2025

TRAVELWEEKLY

Insight Report

Produced in association with

Deloitte.

Growth on all fronts

Cost and climate top concerns but consumers determined to travel

Produced by Travel Weekly, with exclusive consumer research

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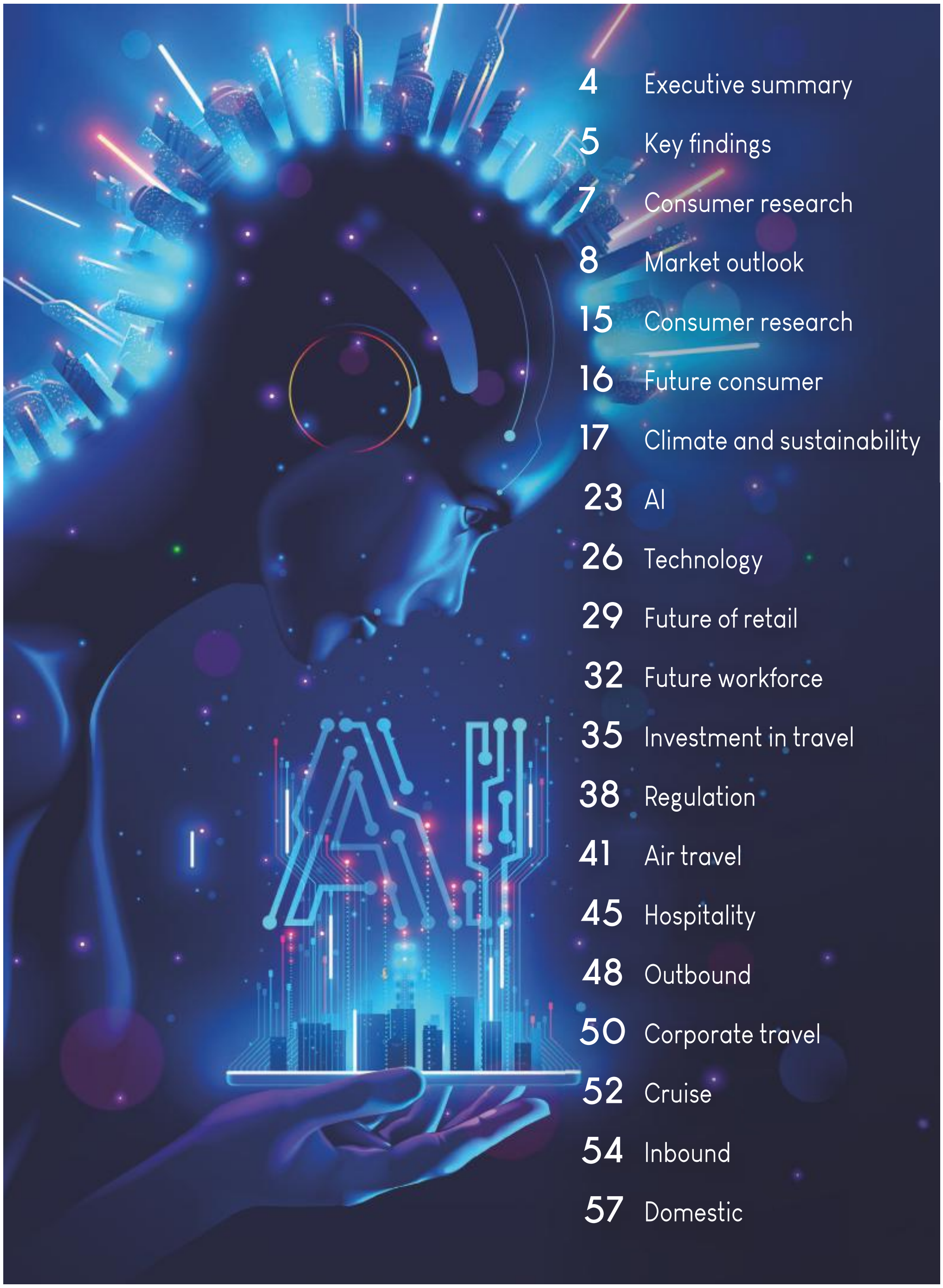

TRAVEL WEEKLY INSIGHT REPORT 2025

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TRAVELWEEKLY Insight Report

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EXECUTIVE SUMMARY

TRAVEL ON TRACK FOR A SUSTAINABLE AND PROSPEROUS FUTURE

Businesses that rise to the challenge of evolving trends, fresh technologies and new regulations can expect to prosper, says Deloitte's Alistair Pritchard

THE TRAVEL industry has experienced a resurgence since the pandemic, with a rise in demand for experiences fuelling growth. Key indicators such as air passenger numbers and hotel revenue per available room have not only recovered but have, in many cases, surpassed 2019 levels.

Travel providers, online platforms, and destinations are continuing to invest heavily to attract holidaymakers and users. This period of growth has also allowed the industry to invest more in innovation and address existing challenges.

However, economic forecasts paint a mixed picture for the UK, as despite a weakening economy in the second half of 2024 with business and consumer confidence falling, modest growth is expected in 2025. Although consumers remain prudent, seeking value-for-money options or shorter breaks, they have continued to ring-fence their travel budget by compromising elsewhere. Corporate travel, particularly for large corporations, is expected to remain below pre-pandemic levels as cost control and sustainability remain top priorities.

Sustainability is no longer a buzzword but a core business imperative. Consumers are increasingly demanding sustainable travel options and investors are prioritising businesses with strong environmental, social and governance (ESG) credentials. The aviation and cruise sectors, in particular, face significant pressure to reduce their carbon footprint by investing in alternative energy sources and technologies. Hotels are also embracing sustainability initiatives, and certification schemes are gaining traction.

Atol reform, when it comes, will likely reshape the financial framework for package holidays, strengthening consumer protection but potentially increasing businesses' compliance costs. Any changes to the Package Travel Regulations will require careful navigation. The Digital Markets, Competition and Consumer Act 2024, now in effect, will continue to reshape the industry's approach to pricing and customer interactions. And the CMA's enhanced enforcement powers demand greater compliance, particularly regarding drip pricing and the use of fake reviews.

Two years of experimentation with artificial intelligence (AI) has started to highlight the most promising short-term applications for this technology. AI is rapidly transforming the travel experience, from hyper-personalised marketing and dynamic pricing to optimised operations and enhanced customer service. However, ethical considerations and data security remain paramount.

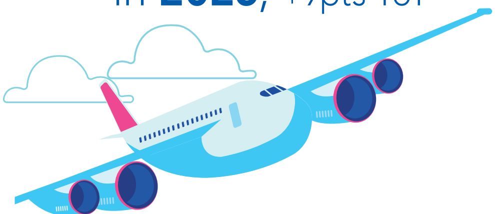
The hospitality, aviation and cruise sectors face an assortment of challenges and opportunities in 2025. To remain competitive, hotels are focusing on enhancing the guest experience, while airlines and cruise operators face geopolitical uncertainties. Sustainability is a key theme for all three sectors, with hotels implementing energy efficiency measures, waste reduction programmes and responsible sourcing practices; airlines grappling to meet SAF usage targets; and cruise lines investing to reduce their carbon footprint.

Although the travel industry is expecting another year of strong performance in 2025, it needs to keep pace with the evolving economic and regulatory landscape, technological advancements and an ever more demanding new generation of travellers. This report provides a comprehensive analysis of the key trends shaping the travel landscape in 2025, offering insights and recommendations to help businesses thrive in this dynamic environment. By embracing innovation, prioritising customer experience and navigating the regulatory landscape effectively, the travel industry can ensure a sustainable and prosperous future.

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

KEY FINDINGS

59% plan an **overseas holiday** in **2025**, +9pts YoY



7 out of 10 adults aged **25-44** and **72%** of parents **with children** plan an overseas holiday

2 in 3 holidaymakers to travel **outside the peak**, +7 pts YoY

63% of **parents** with children intend to travel **outside peak** season

1 in 2 parents with **children** and **57%** aged **25-44** plan a break of **six nights** or less

2 in 5 plan an overseas **beach** holiday, +7pts YoY

53% of holidaymakers expect to **spend more** in 2025

Half are **more concerned** about the **cost of a holiday** than before

58% of holidaymakers and 71% aged 25-44 to seek **cheaper flights**

57% of those aged 25-44 will **book fewer holidays** in 2025

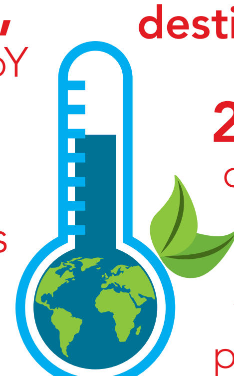
3 in 4 parents and holidaymakers aged 25-44 plan **all-inclusive** holidays

59% of **holidaymakers** to book all-inclusive, **+9pts** on two years ago

39% say they'll **change behaviour** due to **climate change**, -4 points YoY

1 in 4 holidaymakers say they consider the **impact of flying**

54% of holidaymakers **concerned** at **heat** on holiday & 2 in 3 parents may choose a **cooler destination** or time



2 in 5 unaware of **overtourism**, but **72%** of **parents** would change plans if **protests** in a destination

Source: Service Science/Kantar Graphics: Shutterstock

FOREWORD
INTENTION TO TRAVEL HITS ALL-TIME HIGH

Consumer research for this report suggests outbound travel businesses can expect a strong 2025. The survey, conducted in early January, suggests three out of five UK adults (59%) intend to take an overseas holiday this year, nine percentage points up on a year ago in what proved a record year.

More than half those likely to book an overseas holiday expect to spend more than last year. However, concerns about the cost of travel come through strongly. Half the respondents said they are more concerned about the price of holidays this year than previously, putting a premium on value for money. Two out of three, including 63% of parents with children, said they would look to travel outside peak season – which might result in a lot of term-time fines.

Half those with children and almost three out of five adults planning a holiday said they plan a main break of less than seven nights, while demand for all-inclusive accommodation appears at an all-time high with 59% saying they plan to book all-inclusive, nine points up on 2019.

Alongside strong intent to travel and cost concerns, the research highlights conflicting consumer attitudes to sustainability and climate change. Half those planning a holiday admit to concern at how hot their destination might be, and two-thirds of parents suggest they may choose a cooler destination or time to travel. But one in three admit to 'no concerns' about sustainability when on holiday.

Chancellor Rachel Reeves' backing for a Heathrow third runway and expansion at Gatwick and Luton, confirmed in January, will ensure the sustainability of flying remains high up the political agenda. There has been progress on addressing the need to decarbonise travel with the government's SAF Mandate. But we await a step change in progress and any fall in travel's total emissions.

Concerns about overtourism, brought sharply into focus by protests in some destinations last year, appear also likely to grow, alongside the imposition of tourism taxes. The industry's default position towards taxes on tourism has been hostile. This may have to change. Thoughtful use of tax revenues may be a way to make high-volume tourism more sustainable.

The digitisation and use of biometrics in border processes moved forward with the UK extending its Electronic Travel Authorisation (ETA) system to visiting nationals from 54 countries in January and due to extend it to European arrivals from April. The government's decision to hike the ETA fee to £16 was, unsurprisingly, poorly received.

EU roll-out of its Entry/Exit System (EES) and European Travel Information and Authorisation System (ETIAS), which UK nationals will need to enter the EU, remained stalled as this report was finalised but the EES will surely be in place before the year is out.

Travel retail remains strong, but we look in this report at retail more generally to see what if any lessons it might provide.

I am indebted to Service Science for the research and to Deloitte and the many Deloitte contributors for their time.

Consumer research for this report suggests a busy year in prospect

ALMOST three in five UK adults (58%) took an overseas holiday in 2024 (Figures 1 & 2), and more than two-thirds of adults aged 16-44 did so, along with three out of four parents with children (Figure 3). Three in four adults took a UK domestic holiday (Figure 4)

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PICTURE: Steve Dunlop

UK CONSUMER RESEARCH

SERVICE SCIENCE/KANTAR SURVEY

FIGURE 1: UK HOLIDAY MARKET

31.9m UK adults took one or more overseas holidays in 2024

32.1m plan an overseas holiday in 2025

UK adults took one or more domestic breaks in 2024

37.8m plan at least one UK break in 2025

FIGURE 2: UK OUTBOUND HOLIDAYS, 2024

58% of UK adults took at least one overseas holiday

30% took two or more

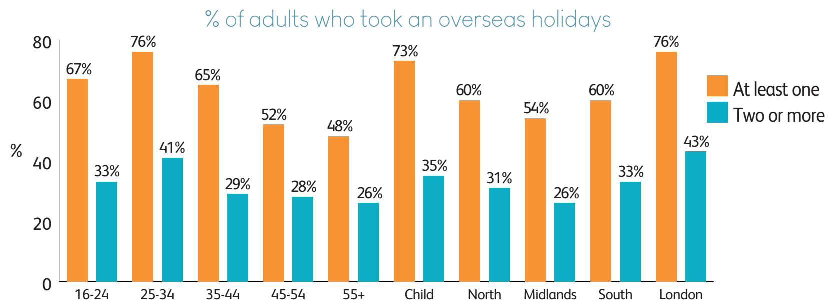


FIGURE 3: UK HOLIDAY MARKET, 2024

Overseas holidays

69% of UK adults aged 16-44 took at least one overseas holiday in 2024

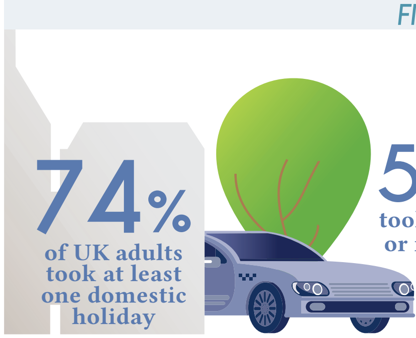
58% **56%** (2023) **53%** (2019)
of UK adults took at least one overseas holiday

71% **72%** (2023) **59%** (2019)
of adults aged 25-44 had at least one overseas holiday

73% **75%** (2023) **63%** (2019)
of parents with children had at least one overseas holiday

49% of UK adults aged 45 and over took at least one overseas holiday in 2024

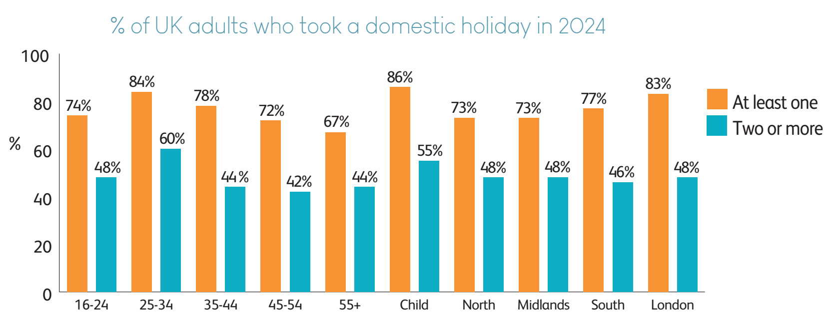
FIGURE 4: UK DOMESTIC HOLIDAYS, 2024



74% of UK adults took at least one domestic holiday

54% took two or more

GRAPHICS: Shutterstock



Source: Service Science/Kantar, January 2025 Base: 1,281 UK adults

MARKET OUTLOOK

STRONG DEMAND AMID SLOW ECONOMIC GROWTH FORECAST

THE UK'S outbound travel sector enjoyed such a strong 2023 that there was a degree of caution heading into 2024 as to how strong trading and pricing would be after leading tour operators put on substantial additional capacity. But demand remained buoyant.

Deloitte lead partner for travel and aviation Alistair Pritchard noted: "Most airlines had a strong year, arguably the strongest some have ever had.

"Cruise lines lagged the recovery from the pandemic in 2023 and operations in the Far East were impacted by a slower lifting of restrictions, but 2024 was a real success story for cruise, with very strong pricing and occupancy. The quality of the cruise product, the facilities and experience versus the price, is highly appealing compared with land holidays. Booking levels going into 2025 were at record levels.

"UK operators also performed strongly. The three biggest performed very well and, despite the extra capacity, prices held up reasonably with strong demand in the lates market. The market across Europe wasn't without its challenges, with the failure [of FTI Touristik] in Germany. But 2024 overall was a good year for the sector and most businesses went into 2025 with some optimism."

That optimism was somewhat out of kilter with overall business confidence in the UK. Debapratim De, Deloitte director and senior economist, pointed out: "The UK recovery has lost steam. After a surprisingly strong start to 2024, the economy entered 2025 with faltering growth, weakened business sentiment and concerns about inflation. The latest GDP data show the economy grew in just two of the six months to November. Headline inflation is up from the September lows, and business and consumer confidence weakened over the winter."

But he said: "Despite this, we think there will be a modest pick-up in growth in 2025. Our forecast is for 1% growth this year, up from 0.8% in 2024, driven by three factors, although I should point out we're slightly below the consensus which expects about 1.2% growth this year.

"The primary driver will be the fiscal easing announced in the autumn Budget. The government's day-to-day spending is set to rise by just under £50 billion in the coming financial year. That is a significant jump from the average annual rise of £14 billion between 2010 and 2019. The bulk of the additional spending should go towards wages and employment, which will bolster household consumption and demand.

"Monetary easing should also help. Despite the rise in headline inflation, the measures of underlying price pressure continue to moderate, and this should maintain room for further rate cuts by the Bank of England. Third, wage growth remains strong and should continue to outpace inflation through this year. That should drive a broad-based recovery in consumer spending by the end of 2025."

De noted: "Despite a full year of real wage rises and relatively low unemployment, consumer demand remains

> There are plenty of reasons for optimism but also many uncertainties looking to the next 12 months

THE CORRELATION between overseas holiday demand and economic growth is clear (Figure 5), but weak GDP growth in 2024 appears not to have had a great impact

FIGURE 5: OUTBOUND HOLIDAYS & GDP, 2007–25

UK overseas holidays

**12 months to June 2024 **Forecast annual rate ***IMF forecast Source: ONS/OBR/IMF* tepid. Households are saving as they would during an inflationary shock. We're hoping another year of rising real incomes will create the conditions for a more sustained rise in consumer confidence and a gradual let-up in cautiousness.

"So, growth should pick up in 2025, but the full effects of fiscal easing and growing household spending will likely be felt by late summer. That makes for a sluggish recovery in the first half and a stronger pick-up in the second. Having said that, recoveries can come faster than expected. We forecast a slow first half of 2024 and a strong second half, and the opposite came to pass."

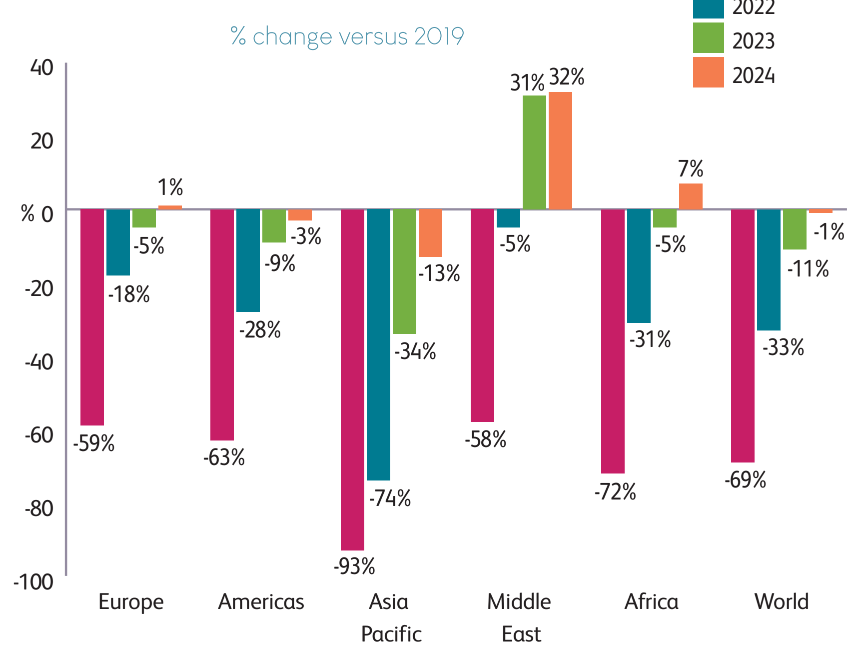
BUSINESS CONFIDENCE HAS WEAKENED

Wages should continue to rise above the rate of inflation in part because the labour market remains relatively tight, although the UK vacancy rate has eased.

De explained: "There are some well-known issues with the Office for National Statistics' labour market data, especially the unemployment figures collected by the Labour Force Survey. So, we tend to discount those. But other surveys and HM Revenue and Customs data on wage growth still point to quite significant tightness in the labour market. Although vacancies have been falling and unemployment has edged up, wage growth remains quite strong and, despite slowing, should remain well above inflation for the rest of this year."

However, he said: "Business confidence has weakened over the winter months. The latest edition of our quarterly chief financial officer (CFO) survey, held after the Budget, saw optimism fall to the lowest

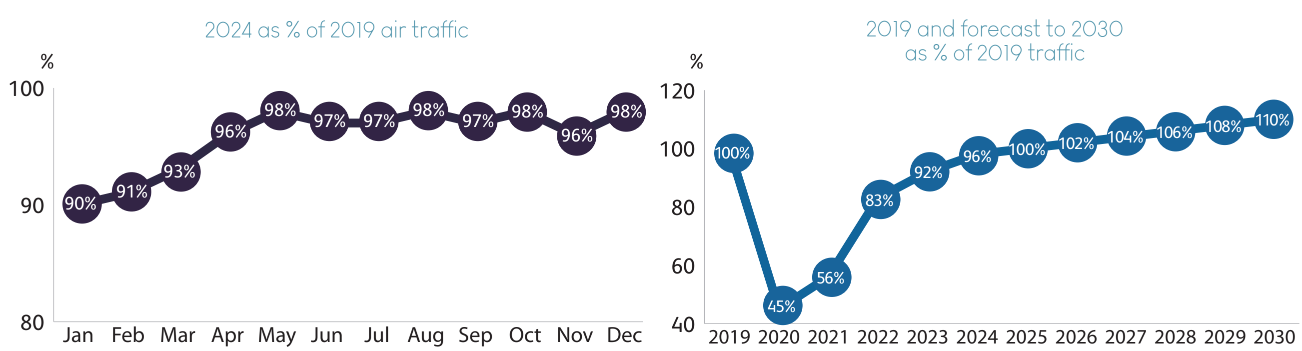
FIGURE 6: INTERNATIONAL TOURIST ARRIVALS



Full-year data for 2024 Source: UN Tourism, January 2025

UN TOURISM data shows international tourist arrivals in 2024 returned to 2019 levels in Europe (Figure 6). European air traffic reached 96% of 2019's level (Figure 7)

FIGURE 7: EUROPEAN AIR TRAFFIC 2024 AND FORECAST TO 2030



Source: Eurocontrol, January 2025

MARKET OUTLOOK
STRONG DEMAND AMID SLOW ECONOMIC GROWTH FORECAST

level in two years. CFOs are responding to the rise in national insurance contributions [from April] with a sharper focus on cost reduction. They're also considering productivity-raising measures and, to a lesser extent, passing on higher costs to consumers.

"Looking at the broader strategy stance, corporates are still quite defensive. Cost reduction remains the top priority for CFOs, increasing cashflow the second. On balance, CFOs expect UK corporates to cut capital expenditure, hiring and discretionary spending over the next 12 months, with hiring expectations seeing the sharpest fall since the pandemic."

He noted: "This is consistent with a tight-ish labour market underpinning our 1% growth forecast. It's reflected in CFOs' expectations for average wage growth of 3.2% this year, which remains high by historical standards. On this estimate, wages should outpace inflation which we expect to average 2.5%."

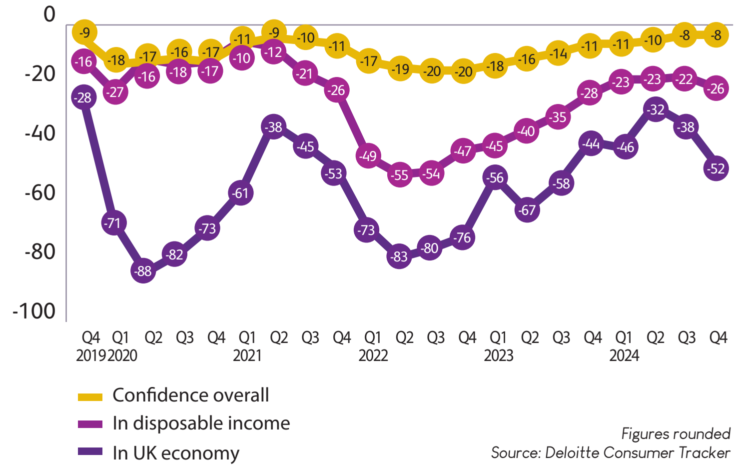
Economic growth of 1% this year would be half the government's stated target, of course, with De saying: "It would almost certainly fall short of the government target of making the UK the fastest- growing G7 economy. In fact, it would be slower than the UK's long-term trend growth rate of 1.5%."

Yet he argued: "Given the underlying momentum from last year and the external headwinds, this seems a benign outcome. The UK would still likely outperform its three largest European peers this year."

De noted: "The March forecasts by the Office for Budget Responsibility (OBR)

FIGURE 8:
UK CONSUMER CONFIDENCE

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



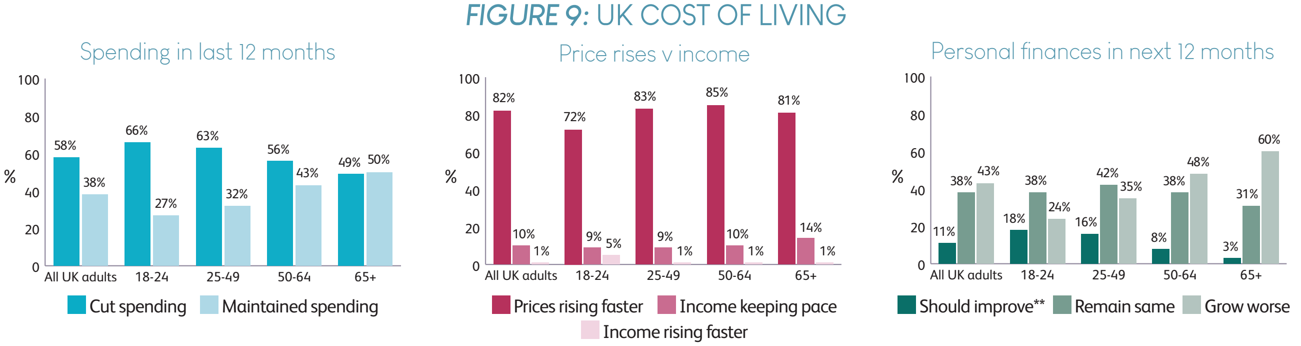
Figures rounded
Source: Deloitte Consumer Tracker

OVERALL consumer confidence appeared higher than might be expected at the end of 2024 (Figure 8). But a majority of UK adults say they cut spending in 2024 and only a minority expect their personal finances to improve in 2025 (Figure 9). Demand for overseas holidays in 2025 appears stronger than last year (Figure 10). More than half of holidaymakers expect to spend more on holiday this year (Figure 11), but holiday prices are a concern (Figures 12 & 13)

should provide a useful update on public finances and UK growth prospects. I would expect the OBR to cut its growth forecast for this year which has looked increasingly optimistic since the Budget. Gilt yields have moderated from their January highs but remain above October levels. That implies higher [government] borrowing costs and, given weaker growth prospects, a potentially material reduction in the narrow fiscal headroom the chancellor left herself after the Budget. Given the government's commitment to not raise taxes further, that would likely constrain its spending plans.

"I should point out the UK is not alone in experiencing higher borrowing costs. Many Western countries have seen their

FIGURE 9: UK COST OF LIVING



**'Don't knows' excluded so figures do not add up to 100% **'At least a little' Source: YouGov, Nov 27–28, 2024 Base: 2,260 UK adults*

UK CONSUMER RESEARCH

SERVICE SCIENCE/KANTAR SURVEY

FIGURE 10: DEMAND FOR OVERSEAS HOLIDAYS, 2025

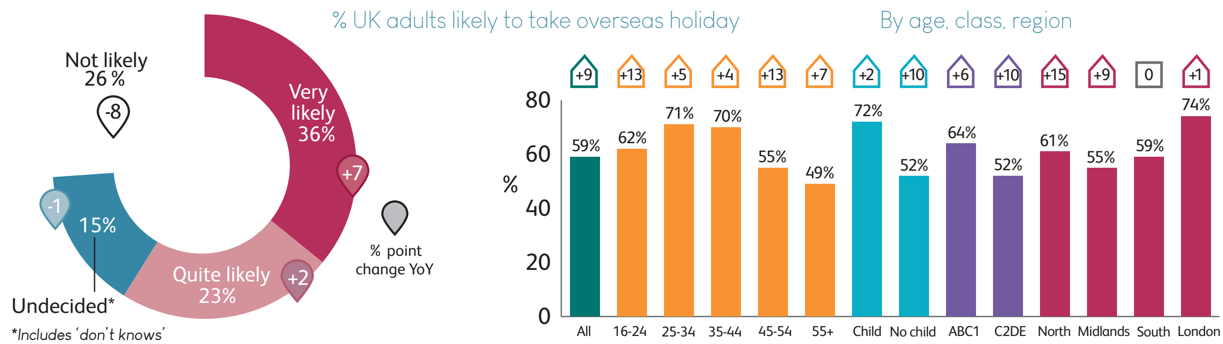


FIGURE 11: EXPECTED SPENDING ON OVERSEAS HOLIDAY, 2025

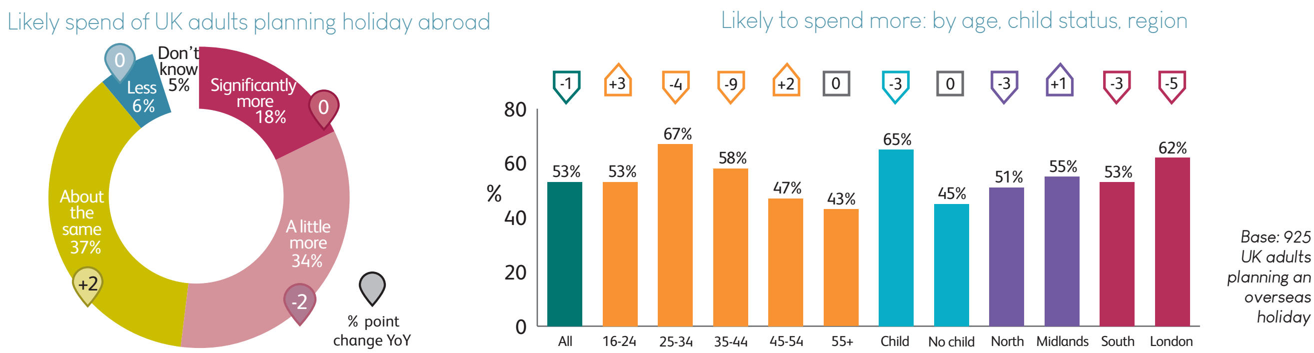
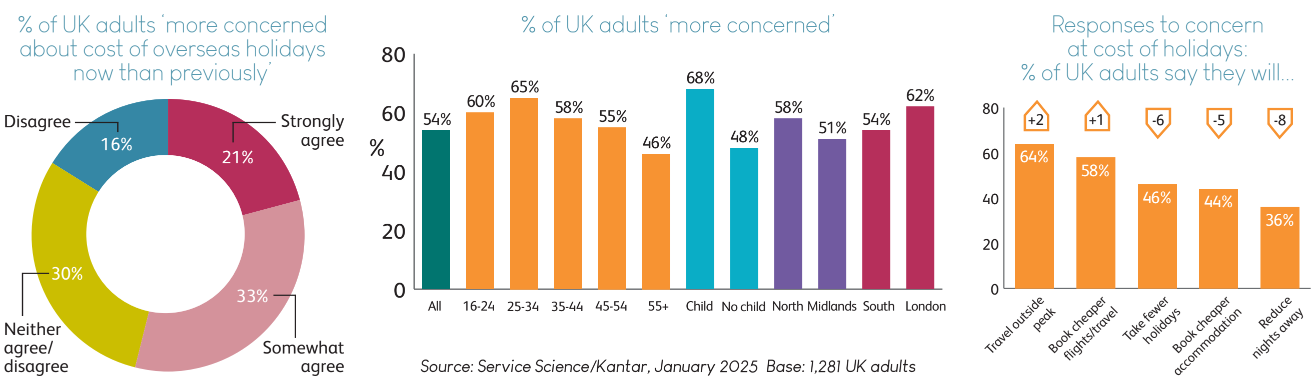
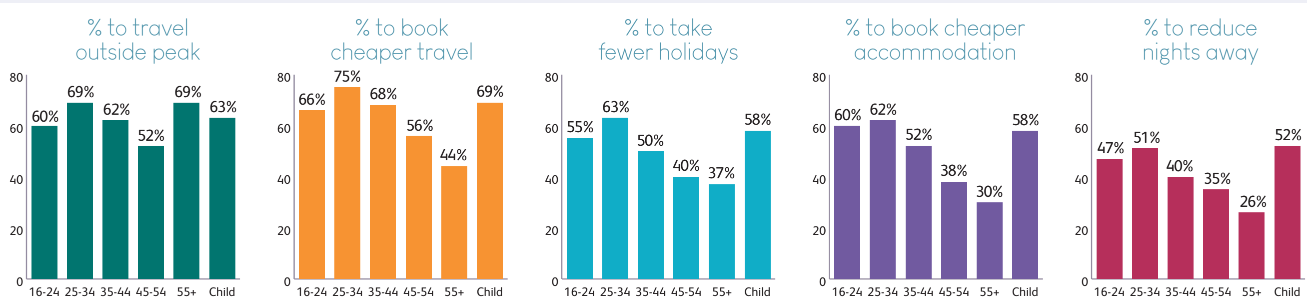


FIGURE 12: CONSUMER RESPONSE TO HIGHER COST OF HOLIDAYS



Source: Service Science/Kantar, January 2025 Base: 1,281 UK adults

FIGURE 13: RESPONSES TO INCREASED HOLIDAY COSTS*



**Refers to holiday plans both overseas and domestic Source: Service Science/Kantar, January 2025 Base: 1,281 UK adults*

MARKET OUTLOOK
STRONG DEMAND AMID SLOW ECONOMIC GROWTH FORECAST

bond yields [borrowing costs] rise, especially the US government given its fiscal easing plans and growth and inflation expectations which point to higher interest rates. There have been similar movements in European bond markets but the relative rise in yields has been moderated by the weaker prospects for growth and inflation in Europe which imply lower interest rates."

He suggested the January episode of sharply rising borrowing costs for the UK government "seems more a consequence of this broader market adjustment than a judgement on the UK's overall creditworthiness".

AWARENESS of the forthcoming EU electronic travel authorisation system is limited (Figure 14). UK spending on overseas travel hit almost £50 billion in 2023 (Figure 15). Corporate travel intentions in 2025 appear mixed (Figure 16), but some reduction over time to meet sustainability targets seems probable (Figure 17). Destination and price have the biggest impact on holiday decisions (Figure 18)

EXPECT THE DOLLAR TO STRENGTHEN

The exchange rate of the pound against the dollar and the euro could obviously have a significant impact on travel demand, outbound and inbound.

De noted expectations that "this will be a year of strong growth for the US", explaining: "There were concerns last summer about a potential hard landing. But the outlook has changed since then. The Federal Reserve has started easing monetary policy and the deregulation and tax cuts promised by the new government seem set to deliver a 'no landing' scenario.

"Most economists forecast growth of a similar pace to last year, which would make the US the fastest-growing G7 economy in 2025. A strong US economy always results in a strong dollar. So, expect the dollar to appreciate against sterling."

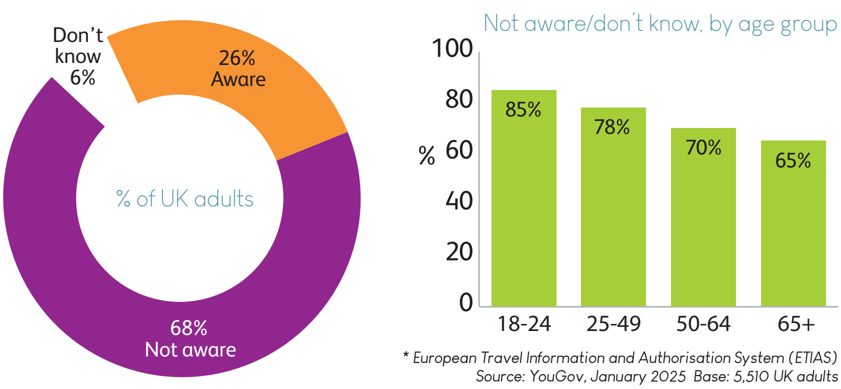
At the same time, he said: "Growth and interest rates, which have a bearing on exchange rates, point to the euro depreciating against sterling and the dollar this year. The US and the UK are likely to grow at a faster pace than the three largest European economies, with significant downside risks to German and French growth forecasts. As a result, the pace of monetary easing is expected to be much slower in the UK and US than in Europe. Markets expect interest rates to fall in the US and UK to about 4% by the end of this year. By contrast, rates are expected to fall in Europe to about 2%. This divergence suggests a weakening euro against the dollar and sterling."

The global economy is expected to grow at a similar rate to last year. De said: "Activity will be picking up from a low base in Europe, the UK and Japan. So, the developed world will do a little better this year than last, but emerging market growth should remain largely unchanged.

"The major oil-exporting economies in the Middle East will see an acceleration in growth as they unwind some of their

FIGURE 14:
EUROPEAN TRAVEL AUTHORISATION (ETIAS*)

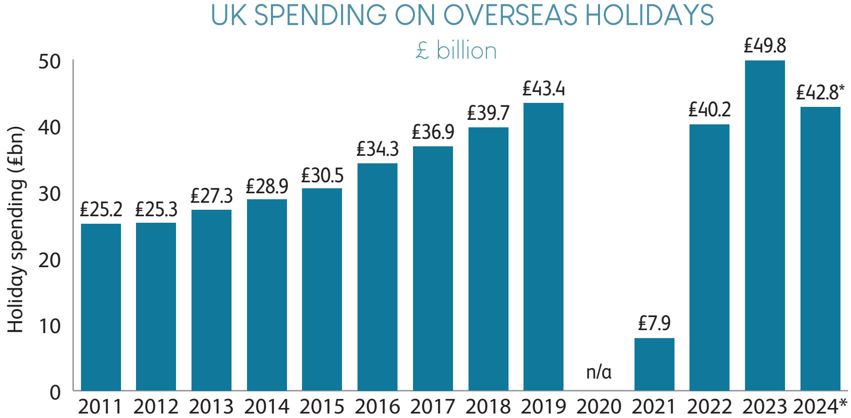
Consumers aware a travel authorisation will be required to visit most of Europe later in 2025



* European Travel Information and Authorisation System (ETIAS)
Source: YouGov, January 2025 Base: 5,510 UK adults

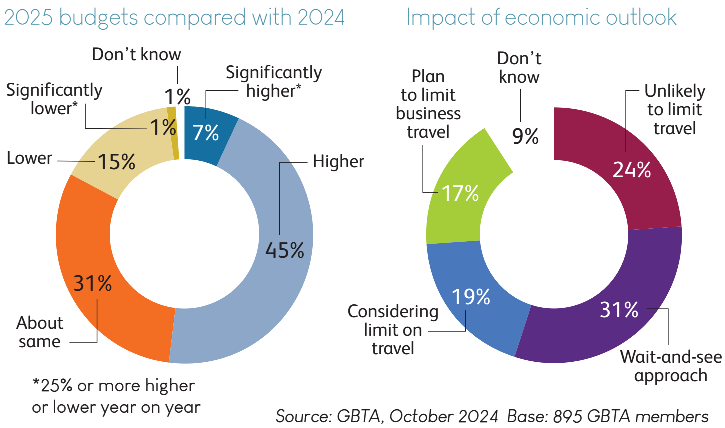
FIGURE 15:
UK SPENDING ON OVERSEAS HOLIDAYS

£ billion



*12 months to June 2024 Source: ONS

FIGURE 16: CORPORATE TRAVEL OUTLOOK



Source: GBTA, October 2024 Base: 895 GBTA members

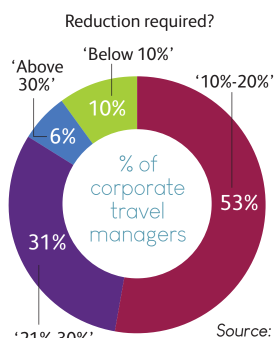
cuts in oil production later this year. Chinese growth will see a modest slowing but won't weaken sharply, partly because of government stimulus packages. There are still concerns about consumer demand in China, but risks of a readjustment seem to have been arrested for now. Indian growth is set to remain steady at 6.5%, making it the world's fastest-growing major economy."

Despite expectations that rapid developments in generative AI will raise productivity, De does not see that feeding through into economic growth for a while.

He said: "We expect productivity gains from technology such as generative AI to show up in the medium term. We asked business leaders in one of our CFO surveys last year what AI could do for their businesses. An overwhelming majority see their businesses investing more in new technology and expect it to drive productivity gains in a five-year timeframe. So, even those much closer to the deployment of AI than us economists think we'll have to wait a bit to see an impact."

FIGURE 17: FORECAST REDUCTION IN CORPORATE TRAVEL

To meet 2030 sustainability targets



Source: Deloitte corporate travel manager survey, 2024

'PEOPLE WILL WANT TO TRAVEL'

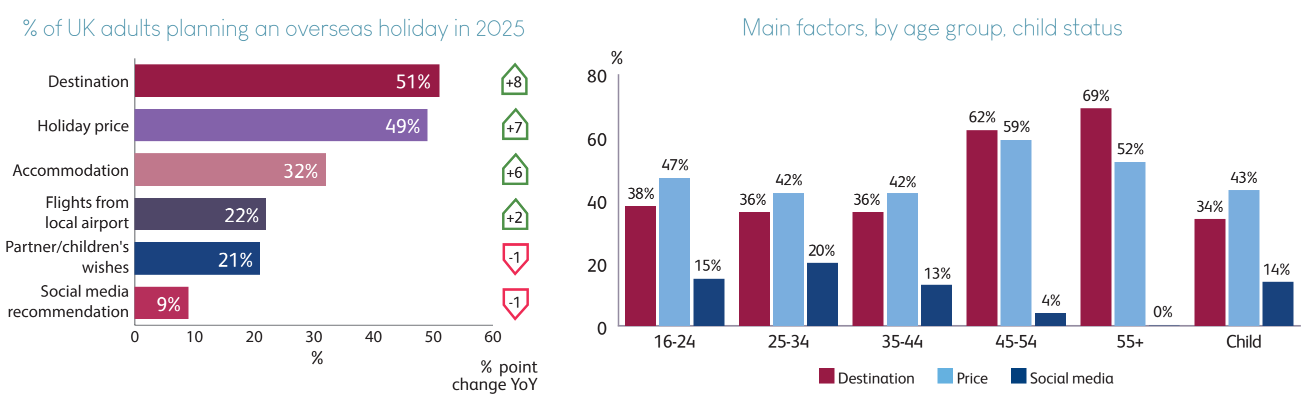
What, then, are the implications for consumer demand for travel in 2025?

Pritchard noted: "Employment generally remains strong, and we expect wage growth. So, employees should feel reasonably confident about their jobs. The public sector should see a bounce on the back of investment announced in the Budget, so there will be a chunk of UK consumers feeling reasonably optimistic. However, businesses might feel 2025 could be more challenging.

"The impact of the Budget measures on businesses will feed through to how consumers [in work] feel as businesses put cost controls in place and probably tighten recruitment, which will ultimately impact on wage growth. So, in the short term, there is some confidence, which is important in terms of bookings, but as we go through the year it could become a bit more challenging."

Corporate travel volumes have yet to return to 2019 levels although higher

FIGURE 18: MAIN FACTORS WHEN BOOKING A HOLIDAY



Source: Service Science/Kantar, January 2025 Base: 925 UK adults planning an overseas holiday prices have offset the lower volumes to an extent, and Pritchard said: "I'm not sure I see business travel coming back to the levels we saw pre-pandemic."

He explained: "Immediately post-pandemic, small and medium size enterprises (SME) saw quite a corporate travel boost, whereas we saw a more subdued return on the large corporate side, in part because of company policies to control costs and meet sustainability targets. Those policies still exist for large corporates and, if anything, are probably starting to tighten both around cost and sustainability. We've also seen a softening on the SME side. People will continue to travel for business, but we've previously flagged concern that corporate travel might not recover to historic levels and that is what we've seen."

Pritchard "broadly expects a 'normal' year" in 2025, "in that there will be high demand for leisure travel". He suggested: "What happens in the Middle East could have a bearing on where people choose to go, but people still want to go on holiday."

Whether it will be another record year "is harder to predict", he said, noting: "There is a level of consumer confidence at present that should be good for the sector. But that confidence may reduce over the course of the year. I'm not saying it will disappear, but it may not be as strong – driven by impacts of the Budget feeding through and by impacts of decisions elsewhere in the world that could impact on businesses in the UK or in Europe.

"There could be some challenges as we go through the year. So, it's difficult to predict whether bookings will be as strong in the lates market this year as last and whether prices will hold up. There is quite a lot of uncertainty. How long might it take for lower business confidence to feed through to consumers? How long might it take for a US focus on its domestic market to feed through to businesses elsewhere?

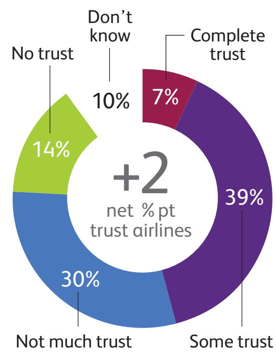
"So many uncertainties feed into the sector – whether economic or geopolitical risks, or the impacts of weather and the climate. We're seeing more extremes – hot temperatures, floods, storms and hurricanes – and that increases the level of uncertainty.

"It doesn't mean people won't want to travel. It might mean they think more about where they want to go, or more about insurance. It means businesses across the sector need to be even better at dealing with increasing operational challenges."

Those uncertainties, along with a strong level of intention to travel, are reflected in the results of the consumer research throughout this report.

FIGURE 19: TRUST IN AIRLINES TO REDUCE IMPACTS OF FLYING

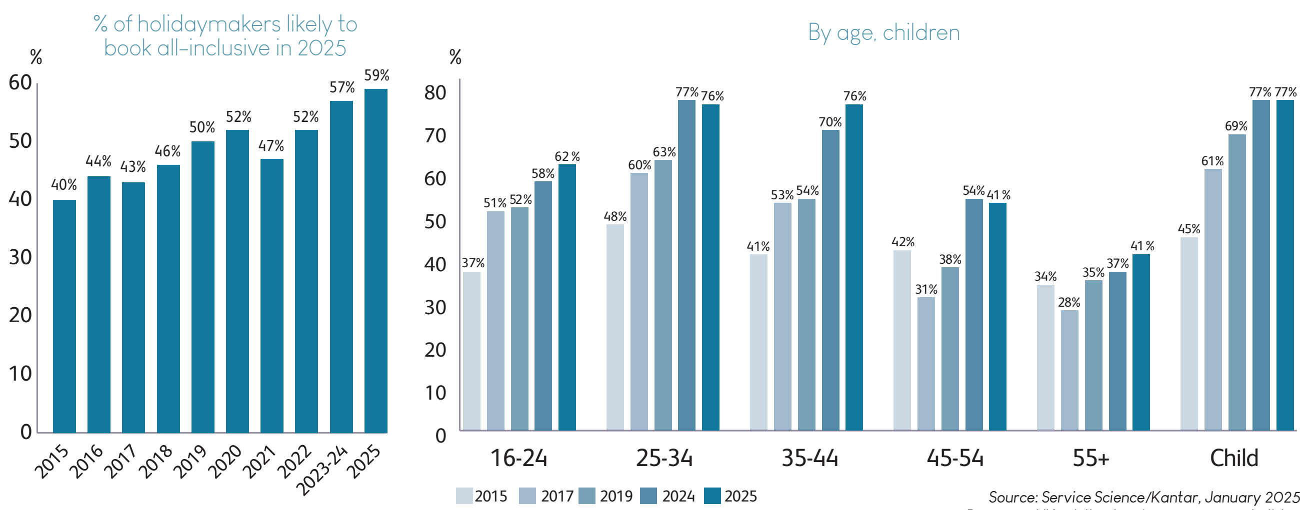
% of UK adults



Source: CAA Consumer Survey, October 2023
Base: 3,510 UK adults

AIRLINES don't appear wholly trusted to reduce the environmental impacts of flying (Figure 19). All-inclusive demand has hit an all-time high according to research for this report (Figure 20). Summer heat in destinations appears a concern (Figure 21), climate concerns could influence behaviour (Figure 22) and there is a growing awareness of overtourism (Figures 23 & 24)

FIGURE 20: ALL-INCLUSIVE DEMAND, 2015–25

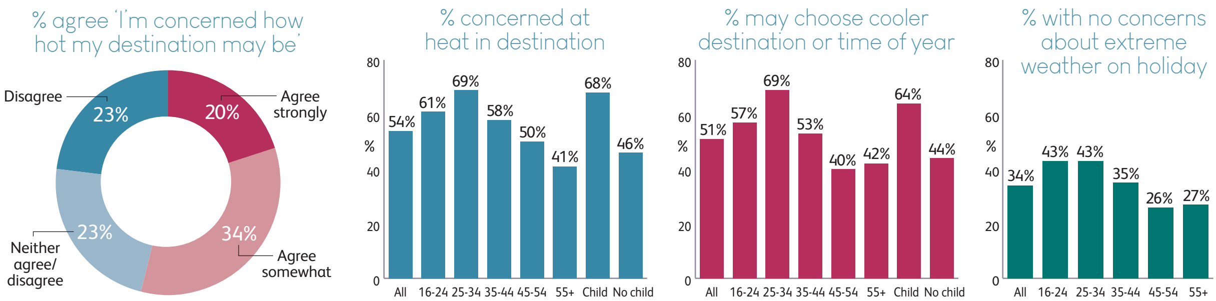


Source: Service Science/Kantar, January 2025
Base: 925 UK adults planning an overseas holiday

UK CONSUMER RESEARCH

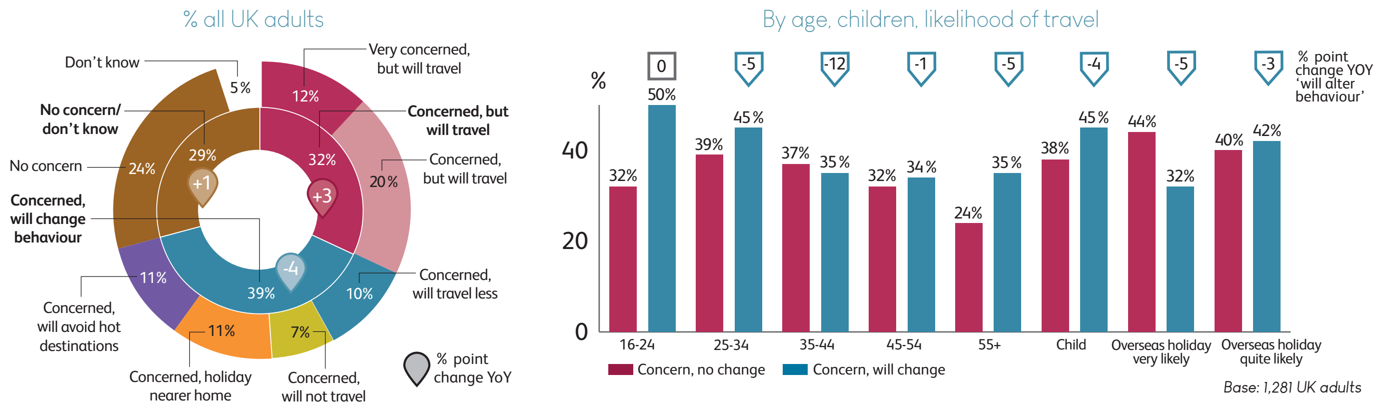
SERVICE SCIENCE/KANTAR SURVEY

FIGURE 21: HOLIDAYMAKERS' RESPONSE TO RISING TEMPERATURES



Source: Service Science/ Kantar Base: 925 UK adults planning an overseas holiday

FIGURE 22: CONCERN ABOUT CLIMATE CHANGE AND ITS IMPACT ON TRAVEL



Base: 1,281 UK adults

FIGURE 23: UK HOLIDAYMAKERS AND OVERTOURISM

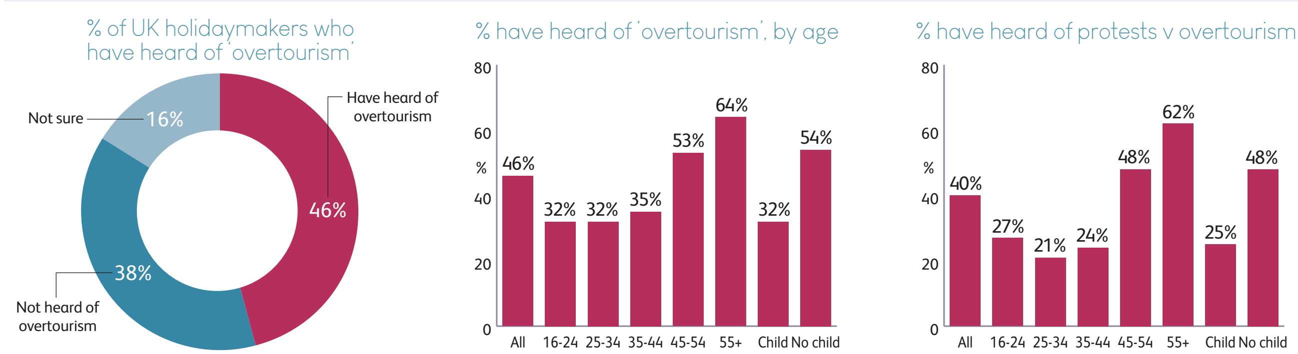
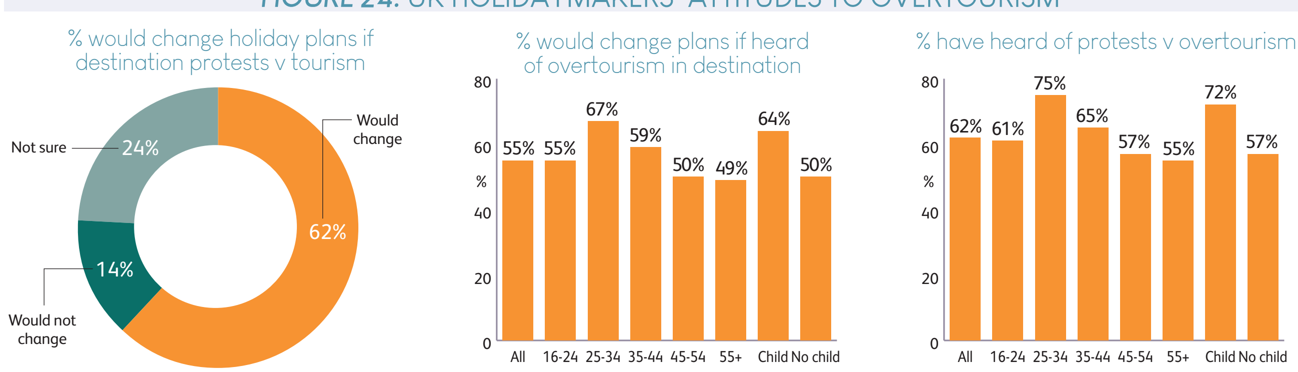


FIGURE 24: UK HOLIDAYMAKERS' ATTITUDES TO OVERTOURISM



Source: Service Science/Kantar, January 2025 Base: 925 UK adults planning a holiday abroad in 2025

THE FUTURE CONSUMER

TRAVEL IN AN ERA OF UNPRECEDENTED CHANGE

Deloitte.

THE TRAVEL industry is undergoing a transformation. From groundbreaking technological advancements to new societal trends, a convergence of forces is transforming the future of travel at an unprecedented pace. The best way to predict the future is to be proactive – with businesses involved in determining what comes next.

Deloitte's Future of Consumer research, based on conversations with more than 1,000 professionals, industry experts, academics and clients, identifies six critical forces that will define the travel industry landscape in the next 10 years and beyond.

Deloitte carried out extensive research on the trends shaping the future consumer

SIX FORCES CHANGING TRAVEL

1. **The changing traveller**: Evolving preferences, behaviours and expectations are reshaping demand.
2. **An evolving society and culture**: Shifts in demographics, lifestyles and values influence how and why people travel.
3. **Exponential technology**: From AI-powered planning to biometric security and automation, technology is redefining the traveller experience.
4. **Radical industry upheaval**: Traditional models are being disrupted by new entrants, digital platforms and cross-industry collaborations.
5. **Extreme climate and environmental challenges**: Sustainability concerns are driving a push toward more eco-friendly travel and carbon-conscious tourism.
6. **Shifting economics, policy and power**: Economic trends and regulatory change are influencing accessibility, pricing and destination growth.

A CONVERGENCE OF TRENDS

The changing dynamics seem obvious, but each force comprises more than 100 distinct sub-trends. As these converge, they amplify each other, presenting both challenges and opportunities for businesses willing to adapt and innovate to position their organisations at the forefront of change and help shape the future.

Several key shifts illustrate the convergence in action:

- **Air travel's transformation**: Improving efficiency in airspace management is long delayed, yet by intersecting with the challenge of integrating new technologies like electric vertical take-off and landing (eVTOL) aircraft, including drones, a rethink of air travel infrastructure from airports to regulatory frameworks is taking place.
- **Digital acceleration**: The industry leapt forward when it transitioned from phone-based bookings to digital platforms, but the rise of AI-driven personalisation, predictive analysis and biometric security are game changing. The challenge lies in balancing automation with accessibility to ensure a seamless experience.
- **Immersive and experiential tourism**: The boundaries between entertainment, travel and digital experiences are blurring. The emergence of interactive and immersive venues that offer unprecedented personalisation and sensory engagement can take entertainment and cultural experiences to new levels.

OPPORTUNITIES FOR TRAVEL BUSINESSES

Travel businesses that proactively adapt their models and offerings will help define the next era for the industry. Businesses that remain reactive risk obsolescence. To stay ahead, businesses must consider three key areas:

- **Markets – understanding future demand**: Businesses must plan how to adapt to new consumer trends, emerging destinations and shifts in travel preferences, such as sustainable tourism, and align offerings accordingly.
- **Models – adapting business**: To stay competitive, businesses need to use new revenue streams, create cross-industry partnerships, such as merging hospitality and travel technologies, and develop agile pricing strategies to cater for different consumer segments.
- **Mechanics – transforming operations and execution**: Businesses must automate, adopt AI and create digital ecosystems to enhance the customer experience while achieving efficiency in delivery. From biometric security to AI-powered itinerary planning, innovation in travel mechanics will determine future success.

MAKING THE FUTURE, NOT JUST PREDICTING IT

The scale of transformation required demands visionary leadership. Investment in future destinations and travel infrastructure that integrates sustainability, tourism and technology are one way that businesses can enforce industry-wide change. Rather than wait and see, organisations should seize opportunities to lead on innovation, foster strategic partnerships and design ecosystems that drive long-term success.

The travel industry is at a decisive point in its evolution. Those businesses that embrace change, leverage technology and rethink traditional models will not just survive but thrive.

CLIMATE AND SUSTAINABILITY

'A LOT OF REGULATION STARTS TO BITE NOW'

A step change in corporate sustainability reporting should begin to drive real progress on decarbonisation

THE APOCALYPTIC wildfires in Los Angeles in January, following devastating floods in Spain in late October, were a stark reminder of the increasing frequency, severity and scale of extreme weather events.

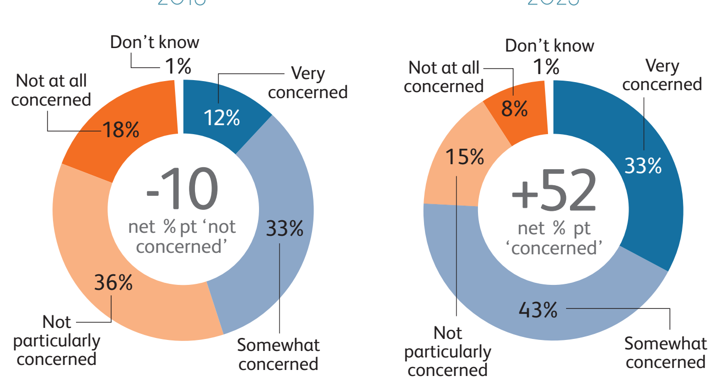
UN secretary-general Antonio Guterres issued a global Call to Action on Extreme Heat in July last year, calling for "urgent international cooperation" to care for the vulnerable, protect workers, boost the resilience of economies, and limit temperature rise to 1.5C by phasing out fossil fuels. His call came after global average daily temperatures hit a record high on July 22, with Guterres noting: "Earth is becoming hotter and more dangerous for everyone, everywhere." Billions face "an extreme heat epidemic", he said, "wilting under dangerous heatwaves with temperatures topping 50 degrees around the world – halfway to boiling."

The World Meteorological Organisation (WMO) reported 2024 was on track to be the hottest year on record and noted an accelerating rise in sea level to a rate of almost 4.8mm a year in the decade to 2023, double the rate in 1993-2002.

The WMO also reported an increasing rate of glacier loss as it announced a partnership with the International Ski and Snowboard Federation to raise awareness of the challenge to winter sports and tourism. WMO secretary-general Celeste Saulo noted: "Ruined winter vacations are literally the tip of the iceberg of climate change." A month earlier, the WMO reported greenhouse gas concentrations reached a new record in 2023, having risen more than 11% in two decades.

FIGURE 25: UK ADULTS CONCERNED ABOUT CLIMATE

% of UK adults

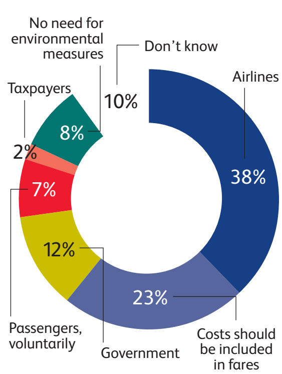


Source: CAA Consumer Survey, October 2023 Base: 3,510 UK adults

THERE has been a sharp rise in the level of concern about the climate (Figure 25). Three in five adults think airlines or air passengers should pay the costs of cutting flying's impact on the environment (Figure 26)

FIGURE 26: WHO SHOULD PAY COSTS OF CUTTING FLYING'S ENVIRONMENTAL IMPACT?'

% of UK adults



Source: CAA Consumer Survey, October 2023 Base: 3,510 UK adults

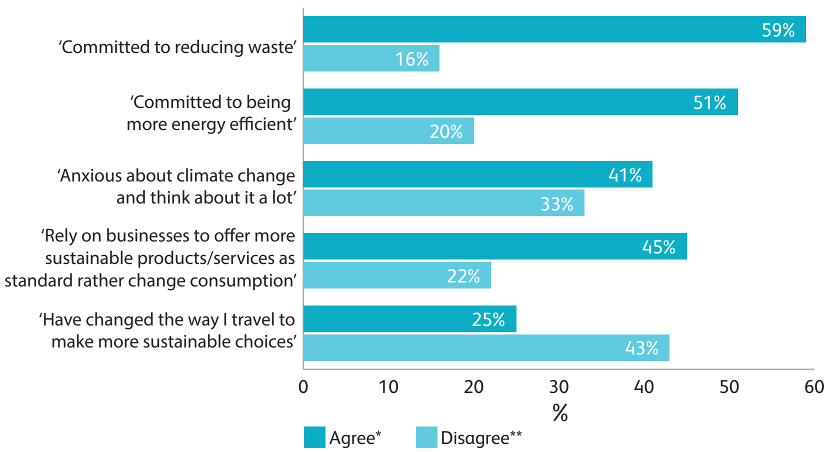
The COP29 Climate Conference in Baku saw representatives of developed economies agree to make $300 billion a year available to developing countries to combat the impacts of climate change, some way short of the $1.3 trillion developing countries had called for.

The conference failed to agree how to move forward on a pledge to transition away from fossil fuels, signed at COP28. It also failed to adopt a negotiated text affirming the "importance of conserving, protecting and restoring nature". However, there was agreement on outstanding elements of the Paris Agreement on climate change, albeit nine years after it was signed and from which the US has announced its intention to withdraw.

The scale of the green energy transition required is often presented as the latest in a series of energy transitions in human history, from muscle, wind and waterpower to wood, coal and oil, in what economic historian Adam Tooze has described as a "reassuring" narrative which "suggests we have done something like this before". In fact, Tooze notes: "The historical record shows not a neat sequence of energy transitions, but the accumulation of ever more and different types of energy … [and] what we are

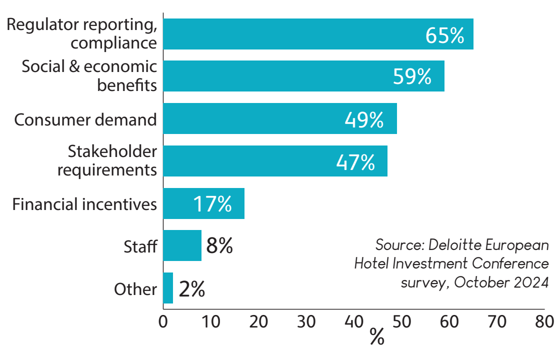
CLIMATE AND SUSTAINABILITY
‘A LOT OF REGULATION STARTS TO BITE NOW’

FIGURE 27: ATTITUDES TO SUSTAINABILITY
% of UK adults



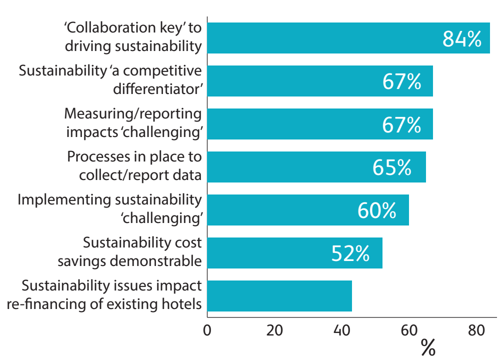
**Agree strongly/tend to agree **Disagree strongly/tend to disagree*
Source: Deloitte, The Sustainable Consumer, July 2024 Base: 2,000 UK adults

FIGURE 28: DRIVERS OF HOTEL SUSTAINABILITY INITIATIVES
% of hotel owner/investor respondents



Source: Deloitte European Hotel Investment Conference survey, October 2024

FIGURE 29: HOSPITALITY SUSTAINABILITY INITIATIVES
% of hotel owner/investors



Source: Deloitte European Hotel Industry and Investment Survey

CONSUMERS are more committed to reducing waste and being more energy efficient than changing the way they travel (Figure 27). Regulatory compliance is the biggest driver of sustainability for hotels (Figures 28 & 29)

attempting is without precedent.” This is sobering given it’s more than 45 years since the Charney Report on Carbon Dioxide and Climate, commissioned by the US government and published in 1979, forecast the course of global warming due to greenhouse gas emissions with conclusions, despite some refinements, which remain largely unchallenged.

ROBUST INFORMATION AND DATA

Progress can’t simply be measured against the scale of the challenge. Bethany Hawkings, Deloitte senior manager for ESG and sustainability, noted: “We’ve seen a lot of work around reporting in the last year and companies starting to drive towards issues beyond climate as well as improving the quality of data.

“There has also been progress in tangible work, for example around waste management. Progress is being made with technology, and collaboration is increasing. But obviously there is so much more to do, particularly on aviation decarbonisation.”

Her colleague Simon Brennan, Deloitte lead on sustainability regulation, said: “The EU’s Corporate Sustainability Reporting Directive (CSRD) comes online for the biggest firms this year, so we’ll start to see reports and disclosures with the idea being that this drives changes in behaviour.

“A lot of regulation has been set over the last two to three years and starts to bite now – mandates around sustainable aviation fuels (SAFs), regulation to drive circular economy processes and to tackle waste management and water pollution. The EU Deforestation Regulation is now passed and firms have to start working on it. The Corporate Sustainability Due Diligence Directive (CSDDD) on supply chains has been passed and will be implemented. SAF targets in the EU and UK are set.

“The first firms to report under the CSRD will be the biggest and were already in scope under previous EU disclosure rules. Another group of large firms start to report in 2026, then we move on to SMEs. A non-EU company with large operations in the EU will have to report in 2026, one with smaller EU operations will report later in the decade. There are sector-specific standards still to be developed. So, even companies reporting this year will have more to do by 2026 because there will be additional standards.

"We haven't nailed the problems. But there is a shift in regulations starting to take effect, and the EU and UK have strong climate mandates that put sustainability at the heart of growth and competition."

Deloitte ESG audit and assurance director Emily Hesketh agreed, noting: "Most organisations are grappling with how quickly the regulatory landscape is changing, particularly in respect to reporting. The regulatory and compliance changes can seem time-consuming for businesses. But the step change in reporting is to ensure there is robust, investor-grade information and data to start driving decision-making. That is the key change over the past 12 months.

"UK requirements are not currently aligned with those of the EU, although we expect an announcement on International Sustainability Standards Board (ISSB) standards, hopefully in the first quarter of 2025. But UK companies can be impacted by the EU regulation through EU subsidiaries and could also be in scope through an EU listing, or debt or equity listed on EU exchanges."

Hawkings agreed: "The regulation is slightly less established in the UK, so there are elements of reporting still to come through, but there is a consultation on the UK Green Taxonomy." This aims to support investment in activities "aligned with sustainability goals".

She insisted: "Regulation has pushed sustainability to the top of boardroom agendas. We'll see the first CSRD reports and then companies will turn their attention to deforestation and the CSDDD."

Brennan explained: "Implementation includes setting technical standards and secondary legislation, so we'll see regulators and supervisors provide more detail. We'll also see new regulation.

FIGURE 30: HOLIDAY-RELATED SUSTAINABILITY CONCERNS

% of UK adults

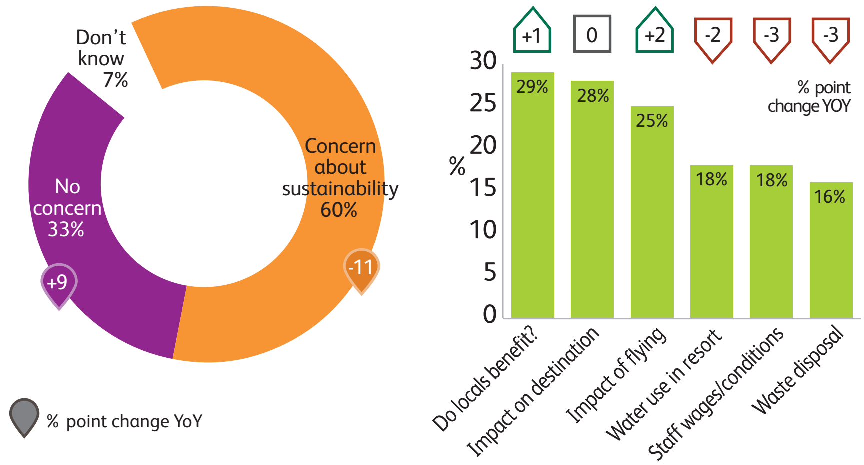


FIGURE 31: SUSTAINABILITY CONCERNS, BY AGE

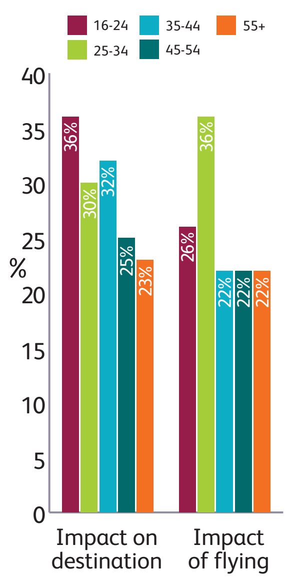
% all UK adults

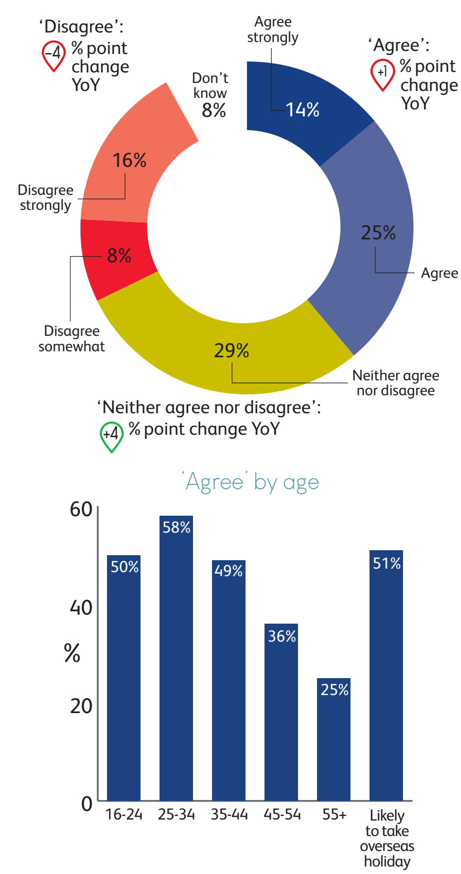
FIGURE 32: 'AM PREPARED TO PAY MORE TO TRAVEL WITH A COMPANY THAT MINIMISES CO2'

% of UK adults

Source all graphics: Service Science/Kantar, January 2025 Base: 1,281 UK adults

CONCERN about sustainability when on holiday appears to have fallen on last year (Figure 30), although there is a marked variation by age (Figure 31). There is a similar variation by age in claiming a willingness to pay more to reduce CO2 emissions (Figure 32)





CLIMATE AND SUSTAINABILITY
'A LOT OF REGULATION STARTS TO BITE NOW'

Sustainability is the second of the UK government's five 'missions' – to 'make Britain a clean energy superpower' – and is also a priority for the EU."

He suggested: "We're familiar with regulation that sets rules and minimum thresholds. But with sustainability, a lot of regulation will try to generate demand. For example, the UK SAF Mandate aims to increase airlines' use of SAF to create demand to incentivise SAF production."

DRIVE FOR CERTIFICATION

Broader progress on sustainability "differs by sector", according to Hesketh, who said: "We're seeing progress in respect of [reducing] scope one and two emissions that are directly controllable. The challenge is with scope three [or indirect] emissions."

She noted: "A lot of scope three emissions are based on estimated data and average emissions data for industries, and a lot of companies' scope three emissions increased last year. It's hard to tell what drove that, but some of it will be due to more reliable data driving assumptions."

Hesketh added: "Some EU directives are driving a shift on certification and, as anti-greenwashing rules come into force, we'll see more of a drive for certification. The challenge with certification is that a certificate is only as good as the work behind it, the credibility of the provider and the standards they certify against. Until we have clear standards, it's going to be difficult to compare like for like.

"The reporting landscape is starting to show some standardisation through the ISSB and CSRD standards. Hopefully, EU anti-greenwashing rules will start to do the same for labelling and certification. We're also seeing a convergence of assurance practitioners on the standards they use, and the International Auditing and Assurance Standards Board (IAASB) recently issued International Standard on Sustainability Assurance 5000, which should standardise the way practitioners provide assurance on sustainability information. There will be a period as firms assess how they implement the standard before we see a substantial number using it."

'DECARBONISATION REQUIRES SYSTEMS CHANGE'

Travel "requires cross-sector collaboration" to reach its sustainability goals, according to Hawkings, who said: "Hopefully, as more information useful to decision-making becomes available, it will unlock new industries and new ways of helping the industry decarbonise. SAF is a perfect example. There is a lot of risk around SAF investment at present."

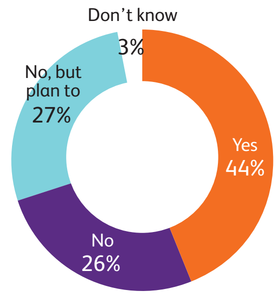
Keiran Stephens, Deloitte ESG advisory consultant, noted: "The US is arguably in a leading position when it comes to SAF development and there is good private sector and investment buy-in. We see a lot of players, including UK airlines, looking to source long-term SAF contracts from the US, so it may be shielded from any changing priorities on sustainability."

Hawkings noted: "Along with sustainability reporting regulations, there is also regulation in financial services – the EU Sustainable Finance Disclosure Regulation (SFDR) and UK Sustainability Disclosure Requirements (SDR) are trying to embed sustainability in investment decisions."

She added: "There are costs associated

FIGURE 33:
SUSTAINABILITY INCLUDED IN CORPORATE TRAVEL PROGRAMME

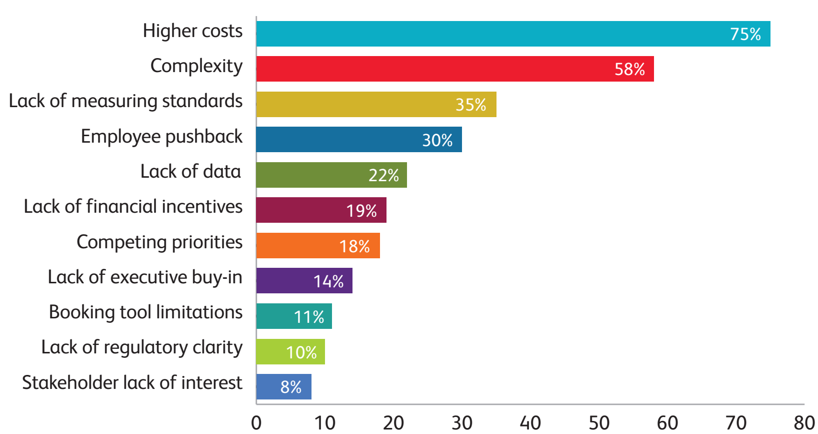
% of corporate travel buyers



Source: GBTA survey, November 2024
Base: 895 GBTA members

A LITTLE under half of GBTA members say sustainability is included in their corporate travel programme (Figure 33). Cost remains a barrier to more sustainable corporate travel (Figure 34)

FIGURE 34:
BARRIERS TO MORE SUSTAINABLE CORPORATE TRAVEL



Source: GBTA survey, November 2024 Base: 895 GBTA members with all of this, especially upfront. But the costs of not acting are significant."

Stephens pointed out: "The costs are high in travel, and specifically in aviation and shipping, because wholesale changes are required. The most promising aspect for me is that there are a lot of different initiatives. We're seeing a lot of innovation and a lot of collaboration, which is critical."

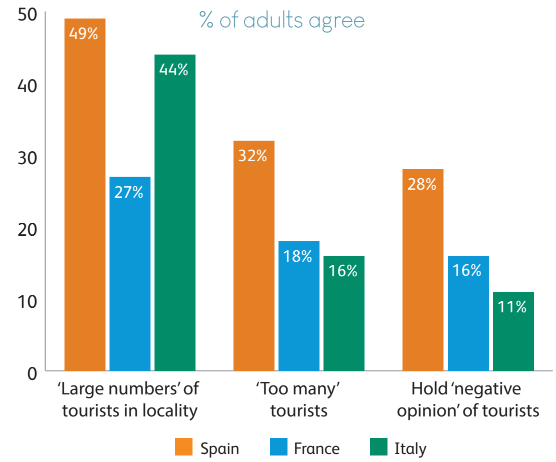
Brennan agreed: "The cost of decarbonising is undoubtedly high. But we need to think about the investment case as well as the absolute cost. The UK government is introducing a National Wealth Fund and Great British Energy [a publicly owned clean energy company] to share the risk of investment, and we have regulation to drive demand.

"The investment case needs to take a wider set of things into consideration. There are lots of moving parts and meeting decarbonisation targets involves systems change. The solutions to these problems involve many different assumptions. Those thinking about sustainability strategies generally see that. The challenge is to take that thinking into an organisation to help shift it because there is an existing business. You need to incentivise this. That is what the UK and EU are trying to do – using fiscal policy and regulatory interventions to create demand, and grants and incentives to support innovation and development."

> "The industry has a plan to decarbonise, and there is kind of an agreement on the best pathway. Now it's about investment

A NEGATIVE view of tourism appears to be taking hold among some residents in Spain (Figure 35). Attitudes towards holiday rentals appear particularly negative in Spain, while cruise appears negatively perceived by some in Germany (Figure 36)

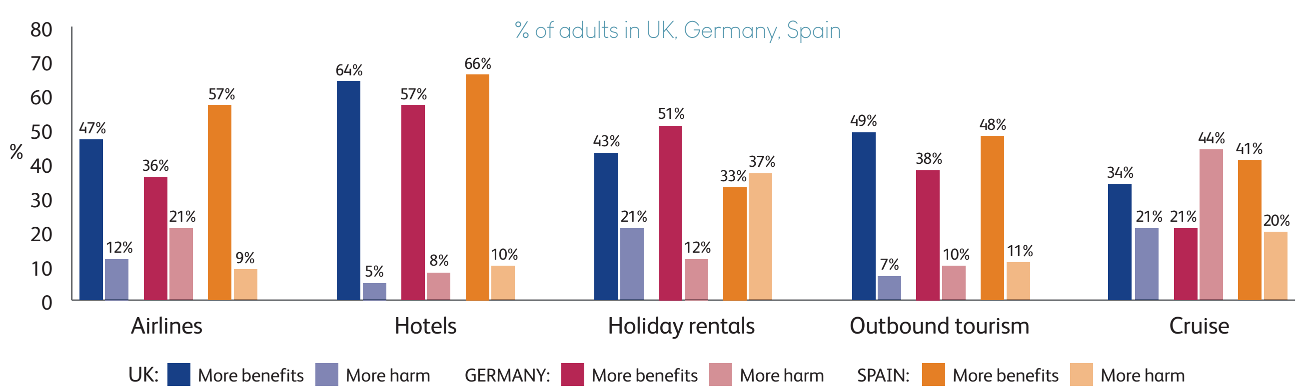
FIGURE 35: DESTINATION VIEWS OF INTERNATIONAL TOURISTS



'Tourists' refers solely to international tourists Source: YouGov, August 2024 Base: 1,000-plus each in Spain, France and Italy

Hesketh argued: "The EU taxonomy for sustainable activities [a system for classifying cashflows] provides a way to start measuring and assessing whether cashflows are funnelled in the right direction, towards activities that help us make progress or in generating goods and services which aren't sustainable. The taxonomy has recently been expanded from a focus on climate change to include biodiversity and the circular economy.

FIGURE 36: ATTITUDES TO IMPACT OF TOURISM, BY SECTOR

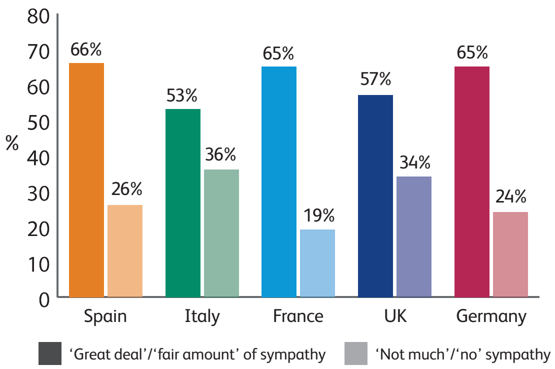


**% consider sector contributes more benefits than harm, or more harm than benefits. Remainder consider benefits and harms balance or don't know. Source: YouGov, August 2024 Base: 2,189 UK adults, 2,301 German adults, 1,060 Spanish adults*

CLIMATE AND SUSTAINABILITY
'A LOT OF REGULATION STARTS TO BITE NOW'

FIGURE 37: **ATTITUDES TO PROTESTS AGAINST TOURISM**

% of adults with or without sympathy for protests, by destination/source market



Base: 2,000-plus adults in UK and in Germany, 1,000-plus each in Spain, France and Italy Source: YouGov, August 2024

As the disclosures broaden, we expect to see how little economic activity is considered sustainable and decisions made on where to redirect investment."

She noted: "Financial returns are always going to be important. But a lot of investors think they're investing in sustainable activities. Certain funds claim they are invested in sustainable activities, and investors are at risk of greenwashing if they don't have reliable information.

"Hopefully, investors will get the information they need, and [where] activities are not considered sustainable, ask, 'Is there a problem with the business or with the standards? Does the taxonomy need to develop so more transitional activities are acceptable, or do we need to fundamentally shift investment?'"

Stephens argued: "The challenge of climate change is only getting greater. The industry has a plan to decarbonise, and there is kind of an agreement on the best pathway. Now it's about investment."

Brennan suggested: "By the end of 2025, I'd like to see sustainability action embedded in what firms are doing, not just in their planning and statements, so we start to see products that are sustainable, investments that are sustainable, changes to ways of working that are sustainable."

Hesketh warned: "There are going to be difficult decisions, and assessments of progress could be disappointing. But at some point, hopefully, we'll see some fundamental shifts – changes that are not just incremental but businesses doing things differently and policies that direct investment to where it needs to go.

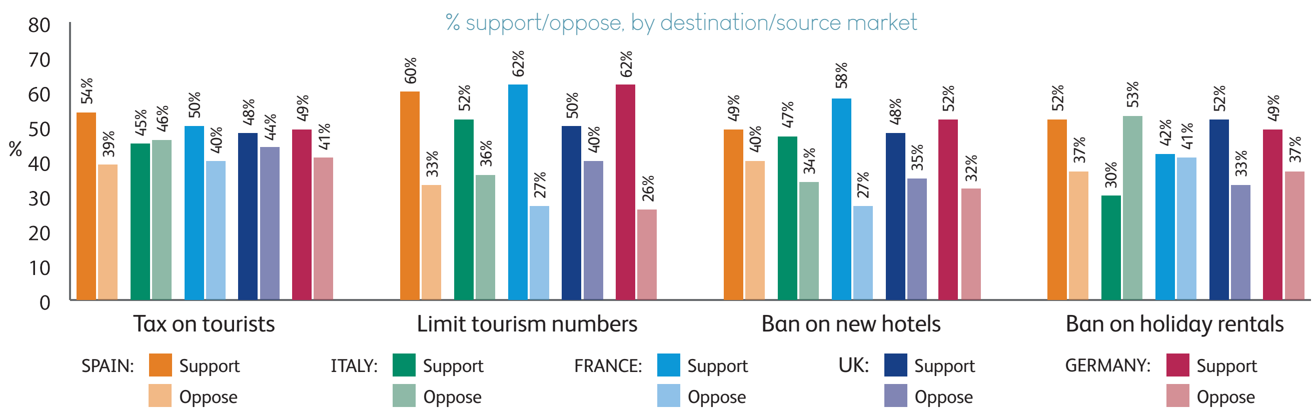
"With all the changes, by 2030 we should have an economic environment where there is reliable information on which to make decisions and the information is consistent across each industry, so investors, policymakers and consumers can compare the performance of one business against another. That is achievable and it's a starting point."

> **By the end of 2025 I'd like to see sustainability action embedded in what firms are doing, not just in their planning and statements**

THERE appears to be sympathy with protests over tourism (Figure 37) and support for certain measures to address overcrowding in destinations (Figure 38)

FIGURE 38: **ATTITUDES TO PROPOSALS TO REDUCE OVERTOURISM**

% support/oppose, by destination/source market



Source: YouGov, August 2024 Base: 2,000-plus adults in UK and in Germany, 1,000-plus each in Spain, France and Italy

AI

GEN AI IS STILL A HYPE BUT WILL BECOME A UTILITY

GENERATIVE AI has commanded global attention since the public launch of ChatGPT in late 2022. But if 2023 and 2024 seemed years of breakneck development, how should we rate January 2025?

UK prime minister Keir Starmer set out a "blueprint to turbocharge AI" to "deliver a decade of national renewal", with an AI Opportunities Action Plan to "make the UK irresistible to AI firms". US President Trump announced $500 billion in private sector investment in AI infrastructure, and at the end of the month, Chinese AI company DeepSeek unveiled a rival to ChatGPT, supposedly developed at a fraction of the cost, which wiped $1 trillion off the value of major US tech firms.

The annual proceedings of the Alliance of Social Science Associations, run by the American Economics Association in San Francisco in January, saw leading economists debate the impact of AI and the hope that a Gen AI boom may boost productivity and transform economies.

Professor Susan Athey of Stanford University noted the "enormous positive potential" of the technology but emphasised "how deeply unpredictable the future of this technology is". Cambridge University Professor Diane Coyle warned: "We should temper our expectations about AI's economic impact … there is little reason to expect it will significantly boost GDP growth in the short or medium term." Google-Alphabet senior vice-president James Manyika agreed, noting: "The productivity gains are not guaranteed. They're going to take a lot of work."

So, some caution in addressing the impact of AI on the industry is in order.

Krisztina Ratz, Deloitte director and AI and data engineering practice lead, explained: "The biggest change to this time last year is how technology vendors started implementing AI within their offerings. The hyperscalers [tech platforms with the scale and infrastructure for large-scale data processing and storage] offer features and services that clients can configure within days or utilise by licensing."

> Organisations are struggling with the application of such rapidly developing technology

Her colleague Andy Gauld, Deloitte partner and AI and data lead as well as head of aviation, agreed. But he said: "People are still struggling with the technology's application. Most organisations fit into one of three camps: those which don't have a strategy and are trying to work out what their strategy should be, those trying to experiment but not sure what they're trying to deliver, and those experimenting but don't know how to scale.

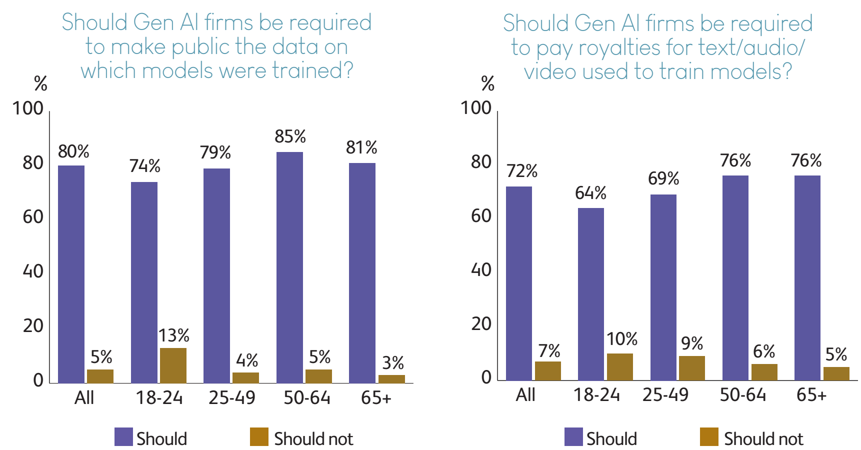
"Most organisations in this sector are in the first two camps. They still have data they need to clean and get into a state ready for the application of AI. Organisations are struggling to make the leap between what the technology can do and how to apply it in an environment where they still have messy data and functions that don't talk to one another properly."

Ratz noted: "The technology has progressed much more than organisations have moved on this journey. Most organisations in the consumer, travel and hospitality sectors have a fundamental understanding of what Gen AI is. Some

THERE is strong public support for more transparency around generative AI (Figure 39)

FIGURE 39: GENERATIVE AI: TRANSPARENCY

% of UK adults



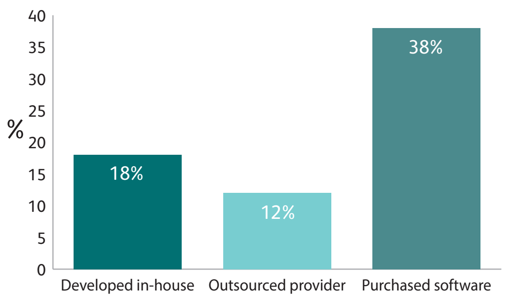
Source: YouGov, November 2024 Base: 2,149 UK adults

AI

GEN AI IS STILL A HYPE BUT WILL BECOME A UTILITY

FIGURE 40: HOW BUSINESSES ADOPT AI

% of all UK businesses adopting AI



Remaining respondents not sure/not applicable
Source: ONS, January 2025 Base: 10,070 UK businesses

have moved to a second level, doing prototypes, but they haven't necessarily implemented the technologies out there.

"Retail and consumer clients have a long list of use cases, but these are not necessarily Gen AI use cases. If trying to automate certain processes, these are more use cases for advanced analytics, machine learning or robotics, not fully automated generative AI. Many organisations look at small pieces of problems they're trying to solve as opposed to saying, 'How can we transform this overall process?'"

Gauld emphasised the point, arguing: "'Proper' AI is about rethinking a whole process. At the moment, people are experimenting on how to adjust stages two to three in an A-to-B process rather than thinking how to get from A to B differently."

Nonetheless, generative AI is in use. Ratz noted: "A key use case is in marketing-content generation. The product descriptions on retailers' websites used to be manually or semi-manually generated. Now they can be automated."

A second key use is in software engineering, where "the delivery process has changed enormously in the last year with augmentation, auto-generation, testing code and producing documentation automatically", according to Ratz. "Even code can be generated and just reviewed by an engineer. Technology vendors are offering these capabilities, and it's becoming a utility for engineers and developers. The same will probably happen in aviation maintenance."

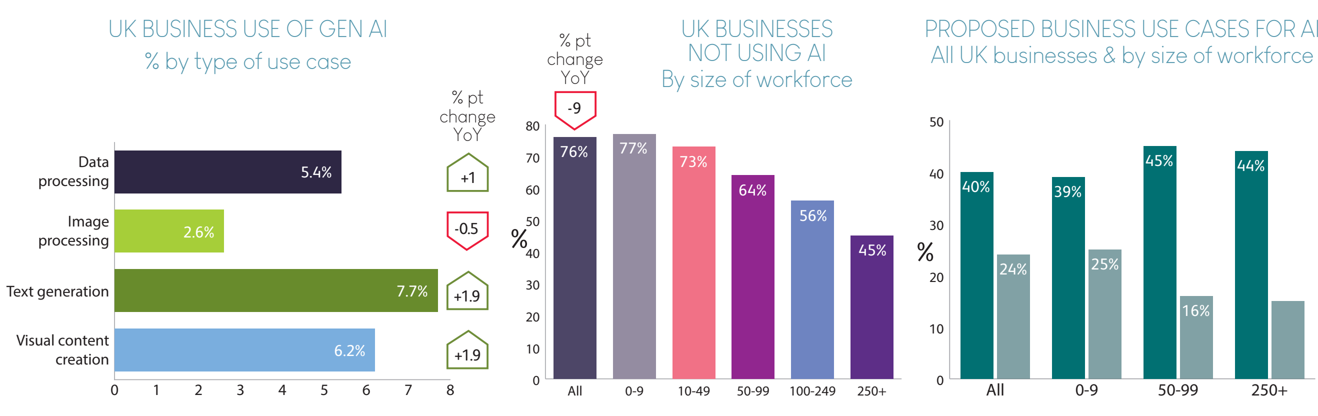
A third area of use is contact-centre AI. Gauld noted: "In aviation, it's about the end-to-end customer experience and airlines improving their touchpoints via webchat. This has been failing in not reading sentiment, for example, when a customer is annoyed and told, 'Have a nice day.' There is experimentation looking at that. I've started to see AI explored in operations efficiency as well, around predictive maintenance."

Both acknowledge there remains a ▶

> "Everyone thinks AI reduces headcount. If done properly, it should increase productivity and efficiency, with the potential to deploy people to something else

MOST business AI users are purchasing AI software (Figure 40), and improving business operations is the main reason for its use, but most smaller businesses are not yet using AI (Figure 41)

FIGURE 41: BUSINESS USE OF AI



Source: ONS, January 2025 Base: 10,070 UK businesses degree of hype around generative AI. Gauld suggested: "Every five years we have the launch of something, there is a craze, and it takes a period for everyone to digest. The difference with AI is the technology has advanced so rapidly. All these models are only as good as the individuals who built them, and it's a challenge for regulation to keep up.

"Will we get to the point of a Skynet [the fictional AI network in the film *Terminator*] running an organisation? Probably not. Will humans remain in the loop to support decision-making processes? Absolutely."

HYPE CYCLE

Ratz agreed there is a "hype cycle", saying: "Ten to 15 years ago, when cloud computing was in its early stages, we thought, 'This is the next big thing.' It was, but not for ever. Gen AI is still a hype, but in the next couple of years it will become a utility, the same as cloud computing.

"All organisations are looking at AI, trying to do the same things because everyone wants to improve the customer journey, to save on cost, and so on. But doing that is not going to make them a market leader because everyone is doing it. Maybe in five years there will be another thing everyone is doing.

"When we talk about AI at Deloitte, we typically talk about three archetypes: first, decision support; second, how humans and AI can collaborate; and third, intelligent automation which is not too dissimilar from robotics. I don't think we'll allow AI to take over processes and make decisions in the foreseeable future. I know it's happening with driverless cars, but it's a limited area because it has to be in a structured environment."

Gauld pointed out: "There are hurdles we have to clear to get approval to embark on an AI project, and extra hoops we need to jump through when doing the work. There is an extra layer of safeguarding because there are no real benchmarks to test against. This goes back to the point about most organisations not scaling, because scaling is the scary part. If you put AI use cases out there, how are they going to work? How are you going to control them? How are you going to deal with a problem?"

AI implementations are also not cost-free. Ratz explained: "Using these technologies to optimise processes may increase the impact on sustainability when scaling for whole enterprises and many users." The question organisations need to ask, she said, is: "Do they need something that provides basic functionalities or the most powerful model which is super-expensive and has a much greater impact on sustainability?"

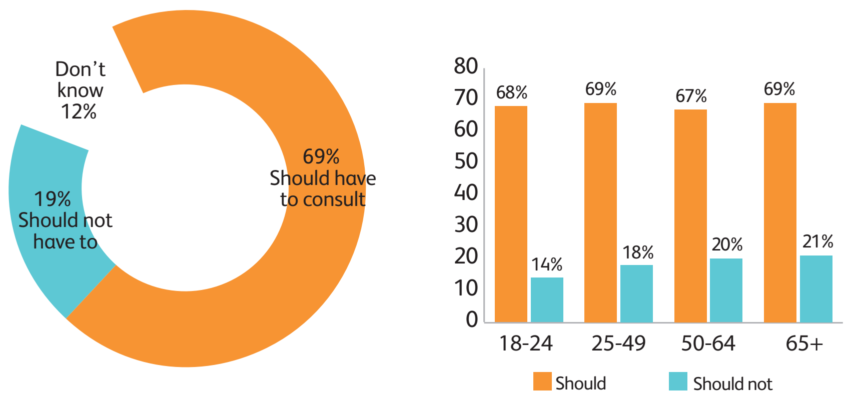
Gauld acknowledged: "Everyone thinks AI reduces headcount. If done properly, it should increase productivity and efficiency, with the potential to deploy people to something else. So, it's about retraining, and you need people to validate the output. Where people say, 'I can reduce head count by half', it will never be half. The headcount may be reduced by 10%-15% and people be redeployed.

"Some uses will drive a reduction in headcount, but some may increase headcount because the insights AI gives mean you do more in certain areas."

FIGURE 42: ATTITUDES TO AI AT WORK

Should employers have to consult employees before introducing AI?

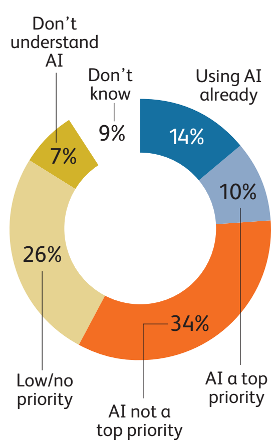
% of working UK adults



Source: YouGov/TUC, April 2024 Base: 1,451 UK adults in work

THERE is majority support for employers to consult employees before deploying AI (Figure 42). The technology appears yet to become a priority in corporate travel (Figure 43)

FIGURE 43: AI USE IN CORPORATE TRAVEL



Base: Travel buyers Source: GBTA survey, November 2024

TECHNOLOGY

COMPETING PRIORITIES AND LIMITED FUNDS HINDER DEVELOPMENT

AI DOMINATES discussion of technology in travel, not least in aviation. But Deloitte head of aviation and AI and data lead Andy Gauld suggests aviation is behind sectors such as financial services and life sciences in AI adoption.

This is for "two primary reasons", he explained: "One is still not being quite sure where to start. The other is around competing priorities. With limited funds to invest, is AI going to give airlines a competitive advantage when they don't have a clear view on how to use it?

"Those airlines starting to look at AI are looking from the perspective of the customer experience and improving the end-to-end journey, at revenue management – how to increase yields and profitability – and personalisation, and at operations.

"The industry is waking up to AI. But the fundamental problem is airlines don't have accurate data in the right place. To use AI, you need good data, as clean and accurate as possible. A lot of airlines still don't have that core data platform in place, and the legacy carriers have the biggest problem.

"A number of airlines are looking at the end-to-end journey but in fragmented ways. There are conversations between airlines and airports on the airport experience and we're seeing a bit more collaboration between them to integrate offerings for customers. Airlines are also looking at AI to analyse fuel consumption and in relation to aircraft maintenance and crew rostering when there is disruption.

"I see more airports looking at AI, predominantly around staffing and moving aircraft around the airfield. Digital twinning to simulate airport processes has moved on to augmenting processes with AI.

"Air traffic control (ATC) is a similar story. A lot is being done in post-ops [operations] analysis. The challenge is in adopting AI into a mission-critical system. That is going to take years. The risk in ATC is the biggest hurdle."

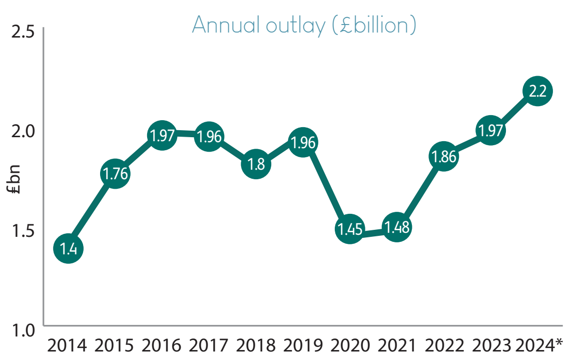
There are developments in non-AI technologies. Gauld noted: "Every airline is looking to modernise its digital platforms, so there is constant evolution and new technologies coming in. We're going to see another wave of technology that supports check-in and bag drop processes. There are technology needs airside, for example in luggage processing, and there is a lot going on in the airport space. But it comes down to where airports and airlines want to invest limited cash. Most tends to be funnelled towards the customer."

AI will play a role in the UK's plans for airspace modernisation. But Gauld said: "How much impact it will have, it's too early to say. Simulation and digital twinning are fundamental to airspace modernisation. But I wouldn't classify simulation as AI. The AI element is to help and support in real time. We should reach a point where we have elements of air traffic controlled by the system, with humans providing oversight and the ability to intervene. Air traffic control will modernise over time, with AI impacting how it works, and you won't have as many people involved in the process, but people will control it."

Gauld suggests AI has yet to be

A lack of good data remains a 'fundamental problem' for many businesses

FIGURE 44: UK TRAVEL INDUSTRY IT SPEND



*Estimated Source: ONS/Travolution

UK TRAVEL industry spending on IT is necessarily on the increase (Figure 44) incorporated more widely into efforts to make aviation more sustainable, saying: "The big airlines have teams of people focusing on this, but it still feels a little fragmented and almost a line item on the annual report. Every airline talks a great story around sustainability, but I don't see many systems being built, and certainly no AI systems to help with sustainability. But if you look at any sector, there is a bit of inconsistency around this."

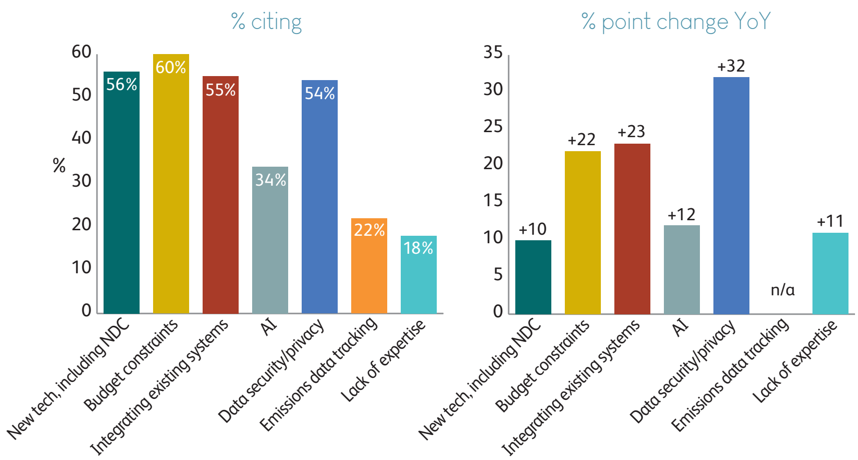
DIGITAL BORDERS AND DISTRIBUTION

The next 12-18 months will see digital borders introduced across Europe. The UK's Electronic Travel Authorisation (ETA) system will be fully in place from April and will be followed by the EU Entry/Exit System (EES) and European Travel Information and Authorisation (ETIAS) systems in Europe. But there are issues with biometric registration – fingerprint registering can only be done at the border, not remotely, for example – so the processes won't be 'seamless' and the harmonisation of technologies remains elusive.

Gauld said: "Biometric identity is becoming increasingly important, primarily driven by security but also for seamless travel – making the process through the airport more efficient. There will need to be a level of standardisation. The challenge is that each country has its rationale for what it wants to do. At some point they will have to think about integration. But it's not going to be easy because every country will have its requirements and use cases. I hope we'll get to some level of commonality, but we're nowhere near that and won't be anywhere near for many years."

Major network carriers continue to develop New Distribution Capability (NDC) technology and there is a steady stream of announcements of NDC 'content' being made available for sale through intermediaries.

FIGURE 45: TECH CHALLENGES: BUSINESS TRAVEL AGENTS



Source: GBTA survey November 2024 Base: 895 GBTA members

CORPORATE travel companies face multiple technology challenges (Figure 45)

But travel management companies (TMCs) report distribution becoming ever more fragmented.

Gauld suggested: "I have no idea why we're trying to persevere with this. We talked about how fragmented biometrics and digital identity is. NDC feels 100 times worse, and there doesn't seem a clear way to make it better. If you want NDC to work, you almost need to go back to first principles, to the drawing board, and start from scratch – reinvent the whole process."

At present, he said: "It seems like throwing good money after bad. If airlines want to do it, start again and look at a process which could add value for everyone. You can't scrap it, but it needs a fundamental rethink. But I don't think there is anyone prepared to take that on. Everyone has washed their hands of it."

Airlines talk about 'modern retailing' and hyper-personalisation through their own platforms and extending both through intermediaries. But Gauld noted: "At most airlines, the data shows the proportion of their business serviced through third parties is subtly decreasing. With hyper-personalisation, it's going

> "Biometric identity is becoming increasingly important

COMPETING PRIORITIES AND LIMITED FUNDS HINDER DEVELOPMENT

to become more and more important for the airline to 'own' the customer in more and more detail.

"It's going to be costly to make the process of passing on all a customer's details seamless. Therefore, airlines will push to own more of that space. NDC hasn't kept pace with hyper-personalisation. The solution isn't fit for purpose at present and it's not likely to be fit for purpose tomorrow."

'MODERN RETAILING'

To move to 'modern retailing', carriers need to offer customers sophisticated apps. But development of concierge-like apps has been "limited" in the past year, according to Gauld, who noted: "I've seen many RFPs [requests for proposals] by airlines wanting to modernise their mobile apps, but it has not moved on as much as we thought.

"It will come because it's linked to airlines becoming fully-fledged retailers while passengers are on board, certainly on long-haul flights. Airlines are looking at the onboard experience and how to sell more, whether that is duty-free or another holiday or goods you receive at your destination or at home. To do that, airlines need a concierge-type app that allows all that to be integrated."

But far from being in the forefront of technology development, many network carriers still have major work to do to move off legacy systems.

Gauld said: "There is still a lot of work to do at some airlines. A few have selected cloud providers and are looking to migrate. Others are looking at the best applications to transfer or to dump their legacy estate in the cloud and modernise it later. But the process seems to be taking far too long."

He explained: "When [big technology] programmes aren't going well, there are generally two key reasons. One is a lack of integration and understanding of how data flows between systems. The other is not knowing where the data is mastered – who owns it, where the data record is mastered and how it is distributed across the network." Data mastering is the process by which a data source record is linked or merged with another data record.

Gauld noted: "A lot of stuff in these systems is 'hand-cranked' code built up over 20-30 years and is undocumented. It takes a long time to unpick that, move it all into the cloud and modernise it."

AI could help somewhat in this, he suggested, but added: "You need to tell AI where to look and what it's looking for. Once you understand what is there, you could use AI to modernise it. AI could take you some of the way but not all the way."

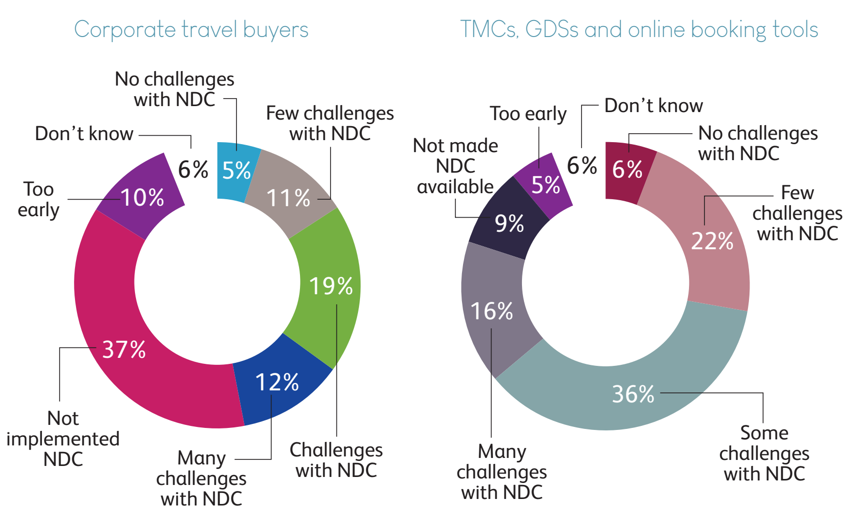
The sector also faces the "constant need to keep evolving to stay one step ahead of cyberattacks", he said. "Every week you hear of someone being attacked from somewhere, not just in aviation. It's a constant threat.

"Aviation is one of the leading sectors for understanding risks. It's about keeping aircraft in the air and fundamentally safety first, so cybersecurity is top of the list. Airlines have been pretty good at protecting themselves, but no one is going to be 100% impregnable. It's always going to be a threat."

> "There is still a lot of work to do at some airlines [to move off legacy systems]

NDC implementation remains a work in progress (Figure 46)

FIGURE 46:
NEW DISTRIBUTION CAPABILITY (NDC) IMPLEMENTATION



Source: GBTA survey November 2024 Base: 895 GBTA members

FUTURE OF RETAIL
COST PRESSURES ARE DRIVING DIGITAL INVESTMENT

THE OUTLOOK for UK retailers appears challenging. The increase in employers' national insurance contributions (NICs) from April will add more than £2.3 billion to retailers' annual costs, according to the British Retail Consortium (BRC). A 6.7% increase in the national living wage, also from April, will add another £367 million and a rise in business rates £140 million.

Small wonder a BRC survey in January 2025 found two-thirds of retailers planned to raise prices to cover the NICs increase and 70% of retail chief financial officers were pessimistic about trading.

Gillian Simpson, Deloitte partner for digital and retail, said: "Retailers are very much under cost pressures." But she noted: "Stores are getting investment.There is a consensus around trying to move retail staff into more customer-facing activities. Businesses realise the store associate-customer interaction is the reason customers go into a store. So, retailers will do anything to allow store associates more time with customers. Store associates will be more expensive following the increases in the minimum wage and employers' NICs, and retailers are trying to put them in the most value-adding areas.

Her colleague Dr Bryn Walton, Deloitte lead on consumer industry insight, agreed saying: "Not only are there big costs, but it's expensive to borrow money. Yet businesses are still making investments. There is some M&A activity, but there are also major digital transformations taking place. Retailers have to do this to future-proof their businesses. So, we see investment in enterprise resource planning (ERP) systems, in moving customer relationship management [CRM] systems to the cloud, and in technology stacks, because if you don't make the investment now, with all the changes around AI and advanced analytics, you'll be left behind."

Digital retailing continues to see innovation. Simpson explained:

> The accelerating rate of innovation in the sector poses a serious challenge

UK TRAVEL industry spending on IT is necessarily on the increase (Figure 44)

"The biggest area of development in digital retailing is around search and 'discoverability'. Gen AI conversational search is on quite a lot of retailers' sites now, so you're not bound to search terms the retailer would recognise. You could search for 'A dress for a cocktail party on Saturday night' as opposed to navigating through women's dresses. There is also social commerce, and the power of TikTok and influencers in product discoverability, and we're starting to see a trend around using ChatGPT for shopping search.

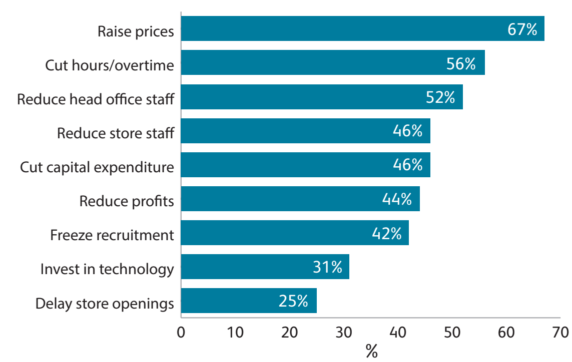
"From a retailer's perspective, there are so many channels in which a customer could reach your site, businesses have to invest in all of them just to keep up."

Walton noted: "ChatGPT is now integrated into WhatsApp, so you could text ChatGPT saying 'I am planning to go on a holiday next week, what are some good options?' and it could come back with a list of hotels. You don't have to be on the internet, you don't need a ChatGPT account. The implication for the travel industry is complete disintermediation."

He added: "We're seeing AI agents with the ability to conduct tasks unprompted now. With a co-pilot, you would ask 'Is this ▶

FIGURE 47: RETAILERS' RESPONSES TO RISE IN EMPLOYERS' NICS*

% of retail CFOs saying businesses will:



*National Insurance Contributions **Chief financial officers
Source: British Retail Consortium, January 2025

COST PRESSURES ARE DRIVING DIGITAL INVESTMENT

in stock?' or 'What's in stock?' and it would give the information. An AI agent can go multiple steps beyond that – fill in forms, do back-office tasks and all kinds of processing."

Simpson insisted: "The key point is that retailers need to have each system and have their data clean and accessible in a way that can be used by these agents. Consumers are on to the innovation almost before the retailer, and the retailer has a lot of work to do to sort out the capabilities to turn these things on. A lot of investments are in optimising existing platforms to plug in more of these new services."

She noted: "Retail always had a fast innovation cycle – the cycle is just getting quicker. But the speed at which retailers can absorb the changes and make the investments is a major challenge."

Businesses "are introducing AI literacy skills, courses on AI and the information to share with it, and looking at appropriate guidelines", according to Walton.

The extent to which generative AI will augment workers or displace them remains unclear. Simpson said: "It's not necessarily about displacing workers but allowing staff to work in more value-adding areas. There is a growing trend of empowering almost all store associates with a device. In luxury retail, that is around one-to-one retailing and an assisted sales journey. In the mass market, there is lots of functionality around checking stock and mobile points of sale, so customers don't have to go to a till."

CUSTOMER EXPERIENCE

Walton argued: "It's worth reiterating that retail is fundamentally about the customer experience. Everything we mention sounds new and exciting, but it's in place to meet a business challenge or consumer demand. Staff have devices to improve the customer experience.

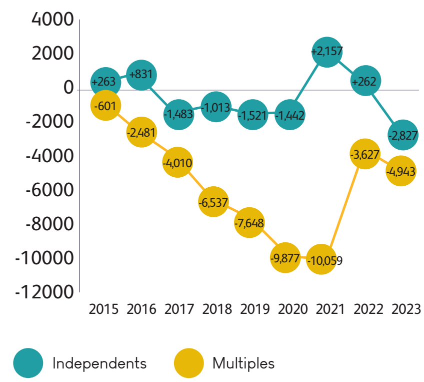
"What travel retailers should think about is not 'Does the latest technology solve a problem?', but 'What technology already exists, or do we already have, that could solve some problems?'" For example, he said: "Self-checkouts have been in stores for years, but there is a pinch point when consumers take products to a changing room, choose what they want, then have to queue to pay. Just moving the point of sale solves a problem."

Retail continues to be the UK's single biggest employer and Walton noted: "There was huge recruitment for Christmas." But he added: "There are some challenges – for example, how you engage and recruit young people just entering work. This is the generation most affected by Covid and not having

> "What travel retailers should think about is not 'Does the latest technology solve a problem?', but 'What technology already exists, or do we already have, that could solve problems?'

FIGURE 48:
UK RETAIL OUTLETS: MULTIPLE & INDEPENDENT

Net loss/gain in outlets

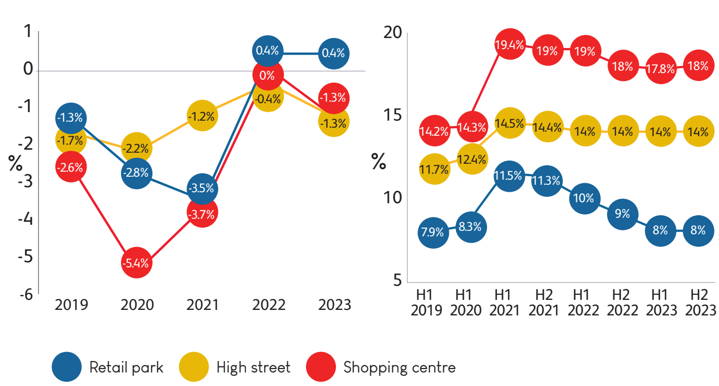


Source: Local Data Company

FIGURE 49:
RETAIL OUTLET CHANGES BY LOCATION, 2019–23

Net change in retail outlets

Vacancy rate by location type



Source: Local Data Company

social engagement, which is a problem for consumer-facing roles. Also, when Generation Alpha [those born from 2010] start to enter the workforce there will be companies with employees across five generational cohorts, with people aged 16 working with some in their 70s because people are retiring later. How do you train people starting work on the same day when there is a gap of 50-plus years in age?"

Simpson said: "I'm seeing retailers challenged by how they're structured. This goes back to budget pressures and innovation happening so quickly. Being organised in a way that allows businesses to push through change efficiently and cost-effectively is a challenge. Traditionally, retailers have been organised around stores and commerce, with marketing, technology and data separate. Now people are having to work more in multifunctional teams."

Walton added: "There is another element which is the churn in senior roles. A lot of recent retail CEO appointments have been of those with a focus on getting back to the core of a business. Previously, there was an expansionary focus – 'Let's do new things.' Now it's 'Let's get the core business right, focus on the customer, get the price and product right.'"

Simpson agreed: "The refocus on retail fundamentals is core. Pricing, promotion, product and proposition are all key, and there isn't space in the mid-market for retailers which struggle to define who they are. Being super clear on your brand and what it stands for and super clear on who your customers are is really important."

The biggest retailers face new corporate sustainability reporting requirements this year under the EU Corporate Sustainability Reporting Directive (CSRD).

Simpson suggested: "Retailers will have to meet the requirements, but I'm not sure they will go any further. They are challenged in any area of discretionary spend over and above core regulations."

Walton pointed out: "The EU CSRD is not the only regulation. There is a complex regulatory environment. The burden of so much regulation is the issue. There is packaging and waste regulation, human rights regulation, AI regulation, digital regulation – all kinds of EU regulations hitting businesses at once."

But he added: "Businesses can do stuff on sustainability which both helps their reporting and drives value in their business. They can change their supply chain so they're not reliant on unsustainable things, and don't necessarily have to communicate that to consumers."

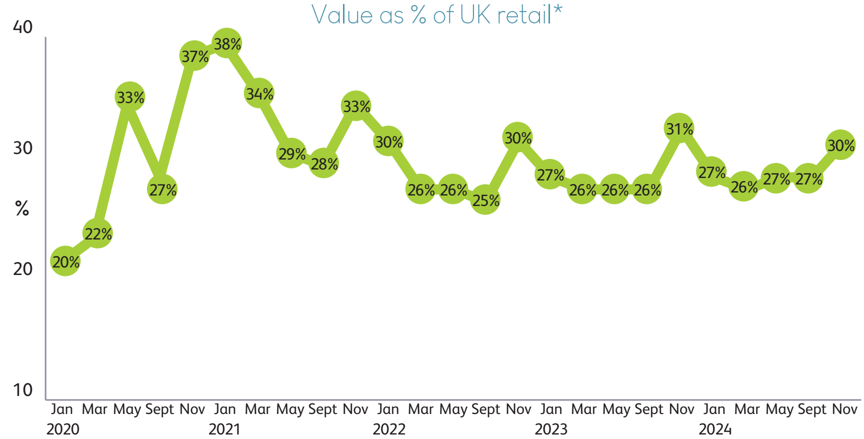
Loyalty and retail media networks – brands paying retailers for display – continue to grow in importance. Simpson noted: "Loyalty schemes are not the points-for-pounds schemes they used to be. Retailers really understand the value of customer data now and are trying to drive up the proportion of transactions they can accredit to a known customer. There is a lot of innovation in loyalty to make it worth a customer's while to identify themselves.

"We've also seen a big rise in retail media networks over the last year. Unlocking value in every area a retailer can will be central."

Walton agreed: "Retail media is going to be a big revenue driver." But he added: "It's going to be increasingly scrutinised in terms of, 'Is this driving sales?' Likewise, if a business has 15 third-party vendors supplying generative AI solutions – that is unsustainable. What's driving revenue?"

FIGURE 50: UK ONLINE RETAIL SALES

Value as % of UK retail*



**Excludes auto fuel; figures rounded Source: ONS*

THE RATE of retail closures has risen (Figure 48), but high streets appear in a healthier state than shopping centres (Figure 49). Online retail sales turned up as usual ahead of Christmas but seem to have plateaued at 26%-27% of sales excluding fuel over most of the year (Figure 50)

FUTURE WORKFORCE
TECHNOLOGY IS RESHAPING WORK

WORKPLACES have changed significantly since the pre-pandemic year of 2019 and workforce skills requirements are changing as technology use at work evolves. Even recruitment processes are changing as pressure to recruit has eased and vacancy rates have fallen more in line with those pre-Covid.

Deloitte human capital director Oliver Graves noted: "Approval of job vacancies is probably getting harder and there are definitely fewer vacancies."

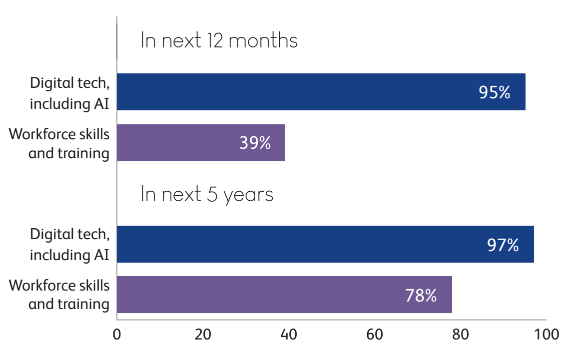
The increases in employers' national insurance contributions and national living wage announced in the October Budget means "employers are looking at employment and asking, 'Can we get technology to do something for us?', according to Graves.

He added: "Interest in AI has increased, especially in workflow and workflow tools. There is a lot more use of iPads in housekeeping and hotel management and in all areas of travel. There are roles required to run the technology, but we're seeing increased take-up of tools.

"Many organisations have gone through redundancy programmes, although not so much in transport and hospitality.

FIGURE 51: CORPORATE SPENDING ON TECHNOLOGY & SKILLS

Net % of CFOs expecting increase in spend



Source: Deloitte CFO survey, Q3 2024

> The composition of the workforce and skills required are changing and will evolve rapidly

CORPORATE spending on technology far outweighs spending on workforce skills (Figure 51)

Technology, professional services and banking have taken the brunt."

His colleague Gabriella Cooper, Deloitte human capital manager, said: "We not only see the workforce composition changing because of technology, but also what employers are looking for in recruitment, and there is an opportunity to change the recruitment process itself leveraging generative AI.

"The skills recruited are changing – technology skills, data analysis, digital marketing and social media skills, particularly in travel. Influencing teams in marketing and social media teams are growing enormously."

The use of generative AI in recruitment can "transform the process, especially when there are lots of applications", according to Graves. But he added: "There is an element that may itself be a problem. Most people are using AI to create CVs." A Universities and Colleges Admissions Service (UCAS) report this year noted "so many were bland and almost identical", he said.

Workplaces have continued to evolve since the advent of hybrid and flexible working post-Covid. Cooper explained: "The reaction following Covid was to close a lot of office space. It was thought we didn't need it. Now more people are coming back to the office, whether because they want to or because it's mandated, which means workplaces have to evolve. We see a lot more organisations discussing how to manage hybrid working. We've opened a new building which has a lot more phone booths and small meeting rooms than our previous offices."

Graves pointed out: "When we talk about hybrid working, we're talking about a subset of the entire workforce. That said, some employers have said, 'You're in five days a week', but on average it's 2.5 to three days a week across most organisations.

"There is some discussion of what to do if people aren't coming in. Many organisations are saying, 'We don't mandate being in the office, but it's actively encouraged'."

He suggested: "We see a difference between those who joined during Covid, those who were in the workplace already and those who joined after the pandemic."

Graves argued "it's still a positive time" to work in travel or hospitality, saying: "Employers understand they need to keep hold of talent because of the cost of recruiting. Organisations have done a lot to reset what they do, especially in customer service [recognising] it's important to have a happy workforce because that disseminates through to the customer."

Cooper added: "This links to diversity, equity and inclusion (DEI). When thinking about transformation or growth, businesses are also talking about the employee experience and wellbeing, and that comes back to diversity, equity and inclusion. Employers should have a diverse workforce, but diversity is one point, inclusion is the next. Until diverse groups feel equal across the workforce, they're not going to have a positive employee experience."

She insisted: "It's good that people are talking about this. The challenge with inclusion comes because a workforce can be so diverse. We think about it in terms of gender, sex, ethnic background, disability, etc. But there are many elements to it that employers don't necessarily consider until they're confronted with something. Most employers are working towards inclusion. But there is a difference between being reactive and proactive. A lot of organisations are reactive, not many are proactive across all aspects of diversity."

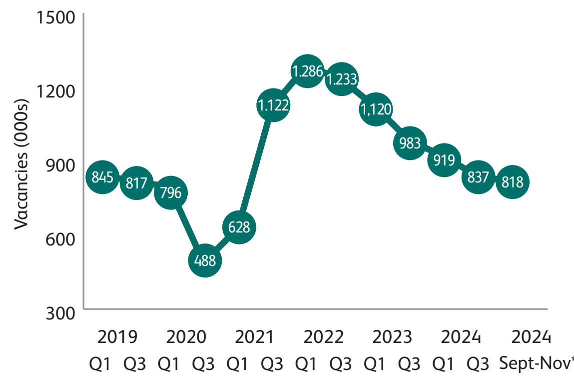
Graves noted: "There has also been movement around diversity at senior levels, but it's slow progress. There has not necessarily been a massive rise in women at senior levels. There is more to be done."

There is also a backlash against DEI requirements, not least in the US. Graves noted: "Some organisations have taken the opportunity to move away from these things. But if an

"Employers should have a diverse workforce, but diversity is one point, inclusion is the next. Until diverse groups feel equal across the workforce, they're not going to have a positive experience

THE UK job vacancy rate has fallen significantly since 2022 (Figure 52)

FIGURE 52:
UK JOB VACANCY RATE, 2019–24



Source: ONS, December 2024

organisation becomes known for being anti-diversity, anti-inclusion, anti-equity, some people may vote with their feet."

However, Cooper pointed out: "The challenge around this is transparency. There is an obligation on organisations to disclose certain elements, but a lot of organisations won't disclose everything, and the same with supply chains. Things aren't transparent. So, customers might not always know. It goes back to customer and employee experiences being at the heart of an organisation."

'HARD TO SET BOUNDARIES'

A Deloitte survey last year, 'Mental Health and Employers', identified deteriorating rates of mental wellbeing among young people adding to pressure on working parents, with one-in-five children potentially having a mental health disorder. It also noted signs of a reversal in progress on improving mental health at work.

Graves said: "The diagnosis of mental health issues has obviously increased. Mental health issues haven't always been visible and there is more understanding now. People are taking their children to be diagnosed and hopefully getting the right support. A lot of effort and investment was put into wellbeing and mental health programmes at work. But what works can be quite individual. Programmes for everybody may not have the impact people thought they would. It's important the issue has been raised in importance, but it has maybe been tailored back a little with more understanding of what works and what doesn't."

Cooper noted: "Hybrid working can put a strain on your mental health because there is an expectation you're always available, at home or in the office. Obviously, our jobs have evolved such that we can't operate without technology, but it has its downsides. The pressure to be always available can put a strain on people's mental health because it's hard to set boundaries and think, 'I'm not working because I'm not in the office.'"

'AN AID TO PRODUCTIVITY'

Technology will continue to shape the workforce, with the use of generative AI "increasing", according to Graves, who said: "It's back-office management and administration where the improvements are having massive impacts. There is still a core manual element in frontline roles."

But he added: "Previously, people were asking 'How are we going to use gen AI?' Now people are thinking, 'What more can we do with it than we're already doing?' Some people were expecting it to wipe out jobs. It's not doing that at all. It's an aid to being more productive.

> **"Gen AI is not a workforce killer – it's a workforce enabler. Those who use it can become faster at some tasks**

"Those who use it can become faster at some tasks. It's not a workforce killer – it's a workforce enabler. It will have an impact in certain areas, in removing more traditional activity. But that doesn't mean tasks become totally automated."

Cooper agreed, saying: "Gen AI can enable an organisation to understand more about its customers and make whatever it's offering a lot more personal and relevant to individual clients."

But she noted: "From the employee perspective, it makes daily tasks a lot more efficient, and this is where it could be challenging. There are wider considerations from an employee perspective. 'Is my job still relevant? What skills am I going to need in future?'

"We've seen skills evolving quickly over the last five, 10, 20 years and it can be challenging for employees to respond. Organisations will have to introduce Gen AI where they can or risk falling behind. But the communication around that is crucial. The change management around generative AI is perhaps more important than introducing it."

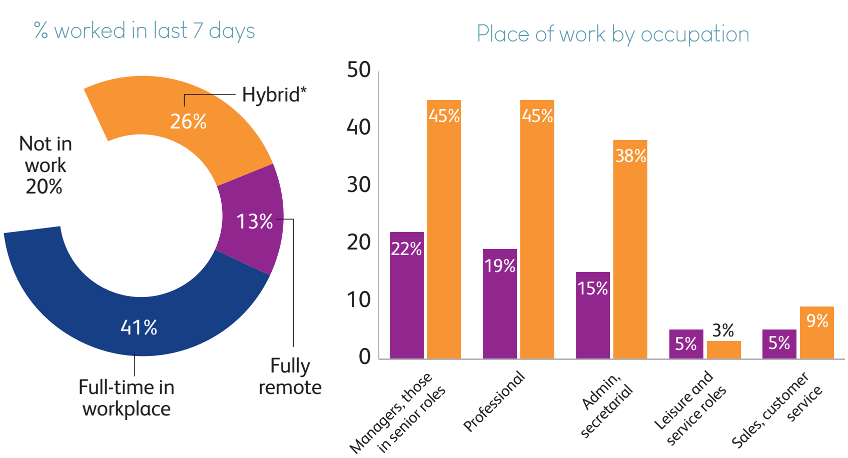
Graves argued: "Everybody is expecting a transformation, but it will be a transformative evolution. There will be things that change the way we do things. It's about user acceptance and thinking AI first. We have our own AI at Deloitte and, for certain activities, I'm straight on to that because it will generate something I can take to a higher level quicker.

"If I was going to an interview now, my first question would be, 'What will my role be in five years' time? What are the skills I'll need?' An organisation should be thinking like that. The problem is that, most of the time, businesses are thinking about what they need today."

Cooper agreed, saying: "We don't know what roles are going to look like in five years. It's about being open to change."

FLEXIBLE working arrangements appear mostly taken up by managers and those in the professions (Figure 53)

FIGURE 53: UK EMPLOYEES' PLACE OF WORK



**Mix of work from home and in workplace*
Source: ONS, Nov-Dec 2024 Base: 1,600 UK adults

INVESTMENT IN TRAVEL
M&A DEALS SET FOR TAKE-OFF

MERGER AND acquisitions (M&A) activity in travel appears poised to take off in 2025 after activity in 2024 proved slower than expected despite a small flurry of deals in the run-up to the Budget in October, with some business owners worried by the prospect of a sharp rise in capital gains tax on the profit from asset sales.

Deloitte director for transaction services Anika Keys noted: “Where deals were ongoing, there was a push to get things done if possible before the October deadline. But the rise in capital gains tax wasn’t as big as people were expecting.” She suggested the increase in employers’ national insurance contributions was more of a blow to businesses and “to the hospitality sector, in particular”, saying: “Hospitality businesses are going to think about scaling back investment, cutting recruitment and potentially making redundancies. Businesses are revisiting their forecasts to see what impact it’s going to have on their five-year plans.”

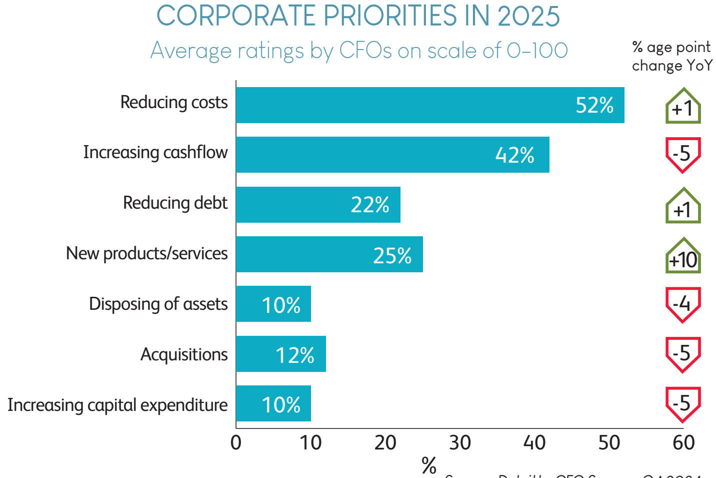
However, Keys argued: “Hotels has been a busy sector for M&A in the last year and that is expected to continue. There is a lot of private equity (PE) interest in the sector. Hotels seem to have been able to maintain relatively high room rates since the pandemic. People want to travel – which is one reason why the hotel sector is attractive to PE – and it seems that will continue.”

> High interest rates and a wait-and-see attitude among investors saw fewer acquisitions than expected in 2024

REDUCING costs dominated corporate priorities going into 2025 (Figure 54)

FIGURE 54: CORPORATE PRIORITIES IN 2025

Average ratings by CFOs on scale of 0-100



Source: Deloitte CFO Survey, Q4 2024

Her colleague Alistair Pritchard, Deloite lead partner for travel and aviation, agreed saying: “I’m reasonably confident we’ll see a pick-up in M&A activity during 2025. We knew 2024 would be challenging but thought it would pick up in the second half. It didn’t on any sort of scale because of high interest rates and because investors wanted confidence that there wasn’t just a post-pandemic boom in bookings.

“There was a little flurry before the Budget driven by private owners trying to sell businesses. [But] we’ve gone into 2025 in a different place because businesses now have evidence of a strong track record in 2023 and 2024. Interest rates are still relatively high but have come down, which makes debt less expensive.

“Quite a lot of businesses are looking at refinancing because interest rates are not as high as when they had to refinance during the pandemic. Businesses can access the capital markets to reduce their interest costs and can refinance at better rates on the back of two years’ good performance.”

Pritchard added: “A lot of investment in travel is private capital. Private equity has held businesses for longer than planned and lots of funds have been raised that need to be spent. So, we’ll see 2025 pick up on the back of that. There are some deals already in play which could complete in the first quarter or first half of the year.”

He noted: “There is less money being tied up as security. The regulators still have requirements around that, but some of the banks and credit card companies have eased [conditions] a little. So, financing for the industry is in a better place than it was.”

Keys agreed, noting: “Businesses have a post-Covid track record of two full years now and are performing well. Investors see that track record not muddied by Covid's impact. The sector has proved resilient and investors who supported travel businesses through Covid and held them for longer than they may have intended are looking to start [sales] processes. Some PE houses have held assets now for several years."

PATHWAYS TO GROWTH

Many travel businesses remain low-margin, of course, despite the strength of demand. So prospective investors are most interested in pathways to growth and increased profitability.

Keys explained: "There is a lot of talk [among investors] around technology. Generative AI could help businesses tailor experiences to customers to maximise margins. So, investors may look at travel businesses with a technology angle.

"Investors look at a business to see 'What can we do with it?' or 'What additional can we do in the next four to five years?', whether that is scaling a business or expanding to different destinations. A lot of people are interested in experiences now rather than just travel and there seems a trend to travel for events, so an investor might look at what strategic partnerships could be made, partnering with events spaces or sporting venues. The Taylor Swift tour in 2024 had a massive impact on travel with hotels reporting rates that went through the roof.

"Better understanding your customers is a way to improve margin. That is about data and knowing what to do with it. So, we see business partnerships, for example between airlines and retailers, aimed at gathering more customer data. Loyalty and reward schemes are also a smart way of improving a customer database.

"Investors want to see a business has a strong customer base with repeat customers. A good database, which allows a business to target customers appropriately, is a great way of improving margins."

However, Keys added: "How good travel businesses are with data varies. The most important data for investors is always going to be forward bookings."

> "Will Atol reform be high up the government's agenda? It wouldn't surprise me if something suddenly comes out about it

'ATOL REFORM AN UNKNOWN'

Civil Aviation Authority (CAA) proposals for Atol reform have been a concern in the sector and among investors in travel businesses since first being floated in April 2021. Change remains someway off given detailed proposals have yet to be presented after the CAA and Department for Transport confirmed a delay at the start of last year.

Keys said: "Investors are looking at what [financial protection] arrangements companies currently have in place, trying to understand how changes to Atol might play out. It looks as though the CAA will move towards ringfencing cash and investors are working to understand how any changes would impact on funding and working capital. Investors do scenario analysis to look at the potential impacts if cash isn't available until after holidays have ended.

"If an investor already has travel assets, they are going to be more comfortable. Regulation might put off new investors, particularly as each country has different regulations. But consumers continue to prioritise travel and, so long as they do, the sector is an attractive option for private equity."

Pritchard argued: "Atol reform is still an unknown. When it was high on the agenda, it came up a lot in M&A conversations, but it has stalled and seems to have lost impetus. Everybody knows it's coming, but there is a sense in the investor community of, 'Is it going to happen? Does it matter to us?' It may well come back to life and have quite a big impact on some businesses.

"There is a lot of variety in business models. Some businesses already have trust accounts or similar. Others are at the other end of the scale and, while the regulator has driven them to have more funds tied up in bonds, there is potentially still a capital gap which will need to be filled if there is Atol reform."

He noted: "Government ministers have said they are aware the industry wants certainty on reform. But the government has quite a big agenda. Will this be high up its agenda? It wouldn't surprise me if something suddenly comes out about it."

Keys insisted: "Travel will continue to be an attractive sector. Due diligence processes seem to take a lot longer now and require a lot more work, and [changes to] regulation could put investors off slightly. But as long as investors remain comfortable with the scenarios, it will remain a sector of interest.

"As long as people continue to prioritise discretionary spending on travel, there will be investor demand. Trends in holidays and destinations move around, but people always want to travel."

Asked what sectors of travel are of most interest to investors, she said: "There is increased consumer appetite for long-haul and luxury, so those areas will attract interest, and hotels are still going great guns. People want to invest in hotels and that will continue."

DEALS EXPECTED IN 2025

The first quarter of 2025 was expected to see the sale of Hotelplan, put up for sale by parent Migros in February last year as the Swiss cooperative sought to refocus on its core retail and financial services businesses.

The German Dertour Group, which owns Kuoni parent Der Touristik, was expected to acquire Hotelplan, with either UK-based private equity-owned vacation rentals and resorts business Awaze or Berlin-based accommodation rental platform HomeToGo acquiring holiday rental business Interhome.

The Hotelplan group comprises not only Hotelplan UK and specialist operators Inghams, Explore and Santa's Lapland, but also Switzerland's largest travel company Hotelplan Suisse and travel management companies Finass Reisen and BTA First Travel. German retail giant Rewe, which owns Dertour, confirmed in September it was "looking at Hotelplan" and expressed confidence the takeover would be signed off by competition authorities.

Online travel agent Loveholidays, now the UK's third-largest Atol holder with a licence for more than four million package holidaymakers, was also expected to be the subject of a sale this year by majority owner Livingbridge. The PE fund acquired the business in 2018.

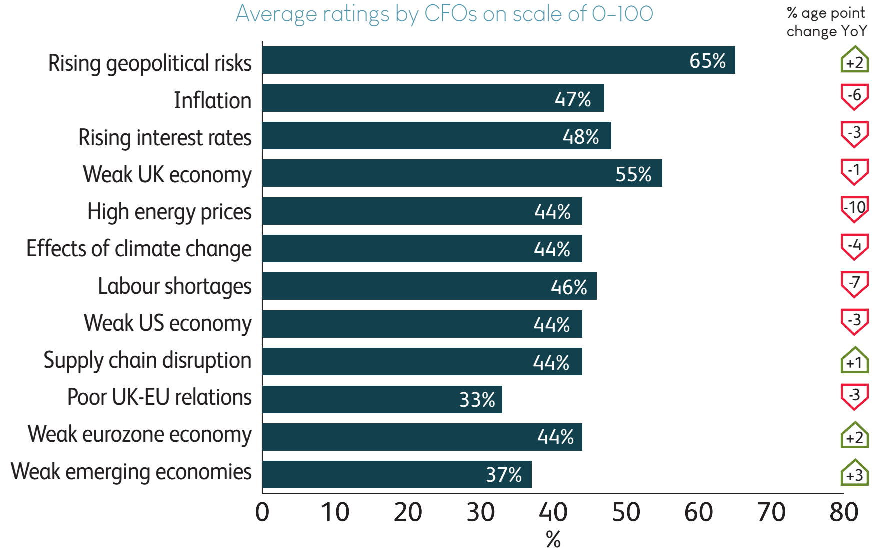
US asset management company Apollo acquired The Travel Corporation from the founding Tollman family in July last year in one of the biggest deals of the year. The Travel Corporation's 18 brands include tour operator Trafalgar, youth specialist Contiki and guided tour operator Insight Vacations. Details of the deal were not disclosed, and the Tollman family retained control of Red Carnation Hotels.

In other deals, PE firm Risk Capital Partners acquired specialist operator Simpson Travel in March and Soho Square Capital invested in Newmarket Holidays in October.

However, British Airways and Iberia parent IAG terminated a €400 million deal to acquire Spanish carrier Air Europa from Globalia after concluding "the regulatory environment" in the EU was too hostile, although IAG retains a 20% stake. In the US, JetBlue Airways pulled out of a $3.8 billion takeover of Spirit Airlines after the deal was blocked. Spirit filed for Chapter 11 bankruptcy protection in November.

FIGURE 55: RISKS TO BUSINESS IN 2025

Average ratings by CFOs on scale of 0–100



Source: Deloitte CFO Survey, Q4 2024

GEOPOLITICAL risks were the greatest concern to chief financial officers going into 2025 (Figure 55)

> "As long as people continue to prioritise discretionary spending on travel, there will be investor demand

REGULATION

ATOL AND PACKAGE TRAVEL REFORM CONTINUES TO STALL

THE DELAY to Atol reform, confirmed in January 2024 by the Civil Aviation Authority (CAA) and Department for Transport (DfT), extended through to the start of 2025.

Speaking at Abta's Travel Matters conference in December, aviation minister Mike Kane noted the delay, saying: "I ask for your patience. I know you've been waiting a long time." He said the DfT hoped "to provide an update next year [2025]" and pledged to "ensure an adequate transition period".

The reform process began with a consultation in April 2021 and the proposals and industry reaction to these have been covered in previous editions of this report.

Deloitte legal director Luke Golding noted: "There is hope of a consultation on detailed proposals in 2025, but it seems to have hit a brick wall. We're way past the CAA's original target of April 2024 for reform to come in. I would be surprised if we see substantive developments in 2025."

Reform of the Package Travel Regulations (PTRs) appeared similarly stalled. The Department for Business and Trade (DBT) issued a call for evidence on reform proposals in September 2023. Craig Belsham, assistant director for partnerships and international consumer policy at the DBT, acknowledged the delay when he told the annual general meeting of Aito, The Specialist Travel Association, in October: "Priorities shift with a new government. The department's immediate focus is on employment rights and will be for the next few months."

> Businesses need to be aware of the provisions of the Digital Markets, Competition and Consumers Act

In the meantime, the European Commission moved forward on its review of the Package Travel Directive (PTD) on which the PTRs are based. Its original proposal included restrictions on advanced payments to travel organisers and on collecting balances, as well as a broadening of cancellation rights to include unavoidable and extraordinary circumstances at a traveller's place of residence.

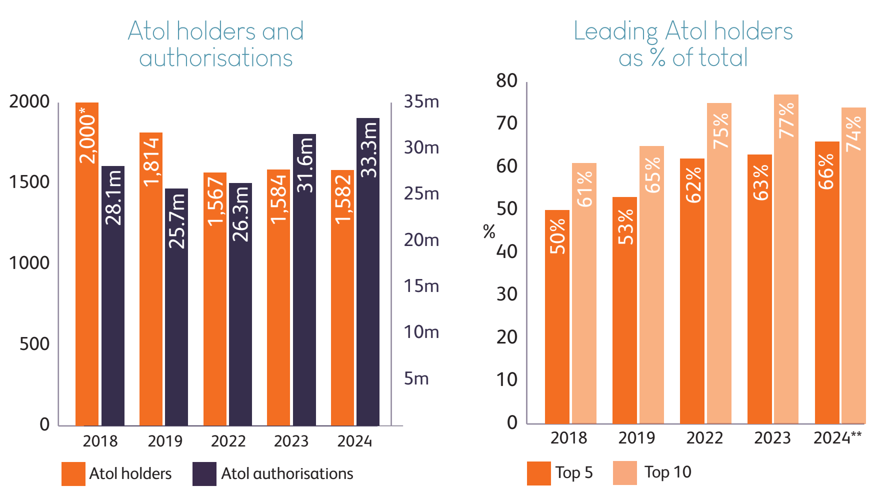
Golding suggested neither of these proposals are likely to be added to reform of the PTRs, pointing out: "The thrust of the PTRs reform consultation was to look at ways of striking a better balance between consumer protection and business freedoms. The industry provided its views on those proposals. To move to a position more like the PTD reform proposal would be a significant change. We would be going from 'Can we strike a better balance' to putting a lot more on the shoulders of package organisers to better protect consumers. It would be surprising to see a significant shift from those proposals now towards putting additional obligations on organisers."

He noted: "We saw the European Council's negotiating position on the PTD proposals in December and it pushed back on some of the more challenging aspects of reform from a package organiser's perspective. The Council proposed striking out the advanced payment restrictions and the reference to a traveller's place of residence."

Both the PTR and PTD reform proposals raised the prospect of clarifying an organiser's right to refunds from

ATOL authorisations hit a new high going into 2025 (Figure 56)

FIGURE 56: ATOL AUTHORISATIONS, 2018–24



**March 2019, figure rounded **December 2024 authorisations Source: CAA/Travel Trade Consultancy* suppliers such as airlines when a package is cancelled. But a High Court ruling in the UK in October 2023 secured just such a refund from Ryanair for On the Beach. So, is a clarification in the PTRs still needed?

Golding argued: "The High Court decision made it clear that the existing rights are what package organisers would hope for. I'm not sure there is a need for it to be restated or put differently. But whether it is restated or clarified is a different question because nothing has changed except for the court saying, 'This right says what you think it says'."

DIGITAL MARKETS, COMPETITION AND CONSUMERS ACT

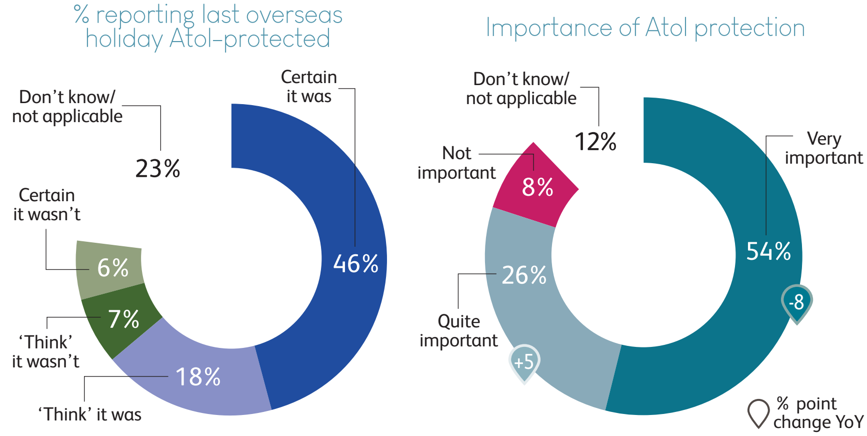
A significant piece of legislation, the Digital Markets, Competition and Consumers (DMCC) Act 2024, came partially into effect in January and could have consequences for the industry from April.

Golding explained: "The digital market and competition aspects of the DMCC came into force in January 2025, the consumer aspects are due from April 2025 and there is a new subscriptions regime expected to come into force in spring 2026.

"The Act is important for travel companies, especially the new powers it gives the Competition and Markets Authority (CMA) to enforce consumer law. At present, the CMA has the power to bring criminal and civil powers when it suspects a company has breached consumer law. Its use of criminal powers is rare. Civil enforcement powers require the CMA to initiate court proceedings, have a court find in its favour and impose a penalty. It's a slow and time-consuming process, and it's difficult for the CMA to take effective action.

"The DMCC will change that significantly, giving the CMA power to investigate suspected infringements of consumer law and issue infringement notices in relation to provisional findings, including of breaches of undertakings

FIGURE 57: ATOL-PROTECTION OF HOLIDAYS



Source: CAA, consumer survey October 2023 Base: 3,510 UK adults

> **The CMA will be able to decide that there has been a breach of consumer law...and to impose financial penalties of up to 10% of turnover or £300,000**

CONSUMER recognition of the importance of Atol protection appears to have fallen somewhat (Figure 57)

or breaches of its directions. It will also be able to issue infringement notices to anyone providing the CMA with materially false or misleading information.

"In other words, the CMA will be able to decide that there has been a breach of consumer law, have the power to require businesses to comply with its directions, and be able to impose substantial financial penalties of up to 10% of turnover or £300,000. Fines could also be imposed on individuals, against directors, managers, company secretaries or other people who control a business if that person consented to or connived in a breach of consumer law. It makes it much easier for the CMA to say, 'You're in breach of consumer law and here is the penalty' or 'Here are the directions we expect you to comply with'.

"The CMA is not going to have to jump through the hoops it did before. It's still going to have to use its powers reasonably, but the onus will be on a company subject to enforcement action to appeal. It flips on its head where we are now."

He noted: "The travel industry has been in the CMA spotlight around PTR compliance during the pandemic and on greenwashing. So, it might be in the CMA's sight lines. April 2025 is when the new powers are expected to come in. It needs one more piece of legislation."

The DMCC has implications for the sector in a second way. Golding explained: "The Act revoked and replaces the old Consumer Protection from Unfair Trading Regulations which has a list of banned practices for businesses selling to consumers. It adds a couple of banned practices and gives the government the power to add to the list.

"The two new banned practices relate to fake reviews and drip pricing. Fake reviews are the most notable. The DMCC broadly bans four things: submitting or commissioning fake reviews; publishing consumer reviews or review information in a misleading way; publishing consumer reviews without implementing appropriate procedures; and offering services in connection with any of the banned practices.

"Publishing consumer reviews without implementing appropriate procedures is something the industry should be aware of. A business won't be able to publish a consumer review without taking reasonable and proportionate steps to a) prevent publication of fake reviews or reviews that conceal the fact they have been incentivised, and b) remove any such reviews from publication.

"The Act, in effect, requires companies to implement internal processes to verify reviews before they're published, and to perform ongoing audits on reviews on their website or wherever they publish reviews. A business will need to show it has a process to comply with the requirements."

> "Two new banned practices relate to fake reviews and drip pricing. Publishing consumer reviews without appropriate procedures is something the industry should be aware of

SUSTAINABILITY CLAIMS 'AN AREA OF FOCUS'

'Greenwashing' and sustainability claims are also a potential area of focus for the CMA once it has the new powers.

Golding argued: "We've seen a spate of Advertising Standards Authority (ASA) rulings on sustainable travel claims – including ruling against airlines where the ASA found a claim to be 'one of the greenest choices in air travel' to be misleading, and another where a reference to '100% sustainable aviation fuel' was found to be misleading. There has been a similar focus on claims made by airlines in the EU. I wouldn't be surprised if this is an area the CMA focuses on."

He noted: "The CMA had a focus on green claims in the fashion industry in 2024 and wrote to 17 brands about their green claims practices including a reminder of its enhanced enforcement powers."

His colleague Tim Robinson, Deloitte travel and aviation audit director, pointed out: "The largest travel businesses are now caught by the EU's Corporate Sustainability Reporting Directive (CSRD), and we're seeing 'greenwashing' caught here too. It's the omission of information as much as inclusion of information that is an issue – for example, not including negative key performance indicators (KPIs), or moving the goalposts by rebasing KPIs. It's an area in which we expect to see investigations and enforcement as annual reports are released."

Other pieces of EU regulation could also have an impact. Those related to sustainability are discussed elsewhere in this report, but the EU AI Act includes provisions which apply from 2025, although most don't come in until 2026.

Golding explained: "The prohibited AI practices are banned from February and the obligations on providers and deployers of AI to ensure AI literacy for staff also apply from February. If a UK business is supplying AI systems on the EU market or outputs from AI systems are intended for use in the EU, it could apply to them."

He said: "The UK is not as far forward as the EU in legislation on AI. The government plans to regulate key AI developers and ban things like sexually explicit deepfakes, but its proposals are not as broad and extensive as the EU AI Act."

However, Golding warned: "The usual rules around the sale of travel apply if a company is using AI to come up with marketing content or itineraries and isn't checking the output is accurate. There is potential liability under the PTRs and under contract law."

AIR TRAVEL
AVIATION SOARS TO PREVIOUS HEIGHTS

EUROPEAN air traffic ended 2024 at 96% of 2019 levels, with air navigation safety organisation Eurocontrol forecasting a full return this year.

Iata's analysis of global air traffic, based on revenue per passenger kilometre or revenue-generating capacity, showed a near 4% rise on 2019 by the end of 2024, with Iata reporting: "All regions outperformed pre-pandemic levels." Revenue-generating capacity on international flights was up slightly less by 0.5%.

Passenger numbers at UK airports, at 297 million, were 2% shy of the record 2019 figure. However, the average number of daily flights to, from and within the UK remained 6% down on 2019 – reflecting rises in both average flight capacity and average load factor.

The surge in demand for overseas travel was reflected in significant increases on 2019 in the number of daily flights to and from Spain (up 8%), Italy (6%), Turkey (12%) and Greece (18%). The UK remained Europe's busiest aviation market – with 10% more flights a day than Spain and 16% more than Germany. The jet fuel price averaged 10% lower over the year, easing the cost pressures on carriers.

Flight punctuality remained below 2019's level, with an on-time arrival rate of 72.5% across Europe, 1.5 percentage points better than in 2023 but 5.6 points down on 2019. Eurocontrol noted in July that air traffic delays in Europe could not be resolved without a "transformation" of air traffic management. It confirmed air traffic management delays "surged" in 2023 and noted that although a majority were attributed to bad weather, a shortage of controllers was "generally a factor".

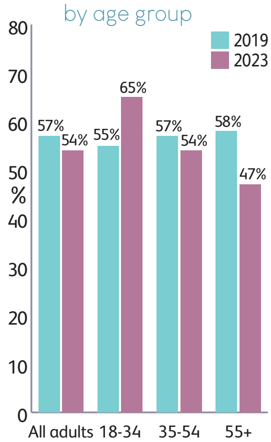
Eurocontrol warned of continuing disruption, arguing: "It's crucial to find a balance between cost efficiency and quality of service."

Modernisation of European airspace and move to a 'Single European Sky', long called for by airlines, seems a way off. However, the UK Civil Aviation Authority (CAA) published a plan for "full-scale modernisation" of UK airspace, with the government publishing an Airspace Modernisation policy paper in October. CAA head of sustainability Harry Armstrong described it as "a huge programme of work" which could result in a 4%-5% reduction in aviation emissions but could "also facilitate more flights".

Air traffic disruption, aircraft delivery delays and challenging SAF targets cloud the outlook despite robust demand

FIGURE 58: FLIGHTS IN LAST 12 MONTHS

% UK adults, by age group



Base: Respondents among 3,510 UK adults who flew in previous 12 months, November 2019 and October 2023
Source: CAA

The government's support for a Heathrow third runway and expansion at Gatwick and Luton airports, signalled in January, would require airspace modernisation to handle the additional traffic so the timing of developments will be crucial.

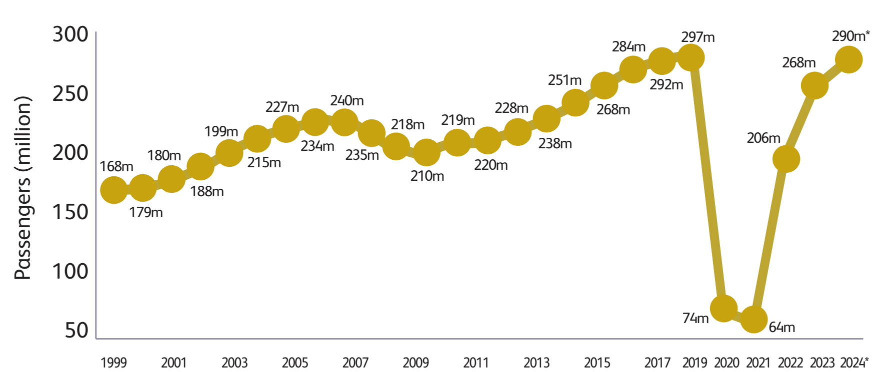
SUSTAINABLE AVIATION FUEL

The UK government's Sustainable Available Fuel Mandate, requiring a minimum 2% SAF use across all flights departing the UK in 2025, came into force on New Year's Day.

However, meeting the target could present a challenge given there is only one UK SAF plant operating. The previous government pledged there would be five UK SAF plants under construction by 2025, but aviation minister Mike Kane said: "None of the legislative work was done." Kane confirmed a revenue certainty mechanism, to assure investors in SAF production of a baseline price, should be introduced by the end of 2026. The issue may be what happens in the meantime.

The 2% target will be aggregated across the year and not mean 2% of fuel on every flight is SAF. The mandate requires increased SAF uptake each year to reach 10% in 2030. The first generation of SAF fuels, made from used cooking oil and household waste,

FIGURE 59: UK AIRPORT PASSENGER NUMBERS, 1999–2024

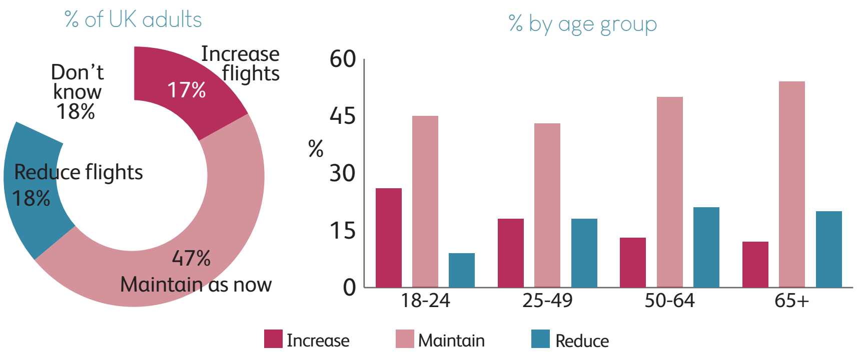


UK & international passengers, outbound, inbound & domestic, to nearest million Source: CAA

AVIATION SOARS TO PREVIOUS HEIGHTS

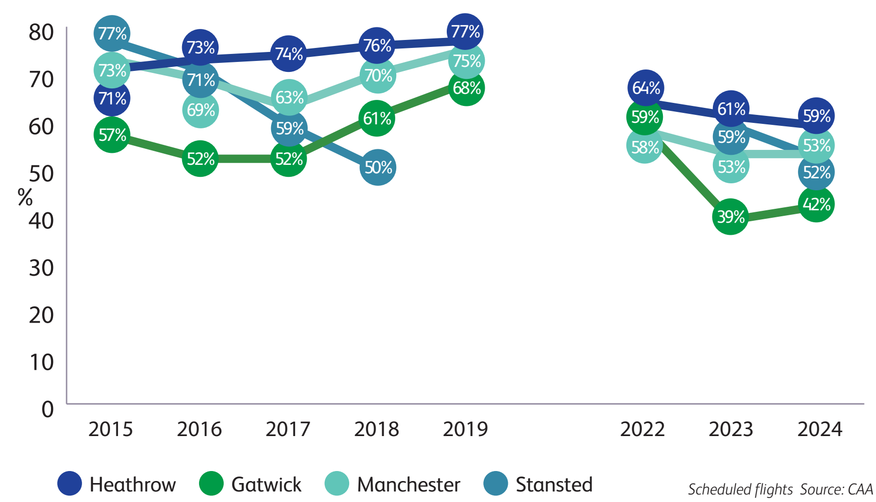
FIGURE 60: ATTITUDES TO UK AIRPORT EXPANSION

Should the government expand, reduce or keep the number of flights from UK airports the same?



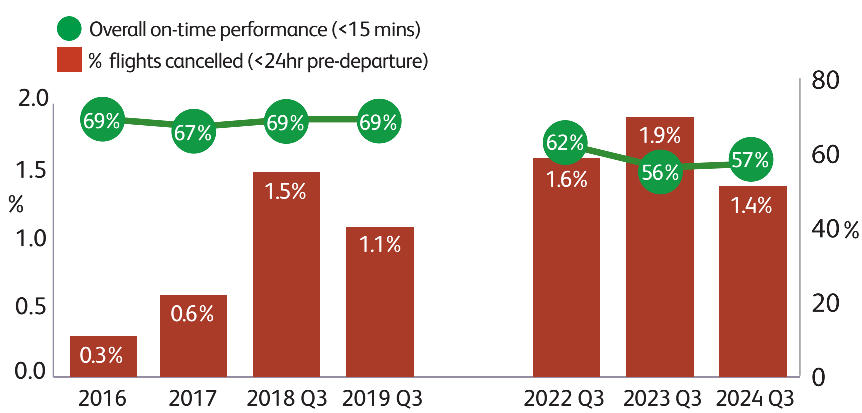
Base: 3,350 UK adults Source: YouGov, October 2024

FIGURE 61: Q3 FLIGHT PUNCTUALITY RATE AT MAJOR UK AIRPORTS



Scheduled flights Source: CAA

FIGURE 62: UK FLIGHT PUNCTUALITY & CANCELLATION RATES



Source: CAA

are calculated to reduce aviation carbon emissions by up to 70% compared with kerosene over the lifecycle of the feedstocks. However, the amount of CO2 emitted by an aircraft using SAF remains unchanged.

The EU has its own SAF mandate with a target of 6% SAF use by 2030 and 34% by 2040. Iata director general Willie Walsh warned in December that meeting the EU target "will be extremely difficult", saying: "There is a belief if you mandate SAF it will be produced, but that is not happening." Walsh noted mandates would result in fines for fuel producers if insufficient SAF is available but pointed out: "They just pass the cost on to airlines, which inevitably pass it on to customers."

A senior figure at energy company Phillips 66, which runs the only UK SAF plant, urged the government and industry "to be transparent" on the costs to consumers of producing SAF. Simon Holt, manager for emerging energy in Europe, warned: "The energy transition is not going to defy the laws of economics." He told a Westminster Energy, Environment and Transport Forum on aviation decarbonisation: "We need to make clear to customers what the costs of SAF production will be." Holt said: "We need tens of plants in the UK. We need to accept imports of SAF will be required through to 2030, probably from the US."

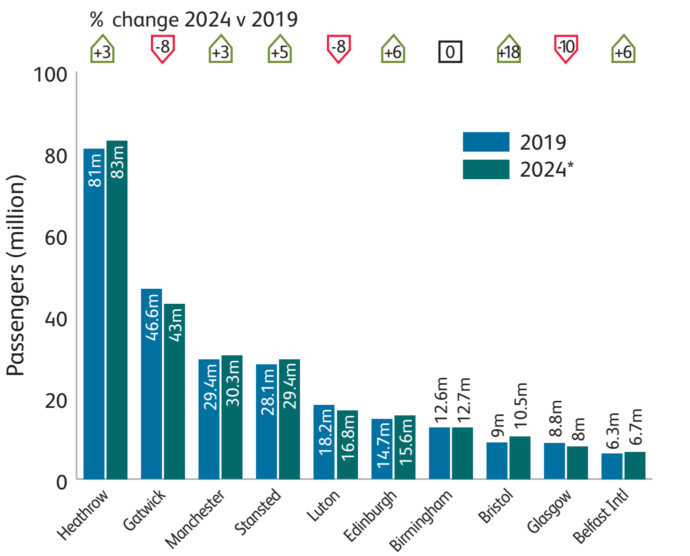
Jonathon Counsell, head of sustainability at British Airways and Iberia parent group IAG, estimated the investment required in SAF production at "tens of billions a year by the end of this decade" and "anywhere between \$2 trillion and \$5 trillion" in total.

In a separate initiative, the UK could become the first country to set up an airspace 'living lab' to test how adjusting the aircraft flightpaths could avoid formation of condensation trails (contrails), the effects of which are calculated to double the climate impact of flying. Professor Rob Miller, director of the University of Cambridge Whittle Lab, told the same Westminster forum: "It's a very powerful effect and, if we could switch it off, we should do it immediately."

Miller noted about one in 20 flights produce contrails which trap heat and revealed proposals for "a living lab in [UK] airspace,

FIGURE 63: TOP-10 UK PASSENGER AIRPORTS

Passenger numbers, 2024 v 2019



*12 months to October 2024 Figures rounded Source: CAA

about the size of Scotland, [for] a contrail-avoidance scheme" which would involve rerouteing aircraft away from contrail-forming areas. Christened 'Blue Skies', the research project would "need four airspace labs around the world", but Miller argued successful trials in the next five years could lead to reducing aviation's climate impact "by up to 40%".

OLDER adults appear to have flown less post-pandemic than pre-Covid (Figure 58) despite passenger numbers recovering (Figure 59). There appears limited public support for expanding airports (Figure 60). Flight punctuality marginally improved year on year (Figures 61 & 62). The average number of seats on flights continues to rise (Figure 64)

SECURITY RULES AND DELIVERY DELAYS

A small but significant improvement for passengers in the airport security process came and went in June. Security restrictions on liquids in hand luggage were relaxed from June 1 at UK airports with the latest computer tomography (CT) scanners installed, allowing liquids to remain in bags. The government had previously imposed a June 1 deadline for larger airports to install the scanners, claiming it would mean "the era of the tiny toiletry is over" – although it subsequently acknowledged that, as few airports had met the deadline, 94% of air passengers would use UK airports where the restrictions remained in place.

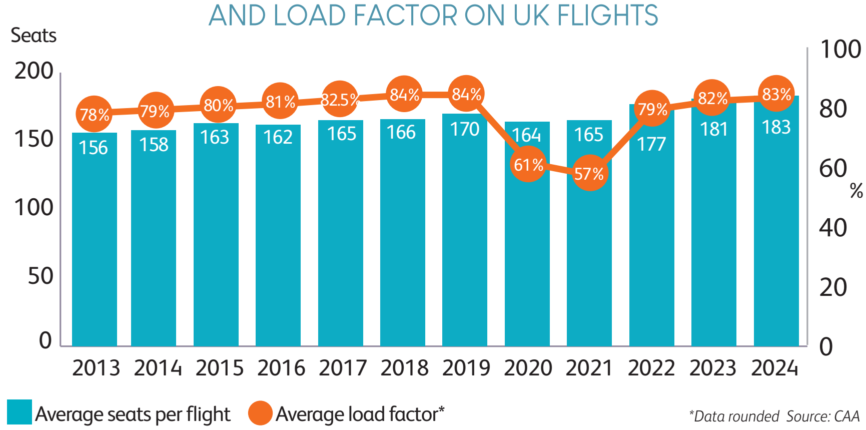
However, days later (June 9) the 100ml restriction on liquids and need to remove them from bags were reintroduced without explanation, and remained in place as this report was finalised. The reimposition followed an EC decision to suspend approval of the scanners. The EU followed the UK in restricting the scanners' use from September. European airports association ACI Europe described the decisions as "a blow", noting it "heavily penalised" airports which invested in the scanners since these are "eight times more expensive" than the machines they replaced, with operating costs "four times higher".

The outstanding issue for airlines, aside from accessing SAF, was the continuing delays to delivery of new aircraft. Boeing was still dealing with the fallout from the mid-air blowout of a section of a Boeing 737 Max-9 the previous January as we went into 2025. Ryanair, Boeing's biggest customer in Europe, revised down its growth forecasts for this year and 2026 in January as a result of the continuing delays.

Airbus also continued to suffer delays to engine deliveries and shortages of labour and components. Airbus chief executive Guillaume Faury acknowledged: "We have more demand for products than we can deliver."

Iata director general Willie Walsh warned delays to new aircraft, replacement engines and spare parts could continue for the rest of the decade, saying airlines "have no confidence of getting aircraft or parts they've ordered [and] there is no evidence it's getting better. We estimate around 700 aircraft are grounded, and getting to 1,000 is not unrealistic."

FIGURE 64: AVERAGE NUMBER OF SEATS AND LOAD FACTOR ON UK FLIGHTS



*Data rounded Source: CAA

HOSPITALITY

'THERE HAS TO BE A CEILING' ON RATES

LONDON hoteliers were "steeling themselves" for the highest number of luxury room openings in more than a decade at the start of 2025, according to the *Financial Times*.

Even without the openings, Deloitte director and head of hospitality and leisure advisory Leila Jiwnani noted: "The UK hospitality sector is still experiencing growth, but there are signs of a softening. Average daily rates have continued to rise, though not at the same pace as the previous year. At some point, there has to be a ceiling.

"Depending on the hotel class, rates might drop slightly in 2025 or there could be growth, but it will soften and impact revenue per available room (RevPAR) which would make managing some operational costs more challenging if there isn't strict control."

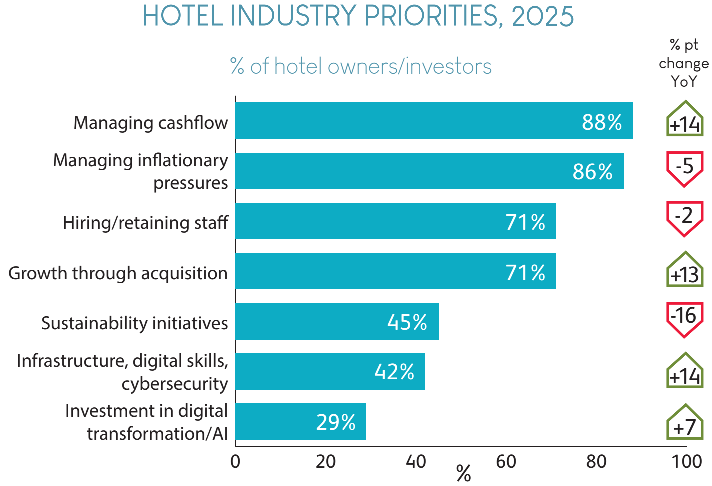
Increases in the national minimum wage and employers' national insurance contributions from April "will increase pressure on hotels", she said, adding: "Where hotels have a differentiated product and that positioning is clear, they should be able to maintain their position. Where they don't, there is a chance of the headwinds causing challenges."

Elsewhere in Europe, Jiwnani said:

> Rising costs are still a concern for hoteliers, especially as demand may be softening

CASHFLOW and rising costs top hotel operators' concerns (Figure 65)

FIGURE 65: HOTEL INDUSTRY PRIORITIES, 2025



Source: Deloitte European Hotel Industry and Investment Survey 2024

"Rates have continued to be strong. Whether that will be sustained, given the political tensions and where some countries are economically, is another matter. The outlook for the UK and Ireland seems positive, for Germany and France perhaps less so."

She described the outlook for investment as "a mixed bag", noting Deloitte's European Hotel Industry Investment Survey 2024 suggested France, Germany and the Netherlands "are experiencing a downturn". The UK and Ireland still seem to be on an upturn, Spain and Portugal continue to be on the up. Italy also seems to be turning more positive for investment. However, our survey data suggests investment could slow in Greece, which has had a very strong leisure market."

The survey rated London as Europe's most attractive city for investment, followed by Paris and Madrid, with Amsterdam, which topped the list last year, dropping to fourth.

Jiwnani noted: "A number of 'second tier' cities are becoming increasingly popular. Porto was a new entry in the survey rankings, demonstrating a number of investors are looking beyond Europe's capitals, whether because of a lack of supply or pricing that does not reflect what they're willing to pay."

She said: "There is a lot of interest at the top end of the market, and at the bottom end in the budget and limited-service segment. The bottom end of the market is where you can add more value from an investor's perspective. There is a much leaner cost structure so it's easier to get a return. We're not seeing much interest in anything mid-market." She suggested that is due to increased competition, pressure on costs and "consumers wanting more differentiated experiences".

Hospitality groups continue to launch new brands, with no sign of the sector reaching brand saturation point.

Jiwnani said: "We're seeing a lot of new brands launched and new segments of consumers driving the launch of sub-brands. Two other trends are branded residences – a key segment on the rise – and extended stay, driven by generational travel such as grandparents travelling with their kids and grandkids. We're also seeing more emphasis on micro-type hotels and a lot of interest in wellness, with brands launching wellness-focused sub-brands."

She noted: "Rising costs are still a concern. Our sentiment survey showed managing cashflow and improving performance to be the top-two priorities. But more than half the respondents expected to fuel growth through acquisitions – whether vertical, horizontal or through strategic partnerships. M&A deals are still taking a while to complete. There is a lot more scrutiny. But compared to last year, when we saw a massive gulf between buyer and seller expectations, we're seeing more appetite to get deals done. Sellers are more open to realistic valuations."

'NO GAME-CHANGING APPLICATIONS'

Digital technology is playing an increasing role and "mitigating some of the staffing challenges", according to Jiwnani, who said: "Technology can help optimise and streamline operations and back-office processes, allowing staff to focus on delivering enhanced guest experience."

She noted: "Hospitality companies are becoming more flexible in terms of what they demand from employees – offering more-flexible contracts, tapping into groups like the over-55s. But staffing is still a problem. The biggest issue is among frontline staff because they tend to work more unsocial hours."

Jiwnani added: "We're seeing increased interest in how generative AI and virtual reality can enhance the guest experience, for example by having a virtual assistant help consumers book and tailor their stay. Some big brands are replacing hotel concierge services with virtual assistants. Based on a guest profile, a concierge bot can recommend restaurants, bars or experiences. Concierges are still needed, but technology

> There needs to be the right balance between what hotels do in terms of environmental, social and governance policy and being able to deliver what guests want

RISING costs and labour shortages pose the greatest risks, according to hoteliers (Figure 66)

can increasingly provide the equivalent level of service at possibly a lower cost."

However, she suggested: "There have been no game-changing applications because the essence of hospitality is human interaction and providing the right level of service. Technology's role is in facilitating a better experience, whether streamlining back-end operations or allowing guests to personalise experiences.

"The hyper-personalisation of the guest experience is big across all hospitality segments. An example would be using virtual reality to allow a customer to see which room they want to book. Another element is around the amenities in a room. Some limited-service hotels offer the bare basics, a bed, pillow and shower, and everything else becomes an add-on. Another hyper-personalisation point is around the connectivity in a room to things you have at home – linking the TV to your Netflix account, for example – and choosing the stock in the minibar."

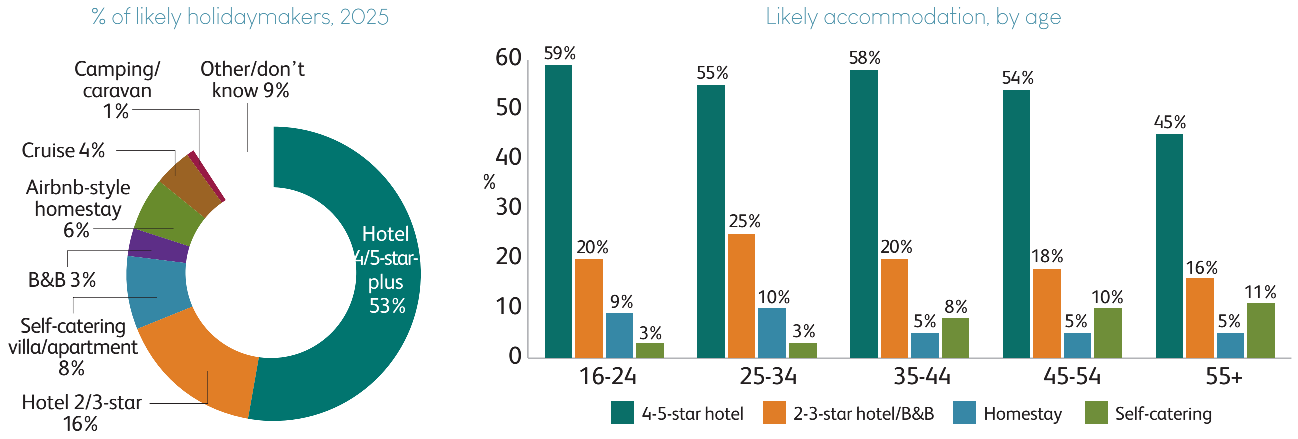
She said: "This tends to be more common at the bottom end of the market. Guests paying more for a hotel room expect to have everything included."

Attracting members of the local community to hotels has become "more important than ever", said Jiwnani,

FIGURE 66: RISKS TO HOTEL SECTOR IN 2025

Source: Deloitte European Hotel Industry and Investment Survey 2024

FIGURE 67: ACCOMMODATION FOR NEXT OVERSEAS HOLIDAY



Source: Service Science/Kantar, January 2025 Base: 925 UK adults planning an overseas holiday

explaining: "A lot of hotels tailor their food and beverage (F&B) proposition not to hotel guests but to those around the hotel now, because in a city location you have more people around a hotel than in it. If you attract local residents or office workers, your F&B outlets look fuller, there is a better buzz in the hotel and that tends to attract more people."

Major hospitality groups have also moved into offering all-inclusive hotels as leisure travellers' demand for all-inclusive accommodation has risen.

Jiwnani said: "The all-inclusive segment is becoming increasingly popular and more mainstream. Part of the reason is it's becoming more premium. Consumers not only increasingly want a premium experience but also want to know what they're going to spend on holiday. That is driven by pressures on disposable income but consumers are still prioritising travel."

'THERE NEEDS TO BE THE RIGHT BALANCE'

There are increasing efforts to make hospitality more sustainable and reduce the sector's CO_2 emissions, not least by the World Sustainable Hospitality Alliance.

Jiwnani insisted: "Sustainability is important, and consumers are increasingly aware of it. We can expect more regulatory pressures, and consumer awareness is going to drive a lot of brands and investors to focus on sustainability. But businesses and investors are focused on areas of sustainability that will drive value."

She argued: "There needs to be the right balance between what hotels do in terms of environmental, social and governance (ESG) policy and being able to deliver what guests want. Consumer perception is important. Even small steps towards becoming more sustainable go a long way when it comes to guest perception. Not having an ESG certificate or green credential could impact how much an asset is worth in the medium term because it's becoming increasingly important. Depending on the type of investor and whether they look at longer hold periods, there is a chance of regulation coming in that may mean being struck with penalties or high costs to adapt a business if an asset is non-compliant.

"But I don't see things changing quickly. A number of respondents in our European Hotel Industry Investment Survey put sustainability and climate change lower in their list of priorities, although there was a slight increase in those expecting an increased regulatory burden. The bulk of respondents saw non-compliance with a sustainability agenda as a high risk, but not in the short term."

FOUR and five-star hotels are again the prime accommodation choice of prospective holidaymakers (Figure 67)

OUTBOUND

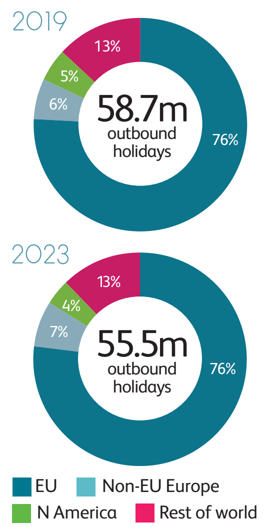
PACKAGE HOLIDAYMAKERS HIT RECORD LEVEL

Major travel groups reported strong growth in all sectors in 2024

RECORD numbers of UK holidaymakers booked overseas package holidays in 2024 and there was every prospect 2025 could be another record year, despite a fall in UK business confidence which could yet feed through to consumers.

The strong demand saw Atol holders seek licences to carry more than 33 million package customers in the 12 months to September 2025 – 1.7 million up on the previous year – with the bulk of the capacity added by the top four: Jet2holidays, Tui, loveholidays and easyJet holidays.

FIGURE 68: UK OUTBOUND HOLIDAYS BY REGION



Source: ONS

LEADING OPERATORS

Jet2 reported record passenger numbers, revenue and profitability for the six months to September, with a post-tax profit of £593 million, 20% up on the previous year in line with a 13% increase in capacity. The group confirmed a 14% increase in capacity for winter 2024-25 and 9% increase for summer 2025.

Tui reported UK operator and airline bookings for summer 2024 up 5% year on year, with group bookings up 6% and the average selling price up 3%. Its bookings for winter 2024-25 were up 7% on the prior year to December and average selling prices up 5%. Chief executive Sebastian Ebel hailed "strong growth in all sectors" and declared a rapid transformation of the group underway, saying: "We're going to be app and AI-centric [and] . . . there

The Deloitte view

Despite the persistent inflationary environment, outbound travel outperformed other discretionary spending categories in 2024 as consumers ringfenced travel budgets.

Total net spending on short holidays was up compared with 2023, according to the Deloitte Consumer Tracker survey for Q4 2024, while net spending on longer holidays remained flat. This suggests consumers are adjusting their spending habits, opting for shorter, cost-conscious trips.

Looking to 2025, several critical areas will shape the future of outbound travel:

■ **Diverse players, evolving dynamics**: The outbound market is diverse, with large-scale integrated operators, niche players and online travel agencies (OTAs) vying for market share. Large players must leverage their scale to offer competitive pricing and comprehensive packages, while niche operators specialising in escorted tours, luxury travel or specific regions can differentiate through curated experiences and personalised service. OTAs with powerful tech platforms will continue to influence booking behaviour and shape consumer expectations.

■ **Experiential journeys and emerging destinations:** Travellers are increasingly seeking experience-driven trips. Destinations like southeast Asia and South America are rising in popularity, but we also see growing interest in central Asia and eastern Europe. Outbound operators which tap into niche experiences – culinary tourism, wellness retreats, wildlife encounters – will be well-positioned.

■ **Currency fluctuations and value-seeking:** The strength of the pound will play a crucial role in shaping destination choices. Outbound operators must manage currency fluctuations, offer competitive prices and highlight value-added experiences to attract cost-conscious travellers.

■ **Navigating regulatory change:** The UK outbound market still awaits the outcome of Atol reform. Understanding and adapting to the reforms will be crucial.

■ **Adopting generative AI:** AI's transformative potential for consumers and businesses can't be overstated. Businesses must make strategic decisions about AI investment to ensure they remain competitive.

■ **Technology advances:** AI, mobile apps, OTAs, travel booking platforms and aggregators are intensifying competition. Outbound operators must leverage technology advances to enhance customer experience and streamline operations.

■ **Addressing climate change:** The increasing frequency and intensity of climate-related events was reflected in Deloitte's Future of Consumer research which found consumers who experienced climate events first-hand are more likely to factor environmental considerations into their travel plans. Businesses that align with shifting consumer preferences will be better positioned.

■ **Mergers and acquisitions:** The market has yet to return to pre-pandemic peak levels of M&A and underperformed expectations in 2024. However, increased travel sector M&A activity is anticipated in 2025. Consolidation among operators, agencies, airlines and hospitality providers may create opportunities for businesses to expand their market presence and streamline operations.

Given the evolving landscape, success will depend on players' adaptability, ability to innovate and understanding of changing consumer preferences.

■ ***Danielle Rawson, director, CFO Advisory, and Tim Robinson, director, Audit and Assurance*** is no reason we could not achieve the same market share in dynamic packaging as wholesale packaging."

A strong performance by easyJet holidays, with profits up 56% to £190 million, boosted profits at easyJet to £610 million in the 12 months to September, up 34% year on year. EasyJet holidays delivered a further profit of £43 million, up £12 million year on year, in the three months to December, and was forecast to increase passenger numbers by a further 25% this year.

Leading travel retailer Hays Travel reported a third consecutive year of rising profits on the fifth anniversary of its takeover of Thomas Cook's retail chain, with a pre-tax profit of £73 million and total transaction value of £2.55 billion for the 12 months to April.

Owner and group chair Dame Irene Hays noted the company received a licence to operate Thomas Cook's 555 shops on October 9, 2019, within a day of bidding for the estate, having "initially looked at a few branches". Cook had gone into liquidation on September 23, 2019.

CHANGE OF TACK

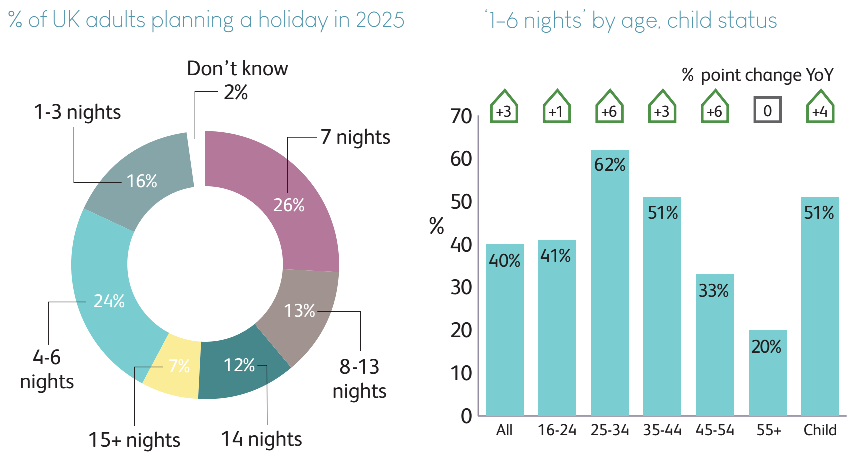
One significant change in the outbound market was the transformation of relations between Ryanair and a group of leading travel retailers. Ryanair chief marketing officer Dara Brady admitted to "a remarkable change in the industry" as Ryanair signed a succession of distribution deals with loveholidays, On the Beach, Expedia, Tui and lastminute.com, among others, as well as with aggregator Travelfusion.

The breakthrough came in a deal between loveholidays and the airline in January after Ryanair imposed a customer verification process on third-party bookings. Brady explained: "Loveholidays was first to ask, 'What can we do to fix this?' We said, 'Don't overcharge and give us the customer details', and we had a deal."

DEMAND for holidays in the EU appears remarkably consistent despite talk of growing long-haul demand (Figure 68). There is a clear increase in holidaymakers choosing shorter durations (Figure 69), but demand for beach holidays appears to have risen significantly (Figure 70)

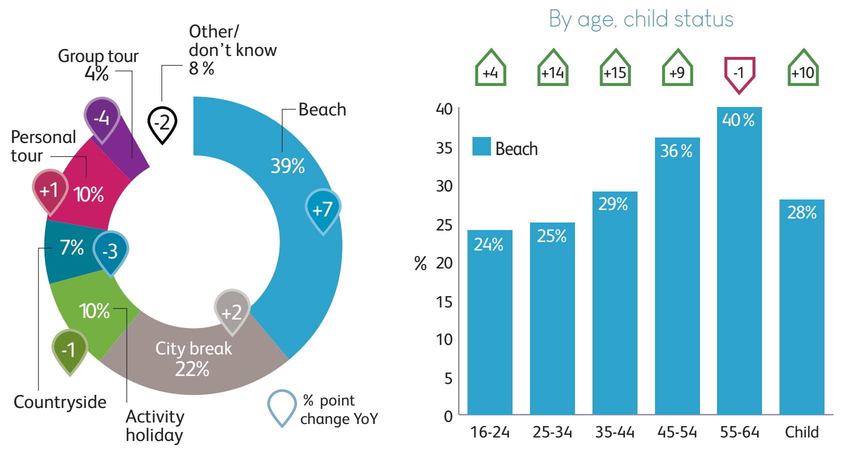
The one serious failure to affect the UK trade in the last year was that of the German-based FTI Group, parent of German operator FTI Touristik and UK bed bank Youtravel. FTI filed for insolvency in June owing at least €840 million. Youtravel had yet to resume trading at the start of this year.

FIGURE 69: DURATION OF MAIN OVERSEAS HOLIDAY



Source: Service Science/Kantar, January 2025
Base: 925 UK adults planning an overseas holiday

FIGURE 70: TYPE OF OVERSEAS HOLIDAY 2025



Source: Service Science/Kantar, January 2025
Base: 925 UK adults planning an overseas holiday

CORPORATE TRAVEL

DAY-RETURN BUSINESS TRIP IN DECLINE

GLOBAL CORPORATE travel spending returned to 2019 levels by value in 2024 but not by volume, largely due to sustainability reporting and cost considerations among multinational businesses.

The Global Business Travel Association (GBTA) acknowledged transactions had not returned to 2019 levels in July 2024, with executive director Suzanne Neufang noting travel companies "are making more money on fewer trips".

She suggested the one-day business trip by air "went out the door at the beginning of Covid and hasn't come back" and GBTA forecast corporate travel spending, adjusted for inflation, would not return to pre-pandemic levels until 2027. That triggered a *Financial Times* editorial in August hailing "the welcome demise of 'day-return' business air trips" and arguing: "Technology, cost cuts and climate change are at last curbing out-and-back work flights."

When British Airways and Iberia parent IAG reported results for the six months to June, chief executive Luis Gallego told analysts: "Business travel continues to recover at different rates across our airlines. At BA, we're around 65% in volume and 80% in revenues compared with 2019."

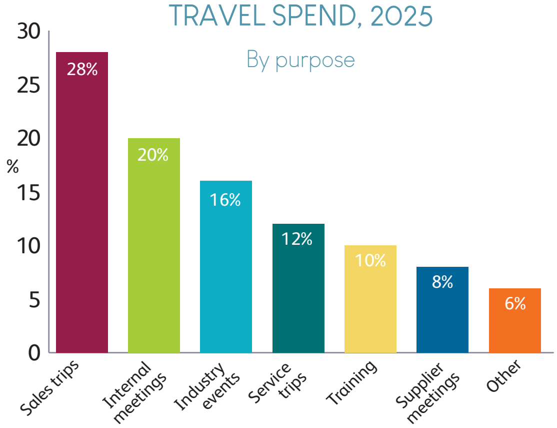
GBTA nonetheless forecast corporate travel spending worldwide would hit a record $1.48 trillion in 2024. A GBTA survey of more than 4,000 business travellers and corporate travel buyers in July found 64% reported increased spending on travel, but 37% said company travel policies were more restrictive than pre-pandemic.

Emily Hesketh, Deloitte ESG audit and assurance director, noted: "A lot of companies have seen travel as an area where there is opportunity to

> Larger businesses see corporate travel as an opportunity to reduce their carbon footprint

FIGURE 71: **FORECAST CORPORATE TRAVEL SPEND, 2025**

By purpose



Source: GBTA survey November 2024 Base: 895 GBTA members

INTERNAL meetings could account for one in five business trips this year (Figure 71)

The Deloitte view

Business travel saw a resurgence in 2024, with airlines and hotels reporting booking levels nearing those of 2019. Attending conferences and face-to-face meetings have become standard practice once again. However, there is more emphasis on the need for purposeful and strategic travel in corporate culture.

'Smart travel', characterised by cost and emissions consciousness, has become the new imperative. This entails travelling with a clear purpose and consolidating multiple trips into longer ones to reduce costs, minimise environmental impact and maximise productivity. A single five-day trip to meet multiple clients proves more focused, productive, cost-effective and environmentally friendly than two separate trips serving the same purpose. This approach is rapidly becoming the norm, replacing the outdated concept of the 'road warrior'.

Personalisation and more flexible travel allow travellers to customise their journeys by bundling desired amenities such as extra baggage, priority boarding and Wi-Fi access into a single fare.

Artificial intelligence has the potential to revolutionise business travel, benefiting both traveller and travel manager. For travellers, AI can serve as a virtual travel assistant managing itineraries, providing real-time delay notifications and automating bookings to align with changing schedules. Travel managers will leverage AI for back-office tasks such as compliance reporting.

AI's transformative potential is undeniable and eagerly anticipated. Cloud-based technology using Application Programming Interfaces (APIs) promises to provide a more consumer-grade user experience in the corporate environment. One example is enabling a corporate to book New Distribution Capability fares direct with airlines. Cloud-based technology will support cost and emissions reduction as well as improve choice and user experience.

■ ***Jon Bolger, head of Business Travel, and James Leggo, assistant director*** reduce their footprint. That interacts with cost measures. I've seen some reduce travel by up to 50%."

At the same time, a GBTA poll in October suggested higher costs are hindering the take-up of sustainable travel policies among business travellers. Almost half the respondents (46%) identified sustainability as a high priority. However, 75% of travel buyers identified costs as a barrier to greater action. Three in five (58%) cited complexity as an issue, 35% said a lack of standardised measurements and accounting was a hindrance, and 30% cited pushback from employees. A lack of transparent data was viewed as a barrier by 22%, and 14% blamed a lack of buy-in from company executives.

Three in five respondents in Europe (61%) and Asia Pacific (64%) identified sustainability as a high priority, almost double the proportion in North America (34%), while 60% of buyers in Europe reported integrating sustainability into travel programmes versus 36% in North America.

INDUSTRY IN 'CIVIL WAR'

Frustration at the fragmentation of corporate travel distribution shows no sign of abating as leading network airlines pursue individual roadmaps towards New Distribution Capability (NDC) technology. Business Travel Association chief executive Clive Wratten captured the underlying tension when he described the industry as "in the middle of a civil war" at the BTA conference in the autumn.

British Airways partner American Airlines withdrew more than 40% of its fares from GDSs in April 2023, restricting full content to NDC channels despite difficulties servicing bookings for many travel management companies (TMCs) with access to these. The carrier performed a U-turn in June 2024, admitting the approach "has driven customers away".

Wratten described attempts to address the fragmentation as "Whack a Mole", arguing "every time a TMC pulls something in" to its booking system "it pops up elsewhere and the supplier says 'You have to have it here'." He told the conference: "Airlines have a right to go direct to the customer. But they need to recognise there is demand for a TMC to have access to the full supply chain. This is [about] price parity."

The attempt to consolidate the top end of the market by Amex Global Business Travel (GBT) acquiring CWT faced hurdles in both the US and UK. The US Department of Justice filed an antitrust suit against the merger in January 2025, while a Competition and Markets Authority (CMA) investigation in the UK found the merger may "result in a substantial lessening of competition". The CMA was poised to issue a final report in March.

UK DOMESTIC business travel appears to remain well down on pre-pandemic levels (Figure 72). Overseas business travel for the UK also remains down but has increased (Figure 73)

FIGURE 72: UK DOMESTIC BUSINESS TRAVEL, 2006–24

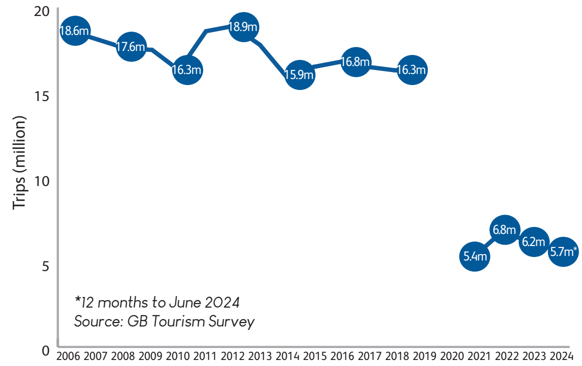
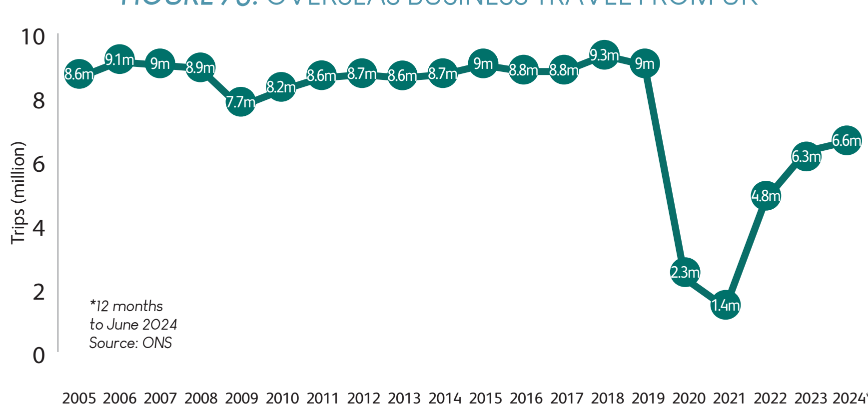


FIGURE 73: OVERSEAS BUSINESS TRAVEL FROM UK



CRUISE

'BANNER YEAR' FORECAST TO FOLLOW RECORD 2024

UK cruise bookings have hit an all-time high as ships grow in size

MAJOR CRUISE lines' revenues and profits reflected a record year for ocean cruise in 2024. Carnival Corporation reported $25 billion in revenue, up 15% on the previous year, and a full-year profit of $1.9 billion thanks to "continued strength in demand" and "strong pricing compared to 2023".

An operating profit of $3.6 billion was more than 80% up on the previous year, with Carnival Corporation's brands carrying 13.5 million passengers. Chief executive Josh Weinstein reported 2025 was "shaping up to be another banner year" and "2026 booking volumes continue to break records".

Royal Caribbean Group recorded "exceptional" full-year results, with $16.5 billion in revenue and $2.9 billion in net profit, having carried 8.6 million passengers, and forecast "another great year" in 2025. Norwegian Cruise Line Holdings had yet to report full-year results as this report was finalised, but the group had reported "exceptional" third-quarter results and record revenues.

UK cruise demand hit a record, with 2.2 million passengers cruising in 2023, 15% up on 2019 and 10% above the previous high of two million in 2018. The German market remained larger at 2.5 million but remained 3% down on 2019, while the world's biggest market, the US, was up 19% on 2019 to 16.9 million passengers. Worldwide passenger numbers were up almost 7% on 2019 in 2023, and 2024's numbers will have been higher still.

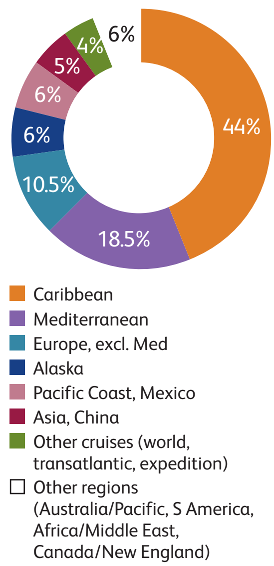
The UK and Ireland market recorded the longest average cruise duration in Europe at 10 days, and the average age of UK passengers fell to 55, down from 57 in 2019 but still above the European average of 50.

Cruise association Clia reported 27% of cruise passengers were new to the sector in the two years to 2024 and identified expedition cruises as the fastest growing sector, with carryings up 71% on 2019.

Seven ships joined Clia members' ocean cruise fleet in 2024 and another 30 are on order up to 2028, with 12 ships

FIGURE 74: CRUISE OPERATIONS BY REGION

% of total ocean cruise passengers, 2023



Source: Clia

The Deloitte view

The cruise industry began to regain a sense of normalcy in 2023, and 2024 turned out to be a strong year, particularly for the largest ocean-going operators. Occupancy rates remained robust with prices holding up, prompting some companies to report record revenues.

Early indications suggested bookings for 2025 were ahead of the same time last year entering the critical wave sales period. The US market continued to show significant growth, while the UK and European markets performed well.

Deloitte's Future of Consumer research identified a key trend influencing the sector as disruption from new market entrants, especially in the luxury segment. Expedition, luxury and river cruising are benefiting from consumers' desire for new experiences and continue to attract investment. New ships are set to add 45,000 cabins between 2024 and 2027, predominantly to the fleets of the largest operators – a 12% rise in capacity.

Fortunately, the sector has managed to shift the dial and become less reliant on its traditional customer base. An increasing proportion of holidaymakers are willing to try cruising, with the industry's appeal expanding to a wider demographic. The sector is also innovating by developing private islands as destinations, enhancing the guest experience. As the industry continues to grow, these private islands will help mitigate port capacity constraints.

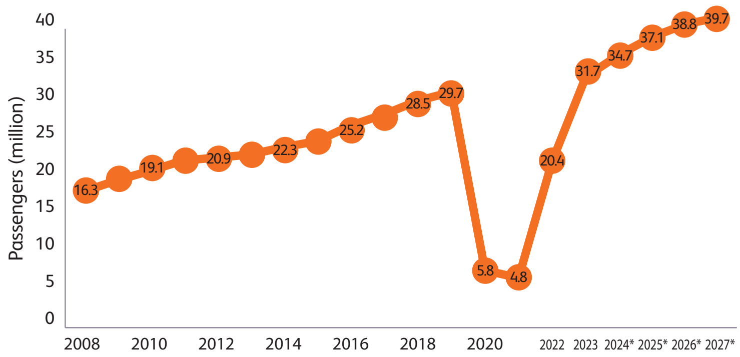
Pricing remains competitive compared with land-based holidays, suggesting cruise's growth potential could surpass that of the holiday market overall. However, the next few years are likely to prove increasingly competitive.

The cruise industry has the advantage of being able to redeploy ships when necessary due to geopolitical issues. However, disruptive events are not without challenge and will continue to see operational issues, rerouteings and changes to itinerary. Managing these impacts effectively, especially with large passenger numbers, will remain a priority.

Many new ships are using cleaner energy, including shore power and liquefied natural gas (LNG), marking a step towards reducing their environmental impact. But challenges on emission reduction persist and industry leaders must continue to focus on this issue.

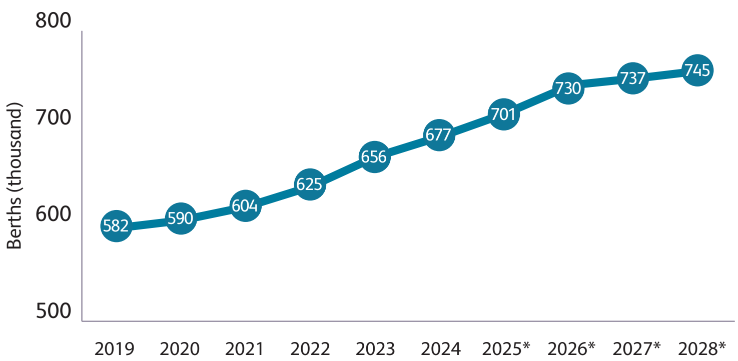
■ *Alistair J Pritchard, lead partner, Travel and Aviation*

FIGURE 75:
GLOBAL OCEAN CRUISE PASSENGERS



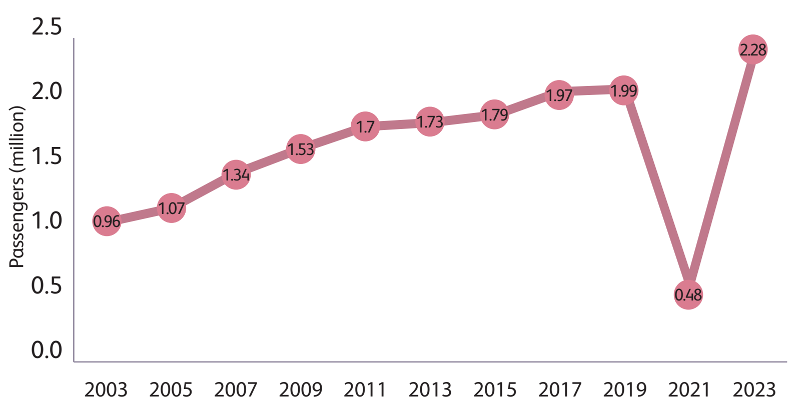
*2024 figure estimated, forecast figures for 2025-27 Source: Clia

FIGURE 76:
GLOBAL OCEAN CRUISE CAPACITY



*Forecast capacity Source: Clia

FIGURE 77:
UK & IRISH OCEAN CRUISE PASSENGERS



Source: Clia

due to launch in 2025, adding almost 39,000 berths. The new ships vary in size, reflecting the composition of the existing fleet – with 30% of the fleet by 2028 able to accommodate more than 3,000 passengers while about one-third will be below 1,000 berths.

Efforts to develop a more sustainable fleet are progressing, with Clia recording 32 pilot projects using biofuels, fuel cells or tri-fuel capable engines in its most recent Environmental Technologies and Practices Report. But with just four ships using biofuel in 2023 out of a global fleet of 300, and seven more on order, there is a long way to go to achieve the industry target of net zero by 2050. The increasing use of liquefied natural gas (LNG) produces less sulphur and particulate emissions, reducing pollution in port, but retains a large carbon footprint.

The largest cruise ships continue to grow in size, with the title of world's largest cruise ship changing three times in the last five years. The latest title holder, *Icon of the Seas*, launched in January 2024 with capacity for 7,600 passengers and 2,350 crew.

The price of cruising has fallen in real terms as ships have grown – with average fares today an estimated five times cheaper than in the 1980s. Partly this is due to economies of scale, but in large part also to cruise lines operating under flags of convenience which allow them to employ workers from anywhere in the world at minimum wage rates well below those in the biggest cruise markets.

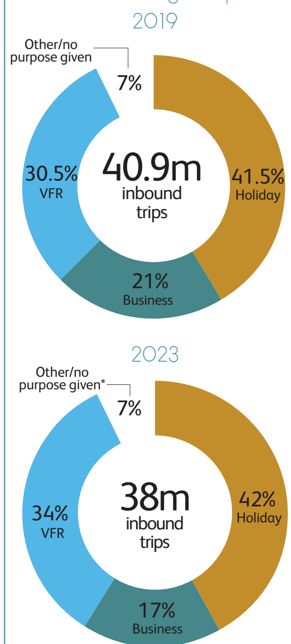
The largest ships are now too big to pass through the Panama Canal or to enter many popular destination ports. The ability of smaller destinations to cope with the volume of passengers, particularly in the Caribbean, has led to the growing development of private 'islands', such as Royal Caribbean's CocoCay in the Bahamas. In August 2023, Clia reported the opening of five new private islands or beach clubs in the next two years.

INBOUND

SECTOR CALLS ON GOVERNMENT 'TO BACK A WINNER'

Charging £16 for an ETA may cut against tourism minister Sir Chris Bryant's 25% growth target

FIGURE 78:
INBOUND VISITS TO UK BY PURPOSE
% of overnight trips



**Trips for sports, events, study etc*
Source: ONS

INBOUND VISITOR numbers to the UK in 2024 were expected to reach 95% of the 2019 level and spending surpass that of the last pre-pandemic year by 14%. However, spending adjusted for inflation was likely to reach only 92% of the 2019 level.

Industry association UKinbound wrote to incoming prime minister Sir Keir Starmer in June highlighting a series of policy measures it argued "could be rolled out relatively quickly" to boost the sector and contribute to economic growth. These included a reformed and expanded youth mobility scheme, an extension of passport-free travel schemes for those under 18, a new VAT reclaim scheme, a "more competitive" Electronic Travel Authorisation (ETA) system, and a restoration of tourist board budgets to levels before inflation took off in 2021-22.

UKinbound chief executive Joss Croft told *Travel Weekly*: "Inbound travel will grow 7% in value this year and is forecast to grow 20% by 2027, so we're calling on the government to back a winner. He noted most of the association's asks of government "don't cost any money" when the sector remains subject to "air passenger duty, high VAT, the loss of tax-free shopping and a lack of visibility of our tourism authorities". Croft insisted: "The UK should be more ambitious about the role inbound tourism can play in economic growth."

Tourism minister Sir Chris Bryant signalled his embrace of that ambition when, in October, he told *Travel Weekly*: "I would like to see us rival France for inbound tourists." He set a target of a 25% increase in overseas visitors to the UK to 50 million by 2030, saying: "I know that is a big ask [but] by the next election I want to see us charging up the list of countries for inbound tourism."

He insisted: "My first question to everybody in tourism is, what is the barrier to growth that the government can deal with?"

Bryant announced a new Visitor Economy Advisory Council made up of tourism and hospitality leaders to replace the former Tourism Industry Council and told a Tourism Policy Conference in November: "Too many of

The Deloitte view

Inbound travel to the UK remained strong in 2024, with a continued upwards trend year on year, according to the Office for National Statistics (ONS). There were 40 million arrivals of non-British nationals to the UK in the year to June, an increase from 37 million for the equivalent period a year before.

VisitBritain reported inbound visits in the second quarter of 2024 up 4% versus 2019 and 9% versus 2023, with increases on 2023 in both the number of holiday and business visits, albeit business visits remained below 2019 levels. Inbound travel from Europe increased by 13% in 2024 on 2023. The US remained the number-one source market for leisure travellers, although inbound travel from North America remained flat.

The UK expanded its Electronic Travel Authorisation (ETA) scheme from January 8 to apply to 54 nationalities, all outside Europe, including major inbound markets such as the US, Australia and Hong Kong. The scheme previously applied solely to travellers from six Gulf states. It was due to extend to travellers from Europe from April.

While the scheme is not intended to be onerous, the requirement to verify travellers' ETAs adds a further data validation and retention requirement for the travel industry. We anticipate confusion regarding ETA requirements will lead to a short-term increase in booking issues for tour operators, such as refund requests and cancellations where travellers were not aware of the requirements.

Businesses will need to focus resources on monitoring the requirements and ensuring employees comply.

We continue to see a strong focus by employers on the management of business travel, including travel restrictions informed by both cost management measures and sustainability policies. It's likely this level of caution will continue and may impact the inbound business travel market.

■ ***Ed Knight, director, Tax***

my predecessors did not see tourism as a priority." However, he rightly noted: "There is a whole set of issues which have a clear effect on tourism where the responsibility lies with the Home Office."

This was made all too clear when, in January 2025, the Home Office announced an increase in the cost of an ETA from £10 to £16 even as it responded to aviation industry calls to remove transit passengers from the ETA requirements by confirming a trial exemption of passengers transiting via Heathrow or Manchester. The ETA scheme was extended to travellers of 54 nationalities, including the US, in January, having previously applied only to visitors from six Gulf states. It is due to be extended to EU and other European nationalities from early April.

The industry reaction was furious. Tourism Alliance director Richard Toomer described the decision as "staggering" and "a kick in the teeth". Croft called it "a staggering blow" just as ETA requirements are extended to visitors from Europe, arguing: "International tourism is competitive and the two key motivators to visit a destination are value for money and quality of welcome. This damages our standing on both. There is a false assumption that visitors will continue to choose the UK."

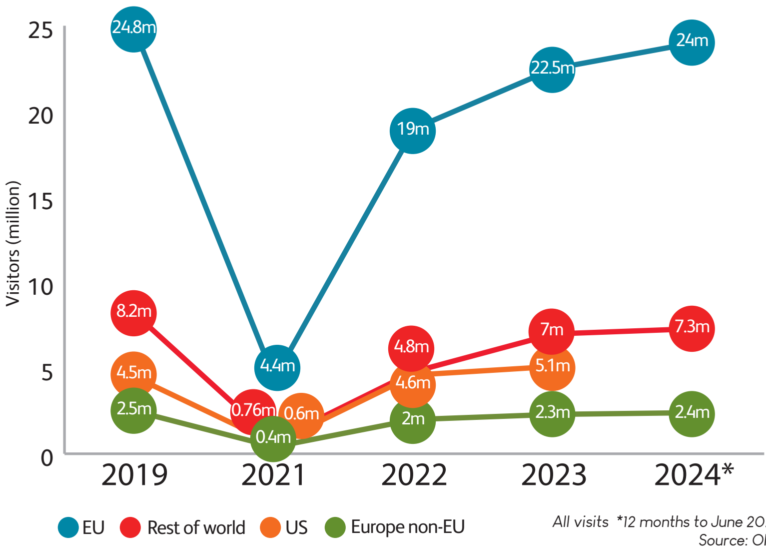
The EU's European Travel Information and Authorisation System (ETIAS), when finally introduced, will cost €7. The Home Office said the fees, which will also increase for other immigration services, would generate an additional £269 million a year.

FIGURE 79: OVERSEAS VISITORS TO UK

**Visits/holidays for 12 months to June 2024*
All visits include business and visiting friends & relations (VFR) Source: ONS

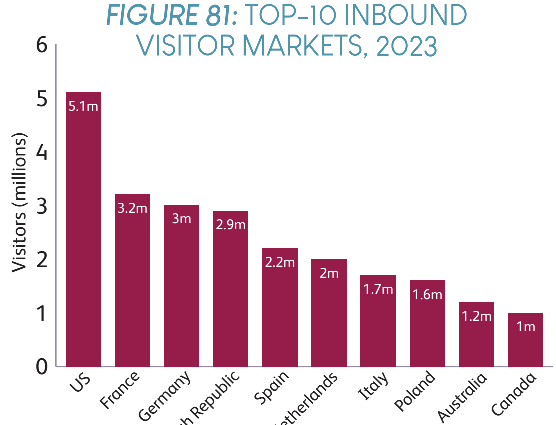
THE NUMBER of international visitors to the UK has returned close to 2019 levels, but with a significant increase in US visitors (Figures 79, 80 & 81)

FIGURE 80: INBOUND VISITORS BY KEY MARKETS



*All visits *12 months to June 2024*
Source: ONS

FIGURE 81: TOP-10 INBOUND VISITOR MARKETS, 2023



Source: ONS

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 30-plus 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 more than 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.

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DOMESTIC

UK HOLIDAYS LOSE OUT TO OVERSEAS DEMAND

The post-pandemic surge in domestic travel has abated

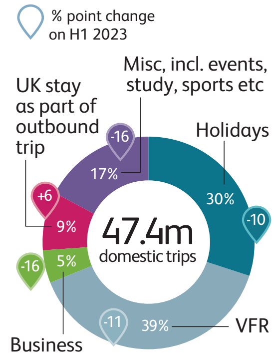
UK DOMESTIC trip and holiday numbers returned to pre-Covid levels in 2022 but have since seen a decline, no doubt due to strong overseas holidays demand combined with cost-of-living pressures.

Great Britain Tourism Survey results for 2023 showed a 5% fall year on year to 117 million domestic overnight trips – the lowest since 2014 – and a 2% decline to £31.3 billion in spending, with a 9% decline adjusted for inflation despite a 3% rise in average spend per trip. The decline in volume was driven by a 12% fall in domestic holidays, with a 19% increase in domestic overnight stays as part of an overseas trip confirming the impact of surging demand for holidays abroad.

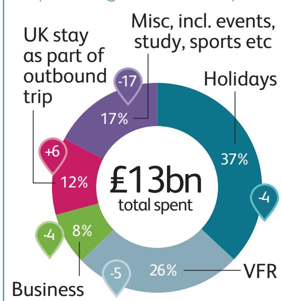
The countryside saw the sharpest fall in areas visited, at 16% down year on year. Seaside towns and major cities saw just a 3% decline in overnight visitors. Caravan and camping sites saw the greatest dip by accommodation type (14%). Hotels and other serviced accommodation saw a 6% decline and commercial rentals a 1% rise while remaining just 11% of the market.

FIGURE 82:
UK DOMESTIC TRIPS, H1 2024

January to June, % of total



Spending, % of total spend



Source: GB Tourism Survey

Figures for the first half of 2024 showed a continuing fall in numbers and overall spending. The number of overnight trips in January to June fell 12% year on year to just over 47 million and spending was down 8% nominally but 11% adjusted for inflation despite the average spend per trip increasing 1% in real terms. The only category of trip to increase in both volume and spending in the first half of the year was 'domestic overnight stays as part of an overseas trip'.

These trends continued into the third quarter of last year, with an 8% decline year on year in overnight trips. However, there was a nominal 14% increase in spending during July to September and a 10% increase in real terms. The cumulative decline in trips for the nine months to September stood at 10%.

Yet spend per trip in the third quarter rose 23% nominally and 20% adjusted for inflation, suggesting somewhat stronger ▶

The Deloitte view

The UK's domestic travel market is experiencing a return to more normal conditions with a decline in trips for both holidays and business in the first half of 2024. However, despite a return to international travel, domestic short breaks remain popular, having grown in popularity during Covid restrictions and subsequently due to the cost-of-living crisis.

The rise of remote and hybrid working continues to allow for greater flexibility in travel, while economic uncertainties and an increasing awareness of sustainability are encouraging people to explore destinations closer to home. This shift towards staycations is reshaping the tourism landscape, presenting both challenges and opportunities for businesses, with growing demand for rural retreats, unique accommodation and active holidays.

The cost-of-living crisis has also led to a greater emphasis on value for money. Travellers are increasingly prioritising destinations that offer affordable luxury, all-inclusive packages and off-peak options.

Environmental consciousness is growing, with travellers seeking eco-friendly accommodation, sustainable transport options, and destinations committed to responsible tourism practices.

According to survey data by Kantar, seven in 10 consumers intend to take a holiday in the UK this year, up from six in 10 last year. According to Deloitte's Future of Consumer research, 47% of millennials (born 1981-96) have planned an entire trip around a specific restaurant and 46% have travelled to view a place seen on Instagram. Businesses must embrace digital transformation to capitalise on these trends.

- Travellers will increasingly prioritise immersive experiences, outdoor adventure, local culture and personal enrichment, and this will drive demand for curated tours, culinary adventures and wellness retreats.
- The lines between work and leisure continue to blur, leading to a surge in 'workcations'. Destinations offering strong Wi-Fi, co-working spaces and inspiring environments will be particularly appealing.
- Technology will play a pivotal role in shaping travel experiences, from AI-powered booking platforms to personalised itineraries and contactless payments.
- Eco-conscious travellers are seeking responsible tourism offerings, including eco-friendly accommodation, locally sourced food and opportunities to engage in sustainable activities.

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

DOMESTIC
UK HOLIDAYS LOSE OUT TO OVERSEAS DEMAND

demand. The number of domestic business trips rose 14% on 2023 in the quarter while holiday trips fell 17% and domestic overnight stays as part of an outbound trip rose a further 7% to represent 8% of all overnight trips and 11% of total spending. Quarterly spending on these trips rose 52% year on year to £1.2 billion.

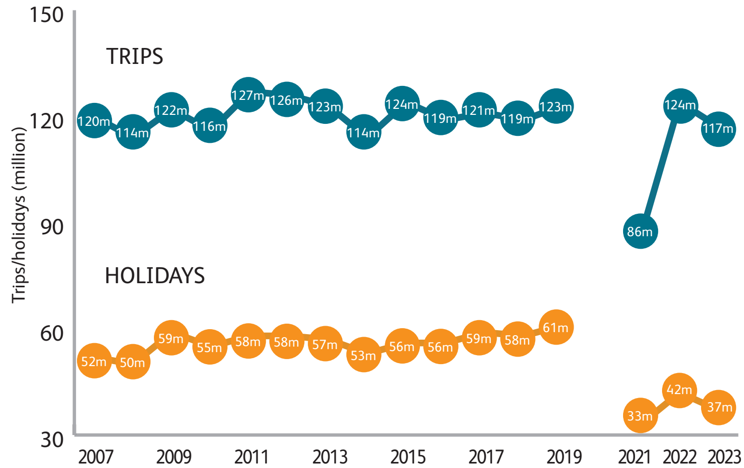
SPLIT ON PACKAGE TRAVEL REFORM

Given stalling domestic tourism growth, the sector will be pleased to have a tourism minister, Sir Chris Bryant, who appears engaged with and committed to the industry.

Bryant is an experienced MP, one of the few in government to have served as a minister before last year. But he has a wide range of responsibilities not only at the Department for Culture, where he combines tourism with being minister for the creative industries, but also at the Department for Science, Innovation and Technology where he is minister for data protection and telecommunications. The Information Commissioner's Office and UK Space Agency also fall within his remit. So, the time the minister devotes to tourism may necessarily be limited.

The sector will be interested too in developments at the Department for Business and Trade, since it proposed removing domestic packages from the Package Travel Regulations in a Call for Evidence in late 2023. The process has since stalled and it seems unlikely domestic packages including significant transport arrangements would be removed. But the Association of Atol Companies noted its members were "split equally" between those in agreement with removing these from the regulations and those considering it important to retain protection.

FIGURE 83:
UK DOMESTIC TRIPS AND HOLIDAYS, 2007–23

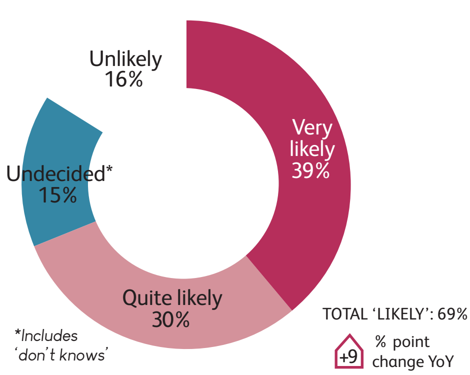


Source: GB Tourism Survey 2020 figures not available as survey suspended

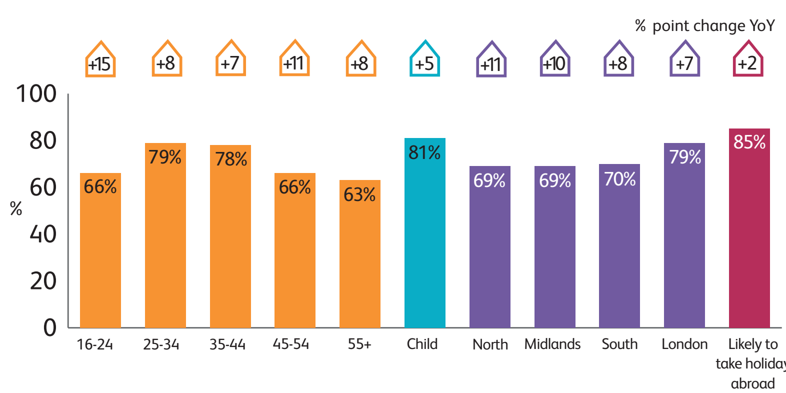
UK DOMESTIC trips appear down in number (Figure 83), but there appear strong intentions among consumers to take a domestic holiday in 2025 (Figure 84)

FIGURE 84: DOMESTIC HOLIDAY DEMAND, 2025

UK adults likely to take a UK holiday



By age, child status, region and likelihood of overseas holiday



Source: Service Science/Kantar, January 2025 Base: 1,281 UK adults

REPORT PARTNER
TRAVEL WEEKLY INSIGHT REPORT 2025

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

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