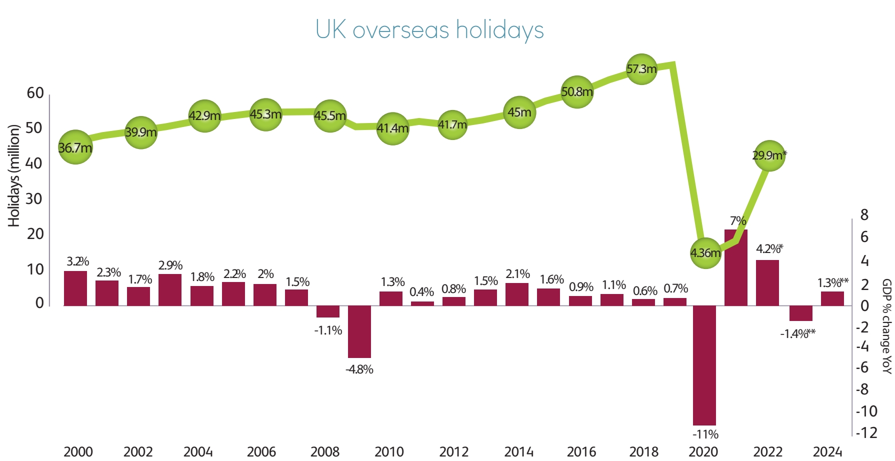
The chancellor's autumn statement on November 17 brought a forecast of the steepest fall in living standards on record, with real disposable income predicted to fall 4.3% in 2022-23 and a further 2.8% in 2023-24. The Office for Budget Responsibility calculated incomes would remain 1% below pre-pandemic levels even at the end of 2027-28.

Addressing the European Hotel Investment Conference in London in November, Deloitte chief economist Ian Stewart warned: "The squeeze on consumers will probably be worse than after the financial crisis."

RECESSION AKIN TO THE 1990S

Deloitte senior economist Debo Debapratim said: "We expect GDP to contract by about 2% from peak to trough of the recession. That is small compared to the contraction during the pandemic when GDP contracted

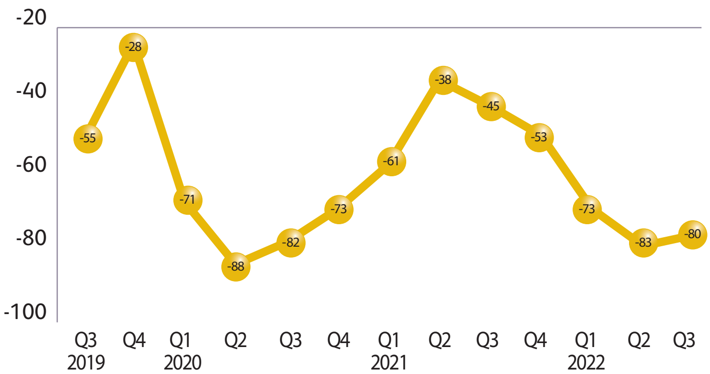
FIGURE 5: OUTBOUND HOLIDAYS & GDP, 2000–22



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

FIGURE 6: CONSUMER CONFIDENCE IN UK ECONOMY

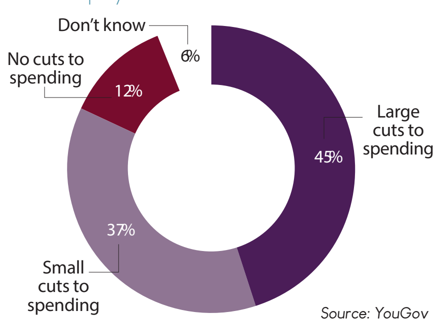
% point difference between 'confident'/'not confident'



Source: Deloitte Consumer Tracker

FIGURE 7: RISING MORTGAGE PAYMENTS & SPENDING

Consumer response to rising payments in next 12 months



Source: YouGov October 2022
Base: 1,162 UK adults with mortgages

CONSUMER confidence in the UK economy recovered with the development of Covid-19 vaccines, before declining and then falling more sharply as inflation soared and recession loomed (Figure 6). Rising mortgage payments appear likely to impact consumer spending (Figure 7). Confidence in household disposable income and levels of debt have fallen sharply (Figure 8)

20%. The closest previous recession was in the early 1990s when GDP contracted 2% and household consumption by about 1%, which is what we forecast now."

He acknowledged: "That is a fairly optimistic view. In October, there were people forecasting inflation would peak above 20%. But most economists have forecast a shallower recession. We expect inflation to fall through next year to reach 4.5% by the end of the year."

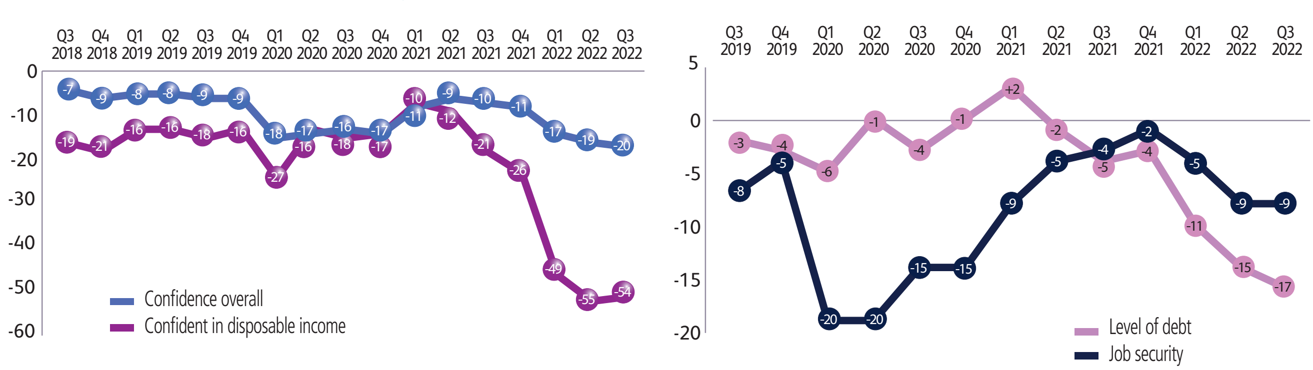
Debapratim forecast interest rates would peak "at about 5%" and unemployment rise to about the same level. But he warned inflation could remain "more persistent" and said: "If it was 6.5% or 7% at the end of next year it would mean interest rates stay higher for longer."

He suggested household consumption would contract by less than the overall economy despite a "collapse in consumer confidence", explaining: "Household consumption generally tends to be stickier. Those higher in the income spectrum accumulated savings during the pandemic. Wage growth has roughly kept pace with inflation in high-value jobs. Also, many households maintained their spending even during the financial crisis by taking on more borrowing.

"We also often see household members work longer hours during crises. The post-pandemic experience has been the opposite and we've seen a rise in inactivity, but different cohorts respond differently

FIGURE 8: UK CONSUMER CONFIDENCE, 2018-22

% point difference between 'confident' and 'not confident'



Source: Deloitte Consumer Tracker

RECESSION CLOUDS OUTLOOK FOLLOWING STRONG SUMMER REBOUND

or have different amounts of spending power. The top half of the income spectrum are in a better position to weather the cost-of-living crisis.

"During this kind of recession, investment tends to take a greater hit than household consumption. Business confidence has fallen and businesses are likely to prioritise cost reduction. We're going to see weaker hiring over the next 12 months. We're starting to see insolvencies pick up, largely among small and medium-size enterprises (SMEs) and we're going to see that rise. Most economists think we'll see a recession but not a rise in unemployment because of the tight labour market. [But] that is unlikely."

Debapratim warned energy prices would remain high for the foreseeable future. He said: "Even though gas prices are expected to fall, they're forecast to settle at about six times the level before Russia invaded Ukraine. We're looking at significantly higher energy costs even in the medium term. Energy prices are not going back to pre-pandemic levels anytime soon."

How much impact this has on consumer confidence and for how long will depend on "what people see as normal" he said, arguing: "Before the financial crisis, people saw 7% or 10% interest rates as normal. Now they represent a shock. The question is how long will high energy prices remain a shock for consumers? How long will it take them to adjust spending to higher prices?"

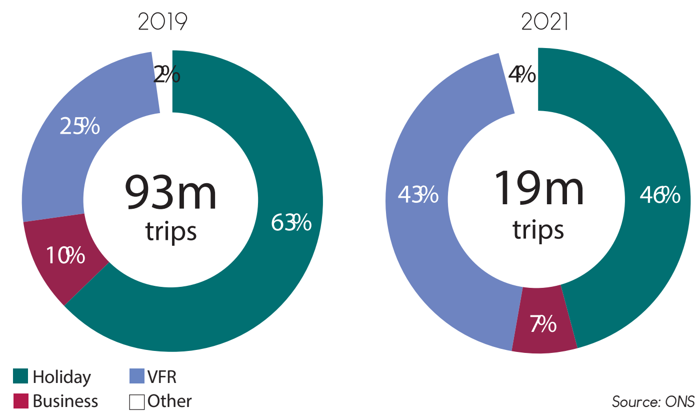
Most people will be poorer. Debapratim said: "Wages have been rising below inflation for a fairly long time. We expect that to continue for most of next year." He also noted the pound's weakness against the dollar and said: "I would expect the dollar's strength to continue."

Debapratim added: "There is a risk of a US recession next year. Developed economies tend to go through recessions in synchrony. This time is unlikely to be different. We're likely to see a recession in Europe. Germany, Italy and France seem susceptible. Eastern European economies are significantly exposed to Russian gas.

"Emerging markets are affected by higher energy prices and higher levels of inflation and also by the dollar's strength. All these factors work towards slowing growth, although Middle Eastern economies are doing well because of high energy prices. In China's case, there are the complicating factors of the crackdown on the tech sector and a zero-Covid policy. What is worrying about China is its property market."

FIGURE 9: UK OUTBOUND TRIPS BY PURPOSE

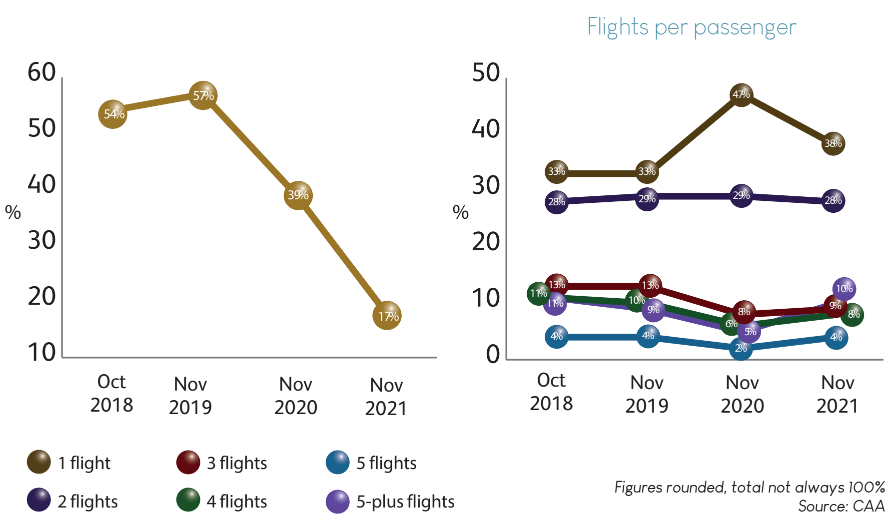
% of all outbound overnight trips



Source: ONS

HOLIDAYS were the predominant reason for outbound travel in 2019. VFR was almost as important in 2021 (Figure 9). The proportion of the UK population taking flights plunged during the pandemic, but the minority flying frequently barely changed (Figure 10)

FIGURE 10: FREQUENCY OF FLYING



Figures rounded, total not always 100%
Source: CAA

UK CONSUMER RESEARCH

SERVICE SCIENCE/KANTAR SURVEY

FIGURE 11: DEMAND FOR OVERSEAS HOLIDAYS, 2023

% UK adults likely to take overseas holiday

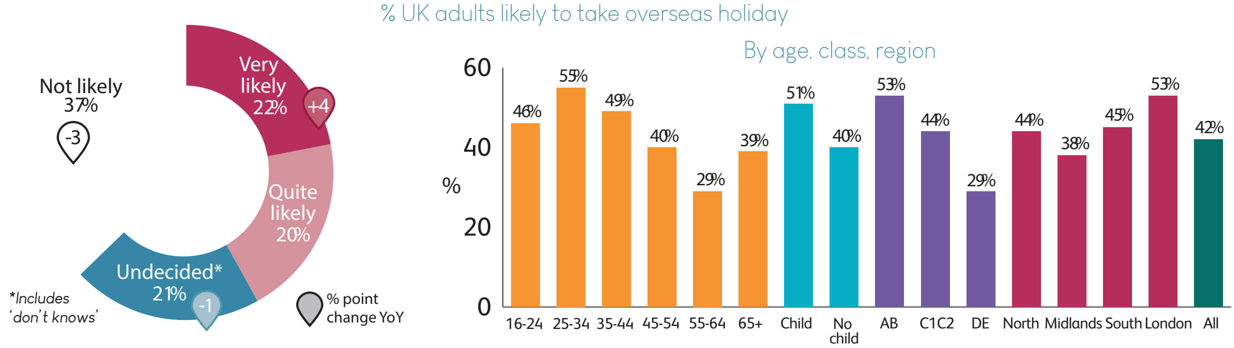


FIGURE 12: SPENDING ON OVERSEAS HOLIDAY, 2023

Likely spend of UK adults intending to take holiday abroad

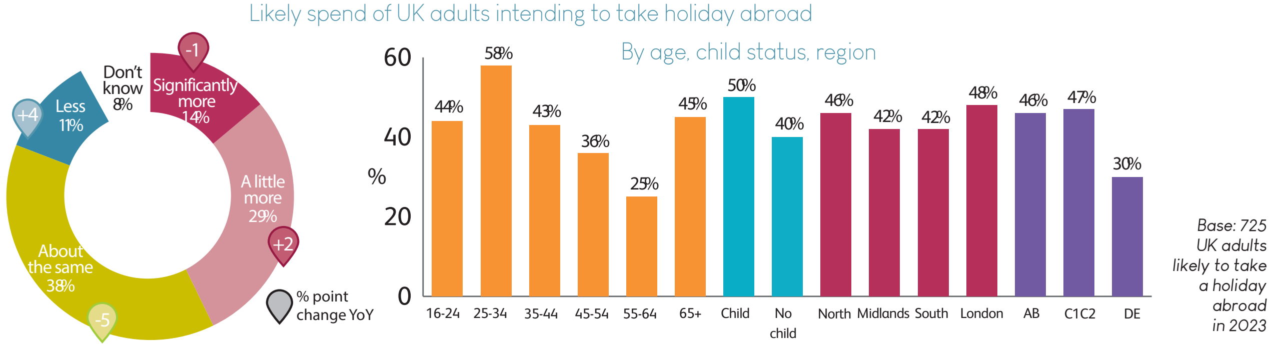


FIGURE 13: COST-OF-LIVING IMPACT ON HOLIDAY DECISIONS

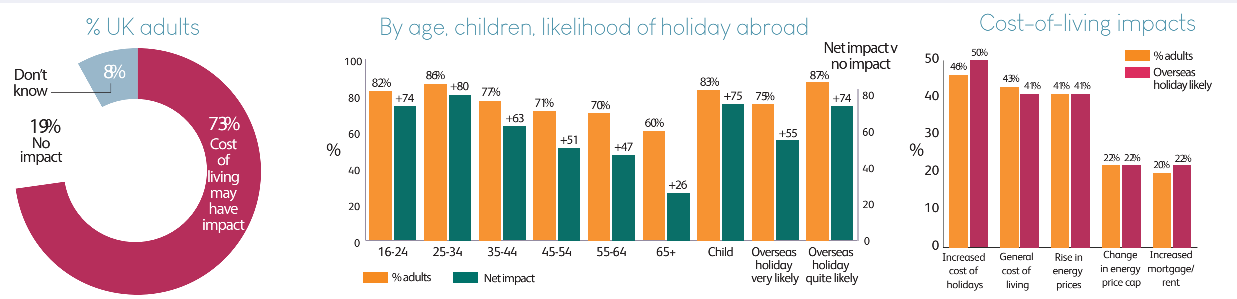
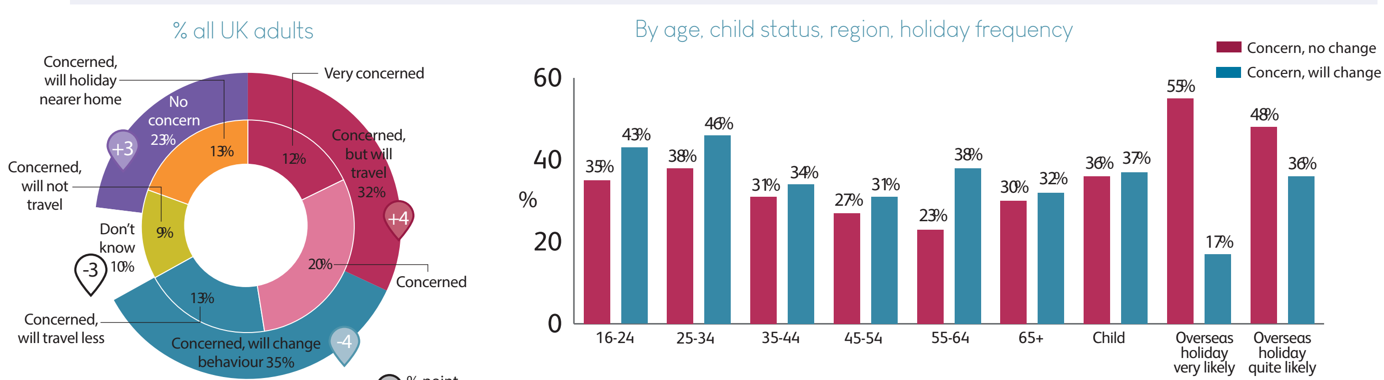


FIGURE 14: CLIMATE CHANGE CONCERN & IMPACT ON TRAVEL



Source all charts: Service Science/Kantar Base (unless stated): 1,279 UK adults, October 2022

MARKET OUTLOOK

RECESSION CLOUDS OUTLOOK FOLLOWING STRONG SUMMER REBOUND

REVERSAL OF MONETARY POLICY

Despite his view that the recession should be relatively shallow, Debapratim acknowledged the situation is fragile.

He said: "Central banks are embarking upon a huge change with a reversal of the monetary policy consensus across the West for 50 years putting pressure on various parts of the financial system.

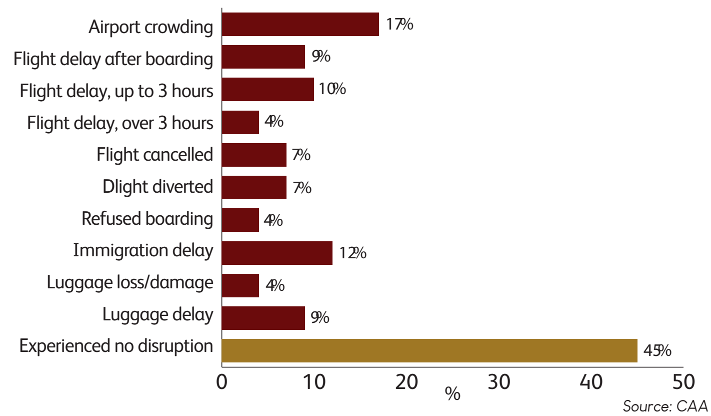
"We know banks are well capitalised because of everything done in terms of regulation after the financial crisis. But whether the non-bank financial services sector is ready for a rapid rise in interest rates remains to be seen.

"There will be pockets of consumer businesses affected by rising interest rates, not just the financial markets – for example, the automotive sector, given most people buy cars on financing. What does that do to the car manufacturers' model? It's a big change for a lot of the economy.

"Businesses may adapt to higher levels of interest rates in the long run. But there is a question mark over whether they are able to adapt at the pace at which central banks are raising rates. That is the primary reason why there is fragility. We simply don't know what parts of the economy could struggle."

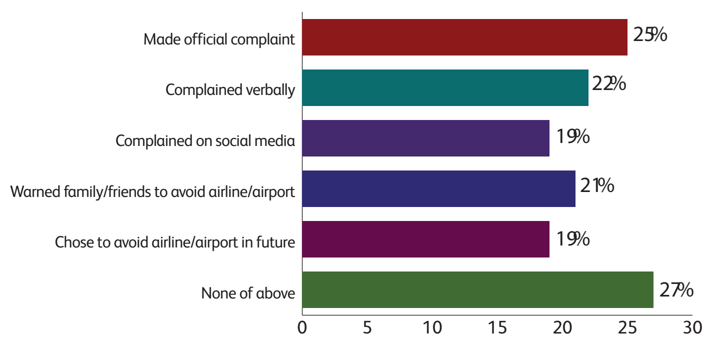
FIGURE 15: AIR TRAVEL DISRUPTION

% reporting recent flight issues



Source: CAA
November 2021 Base: 585 adults flow in previous 12 months

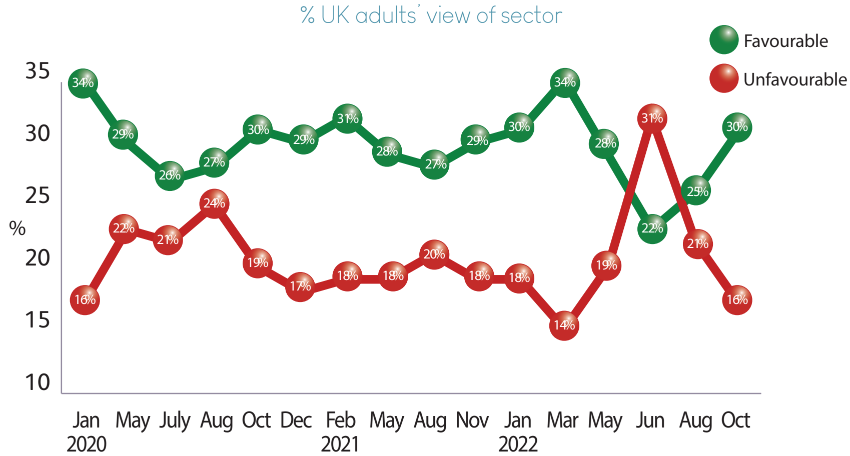
FIGURE 16: TRAVELLERS' REACTION TO DISRUPTION



Source: CAA November 2021 Base: 313 air travellers who experienced disruption

FIGURE 17: CONSUMER VIEW OF TRAVEL INDUSTRY

% UK adults' view of sector



'Unfavourable' and 'favourable' include both 'very' and 'somewhat'; balance comprises 'Neither favourable nor unfavourable' and 'Don't know'
Source: YouGov Base: 1,931-2,081 UK adults

He added: "If there is one lesson from the autumn, it's that we've seen a reassertion of authority by the markets. We had a fairly long period of easy monetary policy and a significant amount of quantitative easing which made it easier for governments to borrow and not need to deal with the moderating effect of market influence on their plans."

Yet Debapratim does not see the costs attached to the drive to decarbonise negatively. On the contrary, he argued: "If the need to decarbonise leads to a significant rise in investment, it's probably a good thing, especially as we expect the West to lead the world in developing the technologies needed to drive this low carbon future.

"In the short term, it might mean

higher costs and these will have to be borne to some extent by consumers and taxpayers. But in the long run, you're looking at a lower marginal cost of energy. The cost of producing energy on a solar farm is significantly lower than the cost of extracting oil or coal. We're looking at a long-term benefit, notwithstanding the environmental benefits. Also, the oil-price shocks in the 1970s drove significant improvements in the fuel efficiency of cars. It's a difficult thing to argue when people face a challenging winter, but the inflation and cost-of-living crisis we're suffering now are going to drive efficiency gains."

'HOLIDAYS TEND TO BE A PRIORITY'

Alistair Pritchard, Deloitte lead partner for travel and aviation, suggested "there will be differences across the market" in how holiday consumers respond to the squeeze on living standards. He said: "Some of the easier areas to cut back spending are on things like eating out. People can choose to do things less often or only on special occasions.

"Holidays are discretionary but still tend to be a priority, albeit people may delay a decision on booking. There is an argument that post-pandemic people see holidays as even more important, particularly certain groups. So many consumers will continue to treat holidays as a priority."

> "People tend not to trade down in quality. They might go for eight days instead of 10, or have four nights in the UK instead of a second overseas trip

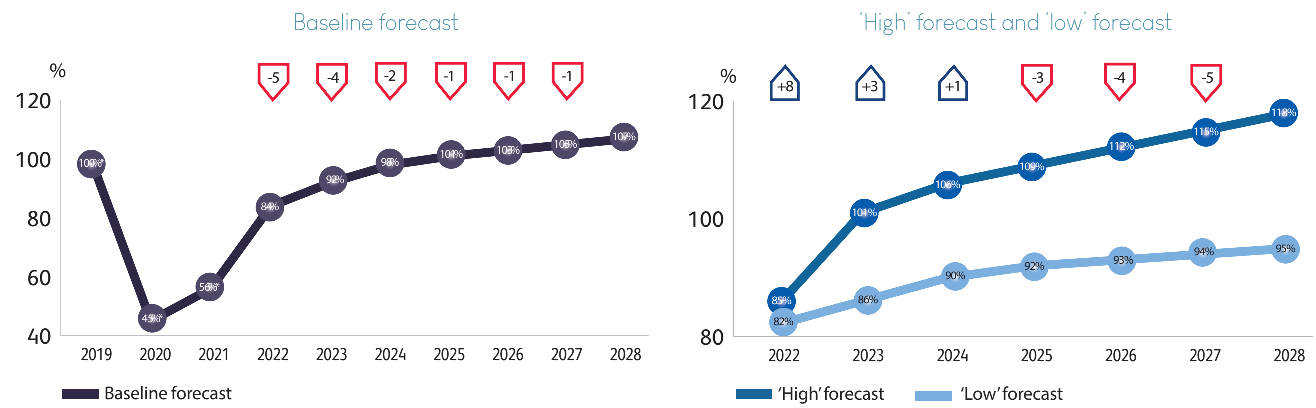
A SIGNIFICANT minority of air travellers experienced disruption to their travel before the well-publicised problems in spring and summer 2022, with one in six reporting airport crowding, and up to one in four experiencing delays (Figure 15). Of those affected by disruption, one in five complained on social media, one in four made an official complaint (Figure 16). Consumers viewed the travel industry unfavourably through the disruption (Figure 17). European air traffic won't return to its 2019 level until 2025, according to Eurocontrol (Figure 18)

Pritchard added: "People tend not to trade down in terms of quality. They might go for eight days instead of 10 or stick with their main holiday but have four nights in the UK instead of a second overseas break. Duration is also something people under pressure could look at and there could be destinations people perceive as greater value, for example, Turkey. But I don't see people downgrading on quality."

Debapratim agreed, saying: "I don't know how easy it is for holiday consumers to trade down. With retail, it's a lot easier. You can simply buy a value brand and not branded products. But if you're used to a certain type of hotel, would you suddenly go to a hostel?"

***FIGURE 18:* EUROPEAN AIR TRAFFIC FORECAST**

% v 2019 air traffic



*Recorded traffic

'Base' scenario assumes weak GDP in 2023, high inflation, 'good' passenger confidence, growing environmental concerns, some staffing issues

'High' scenario based on moderate GDP growth, limited inflation impact, tourism above 2019 level, business travel bounces back, airlines restore capacity;

'Low' scenario assumes recession, inflation impacts demand, occasional Covid-19 resurgence, environment concerns affect travel, staffing issues

Source:
Eurocontrol, October 2022

MARKET OUTLOOK
RECESSION CLOUDS OUTLOOK FOLLOWING STRONG SUMMER REBOUND

This analysis appears borne out by consumer research for this report which found a rise of five percentage points year on year in the proportion of UK adults intending to take an overseas holiday in the next 12 months. However, at 42% the proportion remains 11 points down on the pre-pandemic level. This can almost certainly be attributed to the rising cost of living and deteriorating economic outlook.

Asked what factors might impact on their decision to book a holiday, almost half the respondents identified increased costs of holidays and two in five the increased cost of living or rising price of energy. A similar proportion intend to limit holiday costs by travelling outside peak times, choosing cheaper options, reducing time away or taking fewer breaks. More than half (55%) said they would holiday outside peak periods and 52% book cheaper travel, with 48% taking fewer holidays and three in five planning a main holiday of seven nights or less.

The survey found substantially reduced concern about Covid-19, with just one in five registering the Covid rate or procedures in a destination as a consideration. There was also diminished concern about flexible booking conditions. But the congestion at airports and disruption to flights through the spring and early summer appears to have had an impact with a four-point rise year on year in those saying they will book with a 'trusted company' and a six-point increase in those opting for the security of a package holiday.

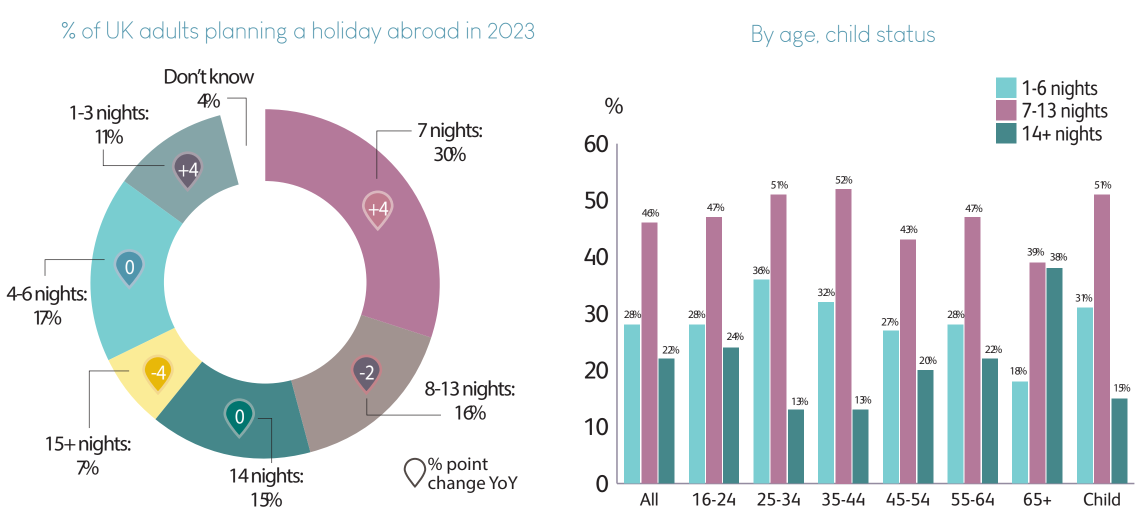
Covid does seem to have had a residual impact on demand over the past year, with the survey finding younger adults, aged 16-34, twice as likely to have travelled abroad as those aged 45 and above.

It is disappointing but perhaps not surprising to note a fall in the level of concern about sustainability issues among holidaymakers, despite more than two-thirds admitting concern about the impact of travel on climate. The proportion prepared to pay more to travel with a company taking action to reduce carbon emissions declined somewhat to 28% although it remained sharply higher among younger adults at two in five. A seven-point drop in concern about the impact of flying perhaps reflects the level of pent-up demand from the pandemic.

More broadly, the appeal of all-inclusive holidays, particularly to families, shows no sign of abating. Demand for beach holidays has returned to pre-pandemic levels and there appears no real change in likely booking channel.

RESEARCH for this report suggests a move to shorter durations among those intending to take overseas holidays in 2023, with 58% planning breaks of seven nights or less, an increase of eight percentage points year on year (Figure 19)

FIGURE 19: DURATION OF NEXT OVERSEAS HOLIDAY



Excludes 'don't knows'. Base: UK adults likely to take an overseas holiday in 2023. Source: Service Science/Kantar

UK CONSUMER RESEARCH

SERVICE SCIENCE/KANTAR SURVEY

FIGURE 20: HOLIDAYMAKER RESPONSES TO COST OF LIVING

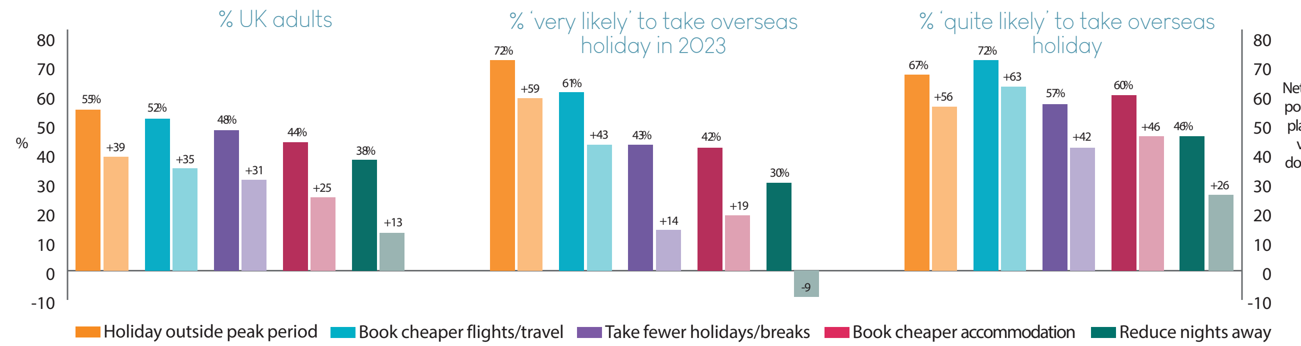


FIGURE 21: HOLIDAYMAKERS WHO WILL TRAVEL OUTSIDE PEAK PERIODS

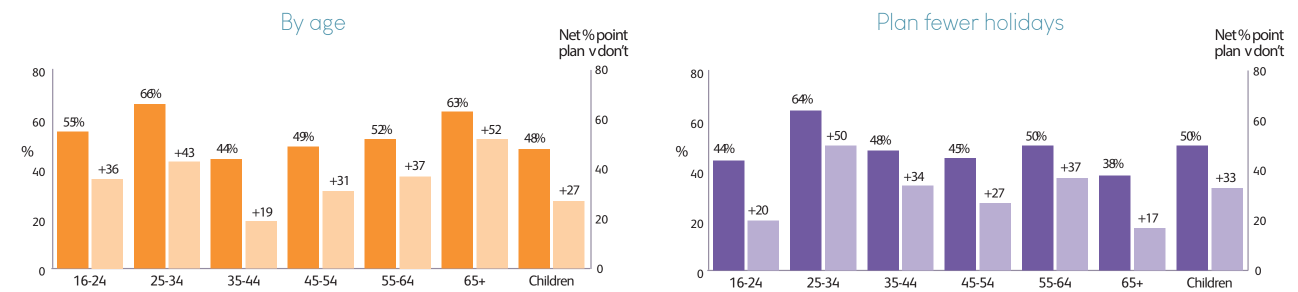


FIGURE 22: HOLIDAYMAKERS CHANGING TRAVEL BEHAVIOUR, BY AGE

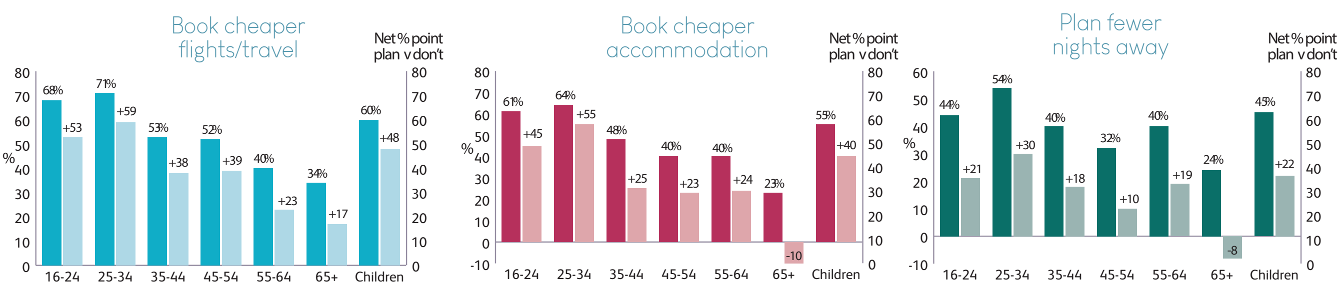
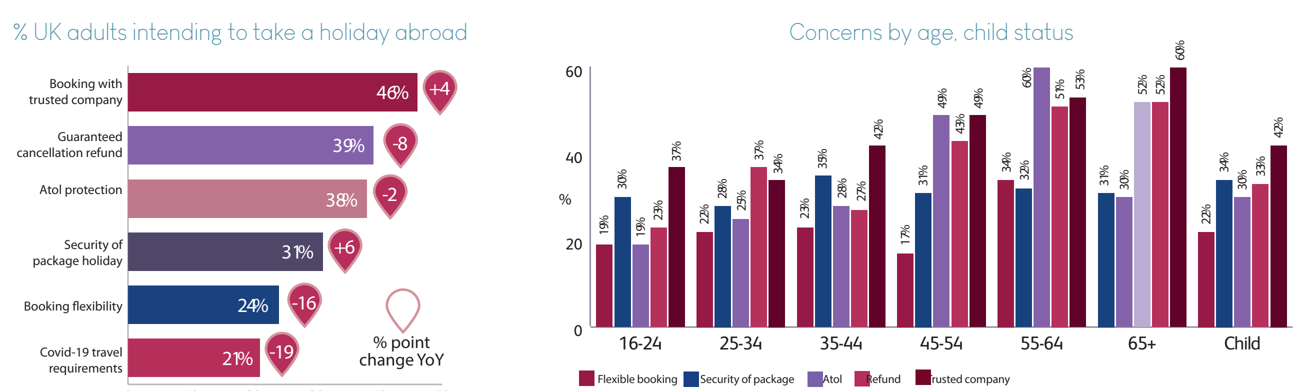
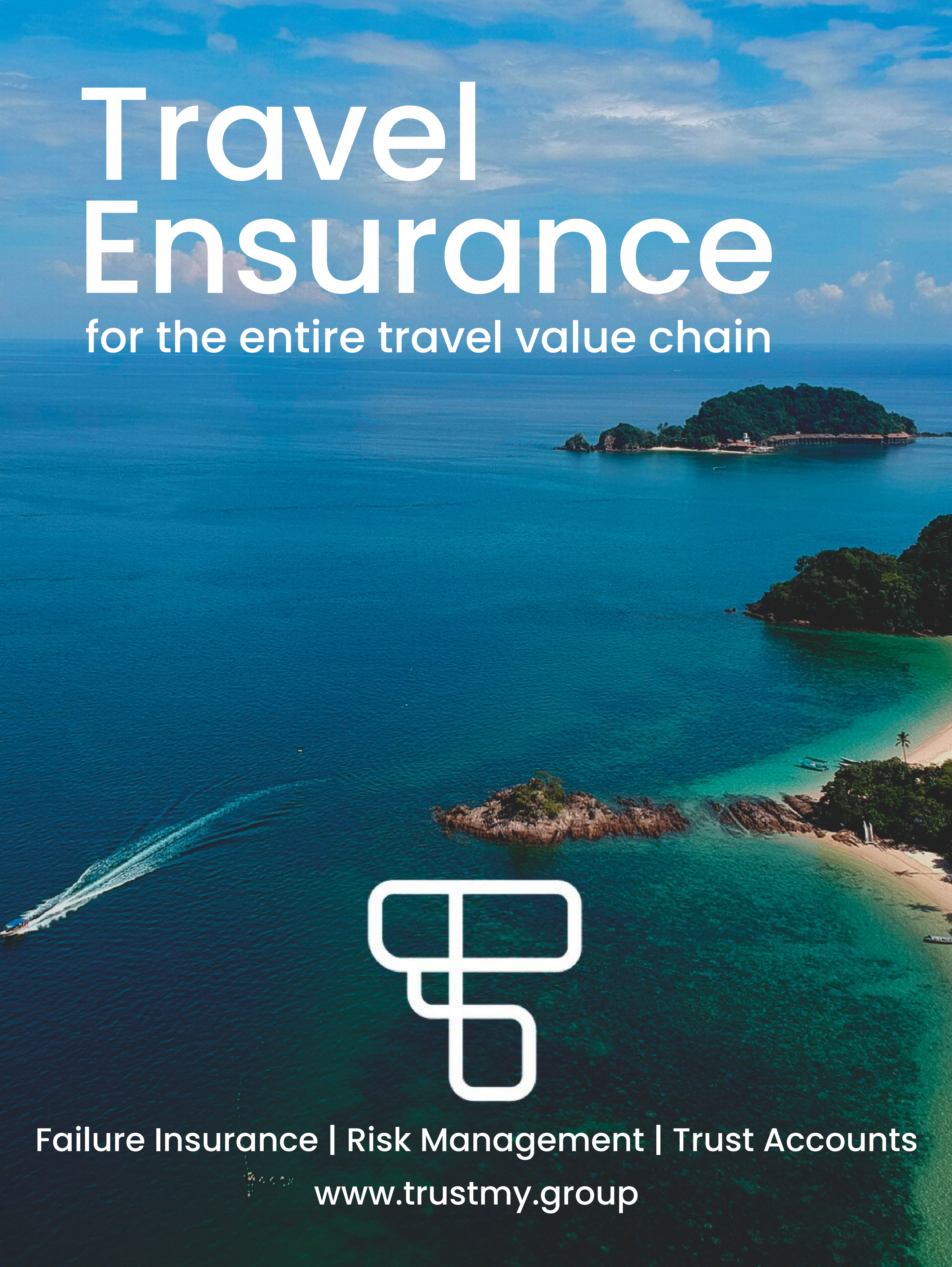


FIGURE 23: KEY FACTORS WHEN BOOKING OVERSEAS HOLIDAY, 2023



Source all charts: Service Science/Kantar Base: 1,291 adults, October 2022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CLIMATE AND SUSTAINABILITY

A LONG WAY TO GO TO NET ZERO

Climate change loomed larger than ever over the future following a scorching summer in Europe, record wildfires and floods, and a disappointing close to the COP27 climate conference in Egypt in November.

Despite a breakthrough agreement to provide "loss and damage" funding to "particularly vulnerable" countries hit by climate disasters, COP27 broke up amid recriminations over the failure to reach a deal on greater cuts to greenhouse gas emissions or to agree the phasing out of fossil fuels. The *Financial Times* newspaper reported: "The world's biggest fossil fuel producers succeeded in staving off demands for bolder action."

EU climate chief Frans Timmermans said: "The world will not thank us. This is the make-or-break decade." New Zealand minister for climate change James Shaw blamed "denial or delusion about the state of the climate crisis", and UK climate chief Alok Sharma, the president of COP26 in Glasgow, declared: "I'm incredibly disappointed." UN secretary-general António Guterres argued: "Our planet is in the emergency room. A fund for loss and damage is essential but it's not an answer."

Days before COP27 convened, the UN Environment Programme (UNEP) published an analysis of countries' climate pledges which concluded these remain "woefully inadequate" and there is "no credible pathway to 1.5C in place", referring to the Paris agreement to limit global warming to 1.5C. Guterres warned: "We are headed for a global catastrophe."

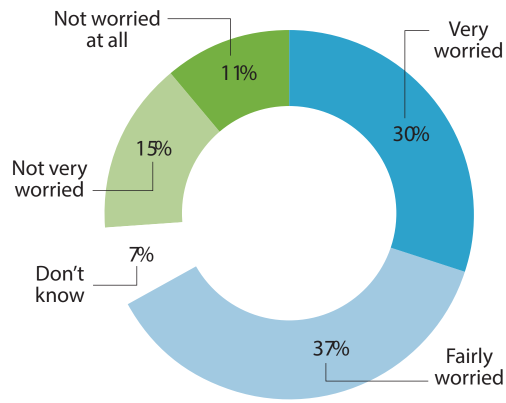
UNEP concluded the world is on course to warm by 2.4C-2.6C by the end of the century if every existing commitment is met. Separately, the UN Framework Convention on Climate Change warned current commitments put the world on course to warm by up to 2.9C, or almost double the Paris target.

Industry sustainability charity the Travel Foundation put the COP27 failure and UNEP report in context for the sector by calling for "limits to aviation growth"

The industry and the world need to speed up action on decarbonisation to avoid catastrophic climate consequences

YOUGOV research in October confirmed two-thirds of the UK population are worried about climate change (Figure 24). Almost three-quarters (73%) said companies have a significant role to play in addressing the climate crisis, and 61% see public pressure as playing a part (Figure 25)

FIGURE 24: CONSUMER CONCERN ABOUT CLIMATE CHANGE

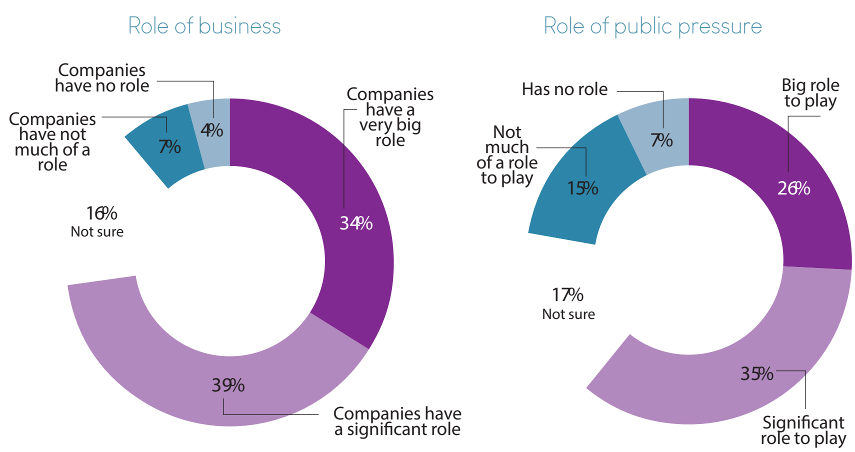


Source: YouGov October 2022 Base 1,705 UK adults

and a cap on long-haul trips as it warned the industry's current reliance on carbon offsets, technology efficiencies and biofuels "are woefully inadequate" when global tourism numbers are forecast to double by 2050. It noted long-haul trips could account for 41% of tourism CO2 emissions by 2050 ahead of publishing a report, Envisioning Tourism in 2030.

Earlier in the year, in February, the second instalment of the Sixth Assessment

FIGURE 25: TACKLING CLIMATE CHANGE



Source: YouGov October 2022 Base 1,705 UK adults

CLIMATE AND SUSTAINABILITY
A LONG WAY TO GO TO NET ZERO

Report by the Intergovernmental Panel on Climate Change (IPCC) appeared. Entitled 'Climate Change 2022: Impacts, Adaptation and Vulnerability', it warned the consequences of climate change are likely to be worse than previously forecast and the window in which to act is "rapidly closing".

It concluded the effects of warming, such as extreme weather, would be more severe and at lower temperatures than the IPCC warned in 2014. The report's authors warned "impacts are much more widespread and are accelerating" and "multiple ports and coastal infrastructure are at risk" from rising sea level. They suggested: "Any further delay in concerted global action on adaptation and mitigation will miss a brief and rapidly closing window of opportunity."

The third and final instalment of the IPCC's sixth assessment, issued in April, concluded greenhouse gas emissions must peak by 2025 and almost halve during this decade to present a chance of limiting global warming to 1.5C above pre-industrial levels.

'REGULATION IS COMING'

Deloitte senior manager and ESG and sustainability specialist Bethany Hawkings said: "The science is only getting worse. The action being taken isn't sufficient to limit warming to 1.5C. Current roadmaps aren't sufficient. They are not granular enough. The level of detail underpinning commitments isn't sufficient."

> "There is going to be a requirement to understand what your supply chain is doing [on sustainability] and that is going to trickle down to capture more companies

JUST 4% of UK adults say they consider environmentally friendly accommodation when booking a holiday, although 37% say they would consider it. Only 3% pay to carbon offset flights, with one in five (21%) saying they would consider doing so (Figure 26)

But she argued: "Regulation is coming. There is a lot of regulation in the finance sector that will drive change for the travel industry when businesses access finance and will change how insurers relate to travel businesses. There will be requirements for reporting and granular information, for commitments, targets and detail on how these will be reached."

Two of the most prominent requirements are the Sustainable Finance Disclosure Requirement (SFDR) and the EU taxonomy for sustainable activities – a classification system designed to clarify which investments are environmentally sustainable.

Hawkings explained: "These have detailed requirements that are going to drive a lot more disclosure and should mean companies take more action based on those disclosures. There are lots of different thresholds to determine which companies the regulations apply to – that is one of the complexities. There are also lots of different timelines for disclosure, but we're seeing the thresholds get lower.

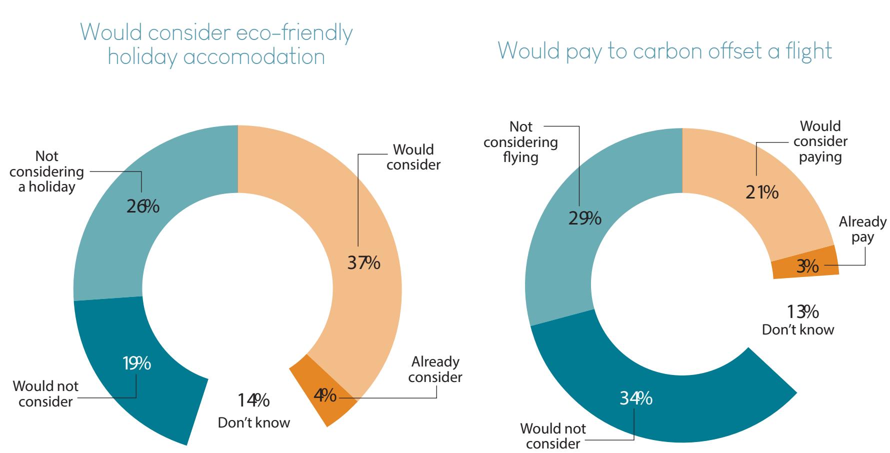
"For example, some of the requirements now hit companies with 500 employees and that threshold is coming down. The landscape is changing so quickly. We also have scope three requirements becoming mandatory for some organisations."

'Scope three' refers to emissions an organisation is indirectly responsible for, not only in its supply chain but when its products or services are used.

Hawkings said: "It's a complex landscape that companies need to get to grips with." When they will have to do that "depends on whether a company is listed, the size of the company and where it is based. There are lots of pieces to the puzzle. But for the largest companies, it will be 2023."

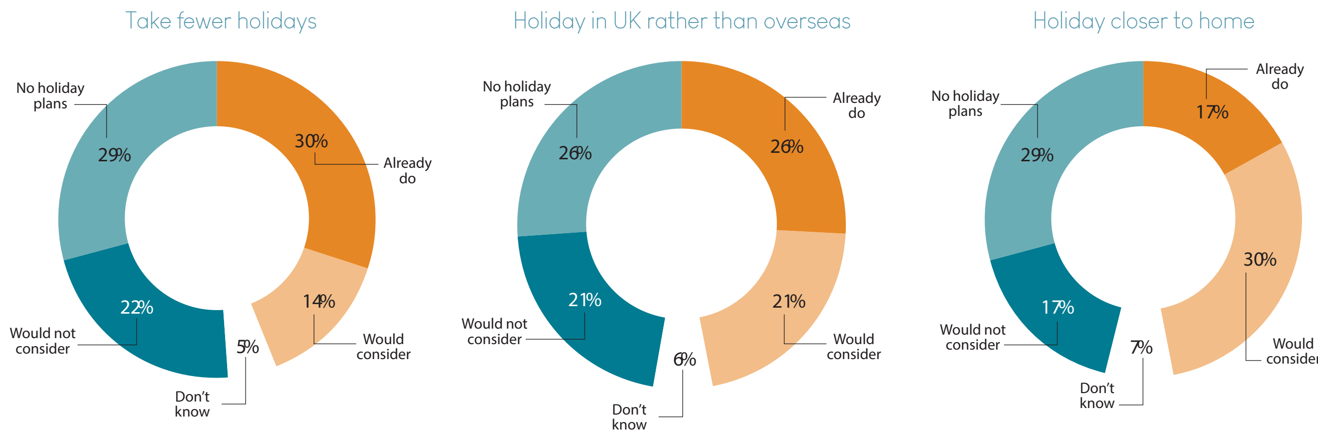
Alistair Pritchard, Deloitte lead partner for travel and aviation, noted: "We have

FIGURE 26: CONSUMERS' ECO-FRIENDLY TRAVEL CONSIDERATIONS



Source: YouGov July 2022 Base 1,958-2,027 UK adults

FIGURE 27: POSSIBLE CONSUMER RESPONSES TO TRAVEL'S IMPACT ON ENVIRONMENT



Source: YouGov July 2022 Base 1,958–2,027 UK adults

requirements already in the UK that apply to the largest listed businesses, and the next category to start complying will be the largest unlisted companies. There is going to be a requirement to understand what your supply chain is doing and that is going to trickle down to capture more companies. The timeframes vary but it's only going in one direction."

He suggested: "The UK is one of the more-advanced economies in the world in bringing forward regulation. But the EU will have a big impact on UK businesses because of its close proximity and it's where lots of people go on holiday. The US is pushing forward as well. If a business is a subsidiary of a US parent, that is going to impact in the not-too-distant future."

Pritchard added: "Investors take a broader view of this, in terms of environmental, social and governance (ESG) issues, not just CO2 emissions. There is a broader environmental piece relating to water, plastics, the circular economy and so on, and the social and governance pieces are important partly because many investors have made commitments themselves. Many source cash from banks, investment funds or pension schemes with expectations on how those funds are deployed. Investors see it as a key part of their investment strategy to understand what a business is doing and will do.

YOUGOV research suggested 30% of UK adults 'already' take fewer holidays because of travel's impact on the environment and 26% choose to holiday in the UK because of it (Figure 27)

"Will investors be able to sell a business in a few years if it hasn't made progress on this agenda? A business that doesn't have a credible plan and isn't investing in becoming more sustainable will be worth less than it would otherwise. We've only seen investor interest in this increase over the last 12 months. It's not going backwards. Customers are still a laggard in terms of driving this."

Hawkings said: "Regulation and investors go hand in hand. The regulations coming in are so significant, they drive the finance sector to move."

She added: "A lot of onus tends to be put on consumers. There are survey indications that consumers place an importance on sustainability issues. But we lack information on what defines 'important' and how that translates into whether consumers will put money where their mouth is."

CLIMATE ACTION GUIDEBOOK

Deloitte partnered with Abta to produce a Climate Action Guidebook for the sector. Hawkings explained: "It aims to provide a knowledge set for leaders, to help them understand the actions they should be taking. There is a lot to be done in travel. Hopefully, the guide acts as a tool to support leaders and their teams to define the next steps."

CLIMATE AND SUSTAINABILITY
A LONG WAY TO GO TO NET ZERO

The aim is to follow up on the guidebook with more detail around scope three emissions, the key challenges the industry faces, how this links with social issues and how to communicate with consumers.

Hawkings insisted: "The priority is measurement – measuring scope one [direct greenhouse gas emissions] and scope two [indirect] emissions if those are not already completed and understanding your hotspots in scope three. Then set commitments on how you're going to decarbonise with a level of granularity as to how you're going to meet them.

"The root is understanding your key climate risks, ideally with a scenario analysis, and including that in your governance. What is your carbon footprint? What are your climate risks? How are these driving decisions in your business and being embedded throughout the organisation?"

Pritchard pointed out: "This involves a 30-year transformation and business leaders today are not going to be leading these businesses in 30 years. But this is probably the biggest transformation project they will undertake. The guidebook is designed to help them think through how they lead this.

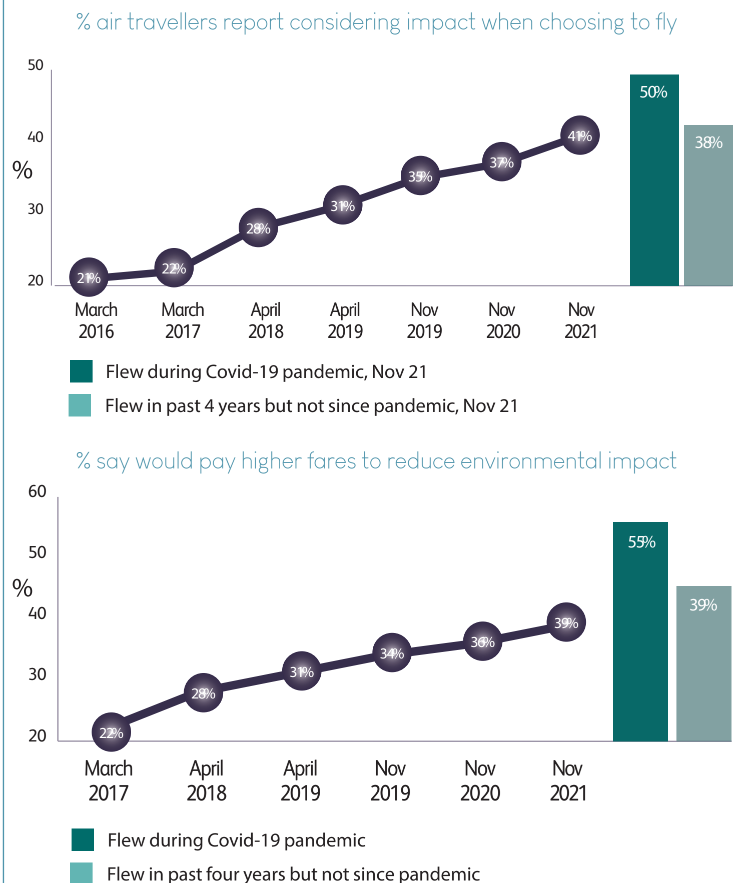
"The detail is specific to a business, depending on where they operate, the market they operate in, what their supply chain looks like, how they're set up, how far down the journey they are. The guidebook can't provide an answer that fits everybody. It's about helping leaders understand how they should approach this."

Abta's Travelife sustainability certification scheme for hotels is one of a growing number of certification schemes, but among the few to involve independent auditing and verification of sustainability claims. Bigger schemes tend to rely on self-reporting by accommodation providers, although there are moves to try to standardise requirements.

Hawkings said: "There are lots of issues around how we bring all these different accommodation providers up to a consistent standard, and certification can form an important part of that. But there are lots of issues with certification. There needs to be a review of certification systems. Are they good enough? What is the standard we're trying to achieve? There is work required both in terms of what certification schemes are best and in bringing the volume in that is needed. It's an area where there is a lot of consumer confusion. There are lots of different schemes and consumers don't know which ones are best. Sometimes consumers don't trust any because there are so many."

There are even bigger question marks over carbon offsetting, which features prominently among the environmental efforts of many businesses in the sector, but which Hawkings describes as "a bit like the Wild West".

FIGURE 28: AIR TRAVEL & CLIMATE IMPACT



November 2021 Base: 3,502 UK adults Source: CAA

TWO IN five air travellers (41%) say they consider the environmental impact when choosing to fly, with half of those who flew during the pandemic saying they do so (Figure 28). Almost as many (39%) say they would pay higher fares to reduce the impact of flying

She said: “Some schemes are significantly better than others. More and more we talk with clients about the hierarchy of decarbonisation, which starts from avoidance and goes down to offsets at the bottom. Offsetting has a place within the decarbonisation hierarchy, especially for the travel sector, because of the difficulty to abate carbon emissions. It is wrong to exclude it. The question is how to ensure carbon offsetting schemes effectively capture the carbon we need them to, and the right investments are made.” However, most offset schemes are not independently verified, and Hawkings noted: “If they’re not verified, what are they doing?”

A LONG WAY TO GO

Both Hawkings and Pritchard see reasons to be hopeful that the travel industry will take the kind of action required, even amid a recession which could impact on decisions requiring funding.

Pritchard noted: “Some businesses have expressed concern about the costs of operating going up and depleting their ability to invest in environmental sustainability. Unfortunately, some will choose to defer investment. But others will continue to invest because they see a competitive advantage in doing that, and there will be things they have to do because regulations require it.”

Hawkings argued: “There is great collaboration in the travel industry through groups like Abta, where we can develop and learn from one other. That is critical.

“Learning from other sectors is important too, and there is a huge opportunity for travel companies to start to engage with consumers on sustainability. But travel companies need to acknowledge a lot of work needs to be done. There is a long way to go to become net zero, climate positive.

“The food sector is starting to develop thinking around the consistency required to measure scope three emissions. Companies are working together on developing consistent assumptions and data collection across the value chain to measure scope three emissions. Travel has a similarly complicated, if not more complicated, value chain. That is exactly the kind of approach required, where the data isn’t perfect and there is no silver bullet, but if you collaborate to come up with consistent assumptions you can start to improve the data quality over time.

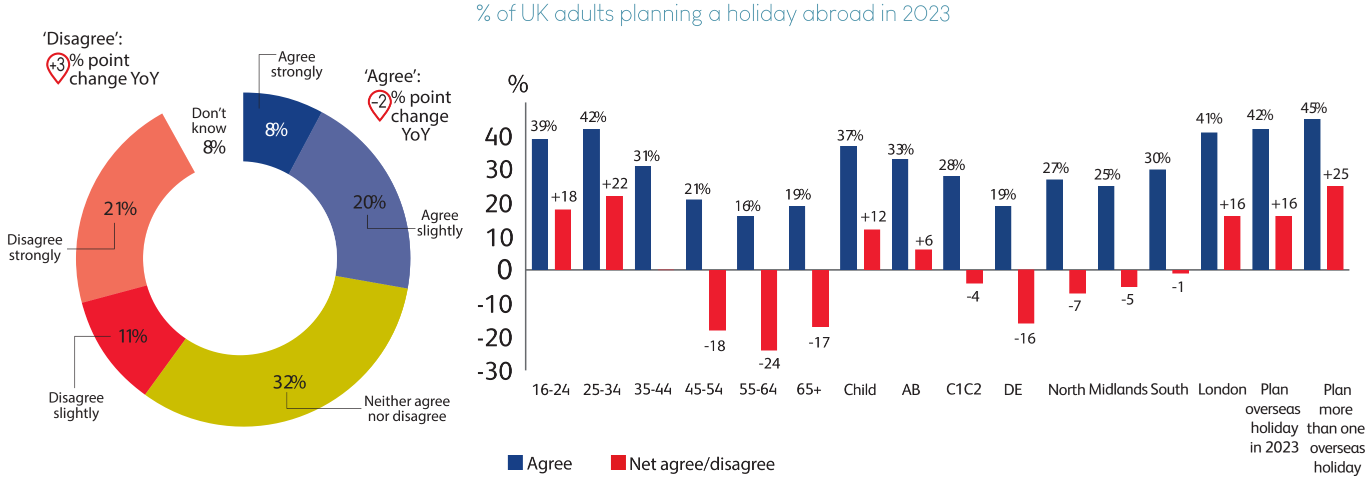
“That also applies to mapping climate risks and opportunities. The

> “Companies will continue to invest in sustainability because they see a competitive advantage in doing so, and there will be things they have to do because rules require it

RESEARCH for this report found 28% of UK adults willing to pay more to travel with a company that minimises its CO2 emissions, with a two-point fall year on year to 8% in those ‘strongly’ in agreement with paying more (Figure 29)

FIGURE 29: ‘I’M PREPARED TO PAY MORE TO TRAVEL WITH A COMPANY THAT MINIMISES CO2 EMISSIONS’

% of UK adults planning a holiday abroad in 2023

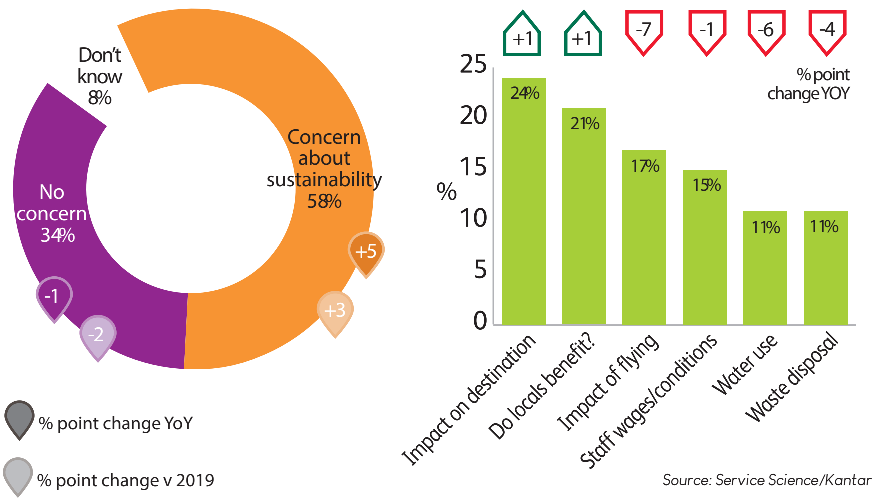


Base: 1,291 UK adults Source: Service Science/Kantar

CLIMATE AND SUSTAINABILITY
A LONG WAY TO GO TO NET ZERO

FIGURE 30:
HOLIDAYMAKERS' SUSTAINABILITY CONCERNS

% UK adults planning overseas holiday in 2023



Source: Service Science/Kantar

Task Force on Climate-Related Financial Disclosures (TCFD) approach and framework [which requires the reporting of climate-related financial information by listed companies] could be used regardless of whether a business is required to make TCFD disclosures."

More than 700 travel industry organisations are signed up to the Glasgow Declaration on climate action in tourism launched at the COP26 climate conference in Glasgow in 2021. This commits the organisations to a 50% reduction in emissions by 2030.

Asked whether they can hit that target, Hawkings said: "This goes back to the granularity point. Are there specifics in their roadmap to get to that 2030 goal? Is it possible? Yes. But work needs to happen very quickly. The level of detail that underpins the commitment is critical. It requires collaboration, leadership and sustainability to be embedded through an organisation."

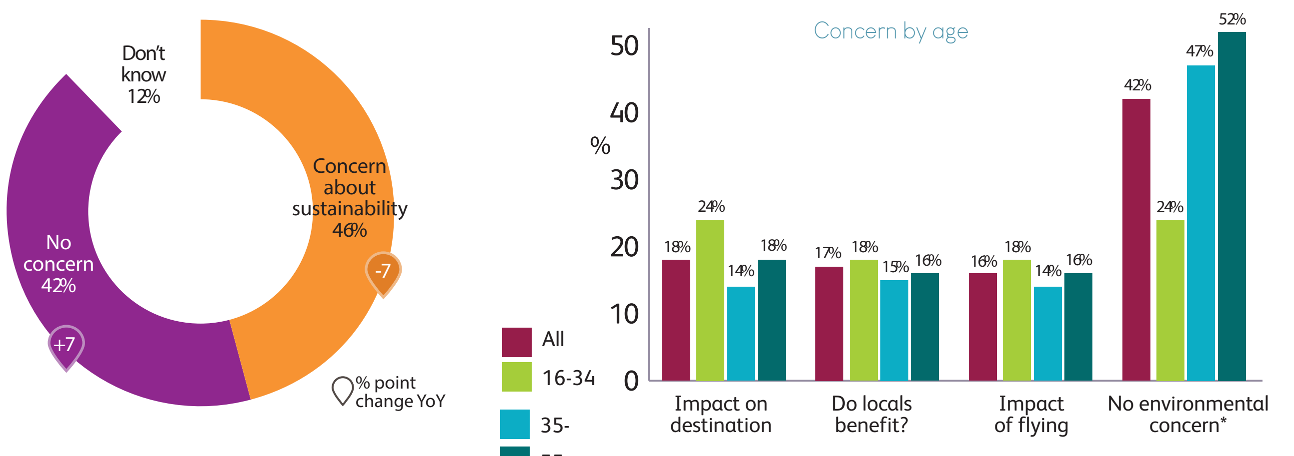
She noted: "There is reputational risk for organisations which sign up to commitments they might not reach. It's something that requires real focus. The key things are collaboration, action – and prioritisation of action – and governance. How we use the measurement of a carbon footprint to drive action and to 'hotspot' areas to decarbonise is important, as is finding investment for the areas more challenging to decarbonise.

"Travel, and in particular aviation and cruise, is a sector in which emissions are hard to abate. The ratio of travel's emissions to other sectors' will only increase as other sectors reduce their emissions. It is going to mean travel faces more and more scrutiny."

CONCERN about sustainability among UK adults planning an overseas holiday rose five percentage points year on year to 58%. However, concern about the impact of flying fell seven points (Figure 30). Concern about sustainable tourism among all UK adults also fell by seven points, with a corresponding rise in those saying they had 'no concern' (Figure 31)

FIGURE 31: SUSTAINABLE TOURISM CONCERNS

% UK adults who may take overseas holiday in 2023



**Excludes 'don't knows' Source: Service Science/Kantar*

FUTURE OF WORK
THE REVOLUTION HAS HAPPENED

Hybrid and flexible working became part of a new routine for millions post-pandemic, leading workplace consultants to identify multiple models of working from fully remote to 100% in a workplace, through choosing days in the office or working specified days.

Oliver Graves, Deloitte organisation and design analytics director, said: "That is how we see it. Part of this has been driven by what employers believe employees want. Some organisations have mandated it at the far end of the spectrum. We know people are voting with their feet if they can go somewhere with greater flexibility.

"Different generations want different things. We're seeing younger people being more frequent attendees in offices, maybe wanting more of a social world. People who have other commitments see it differently."

He argued: "Flexible working is here for the foreseeable future. People have settled into a new routine. Some employers are saying 'You need to be in the office'. But generally, those in travel and hospitality are adopting greater flexibility. It's being used in the competition for attaining and retaining talent."

Graves noted: "The state of the economy means people could become nervous about job losses or believe being seen at work is good. But the revolution has happened. It's more evolution now around how workplaces operate. People are changing the way they use office space, reconfiguring rows of desks. We are also seeing creative use of technology to engage with people working from home to create a virtual office environment."

Soaring energy bills could have an impact on the balance between home and office working. Graves' Deloitte colleague Oliver Hemming, partner in business and professional services, said: "I'm sure people will be calculating the cost of travel to work against turning the boiler on during the day and be thinking 'I'll work in the office a little more'. But many have other commitments at home. The trade-off is more complicated than it used to be. We're not going to see a return to five days a week in the office. That has permanently changed."

He added: "The full effects of people doing these trade-offs have not been felt yet. Going into 2023, people on average earnings will be under enormous pressure. At Deloitte, we have set up wellbeing teams to help staff navigate the economic pressures and rising inflation. I'm sure other companies are doing the same."

RECESSION OUTLOOK

The expected recession will impact on recruitment. Hemming said: "It has to have an impact. There will be lower company recruitment. We see evidence of some cost-reduction programmes. Employee confidence in moving from job to job will erode. I suspect the wage pressure we've experienced will fall but probably not through the floor."

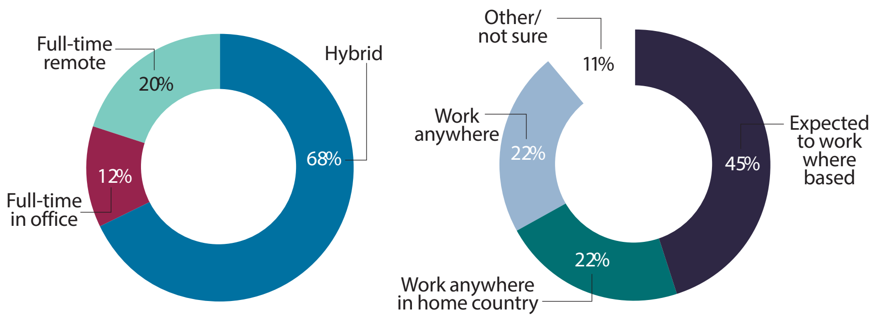
The labour shortage remains acute, particularly in travel and hospitality,

Hybrid working is here to stay but has yet to take a settled form

A GLOBAL Business Travel Association survey suggests two-thirds (68%) of members and their companies have embraced hybrid working and a further 20% work remotely (Figure 32)

FIGURE 32: **CORPORATE POLICY ON WORKING FROM HOME**

Hybrid and full-time remote workers



Source: GBTA members poll, October 2022

with Graves noting the pandemic "removed security of employment overnight". But he argued: "There has been underinvestment in wages for years. The attractiveness of working in travel and hospitality has shrunk massively. The industry has to invest to tackle this. There is also a shortage of specific capabilities. The unemployment rate and the level of vacancies suggest that there is a shortage of talent. But some of it is fluidity in the market. Recruitment will become less of an issue in a recession."

Improving wages and benefits will be a challenge, he concedes, arguing: "The only answer right now is being better at recruitment, having a good employee-value brand, retaining staff and having good leadership. Also, people want to be invested in. Once you get people through the door, investing in them is the best way to look after them, and give them a long-term view."

IMPACT ON PRODUCTIVITY

Neither see much impact on productivity from recent developments, but nor do they see an improvement on the long-term stagnation of UK productivity. Graves noted: "It's on a slightly downward spiral partly because the concept of people being augmented by technology hasn't drastically improved."

Hemming insisted: "There is a huge distance to go, and some of the macro cost pressures might mean some work-from-home roles are offshored. Some areas of work are pretty much entirely on a work-from-home model and could be moved. I'm not sure employees have thought through the implications of the change in working patterns."

He foresees a transformation in office use, saying: "Office space will shrink, but potentially become even more central. Almost every business has a project to change their real estate. The conversation used to be 'Our lease is coming up. We want to secure it.' Now it's 'Our lease is coming up. We want to review how we work.' It can mean organisations move to a more premium space, but space allocated to desk time could be in a different location. There is a lot in flux. You have multiple-tenant tenancies, meaning smaller offices in prime areas with maybe less need for the rest of the workforce in the same place. However, some companies might tap into a particular labour pool and build facilities in different locations. There is going to be a lot of change."

Hemming cites a change at law firms as an example, suggesting: "The classic stereotype of a lawyer was a legal partner with their office and the associates immediately outside. It has completely changed. The office space lawyers occupy in central London is ever more premium but with smaller floor plates and the support staff are in different locations or working from home."

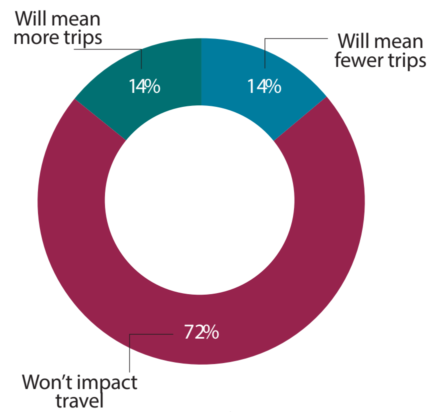
Hybrid working won't necessarily impact corporate travel, but the experience of the pandemic and increasing drive for corporate sustainability will. Graves argued: "Zero-based budgeting for expenses during the pandemic empowered financial directors."

Hemming agreed, saying: "I can't see corporate travel coming back to where it was. People are aware of the net zero carbon agenda. The volume of travel has reduced. Maybe we'll see longer trips, people trying to pull more things

"Some areas of work are pretty much entirely on a work-from-home model and could be moved. I'm not sure employees have thought through the implications of the change in working patterns

ONLY one in six Global Business Travel Association members polled believe working from home will mean less travel for work (Figure 33)

FIGURE 33:
WORKING FROM HOME AND BUSINESS TRAVEL



Source: GBTA members poll, October 2022

together rather than going to places for a day, and travelling premium economy as opposed to business because of the carbon agenda and cost."

Yet flexible working could allow for increased business and leisure travel combined. Graves noted: "I see a lot of people in the US take a Tahoe winter or a summer at the beach. But there are tax issues around people working for a UK-based employer going to X, Y, Z country for three months."

Hemming argued: "There is much more willingness to accept flexibility. That is going to change people's home-work-holiday patterns. I can see people bookending holidays with work, driving the rise of 'bleisure' trips. A few days away turns into a week with a mix of business meetings, working from the hotel and leisure activities."

LONGER-TERM OUTCOMES

Flexible working is not without its challenges. Hemming said: "In some ways it's easier for leaders to get their message across because everyone will jump on a Zoom call. But team culture, networking and apprenticeships are a challenge – so is mental health and wellbeing."

Graves added: "It's relatively easy in the remote world for people who are experienced in what they do, who know how an organisation works. It's much more difficult for new people. That is

> "It's relatively easy in the remote working world for people who are experienced in what they do – it's much more difficult for new people

YOUGOV data suggests 33% of working adults in the UK were based in a fixed workplace in July 2022, just three percentage points down on January 2020. However, the proportion working from home was up 11 points at 25%, with the proportion of adults not in work down (Figure 34)

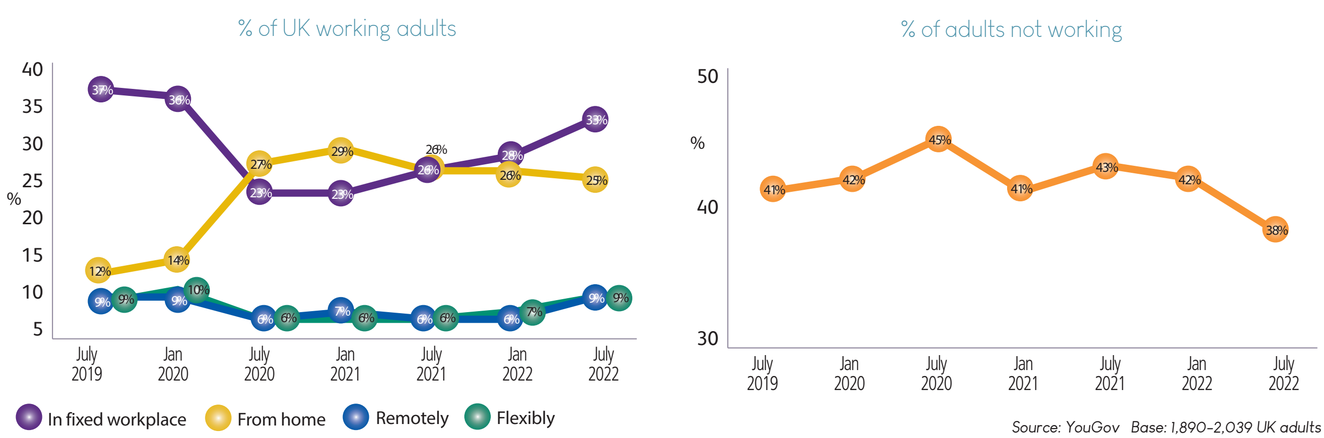
the biggest challenge. I hate saying it, but there is also more ability to hide in a work-from-home situation."

Longer term, Graves does not see a threat to high employment rates from developments in artificial intelligence and robotics, although many jobs will disappear. On the contrary, he sees the technology as creating work.

He argued: "Jobs that exist today will go. But for every job removed, there will be jobs required to run automated data. You may have a factory line run by an automated process, but you would need people to look after the robots.

"Jobs may go, but there are going to be way more created. The problem is these jobs will require different capabilities. Is the UK ready for those? Probably not. But I don't see X million people unemployed, quite the opposite. If we lead the charge with green energy, we will create jobs and no longer need to source energy. We could even reinvigorate industries that have not been onshore for a long time, make things here with robots and not require them to be imported."

FIGURE 34: WORKING ARRANGEMENTS



Source: YouGov Base: 1,890-2,039 UK adults

FUTURE OF RETAIL

A NEW GENERATION OF COMMERCE

The digital transformation of retail only accelerated during the Covid-19 pandemic and that transformation continues alongside a recognition of the continuing importance of physical retail.

Deloitte identifies several trends of potential significance for travel. Gillian Simpson, Deloitte partner and retail consultant, explained: "One is that Generation Z [those now in their teens and aged up to 25] is starting to splash the cash.

"Gen Z has been talked about for a long time, but they're starting to enter the workforce and the consumer base.

"That is coming out in different ways. One is social commerce. The proliferation of social channels people can purchase through is baffling. For retailers it means building the muscle to deliver through different platforms. That is not to say, 'Go on TikTok or Instagram', it's about building a capability to be able to sell on whichever social channel comes up. Developing that capability is important if Gen Z is a part of your target audience.

"Next is the in-store experience – having a 'draw to the store'. For example, one well-known department store developed a gaming area. People can have classes and workshops in store. A fashion store might have a latest collection launch to engage its VIP customers. We see Christmas table-planning workshops – drawing people into a store for an experience, allowing exclusive access to events. A travel agency could have a themed evening, say a Costa Rica night, serving food and drink, and with somebody sharing their experience of what it is like to travel there."

Simpson notes another trend, saying: "We see retailers and companies such as in hospitality using their assets to sell in a way media companies do. For example, if you know customers of your product also buy something else, you ask a retailer to target your advertising at customers who purchased that product in the last three months. The retailer knows who the customers are, what parts of its website resonate with them and can measure conversion."

As an example of what is possible, she points to a leading hotel company which has introduced elements of personalisation in rooms, saying: "You could imagine a VIP customer having different products in a room based on the company's customer data."

> The future of travel retail includes everything from social commerce to a tailored experience in-store

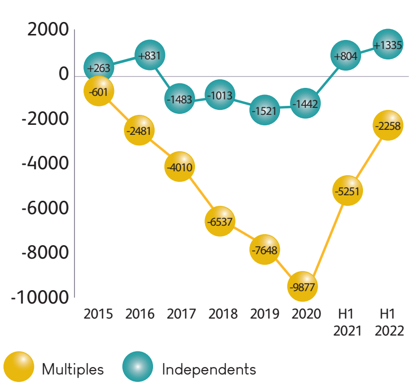
METAVERSE RETAILING

A final example Simpson describes as "the next generation of e-commerce, where you're in a virtual environment, able to see and interact with products, using the metaverse."

She said: "You could approach this from a number of angles in travel, as a 'try before you buy' experience. You could look at it from an accessibility perspective, being able to look around a location virtually before going. Companies could monetise this. Does a customer have a week to go to Tanzania? No, then would they pay to have a virtual-reality guided tour through Tanzania by people who have been there? Obviously, there is a carbon benefit from that as well."

FIGURE 35:
UK RETAIL AND LEISURE OUTLETS, 2015–22

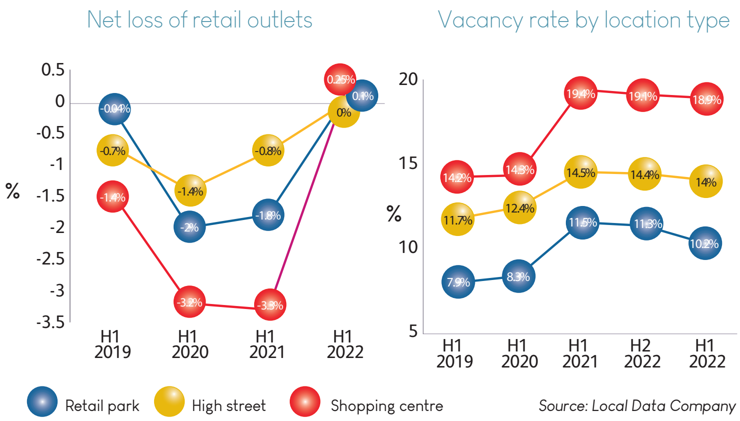
Net loss/gain in outlets



Source: Local Data Company

THE NUMBER of independent retail and leisure outlets increased in 2021 and 2022 following four years of decline. Overall closure rates among multiple retailers remained high although not as intense as in 2018-20 (Figure 35)

FIGURE 36:
RETAIL OUTLET CHANGES BY LOCATION, 2019–22



Source: Local Data Company

THE RATE of retail closures, including on the high street, hit zero in the first half of 2022. Vacancy rates plateaued (Figure 36). The net fall in retail outlets across high streets, shopping centres and retail parks was the lowest in five years (Figure 37)

Some developments are driven by a squeeze on retailers. Simpson said: “Retail is a hard environment at present, and we see retailers going down avenues outside the core retail market, for example in fulfilment. A lot of retailers are seeing a local store presence as a strategic advantage. A major supermarket chain can fulfil orders from city-centre stores in ways pure online players would never be able to. This requires significant investment in warehouse and inventory management, but reduces the cost of delivery, which is better from a sustainability perspective and can improve the speed of delivery.

“We also see retailers looking to other elements of their value chain – for example, becoming a delivery provider for other organisations or opening their platform to others. Retailers are going in very different directions to those they have traditionally taken.”

She noted: “There is a squeeze and a recognition that retailers need to differentiate themselves on something other than just price. For some, it’s about getting further into different areas of customers’ lives and increasing wallet share, not necessarily extra revenue from existing customers but revenue from other sources.”

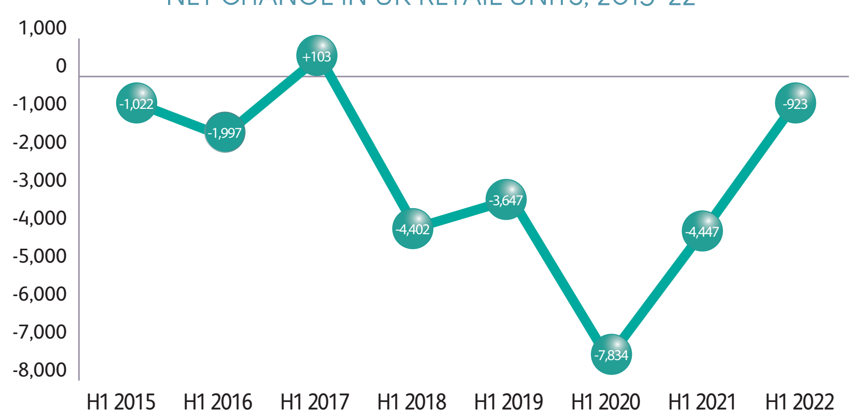
Sustainability and circularity are also increasingly important. Simpson said: “There are stores dedicated not to selling products but to helping clean up existing ones – for example, reverse-vending machines where you put things back – and trends around ‘re-boxing’. When a product is at the end of its life cycle, can a customer get rid of it in an easy way that will increase customer loyalty?”

She argued: “Companies believe they can charge a premium for having sustainability certification, but customers are becoming savvy about accreditations, for example, in relation to plastic products and ocean-bound plastics. There is likely to be a whole new market for certifications that consumers understand and will pay a premium for.

“Technology solutions can help retailers identify the impacts of their supply chain, not just their own operations, so they can work with suppliers to develop greater transparency around sustainability.”

Simpson foresees increased communication on sustainability and on certifications, with information provided at every point in the customer experience. She noted: “I was on an easyJet flight and, at the end, the cabin crew said ‘Your flight emitted this much carbon and we offset that by investing in these programmes’.” She added: “You could imagine being in a

FIGURE 37:
NET CHANGE IN UK RETAIL UNITS, 2015–22



Source: Local Data Company

hotel and being able to see where the food is grown. In the past, such information was not readily available and would be completely behind the scenes."

A final trend Simpson identifies is around partnerships, saying. "We're seeing retailers starting to work together across industries to tackle societal issues in ways they have never done before. They are also working with partners to try to emphasise 'purpose' points, trying to position their organisation as one with a purpose and cares beyond profit."

PHYSICAL AND DIGITAL

Physical retail locations remain essential, she insists, arguing: "We're still seeing retailers invest in digital and in store. They are not investing in one or the other, they see both as important and increasingly link between the two through customer identifiers. The omnichannel strategy is an acknowledgement that often a customer isn't just going into a store or just online. There is an elongated purchase cycle."

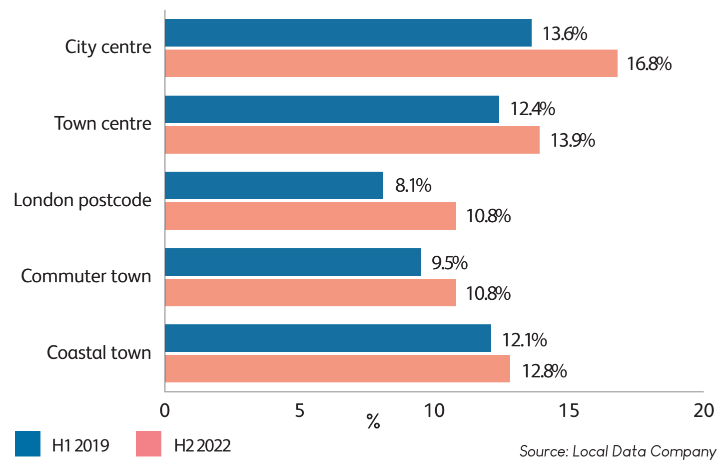
A forecast recession in the UK will impact on retail. Simpson noted: "A lot of consumers are trading down on groceries and not spending as much on discretionary items. But companies embedded in people's lives are going to be able to hold on to customers for longer, where there is a business model that works off something critical to people or where there is a friction point to losing a service. People who are more budget-conscious will move quickly to budget retailers, but others have a lot of stickiness."

She sees a future for travel retail in increasingly offering "a tailored experience", saying: "If you go into a high-end store, a tailored experience is what you get. People will start to expect more of that from a travel agent. In terms of the demographic groups who traditionally shopped at a travel agency, I suspect you have quite a bifurcation – people who aren't digitally savvy and are possibly at the lower end of the demographic scale, a majority in the middle who are comfortable online, and a top tier who want a curated experience."

She said: "Having a digital app to accompany a physical experience is worth considering. I was at a Florida theme park over the summer and used its app extensively. You could have photos taken by any photographer on site and they would instantly arrive in the app.

"You can imagine people going on tours and being able to say, 'Here is your one-stop digital shop with your flight, boarding pass, hire car and hotel. You have everything in one place."

FIGURE 38: RETAIL VACANCY RATE BY LOCATION, 2019-22

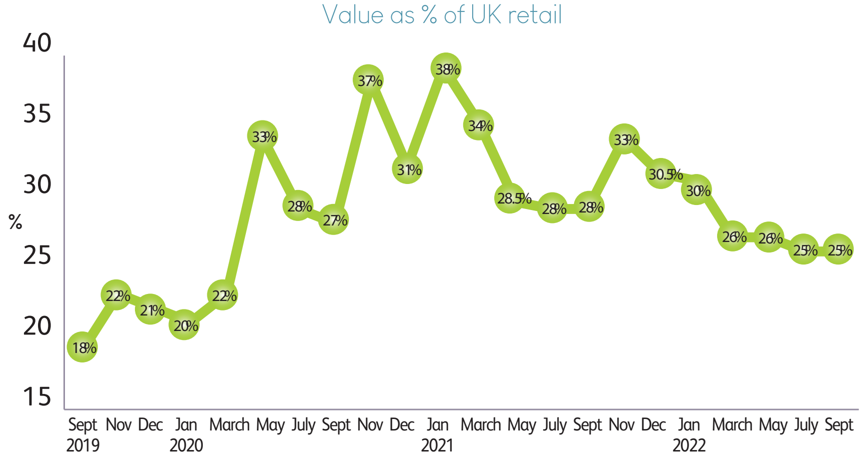


Source: Local Data Company

THE HEIGHTENED impact of Covid-19 restrictions on city centre retailers is evident from the contrasting increases in vacancy rates by location (Figure 38). Online retail sales soared during the pandemic as a proportion of all retail sales excluding fuel but settled back in 2022 close to the long-term trend in online growth (Figure 39)

FIGURE 39: UK ONLINE RETAIL SALES

Value as % of UK retail



Excludes auto fuel; figures rounded Source: ONS

REGULATION

COMPLIANCE CHALLENGES AHEAD FOR SMALLER BUSINESSES

The travel industry faces significant regulatory change in the coming period, with Civil Aviation Authority (CAA) clarification on its reforms of Atol regulation likely, if not before the end of 2022, then in early 2023.

The CAA is expected to introduce requirements for all licensed businesses to use trust accounts, or similar, or to provide bonds and introduce a variable rate of Atol Protection Contribution (APC) on licensed bookings.

Farina Azam, lead partner in Deloitte's travel legal advisory practice, said: "There is talk around whether the CAA will go as far as initially proposed. But there was always going to be some change. What we're not seeing is any change in practice. The CAA has been pushing any Atol holder it feels doesn't meet the financial criteria it requires towards trust accounts for a few years and continues to do that.

"There seems to have been a softening of the message around trust accounts. But the CAA clearly likes trust accounts. It might be that you're permitted to choose between a trust account and a mandatory bond or allowed a hybrid model. Mandatory bonding comes with its own issues because there aren't many bond providers. Maybe making bonds a requirement will mean more would come to the market if we see a stable recovery."

VARIABLE RATE OF APC

She added: "A variable APC seems likely. We're yet to see whether the APC is going to be calculated on value or risk or a mix of the two. The APC is going to have to be shown in the headline price of holidays, calculated in advance. I guess we won't see it as a separate charge because it's going to change per booking and because it could give away a company's risk profile."

Azam noted: "It's going to take years for this to be implemented. Some Atol holders have had a very short period to set up a trust account when they have renewed their Atol. This way, you'll get a couple of years to implement it, get additional finance or get a bond."

However, she dismissed a suggestion the CAA might allow five to 10 years for implementation, as requested by Abta, saying: "I can't see the CAA giving that much time. I would say two years in which to implement and maybe a 12-18-month grace period – that is how the CAA implemented the 2012 Atol Regulations."

She warned: "Bigger, better-financed businesses will be more able to deal with this. It's going to be harder for small businesses. If a business goes down a segregated account route, suddenly all customer payments go into a separate account. They are going to need other ways of financing working capital. It's also going to be easier for a bigger business to get a bond. Small businesses will always be considered higher risk.

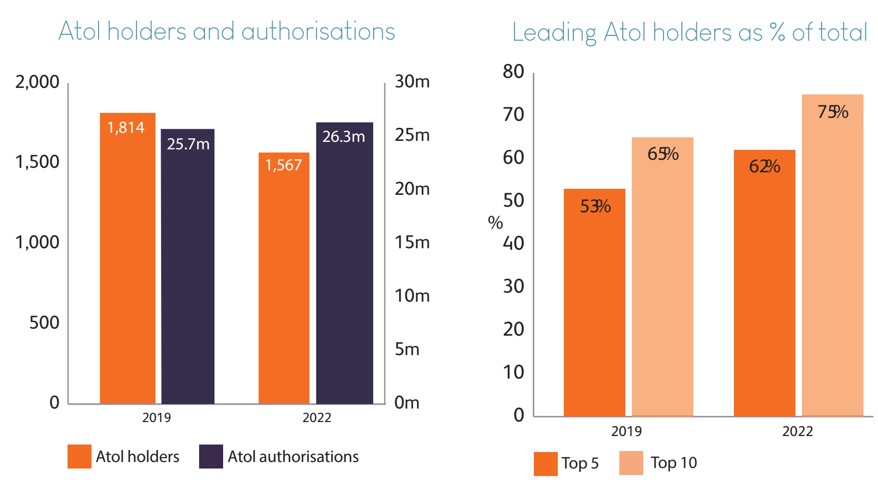
"It's going to mean significant change for businesses to recognise all consumer payments, put them in a separate account, put processes in place whereby they can request that money once the customer returns and only then have it released.

"We wouldn't want a situation where smaller operators disappear because they can't comply with the regulations."

Atol reform is likely to dominate debate on industry regulation in 2023, but it's not the only significant change on the horizon

THE NUMBER of Atol authorisations in September 2022 exceeded the 2019 total, but the number of Atol holders was down 14%, with the 10 largest Atol holders accounting for 75% of the total (Figure 40)

FIGURE 40: ATOL AUTHORISATIONS, 2019–22



Source: CAA/Travel Trade Consultancy

REGULATION

COMPLIANCE CHALLENGES AHEAD FOR SMALLER BUSINESSES

Luke Golding, director in Deloitte's commercial technology department, added: "There is a compounding issue. Just as it's easier for bigger businesses to fund working capital, it's also usually easier for bigger businesses to negotiate payment terms with suppliers, to move from paying in advance to paying after completion of a booking and mitigate the impact that way. It's significantly more difficult for smaller businesses to do that."

PACKAGE TRAVEL REGULATIONS

Whether there will be changes to the Package Travel Regulations (PTRs), which apply alongside the Atol Regulations, is unclear. The Department for Business (BEIS), which oversees the PTRs, completed a review in 2022 and updated its guidance on an aspect of the regulations on what constitutes a package when a consumer buys accommodation and a hotel service.

Azam explained: "BEIS provided clarity that if you advertise a spa or golf break, or a hotel and golf at the same time so a customer books them together, it creates a package. If a customer just books a hotel, and at the hotel books a round of golf, it doesn't create a package. There had been a lot of questions about this, although it has always been the advice we've given."

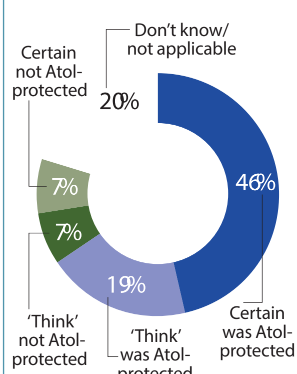
BEIS's proposals were otherwise limited, but the EU is considering substantial changes to the Package Travel Directive from which the PTRs derive. Golding said: "These include removing online travel agents from the scope of the directive, changing it so that combinations of accommodation and tourist services don't create a package, and amending the directive to reduce the environmental impacts of tourism."

He noted: "In the BEIS review, the government did leave the door open to reform of the PTRs. Whether the government would want to be seen to follow the approach of the EU is another issue."

> "As the derogation between UK and EU regulation widens, the easiest way [for travel businesses] to deal with it will be to be established in the EU and in the UK

FIGURE 41: ATOL-PROTECTION OF HOLIDAYS

% of respondents reporting their last overseas holiday



Source: CAA, November 2021
Base: 3,502 UK adults

Azam pointed out: "This derogation between UK and EU legislation is an issue we will contine to see now because the government wouldn't want to be seen to be following EU legislation. But if you're a UK-established business selling into the EU, you would have to comply with any PTD reforms and could potentially take advantage of them. That is going to be a key issue as the derogation between UK and EU regulation becomes wider. The easiest way to deal with the two regimes changing will be to be established in the EU and in the UK."

The government has proposed a 'bonfire' of EU retained law. Golding explained: "The Retained EU Law Revocation and Reform Bill going through the legislative process applies to all retained EU law. In effect, the government is going to have to review all EU-derived legislation and decide whether it should be retained or revoked. If the bill goes through in its current form, all EU-derived and retained legislation would be revoked at the end of 2023 unless the government amends or delays it."

Businesses have demanded the government either drop or delay the bill. Azam noted: "The reason the government retained EU law upon exit from the EU was because there would be such a gap. It's an exercise that would have to be done over 10 years."

One area where the existing PTRs will apply in the coming months will be on surcharges, given the pressure on costs and prices. Surcharging on holiday prices has barely been seen in the UK since the early 1990s but seems likely to return in 2023.

Azam explained: "Businesses passing on costs by surcharging must be mindful of the regulations. Under the PTRs you can only pass on an increase of up to 8% [of the cost of a package] and it has to be for specified reasons like the cost of fuel or exchange rate fluctuations. If a price increase is higher than 8%, customers must be allowed to cancel and receive a refund or book an alternative. Also, Abta members must absorb the first 2%

increase, so can only pass on 6%."

She noted there is also a company's terms and conditions to consider if these state a price is fixed once a booking is confirmed and said: "It's important to treat the consumer fairly and be careful about how you communicate a surcharge. There is no easy way to tell a customer 'You booked a holiday. We've issued a confirmation. Now we're going to increase the price'. Surcharging sends a terrible message. But there will come a point where companies may feel that they have no other option."

ENHANCED POWERS FOR THE CMA

The industry will need to contend with a second major regulatory change, with the Competition and Markets Authority (CMA) due to gain new powers to enforce consumer law in 2023.

Golding said: "The government proposes to give the CMA powers to decide whether a business is acting in breach of consumer law, to award compensation to customers and to impose penalties of up to 10% of annual turnover. The CMA won't be obliged to seek a court order and have a court rule in its favour.

"It [will be] a significant change. Up to now, if the CMA considers a business in breach of consumer law, it either has to seek an undertaking from the business to change its behaviour or go to court. It's going to be far easier for the CMA to say 'You're breaching the law' and take enforcement action."

Azam noted: "A business would have to go to court to appeal a decision as opposed to being able to defend a position before a decision is made. It's going to make enforcement action more common and a lot swifter."

The CMA wrote to airlines in July, at the height of the disruption to flights, warning they could be breaching the law in their handling of cancellations and refunds. Golding said: "The CMA is looking at carriers overselling flights, not meeting obligations to reroute customers in the event of cancellation, failing to advise customers on their cancellation rights, and failing to provide adequate support when flights are cancelled or disrupted. This ties in with the new powers the CMA are to be given."

The industry could also find the CMA taking increased action on 'greenwashing' – businesses making misleading claims on environmental protection or sustainability – after publishing a Green Claims Code in September 2021.

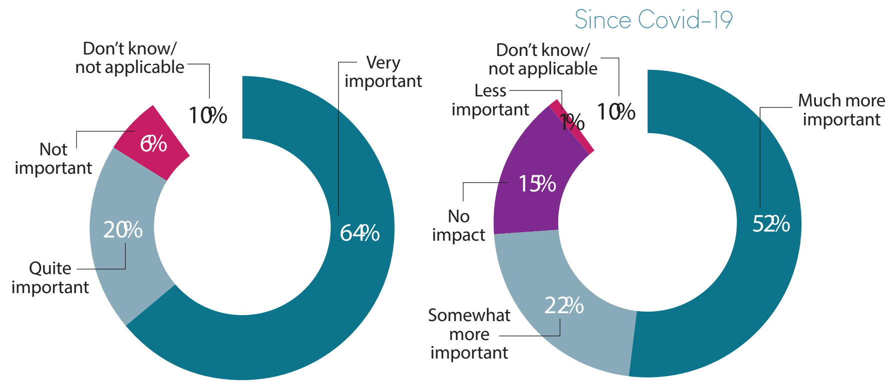
Azam warned: "There is such a focus on sustainability and businesses are trying to show off their green credentials and we're starting to see the CMA enforce its Green Claims Code quite strictly. Businesses looking to include green credentials in advertising must be careful not to give an inaccurate impression.

"Even if a claim is factually correct, if it's positioned in a way that creates ambiguity, is potentially misleading or creates an inaccurate impression, it's in breach of the code. A major bank got a rap because it said, 'We invest in sustainability and green initiatives' but didn't mention its funding of fossil fuels. You can't make one statement and not include the other. That is something we're going to see more and more of."

NEW DIGITAL REGULATIONS

A further area where regulation could be subject to change is in the digital arena,

FIGURE 42: IMPORTANCE OF ATOL PROTECTION



Source: CAA November 2021 Base: 3,502 UK adults

CAA RESEARCH suggests a degree of confusion among holidaymakers as to whether their last overseas booking was Atol-protected, but almost half (46%) were 'certain' it was (Figure 41). More than four out of five UK adults (84%) rated Atol protection 'important' and two-thirds (64%) 'very important' in CAA research, with three-quarters (74%) saying Covid-19 made it 'more important' (Figure 42)

> It's going to be far easier for the CMA to say 'You're breaching the law' and take enforcement action

COMPLIANCE CHALLENGES AHEAD FOR SMALLER BUSINESSES

not only relating to data protection and privacy but also to responsibility for online reviews and, across the EU, to digital markets and services.

In the first of these areas, the UK General Data Protection Act 2018 reflects the EU General Data Protection Regulation (GDPR). Azam noted: "There could be a new UK Data Protection Act to replace the GDPR with a business and consumer-friendly data protection system. The government has not given any detail, but it's going to be difficult because there are conflicts between the interests of consumers and businesses wanting to collect and process data. Also, any changes to UK data protection would have to gain EU 'adequacy' status."

In the second area, the government has signalled an intention to tackle fake reviews. Golding warned: "This might pose more of a burden for travel companies than they realise. The government proposes to make it automatically an unfair practice under the Consumer Protection from Unfair Trading Regulations to commission or incentivise a person to write or submit a fake review.

"That is fine. But it also proposes to make it an unfair practice to host consumer reviews without taking reasonable and proportionate steps to check if they are genuine. That could trip up travel companies because it would oblige them to make sure the reviews that the sites host are genuine. They don't necessarily need to do that now."

> "The government proposes to make it automatically an unfair practice to commission or incentivise a person to write or submit a fake review

EU DIGITAL RULES

More broadly, the EU's Digital Markets Act and Digital Services Act form a 'digital services package' of rules that aims to protect the rights of users and establish a more level 'playing field' for businesses online. Both will affect any travel companies operating in the EU or targeting EU consumers.

Golding explained: "The Digital Services Act focuses on online platforms which connect consumers with suppliers of goods and services, so would apply to online travel and accommodation platforms. It includes obligations to identify and remove illegal content, a ban on 'dark patterns' [designed to deceive users] and increased transparency.

"The Digital Markets Act focuses on 'gatekeeper' platforms and attempts to level the playing field in how these feature third parties, including requiring them to provide business users with data and preventing them ranking their own products or services more favourably."

The Deloitte view

It took the Covid-19 restrictions for the world to realise how important travel is to the economy and to the way people work and socialise. The pandemic also led to collective reflection on the role of travel and its impact on the environment.

The industry demonstrated incredible resilience through the last two years. But the apparent end of the pandemic has been no less disruptive. Geopolitical issues, economic uncertainty, labour shortages and changing regulation pose new threats and risks.

As it recovers, the travel sector is having to work harder on its relationships with consumers and stakeholders, not only to remain attractive but also to build greater resilience in anticipation of future challenges and crises. Industry executives need to:

- Build resilience beyond the operation and finance functions by strengthening the resilience of their organisation's reputation, people and the environment.
- Focus on selling travel products at the right price, achieving sufficient margin, as opposed to a 'race to the bottom' to sell volume.
- Restore the workforce by acquiring talent with the required skills and knowledge to build resilience as well as upskilling existing staff so they can help the sector act on its key challenges.
- Align or find common ground in competing strategic priorities within a business, such as addressing climate change risks and managing cashflow.
- Award greater attention to environmental, social and governance (ESG) risks, given rising expectations and increased scrutiny from stakeholders and the pressures to manage climate risk. Travel businesses need to be ready to show their contribution towards addressing climate change given the sector's difficulties in abating emissions.

The aim in building resilience is to meet the needs and expectations of stakeholders regardless of uncertainty. It is imperative organisations foster their ability to evolve rapidly and adapt to new conditions, identifying and responding to the opportunities for growth that change often brings.

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

INVESTMENT IN TRAVEL
SECTOR RETAINS LONG-TERM APPEAL

The appetite for travel is as strong as ever, but new uncertainties cloud the financial landscape

The bulk of the travel sector defied the Covid-19 pandemic to re-emerge strongly in summer 2022. But the financial state of the sector remains "mixed", according to Alistair Pritchard, Deloitte lead partner for travel and aviation.

Pritchard said: "It depends on how resilient a business was going into the pandemic, which part of the sector it's in, how it's financed and structured, how successfully it was financed during the pandemic, and whether it has supportive shareholders and banks.

"Those which had a strong performance this summer generated cash. That doesn't mean there is not a lot of debt, but those businesses are in a stronger position. Others are weaker. You can have businesses operating almost the same in the same market and some are stronger, while others in a stressed position. Some have been able to repay debt raised during the pandemic and able to take up opportunities and invest. Others will be challenged for survival over the next 12-24 months."

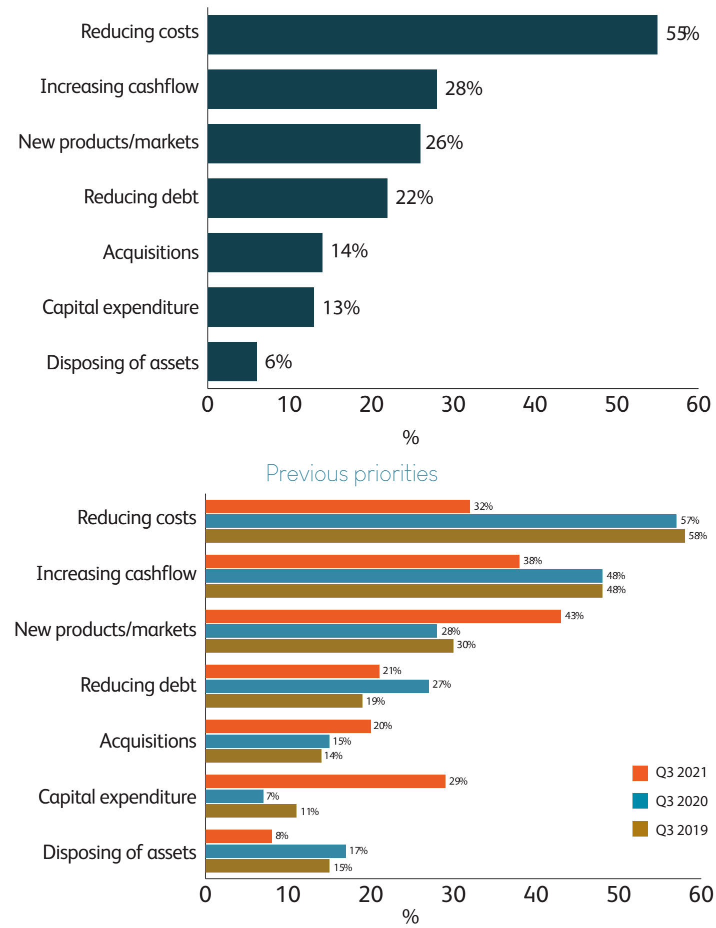
He argued: "There are some large businesses in a pretty good place and some in a more challenging position, and some small and medium-sized [SME] businesses that have fared well and some at risk of failure."

Deloitte financial advisory director Jamie Avni noted: "Businesses which issued a lot of refund credit notes have probably generated less cash this summer than those which didn't have refunds to work through."

Intensifying cost pressures on consumers and businesses will obviously have an impact. Pritchard noted: "Businesses face a whole bunch of different challenges to a year ago." But

FIGURE 44: CORPORATE PRIORITIES INTO 2023

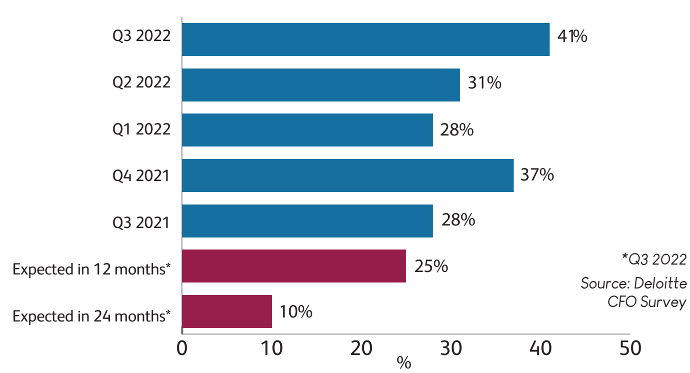
% CFOs rate as priority in next 12 months (Q3 2022)



Source: Deloitte CFO Survey

FIGURE 45:
LABOUR SHORTAGES AND RECRUITMENT DIFFICULTIES

% CFOs report difficulties significant/severe



he said: "The industry has proved hugely resilient. We saw very few failures during the pandemic, and we've seen very few in the last 12 months. That is not to say there won't be failures.

"Where the target customer is more impacted by the cost of living, energy prices etc, it will have a bearing on demand. Those businesses most exposed to cost increases will face challenges if they struggle to pass those on. Other businesses will have customers more able to deal with the rising cost of living. Deloitte's Q3 consumer survey, despite being more negative, found people still prioritise going on holiday."

Avni agreed, saying: "For leisure travel, the outlook for demand from more affluent customers is a lot more positive than for low-cost holidays where the cost-of-living crisis is going to hit more. Families may hesitate and look to book later when they have more certainty about their outgoings. On the business travel side, different sectors will have different reasons for travel. In a recession, there will be cuts to travel budgets in certain industries, but others will still have to move people around."

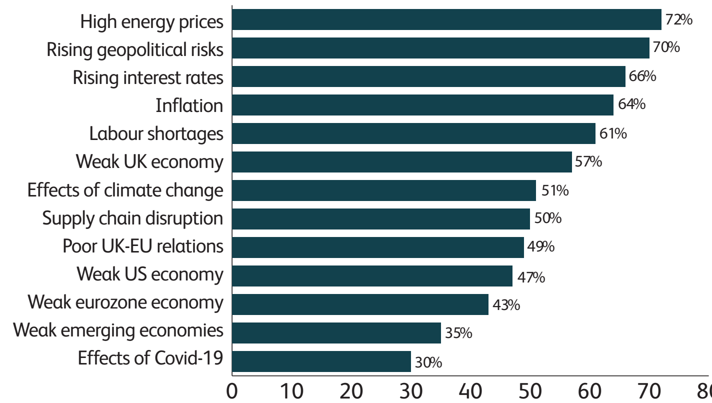
COST CONTROL

Not every business will be able to pass on all its cost increases. Pritchard argued: "It will probably be easier for companies to pass on cost increases in business travel. There will be business travellers who look at whether there is a need to travel. Big corporates have targets around sustainability that are bringing into question how much people travel, but they can probably absorb the increased costs. SME business travel has bounced back more rapidly, but SMEs might have more challenges in absorbing increased costs.

"On the leisure side, we saw big price increases in the last 12 months so it will mean two years of significant increases. We may see more of a late market for summer 2023, as people wait to confirm bookings given the cost pressures. If that happens, will prices hold or will we see discounts? You only need one or two businesses to discount to have a race to the bottom.

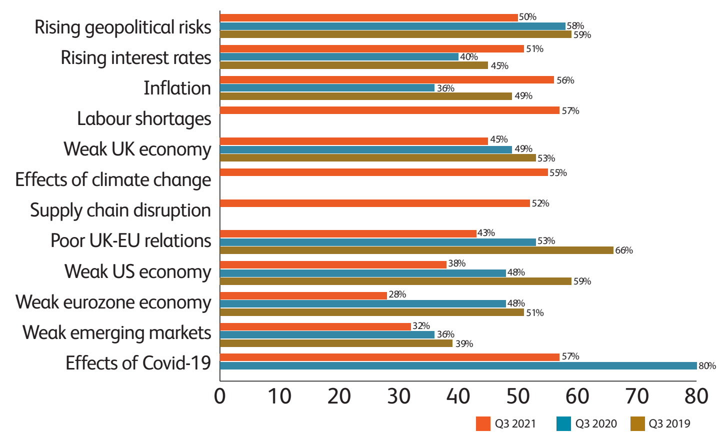
FIGURE 46: RISKS TO BUSINESS IN 2022-23

Average ratings by CFOs on scale of 0-100



Source: Deloitte CFO Survey, Q3 2022

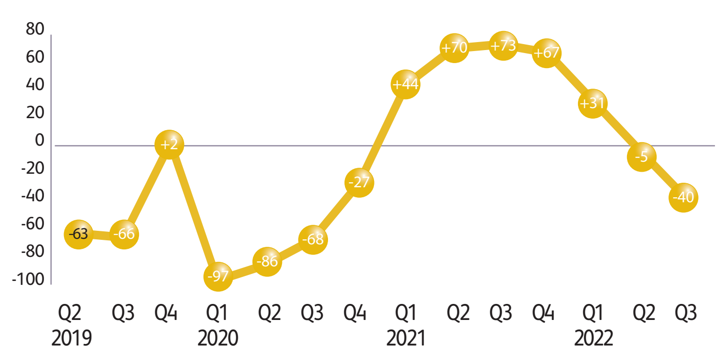
FIGURE 47: RISKS TO BUSINESS: PRE-2022



**CFOs not asked about energy prices before 2022*
Source: Deloitte CFO Survey

FIGURE 48: CORPORATE HIRING EXPECTATIONS

% point difference between increase/decrease in next 12 months



Source: Deloitte CFO Survey

"Cost increases were largely accepted this year because of the demand. Some cost increases for 2023 will be passed on but probably not to the same extent. If you pass on all the increases, it will probably impact on demand, which will be challenged anyway by the cost-of-living increases."

BONDING, INSURANCE AND M&A

The bonding and insurance markets remain tight. Farina Azam, lead partner in Deloitte's travel legal advisory practice, said: "We don't have many bond providers and it remains an issue. But if we see a steady recovery and stability in the sector, we should hopefully see some bond providers return in the next couple of years."

Pritchard suggested: "Whether confidence returns to open that market is uncertain. When there is more certainty around the CAA's proposed Atol changes, insurance and bond providers will look at the market."

Avni agreed: "Atol reform is probably top of people's minds in terms of financing because some of the proposals would make it a lot harder to finance businesses in the same way as before."

Financing more generally remains challenging, with Avni noting: "We're seeing a tough lending environment across all sectors. Interest rates are the highest they have been for a long time and lenders are increasingly nervous about lending to sectors where they perceive a higher risk and more uncertainty. That is one of the reasons we've seen a slowdown in mergers and acquisitions activity. Sectors like technology and parts of healthcare are resilient. But M&A activity has dried up across all consumer sectors until there is more certainty on the outlook, and the lending and investing markets adjust to the new normal."

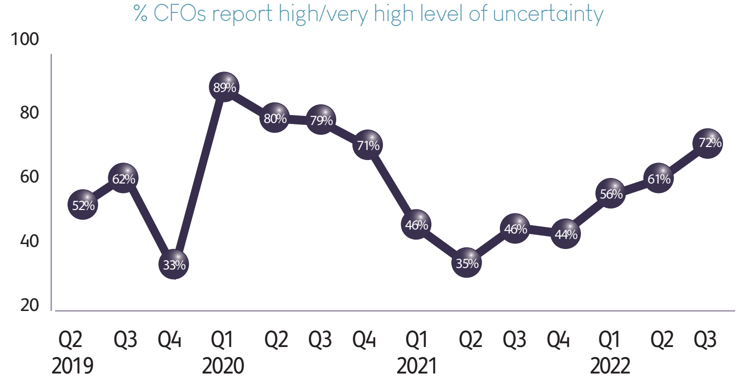
Pritchard argued: "We saw some big players raise funds to repay Covid-related debt in the second quarter of 2022. It's more challenging now to raise funding or equity but it wasn't like that all year."

Yet the underlying view of investment in travel remains positive. Avni said: "We've been through multiple recessions and events that disrupted the industry, but it has always come back. People still want to travel. We see in the cost-of-living crisis that travel is one of the last discretionary spending items people want to let go of. That gives long-term confidence to private equity buyers. Their interest is a little muted now as they assess the outlook and calibrate the new environment of high inflation and higher interest rates.

"We're in a period of uncertainty. But parts of the market are going to be attractive – for example, those operating long-haul, five-star, complex/multi-point itinerary, tailor-made tours will probably see a lot more investor interest in the near term than the short-haul, budget segment.

FIGURE 49: LEVEL OF BUSINESS UNCERTAINTY

% CFOs report high/very high level of uncertainty

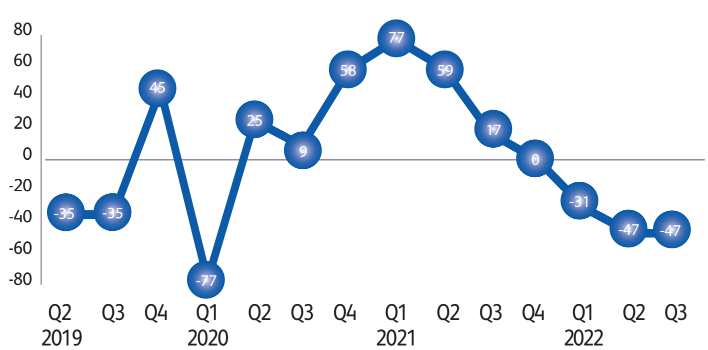


Source: Deloitte CFO Survey

CUTTING costs was the priority for chief financial officers of leading companies going into 2023 (Figure 44). Labour shortages remained acute in late 2022 and one in four CFOs expected problems recruiting to continue (Figure 45). High energy prices topped the list of CFO concerns, followed by rising geopolitical tensions (Figures 46, 47). Recruitment appears set to fall (Figure 48). CFOs reported the highest level of uncertainty since the first year of the pandemic (Figure 49) and declining optimism about the financial prospects for business (Figure 50)

FIGURE 50: COMPANY FINANCIAL PROSPECTS

% point difference between CFOs more/less optimistic



Source: Deloitte CFO Survey

INVESTMENT IN TRAVEL
SECTOR RETAINS LONG-TERM APPEAL

"On the business travel side, there are likely to be opportunities for corporates with strong balance sheets that can finance acquisitions with cash and not have to raise debt."

Pritchard noted: "The domestic market has generally fared reasonably well and continues to be appealing." He added: "In many cases, private equity firms have held businesses for longer than originally anticipated and, at some point, will want to exit. Timing is everything. They will want value for their investment, but the window when they might be able to transact – when there is low volatility in the market – may be shorter than in the past and an acquirer must have certainty about what they're buying because of the volatility."

OUTLOOK FOR INVESTMENT

Sustainability will be "increasingly important" to investors, Pritchard stressed, arguing: "An investor wants a business they can sell for more than they bought it. They must have confidence a business they buy is already on the journey, or has a good plan, to become more sustainable. That is critical."

He added: "The increase in capital requirements which could come with Atol reform could be something investors see negatively, thinking 'I'll need to inject additional capital if I buy this business'. On the other hand, a regulated business is typically better organised and controlled and an investor can have more confidence in its ability to deliver in line with expectations. There are pros and cons."

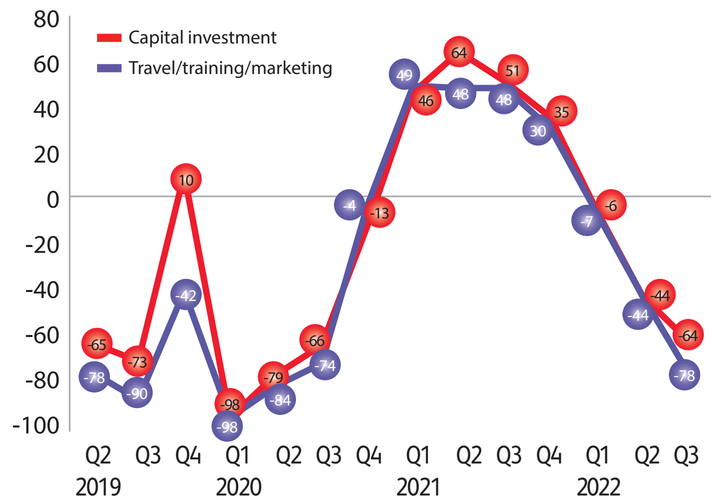
Avni noted: "Additional regulation is more likely to have a negative impact on a current owner than a future buyer. An increased capital requirement would impact the current owner and could temper price expectations on a sale."

Pritchard insists travel remains "an appealing sector" and said: "Investors who already have assets in the sector will be looking at recent performance and the strength of bookings. Outside investors thinking about investing see travel as relatively interesting. The industry consistently shows resilience. Everything indicates demand will continue to grow.

"The issue will be how long the current uncertainty about inflation, interest rates and energy prices continues? Yet I've had 15-20 calls relating to potential transactions in the last few weeks. None might result in anything, but the sector continues to be appealing."

FIGURE 51: CORPORATE SPENDING IN NEXT 12 MONTHS

% point difference between spend more/less

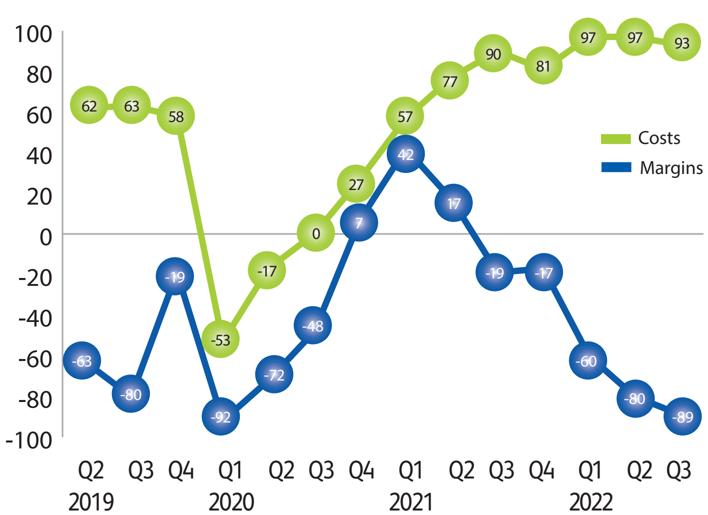


Source: Deloitte CFO Survey

CAPITAL investment and spending on travel, training and marketing is set to fall in the next 12 months, say CFOs (Figure 51), who report rising operating costs and falling margins (Figure 52)

FIGURE 52: OPERATING COSTS AND MARGINS OUTLOOK

% point difference between rise (+) and fall (–)



Source: Deloitte CFO Survey

TECHNOLOGY

TECHNOLOGY PROJECTS NO LONGER 'SOLD ON A DREAM'

Businesses are making funding for investment in technology available where they can despite the debt hangover from the pandemic and the financial pressures due to cost inflation, high fuel prices and the squeeze on consumers.

But Martin Bowman, director of aviation technology and digital assets at Deloitte, argues "the days of lazy business cases" for technology in the sector "are behind us". For a project to go ahead, the business case and return on investment must not be in doubt.

He said: "There is money in the system now, but there is much more focus on robustness. You need a thorough view of the value of a project and to track it through to conclusion. There have been too many lazy technology projects sold on a whim in the past."

Bowman identifies a number of developments aimed at improving both the customer experience and operations, citing research on passenger sentiment and the priorities for passengers which "has driven a series of initiatives".

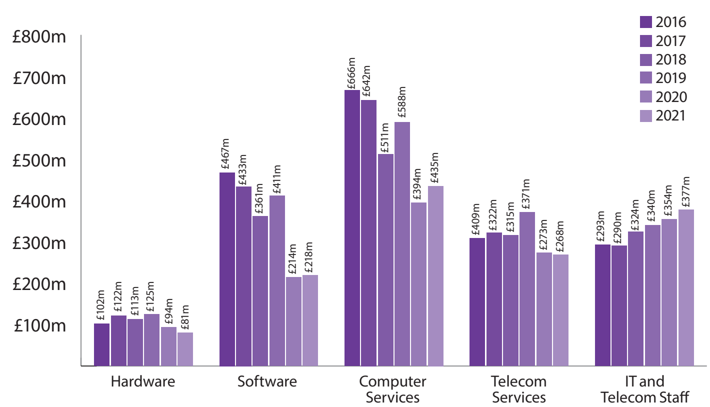
He noted: "The priority for passengers is to minimise deviation from their expectations. That can be around queue times at the airport and getting a bag into the overhead compartment on a flight, through to wanting disruption dealt with as efficiently as possible. That has translated into developing a mobile app as more of a day-of-travel, concierge-type service.

"Most airlines' apps are primarily a sales channel with a boarding-pass capability built in. We see a move away from that. Passengers are looking for the app to make the journey 'as expected' as possible and help manage any disruption. For example, instead of rescheduling a flight and booking hotels if there is a delay, the app would do it for you. And using predictive analytics, a carrier could know in advance whether the overhead compartment on a flight is going to be full and give customers the option to go to bag drop."

Airline apps are poised to be transformed, but for all the talk of 'seamless travel' it's not a priority

TECHNOLOGY spending fell sharply during the pandemic in most categories other than on IT staff (Figure 53)

FIGURE 53:
TRAVEL IT SPEND BY TECH CATEGORY, 2016–21



APP SOLUTION

Bowman added: "The way check-in and bag drop currently work at an airport is through a 'common use infrastructure' which multiple airlines share. The airline pays a passenger fee to use the infrastructure. The airport determines the strategy. The airline's systems need to integrate with every airport it flies to. An airline that flies to 200 airports has 200 integrations, which drives complexity.

"Now a large European airline is moving check-in and bag drop to its app, so the self-service check-in and bag drop facility becomes like a scanner and printer. This massively simplifies the infrastructure, reduces the airline's dependency on the common infrastructure and cuts its cost. You only have to create one set of integrations and roll it across a network." The airline doing this "will become 100% digital and add a premium for passengers to use paper", he said.

An important development involves movement to cloud computing. Bowman said: "The cloud is no longer viewed just as an infrastructure capability but as transformative. The big cloud platforms offer way more than just economies of scale in storage. A whole toolbox of capability comes with the

TECHNOLOGY
TECHNOLOGY PROJECTS NO LONGER 'SOLD ON A DREAM'

cloud that allows you to do things from a development point of view. For example, the cloud allows for turnaround analytics using cameras to monitor the turnaround of aircraft and artificial intelligence to predict where turn times will be missed and what is contributing to on-time departure issues."

He said: "Pre-pandemic, aviation in the cloud was 'toe in the water' stuff. Now, the industry is in having a swim. There is a lot of migration to the cloud going on. The sector is not doing lengths at Olympic pace but there is a lot more activity."

CYBERSECURITY AND DIGITAL IDENTITY

Bowman sees cybersecurity as less of an issue in the latest technology solutions than in some which have been around for a while, saying: "The approach now is security by design. That is one of the pillars [of technology development] along with usability so I am less worried about it from the point of view of new technologies. It's common-use systems where the vulnerabilities remain.

"Where cybersecurity has always been an issue in aviation is in systems used across stakeholders. Ground handlers may log into one airline's system and then another and the cybersecurity approaches towards this historically have been poor."

He also sees a potential vulnerability in the increasing connectedness of so many aircraft systems, arguing: "Aircraft cybersecurity, the notion of aircraft-specific protection, is not mature and not recognised as a big risk. But it is a risk and the industry won't have the luxury of ignoring it. In the next two years, if an airline is not doing simulator training of a cyberattack on an aircraft's systems, it won't have a proper grasp of the emerging risks."

However, some technologies are being pursued less rigorously than previously thought. That appears to be the case with digital identity and 'seamless travel' technology and the harmonisation of credentials around health.

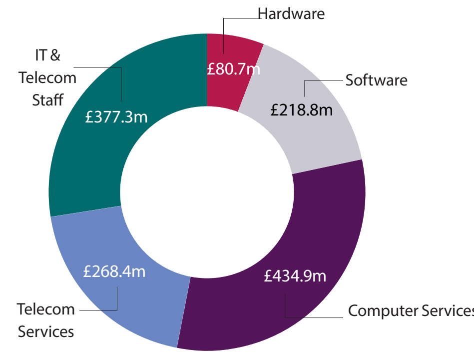
Bowman noted: "The aviation industry dropped the idea of health passports as quickly as it could. I was probably naive thinking health passports would be a catalyst for developing 'seamless travel' technology. That has not been the case. The industry sought to get rid of the additional checks and infrastructure.

"I don't get any sense that end-to-end seamless travel is a priority for anyone in the industry, including the passenger. The feedback from passenger sentiment research is that passengers don't prioritise the end-to-end process or biometrics. It's just not a priority. They want the aircraft to turn up on time. They want to know where their bag is. It's all about minimising anxiety and stress.

"As a vision, there is nothing wrong with seamless travel. But the business case to make it happen doesn't exist. Unless you're talking about cooperation

> "Pre-pandemic, aviation in the cloud was 'toe in the water' stuff. Now, the industry is in having a swim. There is a lot of migration to the cloud going on

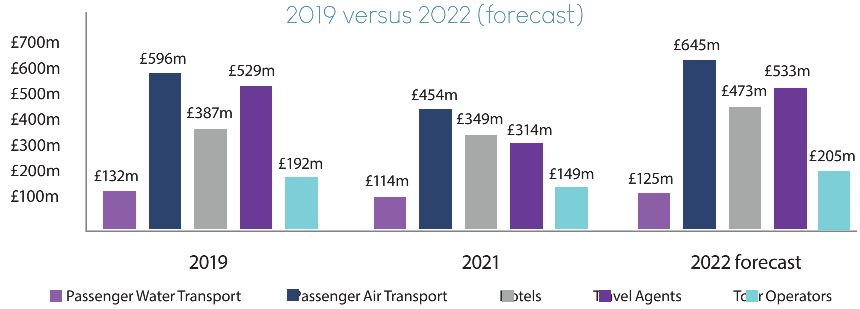
FIGURE 54: TRAVEL IT SPEND BY TECH CATEGORY, 2021



COMPUTER services remained the highest category of IT spend in the sector (Figure 54). Technology spending was forecast to rise significantly in 2022 (Figure 55)

FIGURE 55:
IT SPEND BY SECTOR PRE-PANDEMIC V THIS YEAR

2019 versus 2022 (forecast)



at a country-to-country level and have governments saying 'You must do this', it's not going to happen. There is limited value in the investment."

Despite calls for digital harmonisation and standardisation of entry requirements, it's likely we'll see a host of different electronic visa or visa-waiver systems – and these will "be about entry not about flow and not use the same biometric ID or same token to handle security, border check or immigration", according to Bowman.

There was much talk of beacon technology at airports pre-pandemic, but he said: "The beacon-enabled airport is not something we're seeing. The technology was pitched around way finding but it has evolved into mobile-device enablement, simplifying self-service bag drop and check-in."

Distributed ledger technology, often confused with 'blockchain', appears to remain peripheral. Bowman noted "a bit of a use case for the technology around Covid health credentials because nobody wanted to maintain central records." The notion was distributed ledger technology could enable 'self-sovereign ID'. But the need for such technology appears to have gone and Bowman said: "I'm not aware of any other clear use case."

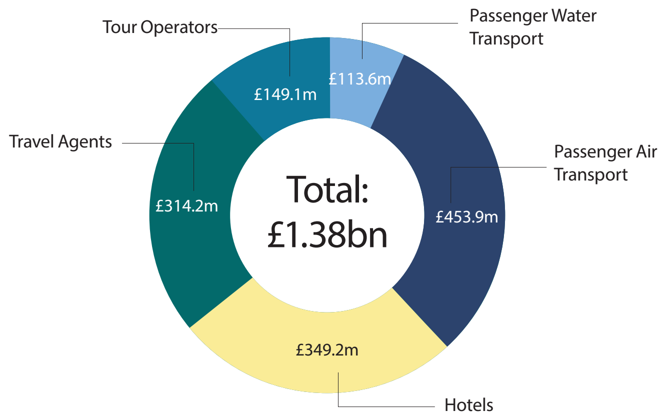
NDC 'NOT TRANSFORMATIVE'

He also sees limited progress on Iata's long-touted New Distribution Capability (NDC) despite its enthusiastic championing by major airlines and travel technology companies. Bowman suggested: "NDC has more legs than digital health credentials, but I don't think it's ever going to be the transformative, game-changing capability it was pitched as."

Noting a tendency to "oversell and hype up in technology", he said: "NDC is in that category. There will be airlines that invest in it. It will open new channels. But do I think it's transformative? No. At the moment, the case for doing it does not exist to the extent that the level of investment and level of change requires. It seemed a big play for the legacy carriers. But it's almost as though all bets are off in aviation. Things we assumed pre-pandemic, we're not assuming any more. That applies to business models and to how airlines interact with the market and with intermediaries."

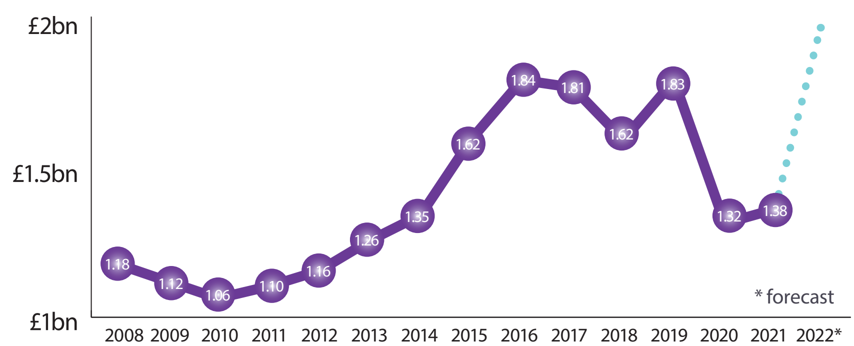
Bowman also adds a caveat on the availability of funding for technology development, noting: "There is strong sentiment around travel and the indicators are that will continue. I view the next 12 months with a degree of confidence. But I wouldn't be complacent. We live in a dynamic environment. As an industry, we're subject to macroeconomic and geopolitical issues more than many industries. You never know what is around the corner."

FIGURE 56: TOTAL IT SPEND IN TRAVEL INDUSTRY, 2021



ANNUAL spending on travel technology almost doubled between 2010 and 2016 before falling back during the pandemic (Figures 56, 57)

FIGURE 57: IT SPEND IN TRAVEL, 2008-22



RECOVERY FROM COVID-19

AIR TRAVEL
SHORT-TERM CAPACITY CRUNCH, LONG-TERM PRIORITIES

Air passenger numbers bounced back faster than many expected through 2022, once it was clear the Omicron variant of Covid-19 which dominated the turn of the year was less deadly than feared, and summer demand proved strong despite the hike in fuel prices caused by Russia's invasion of Ukraine and significant disruption to flights.

Yet by the autumn, a downturn was clearly in prospect amid soaring inflation, rising interest rates, and plunging business and consumer confidence. European air traffic management body Eurocontrol revised down its aviation recovery forecast in October, pushing back a return to 2019 levels of traffic by a year to 2025.

Eurocontrol director general Eamonn Brennan noted the "strong demand this summer" and said: "We expect to see 49% more flights this year than in 2021 but still 16% fewer than in 2019." He forecast traffic would recover to 92% of 2019 levels next year but warned: "There are significant downside risks."

Iata reported worldwide traffic in September reached 74% of pre-pandemic levels. However, China retained its zero-Covid policy – maintaining a check on the Asia-Pacific market – and this, added to the economic slowdown, suggested the global recovery may have plateaued.

Aviation leaders, many of whom had appeared bullish going into the autumn, displayed more caution by November. Virgin Atlantic chief executive Shai Weiss warned the Airlines 2022 conference in London: "It's going to be a tough 2023." Heathrow management noted in its third-quarter results: "We are unlikely to return to pre-pandemic levels of demand for a number of years, except at peak times."

Ryanair chief Michael O'Leary was as ever more outspoken, arguing as early as September: "You would be crazy not to be worried about a looming recession and the energy crisis. Recession will significantly dampen the recovery. The overall market will struggle. A lot of capacity is not coming back." However, Ryanair would be the beneficiary, he said: "Every time there is a recession we grow faster."

Aviation analyst Chris Tarry noted a view in the industry that "the recovery from Covid may outweigh an increasingly difficult economic background". He pointed out it would occur "against a cost base impacted by materially higher fuel prices" and "significant pay increases agreed for pilot and cabin crew" and warned: "Optimism of demand continuing to be strong at recent price levels is misplaced."

Tarry concluded there is a need "to ensure more demand than supply" and asked: "Does it make sense for airlines to add more capacity?"

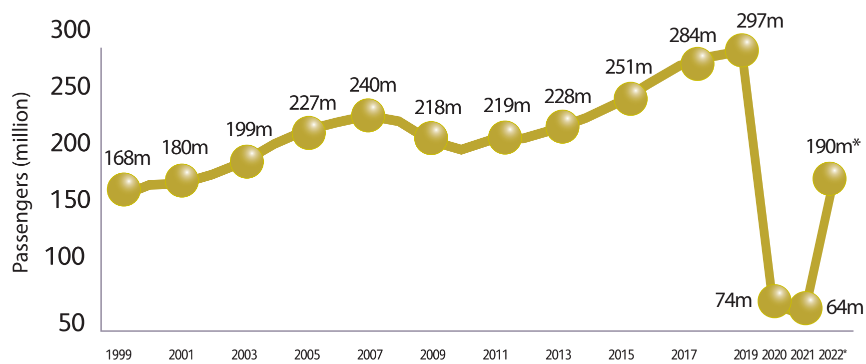
Aviation recovered rapidly through the spring and summer despite severe labour shortages. Now uncertainty has returned

SEA CHANGE IN TECHNOLOGY

Deloitte head of aviation Andy Gauld noted: "There is a balancing act – price versus capacity. Flight prices have gone through the roof recently. Clearly, that is not sustainable. It looks like we've another 12 to 18 months of turbulence ahead."

THE DECLINE in air passengers due to Covid-19 restrictions was spectacular. The recovery in 2022 was equally impressive (Figure 58)

FIGURE 58:
UK AIRPORT PASSENGER NUMBERS, 1999–2022



UK and international passengers, outbound, inbound and domestic, to nearest million; *12 months to Sept 2022
Source: CAA

However, he and colleague Martin Bowman, Deloitte director of aviation technology and digital assets, argue that the past year marked a sea change in airlines' attitude to technology.

Gauld said: "A lot of airlines are thinking differently, wanting to change their operations and customer experience, looking not just at the booking process but the end-to-end process they provide and defining the right technology and digital channels. I'm aware of 10 airlines which have gone out to tender for work to redefine the customer experience, including the operations side. Historically, you might have had one or two do that at a time."

CATALYST FOR CHANGE

He argued: "Covid-19, the economic situation and everyone wanting to understand more about their carbon footprint have been the catalyst for change. Airlines want to do something different and are looking outside their circle.

"There are three key opportunities. One is to move legacy systems on to modern platforms. The shift into the cloud has taken a massive step forward over the last 12-24 months. That can create efficiencies and cost savings which funds the other two – the customer experience and improving airside operations. Both of these need a lot of funding in an industry suffering a cash shortfall. Only a handful of airlines have come out of the pandemic with cash to spend.

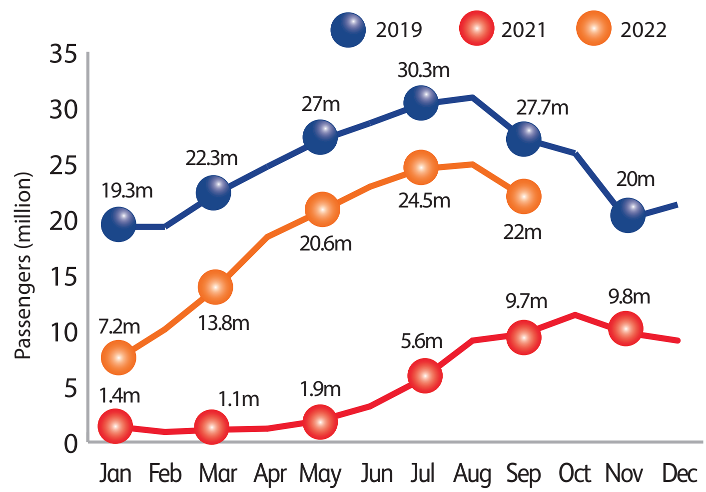
"At least half-a-dozen global airlines are trying to shift into the cloud as soon as possible. The challenges are in two areas. One, they think their systems are the worst and most complex in the world. But I've seen banking and retailers' systems that are worse and have more data. The second issue is ensuring operational systems remain active when you move over – no different to when a banking system transfers."

Bowman agreed, saying: "Every sector of the industry has come out of the pandemic willing to challenge historical assumptions, with an open-mindedness I've not encountered before.

"There are some realities the industry has woken up to. Aviation was thought of as a 'sexy' industry, easy to get people into. That has turned on its head. The industry doesn't have access to the talent pool it did pre-pandemic.

"Historical assumptions about the volume of traffic and how you handle processes have been turned on their head. There is almost a tech-first mindset now,

FIGURE 59:
UK AIRPORT PASSENGER NUMBERS BY MONTH



Source: CAA

UK AIR passenger numbers in 2022 tracked considerably closer by month to those in 2019 (Figures 59 & 60)

FIGURE 60:
UK AIR PASSENGERS PER MONTH, 2021–22

% fall in passenger numbers on 2019

Source: CAA

thinking 'We're not going to have the people we need. We need alternative ways to deliver the service'. People-based activities like check-in and security have struggled this year.

EFFICIENCY DRIVE

"Some airports have invested in operational efficiency technology which helps with processes formerly done by people. For example, Amsterdam Schiphol has digital signage orchestrating the passenger flow. That is just one area, but there is a tech-first approach because the challenge around resources is not going away."

He argued: "In the last 12 months we've seen initiatives around tools to manage specific areas of operations dynamically – for example, dynamic allocation of check-in desks. The passenger experience at an airport is basically a series of processes built around people, bags and planes, and if you optimise one but another isn't finetuned, all you do is pass the problem down the chain. Some airports are starting to look at the whole operation. We're about to start a project looking at how the subsystems at an airport can come together to give a total view and orchestration.

"Of course, at bigger airports the priority has been to deliver the operation. At one airport everyone on the IT team spends a day a week helping the operation in security. Obviously, that has an impact on what you're able to do."

Gauld added: "There is a big push around the check-in process, trying to get as much confirmed as possible prior to a passenger's arrival.

"There is also a re-emergence of the fight around who owns the customer. Airlines are looking to what they can learn from retail and consumer goods companies. For the first time in a while, airlines are looking outside the industry for examples and looking for people outside the industry to help them."

The disruption though the spring and summer led to developments in

> "There are big plays under way – sustainable aviation fuel, electric propulsion, hydrogen. These are really going to move the needle and there needs to be investment

STANSTED replaced Gatwick as the UK's second-busiest airport in 2021, reflecting the latter's greater loss of airline capacity. Gatwick returned to second place in 2022 but its recovery continued to lag Heathrow's (Figure 61)

schedule simulation and modelling, and Bowman said: "It's an area of ongoing investment. Everyone still expects a degree of volatility. There is a view that there is going to be unpredictability in operations and resourcing, and the best way to deal with that is to be on top of the data, on top of the variability in supply and demand. That is where simulation and modelling excel."

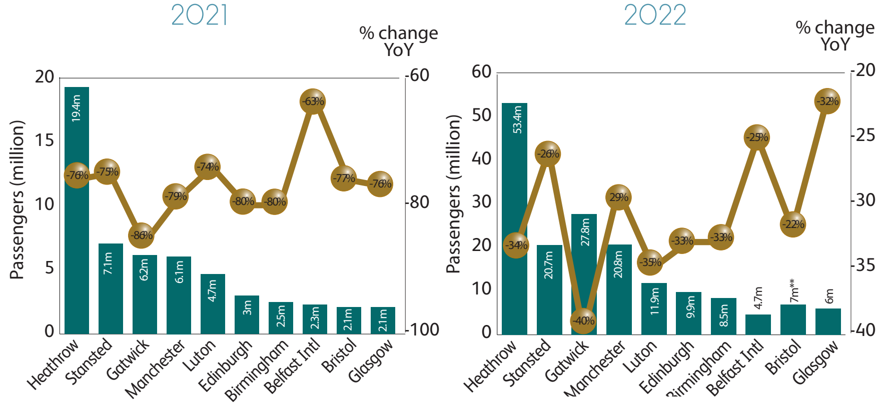
THE ULTIMATE PRIORITY

An unavoidable priority for the sector is the requirement to reach 'net zero' on carbon by 2050. Bowman noted: "There are big plays under way – sustainable aviation fuel [SAF], electric propulsion, hydrogen. These are really going to move the needle and there needs to be investment. But a lot of it is around building investor confidence.

"SAF is viable at a core technology level. The issues are around price, availability and what happens when other industries want a similar fuel stock, because all the assumptions around SAF availability are based on aviation being the primary consumer.

"Pretty much everyone recognises electric propulsion is not going to be viable beyond short-haul, 500-km operations. On hydrogen, there are some serious organisations making serious plays and I'm confident we'll

FIGURE 61: UK TOP-10 PASSENGER AIRPORTS



*12 months to Sept 2022 **12 months to August 2022 Figures rounded
Source: CAA

SHORT-TERM CAPACITY CRUNCH, LONG-TERM PRIORITIES

make progress, but we're not moving to hydrogen propulsion at scale in the next 10 years."

He argued: "When it comes to priorities for the next decade, there are basically three things aviation can do. It can fly more-efficient aircraft. It can offset. And it can squeeze every ounce of efficiency out of how it flies. There is a massive area of opportunity in that third category, whether it be airspace modernisation or trajectory optimisation. The priority for technology investment should be technologies that minimise carbon emissions from existing aircraft and the existing infrastructure. At a conservative estimate, if we modernised airspace globally we could take 15% of emissions out of the network."

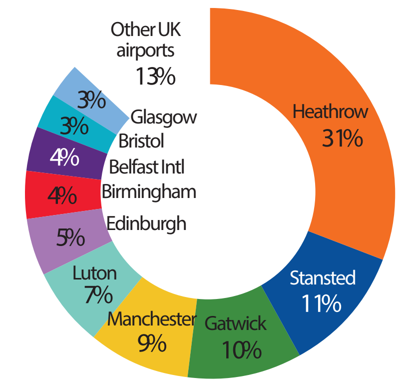
Bowman said: "There are plenty of initiatives to minimise fuel burn. A large international carrier has technology that gives its flight crew insights on their fuel burn proportionate to others flying similar routes. I see airlines investing in the personalisation of climate insight on things like single engine taxiing, the climb out of the airport, the steepness and speed of climb, the trajectory flown, the altitude. The flight crew can't determine all this, but they can influence some of it. It's about being knowledgeable about the bits you can influence, and that is where data comes in. There are opportunities in each phase of a flight to minimise fuel burn.

"But we also need to drive performance improvement at the network level. This is probably an area the industry has not got its head around and it's a missed opportunity because we could crack on with it.

"I equate it to punctuality and on-time performance. When we measure on-time performance in aviation, we don't care who causes it. We have codes for an airport delay, air traffic control delay, flight crew delay, ground crew delay. We don't dispute where a delay came from, we just measure it. We need to get to the same place on fuel burn, get a global measurement structure in place and then look at what contributes to that at an airport, airline and air traffic control level and do everything to minimise it."

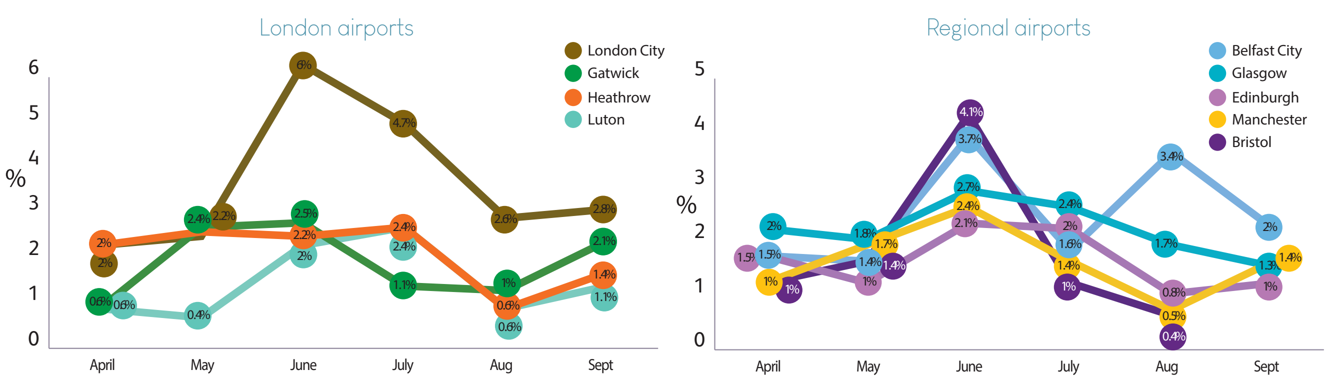
HEATHROW handled more passengers than Gatwick, Stansted and Manchester airports combined in 2021 (Figure 62). June was the peak month for flight cancellations at UK airports in 2022, except for Heathrow where cancellations peaked in July (Figure 63)

FIGURE 62: AIRPORTS' SHARE OF UK PASSENGERS, 2021



Figures rounded
Source: CAA

FIGURE 63: FLIGHT CANCELLATION RATES AT SELECTED UK AIRPORTS, 2022



Source: CAA

HOSPITALITY
FROM SUMMER BLOOM TO WINTER HEADWINDS

The hospitality sector could hardly have wished for a stronger recovery in summer 2022. Hospitality data analyst STR reported global occupancy in October had recovered to 94% of 2019's level, with the US and Middle East on a par, the UK just four points down, Ireland, Italy and France at a similar level and Europe overall five points down.

The average daily room rate (ADR) in Europe in October was 22% up on 2019 and the rate over the year to date up 17%, with the UK ADR up 20 percentage points in October and London up 30 points.

Speaking at the Deloitte European Hotel Investment Conference in November, STR managing director Robin Rossmann noted "a whole bunch of signs to be pessimistic, particularly in the leisure sector" and warned: "We expect to see significant stress." But he described global hotel demand as "amazingly resilient".

Deloitte lead partner for hospitality and leisure Andreas Scriven said: "We saw a stronger recovery than anybody expected in most markets and types of hotel. Some leisure-focused hotels outperformed, especially in the Mediterranean. Revenue per available room (RevPAR) recovered significantly and people were able to pass on a lot of inflationary costs to customers through the summer.

"There are challenges in some city-centre markets because long-haul and corporate travel are not fully back, and some markets have specific drivers. But the vast majority felt more positive through the summer."

He added: "The corporate market recovered better than expected, although there is a trend to reduce corporate travel to comply with the environmental, social and governance (ESG) agenda, especially among larger corporations. That pressure comes especially around internal events."

COST CHALLENGES

However, Scriven said: "Costs are a major challenge. They were starting to be a challenge from a labour and food standpoint pre-pandemic.

"Certain issues are structural and may have been accelerated by the pandemic but weren't caused by it.

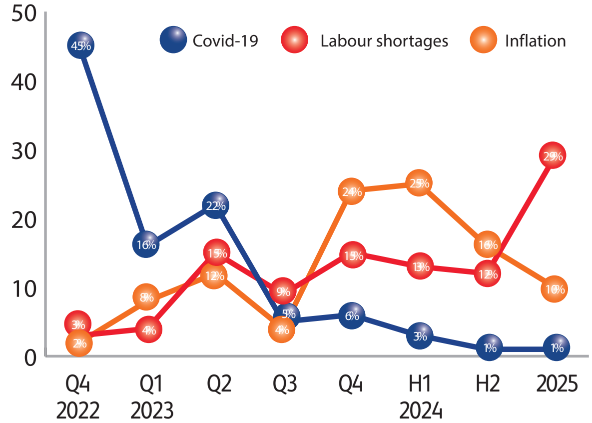
"The labour crisis has been brewing

A shortage of labour, soaring costs and a squeeze on consumers make for an uncertain outlook

LABOUR shortages will continue to be a problem in hospitality as far ahead as 2025, according to hospitality leaders and investors (Figure 64). However, rising costs will be as big a problem as staffing in 2023 (Figure 65)

FIGURE 64:
FORCES EXPECTED TO DISRUPT HOSPITALITY

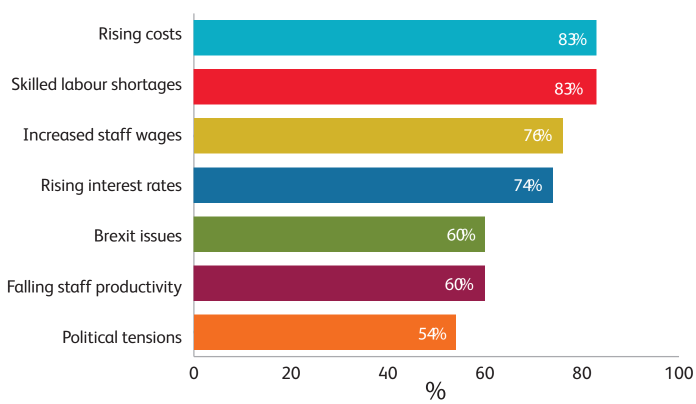
% of hospitality leaders/investors concerned



Source: Deloitte European Hospitality Investment survey, October 2022

FIGURE 65:
RISKS TO HOSPITALITY SECTOR IN 2023

% of hospitality leaders & investors



Source: Deloitte European Hospitality Investment survey, October 2022 for years. In the UK, we've had Brexit, but the sector has suffered a massive leakage of people outside the UK. The crisis peaked towards the end of last year but is still acute.

"People have adapted how they run businesses. We've heard of hotels not reopening or only reopening in part. If you can't clean rooms because you don't have the staff, you have no choice.

"In food and beverage, you can struggle through with fewer servers, but you can't sell a room unless it has been cleaned. Additional demands have been placed on staff to be flexible."

Scriven argued: "Pay is part of the issue. Another aspect is the hours of work and split shifts. The industry needs to think more creatively about engaging and retaining people, maybe bringing in different types of people such as somebody retired or close to retirement.

"The other aspect is training and development. Parts of the industry have invested little in this. At the luxury end, employers train and develop people, but that is not consistently the case and more people are looking for that. There is no silver bullet. There is just not enough resource."

He added: "People are cautious about increasing pay because it erodes the bottom line, especially in the environment

> "We've heard of hotels not reopening or only reopening in part. If you can't clean rooms because of lack of staff, you have no choice

we're in. There is real concern about that. Payroll costs for the average hotel have shot up. Layer on energy costs and you're in a pickle."

Scriven said: "The outlook for the next 12 months has changed significantly. We face a set of headwinds. The implications of labour costs and energy costs are devastating for some. A lot of smaller businesses or high-net-worth individuals who own hotels had to dip into reserves to make it through Covid and there are none left. You would expect some failures, certainly across Europe.

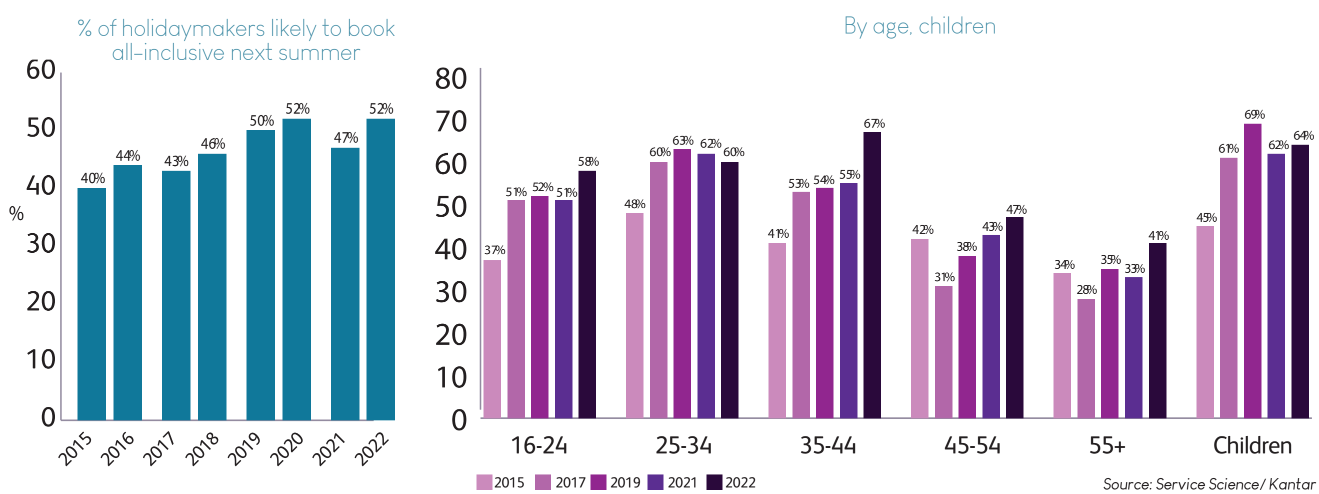
"The political, economic and financial turmoil in the UK hasn't helped, but the weakening of the pound makes it cheaper for US funds to buy into the market so some people will see an opportunity.

"The uncertainty will impact investor confidence. We've seen situations where a deal has been agreed, then things change so rapidly that the buyer comes back to renegotiate the price. Something changes again and the deal falls over.

"The extreme energy price volatility is a major issue. There is talk of this accelerating sustainability and it will, but there is a huge cost to replacing a heating and cooling system and it takes six to 12 months. People are looking at operational tweaks such as closing off a hotel floor. But a lot of businesses

DEMAND for all-inclusive accommodation appears as high as ever going into 2023, with two-thirds of family holidaymakers (64%) planning an all-inclusive trip (Figure 66)

FIGURE 66: ALL-INCLUSIVE DEMAND, 2015-22



stripped out cost during Covid so there is not much they can do.

"The only other option is to pass on the costs to customers. The vast majority have tried to pass on the overall inflationary pressures and that worked OK until the beginning of September. But it's not sustainable."

THE DRIVE TO CUT CARBON

The drive to net zero is "everyone's agenda", according to Scriven. But he said: "A lot of people are not sure what they should be doing. There is also debate – do we try to solve this as an industry or does everybody develop their own thing? People are launching initiatives, which is positive, but they're not aligned to the rest of the supply chain. It's still very much at the beginning even for those on the front foot on this."

He insisted: "Government regulation is what is going to drive change. Demand from guests is quite far down the list. There are discussions around what consumers are willing to pay for, but from an investor standpoint the issue is what if you don't do this? What is the valuation if you have an ESG-compliant asset versus one that is not? If you're publicly listed and you don't do this, you could be destroyed in the markets."

Scriven added: "It's challenging to say how much progress has been made. You can launch a lot of initiatives in 12 months, but for those to bear fruit and to assess and measure them you need five years."

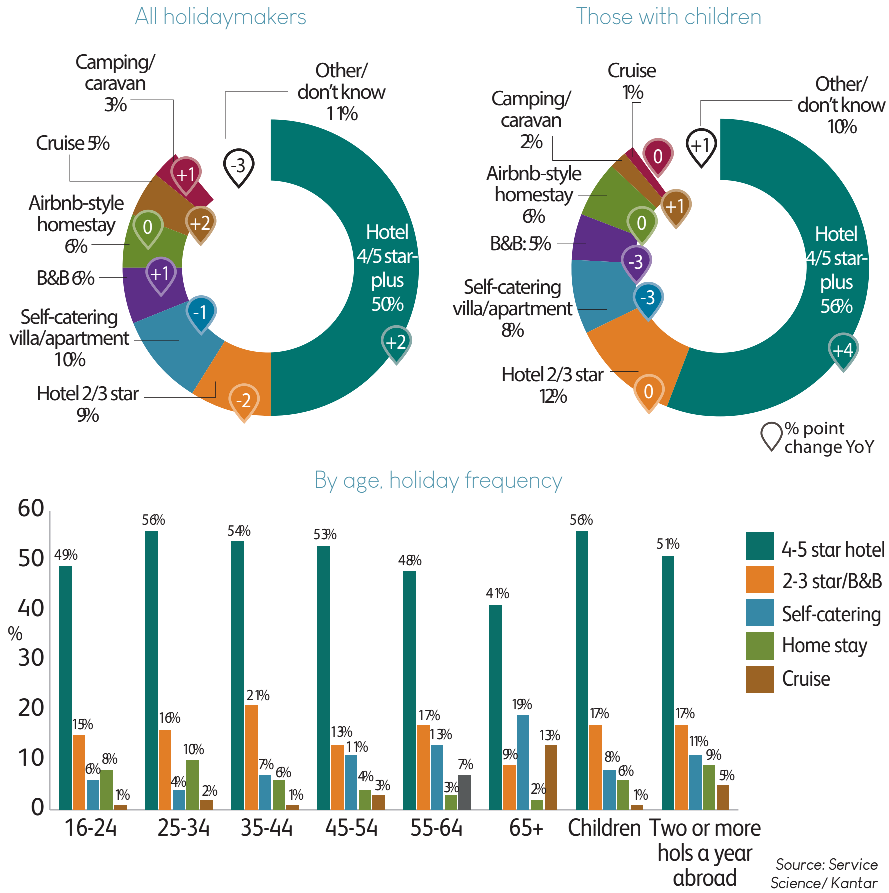
He argued: "Regulation from a financial reporting standpoint is probably proven to be more effective than [hotel sustainability] certification because there is a deadline you have to comply with. Certification, while well intentioned, is meaningless unless you get a critical mass. These systems only work if people know and trust one or two sources, so who measures it? Who tracks it? How is it geographically defined? If bigger corporations have to engage with a different certification process in every country, it becomes more difficult."

Hotels will increasingly communicate what they are doing on sustainability to consumers, Scriven believes. But he warned: "If everybody does their own thing, it becomes meaningless to the customer."

Stepping back from sustainability, he suggests one development in hospitality stands out above all others over the last 12 months, arguing: "If you look at where the most monumental change is happening, it's in Saudi Arabia. It's on the way to becoming another Dubai by diversifying from an oil-reliant economy to one that is service and tourism-oriented. There is almost a blank sheet of paper in how to do this in terms of technology and infrastructure and in terms of mobility, sustainability, distribution, and the virtual and actual experience."

FOUR and five-star hotels are by far the leading accommodation choice of holidaymakers, with little significant change in other categories (Figure 67)

FIGURE 67: LIKELY ACCOMMODATION: NEXT OVERSEAS HOLIDAY



Source: Service Science/ Kantar

OUTBOUND

PROFITABLE SUMMER GIVES WAY TO UNCERTAINTY

Outbound leisure travel enjoyed a strong rebound, reflected in the results of listed companies, but the outlook appears weaker

The outbound leisure sector experienced a challenging but ultimately fruitful summer in 2022 after the UK government lifted border restrictions in March.

In a trading update in August, market leader Tui hailed a 20% rise in peak summer holiday prices compared with 2019 and downplayed the potential impact of a recession on demand through the winter and summer 2023. The group reported summer 2022 bookings at 90% of the volume of 2019 up to the end of July, with an average selling price up 18% on the pre-crisis level. Bookings for July and August were even stronger at 93% of 2019's volume and average prices 20% up.

Incoming Tui Group chief executive Sebastian Ebel also reported UK bookings "positive for the winter", despite acknowledging the cost-of-living crisis as "a concern". He noted "we're cautious on capacity" and warned: "The inflation of [holiday] prices will be significant. We'll see a middle-digit increase in hotel prices."

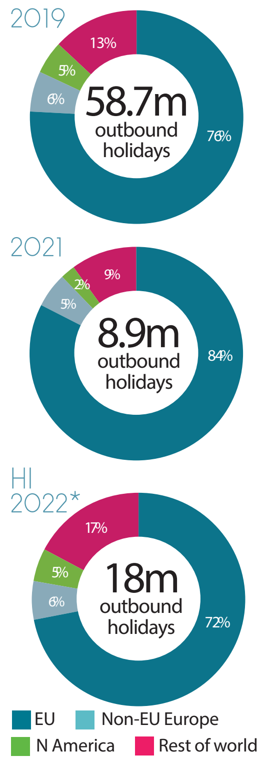
Rival Jet2 also recorded strong trading, with its parent group reporting a pre-tax profit of £505 million for the six months to September despite paying out £50 million in delay compensation to customers. The average price of Jet2 holidays rose 5% year on year due to inflation.

EasyJet and its package holiday brand easyJet Holidays likewise reported "a record bounce-back" in the summer, bringing the airline's "highest-ever" quarterly earnings, although it could not prevent a full-year, pre-tax loss of £208 million. EasyJet Holidays delivered a £38 million profit.

The UK's largest online travel agent On the Beach reported equally strong trading, noting its sales in the six months to September were 25% up on 2019 "despite disruption across the supply chain". It reported "substantial growth" in long-haul and five-star holiday sales but a "subdued lates market for value holidays".

On the Beach made a virtue of not issuing refund credit notes (RCNs) to customers for holidays cancelled during the pandemic. There was some concern at the expiry of Atol-protection

FIGURE 68:
UK OUTBOUND HOLIDAYS BY REGION



**H1 2022 percentages calculated for all trips as regional holiday data n/a*
Source: ONS

The Deloitte view

The year saw mixed results for outbound tourism. The lifting of travel restrictions in March 2022 led to pent-up demand almost immediately boosting bookings, resulting in a strong summer. But the acceleration in the cost-of-living crisis since led to increasingly difficult trading conditions.

Consumers' willingness to travel since the removal of pandemic restrictions was evidenced by an Abta Holiday Habits report showing that in 2022, 45% of people planned to travel on a foreign holiday compared with 64% in 2019. Similar trends were reported by tour operators and travel agents.

The constraints on consumer budgets could lead to some consumers changing their spending priorities. The Deloitte Consumer Tracker for Q3 2022 noted that, despite overall consumer confidence falling to the lowest levels since the tracker began 10 years ago, travel was the only leisure category not to see negative spending on the previous quarter. However, the outlook for Q4 2022 saw the biggest declines expected in spending on holidays, down 10 percentage points.

Given the uncertain economic prospects, managing volatility in demand and costs will be the priority. Businesses should focus on:

- Flexible pricing to respond to customers becoming more price-sensitive, albeit to varying degrees. It is likely surcharge clauses will become more prevalent to protect businesses from loss-making contracts.
- Cost control: by locking prices where appropriate and viable; using hedging instruments for known non-sterling costs; and ensuring marketing costs are targeted and return on investment can be evidenced.
- Opportunities for diversifying product portfolios and source market offerings.

Businesses should also revisit plans developed for downturn scenarios.

All the above need to be considered in the context of the ongoing Atol reform, which will potentially affect prices for consumers and most likely have an impact on back-office operations.

The travel and tourism industry has considered sustainability for some time. However, as demand shows no sign of reducing and the sector faces significant challenges to abate emissions in aviation and cruise, pressure on the sector will grow. The industry needs to step up to a more urgent, more structured and more significant decarbonisation transition.

■ *Tim Robinson, director, Travel and Tourism, and Danielle Rawson, director, Risk Advisory* for outstanding RCNs at the end of September, with the CAA revealing £30 million in Atol-protected RCNs remained unused and issuing a last-minute reminder to consumers to cash them in.

However, Travel Trade Consultancy director Martin Alcock pointed out the outstanding RCNs amounted to only "a day's worth" of Atol-protected sales when the Atol scheme "was protecting 26 million passengers a year and £20 billion in annual sales before Covid". He noted: "We're seeing clients converting remaining RCNs to new bookings at substantially higher prices."

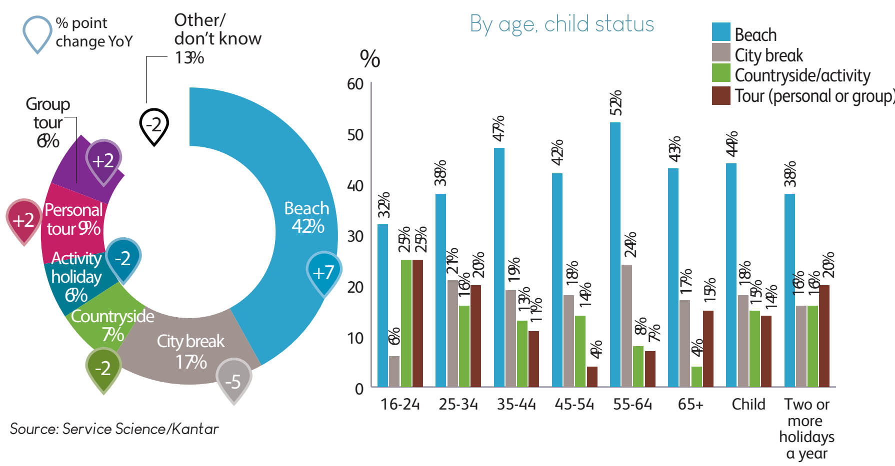
Research for this report found UK adults planning an overseas holiday in 2023 showed a strong preference for beach destinations, with 42% of the total doing so, up seven percentage points on the previous year. Almost half those aged 35-44 and 55-64 said they would choose a beach destination. By contrast, the popularity of city breaks fell five points year on year and plunged among adults aged 16-24, of whom just 6% favoured a city break. Instead, 25% of this age group sought an activity or nature holiday.

The research found no great change in how consumers intend to book their next overseas holiday aside from a three-point fall year on year in the proportion likely to book direct with an airline and separately with an accommodation provider. There was a rise of two points in intention to book with a tour operator and a similar increase in intention to book with an online travel agent. This could well be down to the poor experience of many travellers during the disruption to flights in the spring and early summer of 2022.

BEACH holidays are by far the most popular choice among those intending to take a holiday in 2023 (Figure 69). There appears little change in how most consumers intending to have a holiday abroad will book aside from a small drop in those booking separately direct with an airline and hotel (Figure 70)

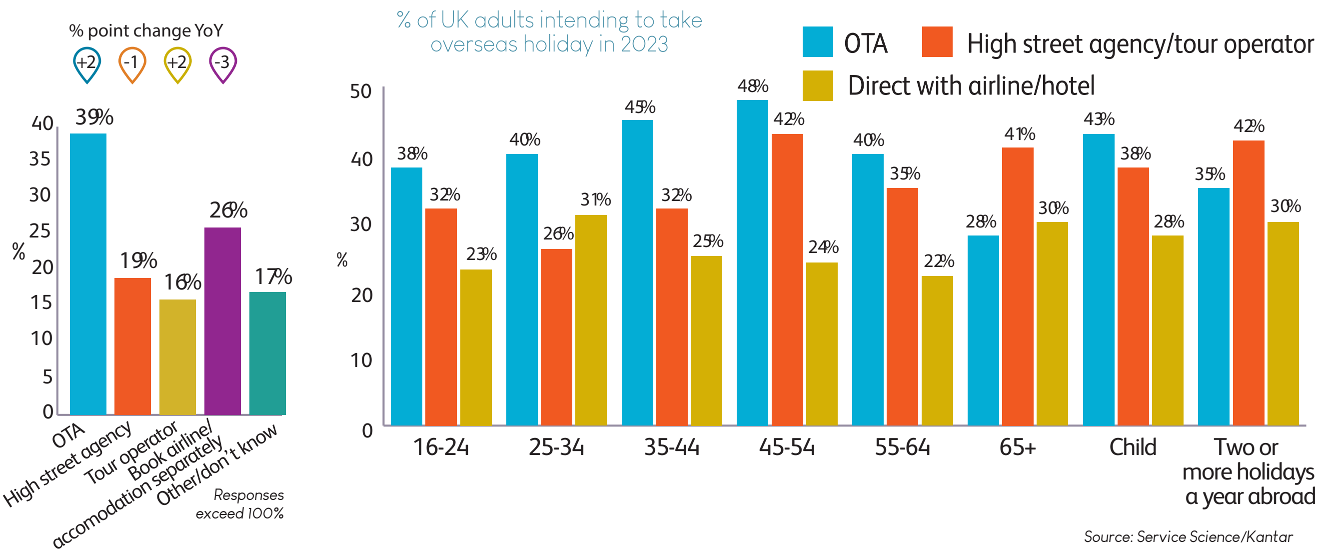
FIGURE 69: TYPE OF OVERSEAS HOLIDAY, 2023

% UK adults planning an overseas holiday



Source: Service Science/Kantar

FIGURE 70: NEXT OVERSEAS HOLIDAY: MOST LIKELY WAY TO BOOK



Source: Service Science/Kantar

CORPORATE TRAVEL
BUSINESS TRAVEL BESET BY CHALLENGES

Business travel recovered significantly by late 2022 without returning to pre-pandemic levels, leaving the jury out on what level of activity the sector will attain in mature markets given the priorities of larger corporations to reduce their carbon footprint and the impacts of an economic downturn.

A Global Business Travel Association (GBTA) poll in October found one in four members (26%) subject to limits on travel or considering limits due to the deteriorating economic outlook and 44% taking a 'wait and see' approach. Only one in four (26%) reported corporate travel bookings had recovered to 71% of the 2019 level or above, with half (52%) still below 50% of pre-pandemic volumes.

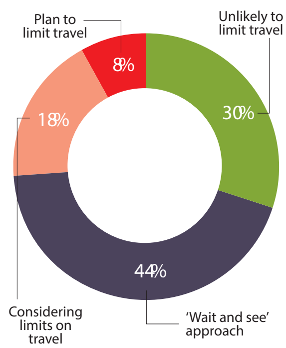
A separate GBTA survey in July suggested rising prices would take a toll on business travel volumes and hold back the sector's recovery. It found 73% of business travellers surveyed, plus 38 out of 44 global financial executives interviewed, felt price inflation would lead to a reduction in corporate travel.

However, travel management giant American Express Global Business Travel reported corporate travel returned to three-quarters of its pre-pandemic level in the month of June, with the group's business for the three months to June recovered to two-thirds of the pre-Covid level, transactions at 69% of 2019's level and revenue at 64%.

Corporate travel has returned, but to what level remains unclear amid heightened economic uncertainty

FIGURE 71:
BUSINESS TRAVEL OUTLOOK FOR 2023

In response to economic concerns, % of corporate travel buyers



Source: GBTA members poll, October 2022

The disruption at airports and of flights across Europe through the spring and summer did not help the recovery. Research on behalf of corporate travel technology platform Egencia in July suggested almost three out of four international business travellers suffered flight disruption on a trip during early summer.

The survey of 2,250 business travellers in the UK, France and the US found 69% expected disruption when they travelled and 73% experienced disruption on a recent trip. The rate of those expecting disruption was highest in the UK at 76%, with half (49%) of UK corporate travellers saying they would prefer not to travel than risk disruption. Two out of five (40%) in the UK reported avoiding some airlines and airports.

The sector remained seriously hampered by a shortage of skilled personnel after travel management companies (TMCs) reported laying off more than half their staff during the pandemic.

At the Business Travel Association (BTA) conference in September, corporate travel buyers reported moving transactions offline since Covid 19 and struggling to get the level of support they required from understaffed TMCs.

The Deloitte view

What a difference a year makes. A year ago, the question was 'will corporate travel recover in 2022?' Based on the sector's performance since the spring we can certainly say it has.

As countries opened and the last of the Covid-19 entry testing rules ended, corporate travel grew beyond the most optimistic forecasts. The usual summer dip in corporate travel did not happen, with the UK hotel occupancy rate consistently staying close to 80% (up from about 50% in 2021) and revenue per available room (RevPAR) reaching 66% on average.

What does this mean for 2023?

Hotel prices and airfares will continue to rise into 2023 as airlines and hotels attempt to tackle rising input costs, especially energy, and try to recover lost revenue to manage the higher financial risks that come with a more volatile environment.

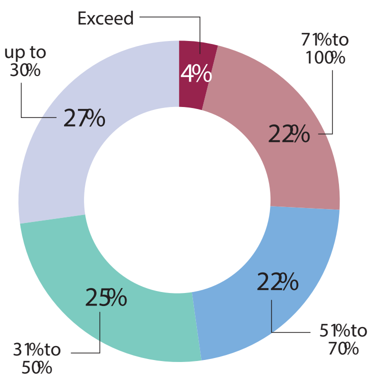
Corporates should consider adopting a 'commodity-based approach' where flights are on routes with healthy competition; being carrier-agnostic; and accessing the lowest available fare on the day, booking more than 14 days out where possible. For hotels, selecting the best available rate over fixed rates can bring savings in quieter periods to offset higher costs in busier periods. For corporates with high spend on air and hotels, price optimisation tools are likely to drive improved savings.

Most businesses are in a race to meet carbon-neutral targets by 2030. Reducing carbon emissions and tackling Scope 3 emissions reporting is critical and presents a competitive advantage. The use of 'gamification', to incentivise wider adoption of sustainable practices not only within an organisation but also by its customers, should be part of the strategy to reach a broader audience and increase competitiveness while also helping to meeting climate goals.

■ *Jon Bolger, head of Business Travel*

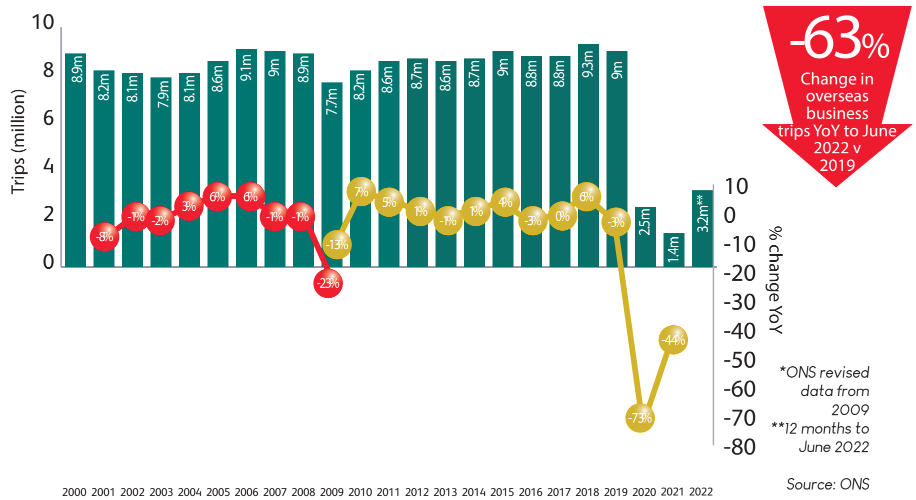
FIGURE 72: INTERNATIONAL BUSINESS TRAVEL, OCTOBER 2022

% of pre-pandemic bookings



Source: GBTA members poll, October 2022

FIGURE 73: OVERSEAS BUSINESS TRAVEL FROM UK, 2000–22



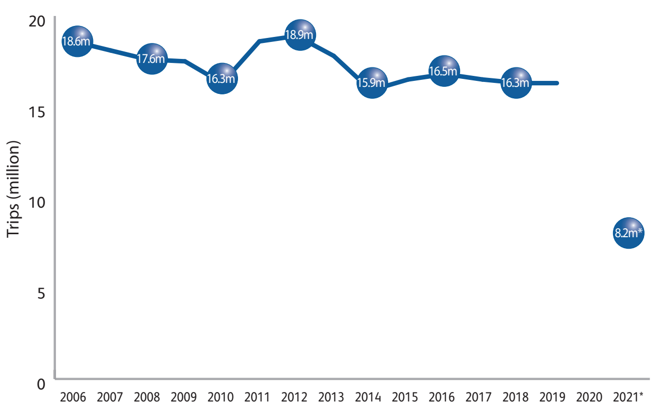
Source: ONS

The senior travel manager at a multinational power company said: "TMCs need to get back to having people behind the scenes. I want to know I can pick up a phone and get a response." The senior travel manager at a technology platform reported "our experience with chatbots is not working". And the global travel manager at a mining group told the BTA: "We switched off self-booking tools post-Covid. We found 90% of bookings needed to be offline."

BTA chief executive Clive Wratten joined the heads of the Institute of Travel Management (ITM) and travel association Abta in hailing the heightened cross-sector collaboration in lobbying the government during the pandemic. But Wratten suggested the associations should have acted quicker and been "more forceful". He told the conference: "If I have a criticism, it's that we didn't work closely enough at the beginning when we were working out what the hell to do." He also argued the sector should have been "more direct in our messaging earlier. It might have persuaded others to get behind us more."

ONE IN four corporate travellers report potential limits on travel due to cost concerns, with 44% undecided, according to a Global Business Travel Association poll (Figure 71). Most companies' business travel remained significantly below 2019's level in October (Figure 72), with UK outbound corporate travel still 63% down on 2019 in June 2022 (Figure 73). However, the proportion of companies permitting some international travel rose sharply (Figure 75)

FIGURE 74: UK DOMESTIC BUSINESS TRAVEL, 2006–21



**April-Dec 2022 Source: GB Tourism Survey*

FIGURE 75: GLOBAL CORPORATE TRAVEL RECOVERY

Source: GBTA members poll, October 2022

CRUISE

RECORD YEAR IN PROSPECT FOR 2023

Cruise lines returned to near normal operations through the summer of 2022 following a somewhat slower resumption than short-haul international travel, largely owing to the requirements of the US Centers for Disease Control, which only relaxed its Covid-19 requirements for the cruise industry in July.

Thereafter, the recovery proved rapid. The world's largest cruise group, Carnival Corporation, reported "booking volumes for all future sailings considerably higher than 2019 levels" at the end of September, with ship occupancy in August at "nearly 90%" and about 95% of capacity in operation. The group expected to return to near full operation by the end of the year, with the one exception of China which remained closed to cruising owing to the government's zero-Covid policy.

Industry number-two Royal Caribbean Group reported "better than expected" third-quarter results amid "continued robust demand" and announced it was "nearing the point of full recovery" in November. It reported booking volumes "significantly higher than in the third quarter of 2019" with "a substantial acceleration in demand for 2023 sailings".

The group noted: "Guests continue to make cruise reservations closer to sailing than in the past, resulting in about 50% more bookings in the quarter for current year sailings compared to the third quarter of 2019." At the same time: "Booking volumes for 2023 doubled during the third quarter compared to the second and were considerably higher than bookings for 2020 sailings during the comparable period in 2019, the highest in company history." Royal Caribbean's full fleet, comprising Royal Caribbean International, Celebrity Cruises and Silversea Cruises, resumed operations in June.

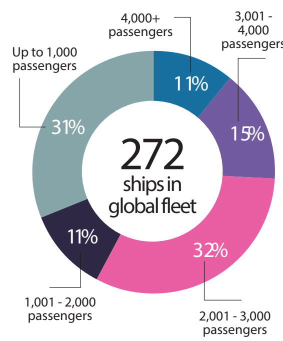
Industry number-three Norwegian Cruise Line Holdings reported "robust pricing" and forecast 2023 would be a record year after dropping all pre-cruise Covid-19 requirements for vaccinated passengers from early September. The group, which owns Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises, added *Norwegian Prima* – the first of six ships in its Prima class – to the fleet in the summer having completed the relaunch of its fleet in early May.

Cruise industry association Clia forecast a return to the sector's historic growth trend once operations recover fully from the pandemic restrictions, with global cruise passengers forecast

Cruise lines rebounded in summer 2022, but face a bigger challenge to cut their dependence on fossil fuel

FIGURE 76:
GLOBAL CRUISE FLEET AND SIZE, 2022

% of fleet by passenger capacity



Figures rounded
Source: Clia

The Deloitte view

There was a view during the pandemic that the cruise sector might be the slowest part of the travel industry to recover. However, its recovery was stronger than expected, helped by good cross-sector collaboration and strict health and safety protocols.

Certain cruise sub-sectors, such as long-haul, continued to have a challenging 2022. Restrictions remained for part of the year in some destinations, but with the flexibility to re-deploy ships it was possible for cruise lines to restore operations to a greater extent than some had feared.

One of the few upsides of the pandemic has been to spark a rise in the number of passengers new to the sector, after the UK government made conditions for sailing from the UK more favourable during a period when it was difficult to travel overseas on holiday. Bringing new customers to the sector has been a key objective of the industry. Ensuring they return will be a focus for cruise operators in the years ahead. It will be critical to match consumers with the right experience, and agents and operators have a vital role to play in ensuring ships and brands align with individual consumer expectations.

With many new ships as well as new products entering the market, there will be plenty of opportunities for experienced cruisers and new-to-cruise passengers alike. The challenge will be to fill this new capacity at a time of economic uncertainty. Demonstrating the value of an all-inclusive cruise compared with other types of holidays, where controlling costs might be harder, could be a way for cruise operators to differentiate their offering.

The long-term trajectory towards a more sustainable industry remains fundamental. Despite being a 'hard to abate' sector, all parts of the cruise industry continue to prioritise sustainability and there has been significant investment over the last 12 months.

The financial pressures many consumers will experience over the next year can't be ignored, but some consumers will remain more resilient than others. The fundamental attractions that a cruise offers, including value for money and unique experiences, remain appealing.

■ ***Alistair Pritchard, lead partner, Travel and Aviation*** to hit 32 million in 2023, up from just under 30 million in 2019. Clia forecast a further increase to 35 million in 2024 and 37 million in 2025.

CARBON CHALLENGE

This expansion will sharpen the pressure on the sector to cut carbon emissions, not just per passenger but overall, with cruise and aviation caught increasingly in the decarbonisation spotlight if they do not.

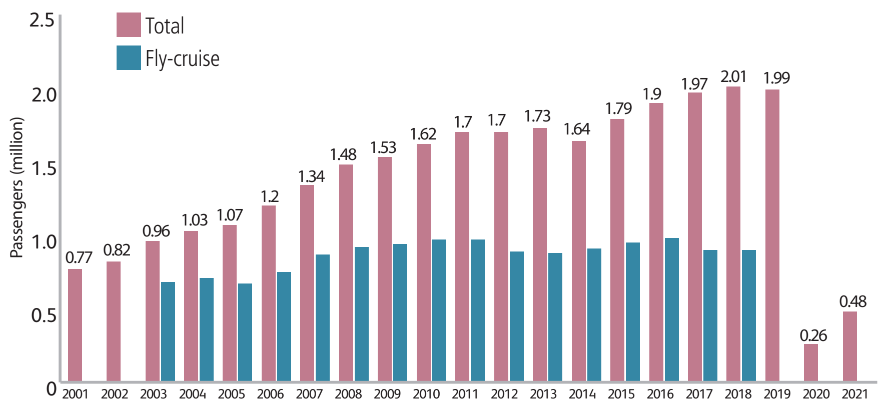
Sixteen new ocean-going cruise ships were due to launch in 2022, including five powered by liquefied natural gas (LNG) and all fitted with advanced wastewater treatment systems. Clia reported that by 2027, 16% of global capacity, or 26 ships, would be LNG-powered; two-thirds (66%) would have shoreside power connectivity (174 ships); and 81% of non-LNG-powered capacity would be fitted with Exhaust Gas Cleaning Systems (176 ships).

At the same time, ships representing one-fifth of total capacity would still be operating without advanced wastewater treatment systems in 2027. There remains a considerable way to go in a sector that will depend to a large extent on advances in alternative shipping fuels and port infrastructure to substantially reduced its greenhouse gas emissions.

Research for this report found one in 20 UK adults (5%) who intend to take an overseas holiday in 2023 plan to book a cruise, rising to 7% among those aged 55-64 and 13% among those aged 65 and over. This puts cruise on a par for popularity with homestay accommodation across the population as a whole and suggests the UK and Ireland will confirm their position as the world's third-largest cruise market in 2023. They should soon also surpass the record two million passengers carried in 2018. In fact, the UK retained its position as world number-three even during the pandemic year of 2021 when just 479,000 passengers sailed.

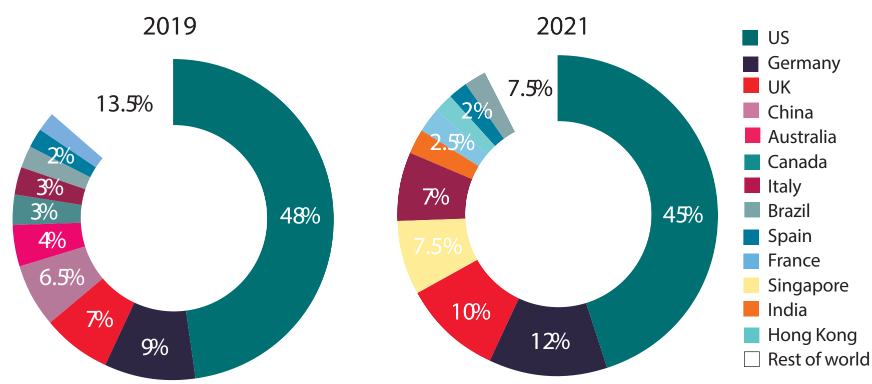
A change at the top of Carnival Corporation saw long-time president and chief executive Arnold Donald stand down and hand the reins to Josh Weinstein.

FIGURE 77:
UK & IRISH OCEAN CRUISE PASSENGERS, 2001–21



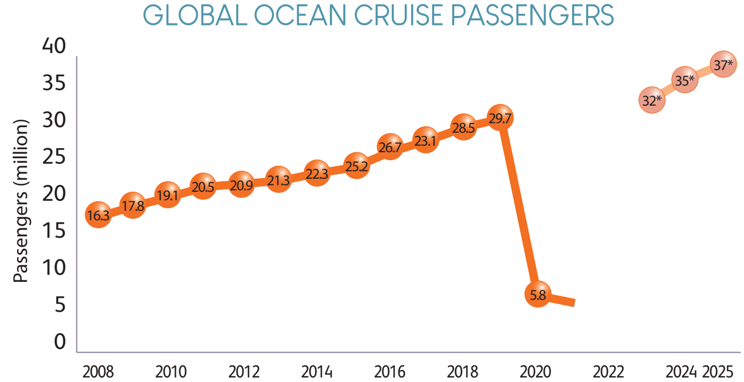
Source: Clia

FIGURE 78: **TOP-10 CRUISE SOURCE MARKETS**
% of global cruise market



Source: Clia

FIGURE 79:
GLOBAL OCEAN CRUISE PASSENGERS



** Forecast numbers Source: Clia*

THE GLOBAL cruise fleet numbered 272 ships in 2022 (Figure 76). The UK remained the world's third-largest cruise market in 2021, despite the pandemic (Figures 77 & 78). Global cruise passenger numbers are forecast to reach 35 million in 2025 (Figure 79)

INBOUND

OVERSEAS VISITORS RETURN AT TWO-THIRDS OF 2019 LEVEL

The UK inbound travel sector saw a better 2022 than it could possibly have hoped for at the turn of the year.

Joss Croft, chief executive of inbound trade association UKinbound, reported a "relatively positive" year despite all the challenges, with overseas visitor numbers to Britain forecast to reach two-thirds (65%) of the 2019 level by the end of the year.

Croft noted "travel didn't kick off until April, and the US only in June" and added: "The crisis in staffing diminished the ability to service demand. There was a skills shortage pre-pandemic, now there are both skills and labour shortages and sheer exhaustion is a challenge."

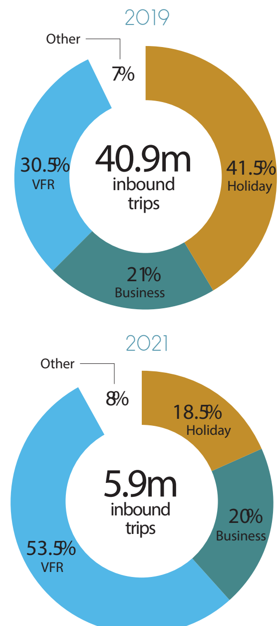
Yet he argued: "It's amazing we didn't see a greater number of failures. UKinbound lost about one-third of its members [during Covid]. But we have 76 new members this year – our best-ever year for recruitment. Things look relatively positive. We've stopped firefighting."

Speaking in October, Croft highlighted "the unique mix of the modern and traditional" on display through the period of mourning for the Queen and her state funeral, and noted: "We'll have the Coronation next year. Many visitors will come for that, but more important will be the coverage in the world's media."

The pound's weaker value against the dollar could also prove attractive to visitors from the US – by far the UK's biggest-spending market – going into 2023. Sterling fell to a record low of $1.04 at the height of the crisis around the government's 'mini-Budget' in the autumn, before returning to about $1.20 as this report neared publication. But it was still down from $1.35 at the start of 2022.

Soaring energy bills and labour shortage hold back recovery, but 2023 still holds promise

FIGURE 80: INBOUND OVERNIGHT TRIPS TO UK BY PURPOSE



Source: ONS

NEW MINISTERS

Industry leaders faced dealing with a raft of new government ministers and may regret no longer having the ear of Nigel Huddleston as tourism minister. Croft said: "I had huge respect for Nigel. He was committed and understood the industry. His problem was the levers of power do not sit with the Department for Digital, Culture, Media & Sport [DCMS]. We have to hope the new tourism minister takes tourism as seriously." He insisted: "Inbound tourism can be part of the solution for government, not a problem."

Yet Croft also identified "one of the positives" of the pandemic, saying it had brought a focus "not just on speaking to DCMS, but to the Departments for Business and Transport, and working with other associations". He argued: "We work much more closely with the airline and airport associations, and with Abta and the outbound associations now."

The sector suffered a blow when the government of Rishi Sunak vetoed a return of VAT refunds on goods

The Deloitte view

There was a sharp increase in visitors to the UK in 2022 compared with 2021, with VisitBritain reporting 8.55 million from January to May 2022 compared with 471,000 in the same period in 2021.

This is still far from the 40.8 million who travelled to the UK in 2019.

As travel restrictions eased across Europe, Europeans made up 72% of visitors to the UK in the 2022 period.

However, with some restrictions remaining in place in other areas in the world and a difficult economic outlook, a fall in discretionary spending may continue to suppress international travel.

The Deloitte Global Consumer Tracker found that 42% of consumers felt their financial situation had worsened over the past year and only 35% expected it to improve in the next year. A year ago, the view was that consumer sentiment would improve as lockdowns eased. However, the impact of Russia's invasion of Ukraine and the cost-of-living crisis saw consumer confidence fall across the world.

Inbound business travel has returned, with 18% of visitors to the UK in 2022 travelling solely for business. However, the cost of travel and awareness of the environmental impact of travelling is driving many businesses to streamline their business travel activities.

In the next year, inbound visitor numbers will continue to increase from the low point of 2020. But it will remain a challenging period while there is such economic uncertainty and consumers feel pressured to focus their spending more narrowly on essentials.

Ed Knight, director, Tax

bought by overseas visitors which the September mini-Budget had reintroduced. Croft pledged to fight for a restoration, insisting: "The VAT-reclaim scheme is a big deal. The ability to shop tax-free could benefit the regions because they have good access to European markets."

A round-table discussion among leaders of inbound travel businesses at the UKinbound convention in Belfast in October highlighted the challenges facing the sector, with the overriding issue a shortage of staff which had led to acute problems with supply.

STAFF SHORTAGES

The head of a leading tour operator argued: "We have good-quality hotels operating four nights a week because they don't have the staff. It has taken out a load of supply and the labour issues are not going to end anytime soon." A destination management head agreed, saying: "We see hotels coming out of the supply chain. At the top end, a lot of hotels are only operating on certain days of the week." A second destination management head said: "Where we had a clear picture of supply and demand pre-pandemic, now we have eight to 10 hotels with question marks against when they're going to open."

The head of a recruitment agency warned: "I speak to hotel managers working as chambermaids and in the kitchens who physically haven't the time to open the booking system. Staff retention is more important than bringing in new staff. There isn't the money to raise salaries, and salaries would have to be lifted to such an extent that companies couldn't afford it."

Soaring energy prices brought added difficulty, with suppliers reluctant to commit to prices far in advance because of rapidly rising costs. The head of one tour operator reported: "We have hotels that won't quote for us for the end of next year. They don't want to commit to pricing because they don't know what their energy costs will be." A destination management head agreed: "Enquiries are coming through for meetings and events in 2024 and 2025. We've had to tell hoteliers, 'Come up with a price or we don't quote, we don't bid and that business doesn't come in.'"

FIGURE 81:
OVERSEAS VISITORS TO UK, 2000–22

**Visits/holidays for 12 months to June 2022. All visits include business and visiting friends & relations (VFR). Source: ONS*

INBOUND visitor numbers rebounded somewhat in 2022 and were expected to reach two-thirds of 2019's level by the end of the year following a sharp increase from April onwards (Figures 81 & 82)

FIGURE 82:
OVERSEAS HOLIDAY VISITORS RETURN, 2021–22

Source: ONS

RESEARCH PARTNER
TRAVEL WEEKLY INSIGHT REPORT 2022-23

Service Science brings insight and expertise together

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

We have four practice areas:

- 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.
- Strategic Online Data Intelligence: using multiple sources we unlock the power of online data to provide insights and travel intelligence tools to destination managers, tourist organisations and operators.
- Service Quality Measurement: through mystery shopping, brand standards audits and survey tools we ensure clients deliver exceptional service.

Clive Nicolaou

Service Science was founded in 2010 by Clive Nicolaou, a market researcher with 28 years' experience in the hospitality, leisure and tourism sectors. Prior to that Clive was head of hospitality and leisure at Kantar TNS having previously been a successful operator in the hospitality sector. He is a fellow of the Institute of Hospitality and a member of the Market Research Society.

Tom Costley

Tom is the most experienced researcher in the team with 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 fellow of the Tourism Society.

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

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

DOMESTIC

UK TOURISM DEFIED COVID DOWNTURN

UK domestic travel and tourism could be viewed as one of the sectors least negatively affected by the pandemic, with the annual total number of overnight trips hitting 119 million in 2021, on a par with 2018.

Holiday numbers were down by about 25% on pre-pandemic levels but the figures remained strikingly high at 45 million. Only 2020 saw a real plunge in activity due to pandemic lockdowns, a fall that went unmeasured due to suspension of the rolling GB Tourism Survey during the period.

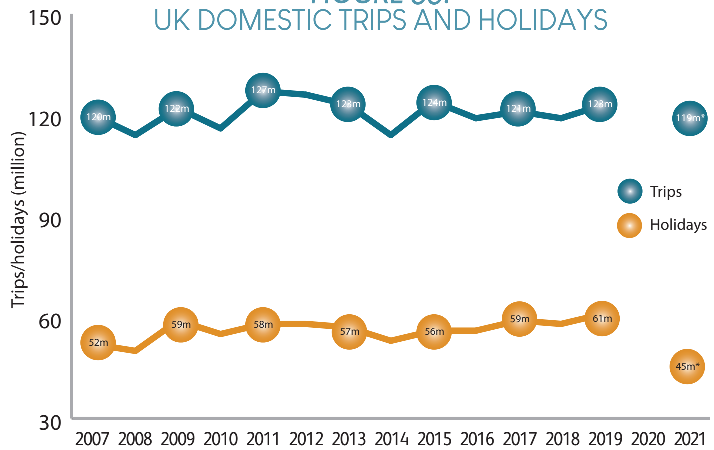
Research for this report suggests almost two-thirds (63%) of UK adults took at least one domestic holiday or short break in 2022 and two in five (38%) more than one. That was significantly up on the 55% who signalled their intention to have a domestic holiday in similar research the previous year. The proportion likely to take a domestic holiday in the year ahead rose a little year on year to 57%, but this remains 10 percentage points below the pre-pandemic level, suggesting the domestic market could be as subject to cost-of-living pressures as the outbound holiday sector.

VisitEngland's annual attractions survey showed that while visits increased by 30% year on year in 2021 as attractions reopened, numbers remained 55% down on 2019. The most-visited 'paid for' attraction was Kew Gardens for the second year in a row. Brighton Pier topped the list of free attractions, followed by the Natural History Museum and the British Museum.

The merry-go-round of tourism ministers, which slowed for a period while former Google head of travel Nigel Huddleston was in the post, resumed. Lord Syed Kamall briefly took over in

Domestic overnight trips reached pre-pandemic levels in 2021 and 2022, but won't escape cost-of-living pressures

FIGURE 83:
UK DOMESTIC TRIPS AND HOLIDAYS



**April-Dec 2021 Source: GB Tourism Survey*
2020 figures not available as survey suspended; 2022 figures due 2023

The Deloitte view

The domestic leisure market dominated travel during the pandemic and that trend continued through 2022. However, demand for domestic travel levelled off with the reopening of borders and return of international travel.

Holidaymakers faced travel disruption at major international transport hubs due to staff shortages in the summer and that experience, combined with a potential winter surge in Covid-19 infections and some nervousness around foreign travel, could lead to domestic travel appearing a safe alternative. In addition, with consumers' budgets squeezed by the rising cost of living, domestic travel might appeal where it's perceived as better value.

The Q3 2022 Deloitte Consumer Tracker showed that while the cost-of-living crisis prompted households to rein in spending on entertainment, consumers continued to spend on holidays. Despite pressure on budgets, summer 2022 saw sustained demand for holidays. However, the data suggested a net 16% decline in spending intentions on short holidays in Q4 2022. The data does not differentiate between overseas and domestic demand, but 'staycations' could prove popular with those still wanting to get away.

We have seen interesting trends emerge as some consumers look to step away from the hustle of everyday life and reconnect with nature. Outdoor activities, experiences, mindfulness holidays and camping trips have become increasingly popular.

Domestic trips could also allow people to make more of annual leave by reducing time travelling and the stress associated with international travel. With many employers now offering flexible work policies, we may see a rise in 'working holidays' taken as staycations.

Sustainability is a key priority for the travel industry and travelling more sustainably is becoming increasingly important to customers. The rise in the number of socially conscious travellers could lead to some people opting for a more sustainable alternative to international travel, choosing a domestic destination for their main holiday or switching from air to rail travel.

Missed opportunities to travel to see friends and family during Covid-19 lockdowns and the fact that domestic travel offers greater certainty of a holiday taking place should see the sector remain resilient in the year ahead.
■ *Danielle Rawson, director, Risk Advisory*

DOMESTIC
UK TOURISM DEFIED COVID DOWNTURN

September only to be replaced by Stuart Andrew in October when the government changed for a second time within weeks. Culture secretary Michelle Donelan was one of the few ministers to survive the autumn transition in governments by remaining in post, having replaced Nadine Dorries in September.

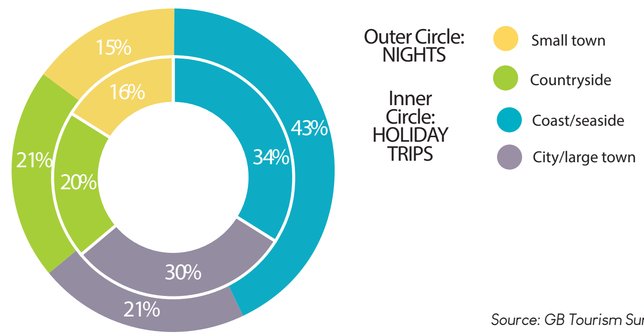
The tourism minister's multiple responsibilities also remained, with Andrew responsible for sport and civil society as well as minister for equalities.

The government unveiled its response to the de Bois review of Destination Management Organisations (DMOs) in July with a decision to "transform the DMO landscape and address long-running concerns about the structure, funding models and fragmentation of England's DMO landscape". DMOs will be renamed Local Visitor Economy Partnerships (LVEPs) and there will be £4 million made available over three years "to develop and administer a new accreditation scheme" and create a pilot scheme for a "top-tier DMO or group of local DMOs" (or Destination Development Partnership) to restructure.

Nick de Bois took over as chair of the British Tourist Authority (VisitBritain/VisitEngland) in November. Patricia Yates became chief executive of VisitBritain/VisitEngland in June, replacing Sally Balcombe who stood down in April.

FIGURE 84: DOMESTIC HOLIDAY DESTINATIONS

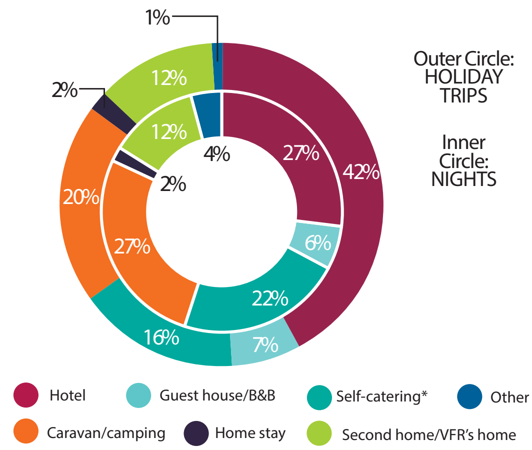
% of domestic holidays, England and Wales, 2019



Source: GB Tourism Survey

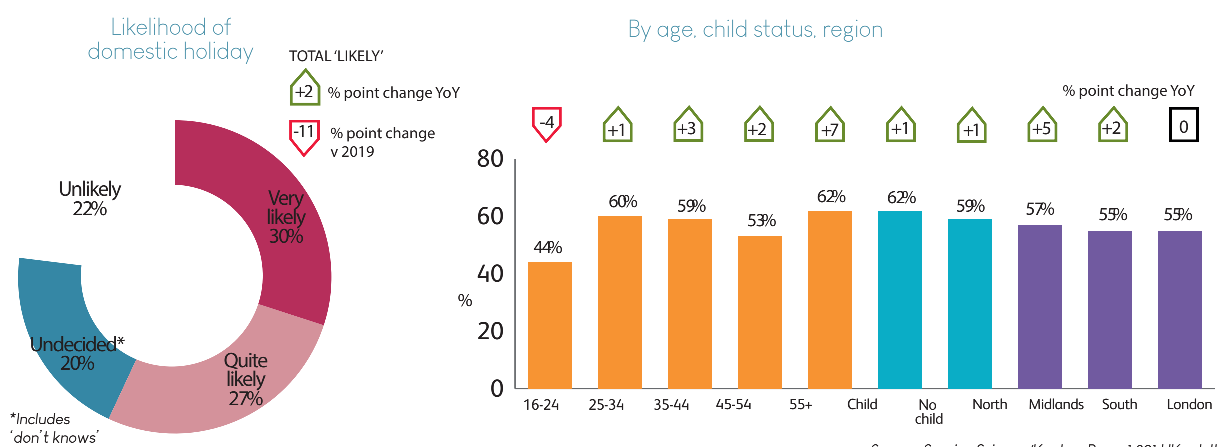
FIGURE 85: DOMESTIC HOLIDAY ACCOMMODATION

% of domestic holidays, England,, 2019



Source: GB Tourism Survey

FIGURE 86: UK DOMESTIC HOLIDAY DEMAND, 2023



Source: Service Science/Kantar Base: 1,291 UK adults

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Deloitte is an industry leader in the travel and aviation sector. The team works across the globe on complex, major programmes and projects for some of the industry's largest companies. Our dedicated team offers a range of integrated services ranging from audit and tax advice to more specialised advisory, corporate finance, strategy, technology and operations excellence, blending deep industry knowledge with core methods and techniques.

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

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

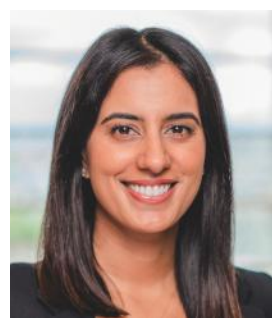
Contributors

Alistair Pritchard lead partner, Travel and Aviation *ajpritchard@deloitte.co.uk*
Debo Debapratim senior economist *dde@deloitte.co.uk*
Martin Bowman director, Aviation Digital Assets *martinbowman@deloitte.co.uk*
Andy Gauld head of Aviation *agauld@deloitte.co.uk*
Farina Azam head of Travel *fazam@deloitte.co.uk*
Andreas Scriven lead partner, Hospitality and Leisure *ascriven@deloitte.co.uk*
Gillian Simpson partner, Retail *gisimpson@deloitte.co.uk*
Danielle Rawson director, Risk Advisory *darawson@deloitte.co.uk*
Oliver Graves director, Human Capital *ograves@deloitte.co.uk*
Oli Hemming partner, Transport, Hospitality & Services *ohemming@deloitte.co.uk*
James Meadowcraft partner, Risk Advisory *jmeadowcroft@deloitte.co.uk*
Jamie Avni director, Financial Advisory *javni@deloitte.co.uk*
Tim Robinson director, Travel and Tourism *timrobinson@deloitte.co.uk*
Ed Knight director, Tax *edknight@deloitte.co.uk*
Luke Golding director, Legal *lgolding@deloitte.co.uk*
Jon Bolger head of Business Travel *jbbolger@deloitte.co.uk*
Bethany Hawkings senior manager, Risk Advisory *bhawkings@deloitte.co.uk*
Celine Fenech insights manager, Consumer Industries *cfenech@deloitte.co.uk*
Devi Santosh assistant insights manager, Consumer Industries *devisantosh@deloitte.co.uk*

deloitte.co.uk/THS

Alistair Pritchard lead partner, Travel and Aviation

Andy Gauld head of Aviation



Farina Azam head of Travel

Andreas Scriven lead partner, Hospitality and Leisure