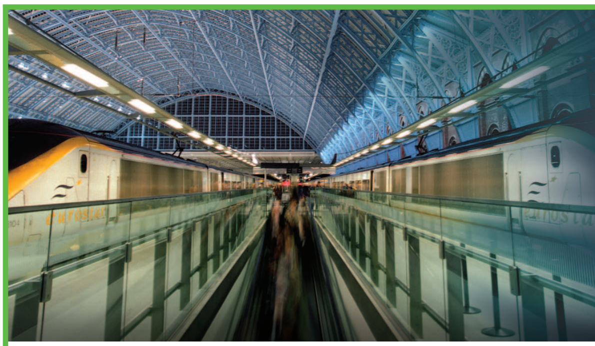
TRAVEL NATION REPORT

EXPLORING TRAVEL BEHAVIOURS IN THE CURRENT CLIMATE

APRIL 2009



INTRODUCTION

FOREWORD BY RICHARD BROWN

The last two decades have seen foreign travel move quickly from a rare luxury to a regular experience for many people. With the economy now in recession, we wanted to explore how quickly people's habits would change; whether travel will continue to be an essential part of life during a global recession.

We all know instinctively just how crucial our holidays and short breaks are to our sense of wellbeing, but will consumers continue to prioritise them in the current economic climate? What impact will reduced resources have on consumer attitudes to leisure spend? Is the travel industry offering consumers the service they demand? These were some of the questions we wanted to answer.

Eurostar commissioned this research because we know that the environment is changing quickly and that our success as a business is dependent on us staying close to what travellers need and being able to adapt to their evolving needs.

We have been operating since 1994 and have since witnessed unprecedented change in the industry. Among the most significant changes have been the massive increase in the accessibility and availability of air travel and the impact this has had on the cost of short haul travel; the explosion of the internet, price comparison sites and peer review sites; a huge growth in concerns about the environmental impact of travel; and, since 14th November 2007, the connection of the UK to high-speed rail in Europe.

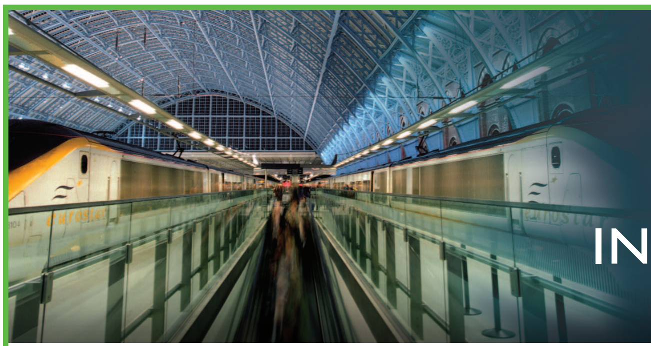
Many have referred to the opening up of travel opportunities during this period as the democratisation of travel. In this report we explore whether more recent changes within the industry have undone some of this good work, whether the focus on the pursuit of cheap travel has been to the detriment of the quality of experience and whether this has had a knock-on impact on the emotional rewards of travel.

Has the travel industry lost sight of the end goal – helping consumers have the best experience possible? And at the heart of it all is the question: what is the 'value' of travel – emotional, recreational and cultural? Only by listening to consumers can we really understand what they want. We'll be looking at the insights this research has provided and we are committed as a business to continue to evolve to meet consumers' changing needs in 2009 and beyond.

I hope you find the report as interesting as we do.

Richard Brown

CEO, Eurostar



INTRODUCTION

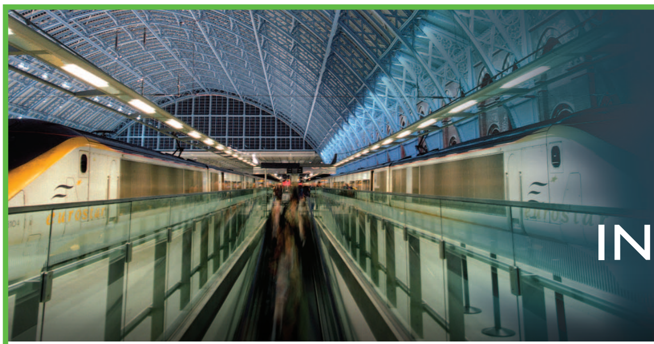
OUR REPORT

Our research was focused on three central themes:

- **What it is that drives our desire for travel? Why do we value it?**
- **How are consumer spending patterns changing in response to the recession?**
- **How well is the travel industry meeting the changing needs of travellers?**

These are turbulent times and consumer behaviour is in a state of flux. This report aims to understand consumer attitudes as they evolve; because only by understanding consumers can we hope to meet their needs.

THE REPORT IS SPLIT INTO THREE SECTIONS:



INTRODUCTION

KEY FINDINGS:

1. Of the luxury items we asked about, we prioritise holidays the highest. They come top of our leisure spend, above eating out, buying new clothes and entertainment.

2. Over a third of adults (36%) would happily not eat out in restaurants for an entire year and nearly one third (29%) would rather not buy any new clothes for an entire year than miss out on their holiday.

3. More than four out of ten people (44%) would prefer to take a number of short breaks throughout the year than one long holiday.

4. Resources might be scarce but more people may go on holiday this year than last. Our survey found that 68% of people plan to go on holiday* in 2009 compared to 65% who went on holiday in 2008.

5. The top three reported factors which affect destination choice are all centred on cost – special offers are cited as the single most influential factor followed by transportation costs and then expenses at the destination.

6. 50% of our sample said that these uncertain times made them more inclined to holiday closer to home – in the UK or mainland Europe.

7. The exchange rate is not considered an important factor when choosing where to go on holiday – this is only a key factor for nearly one in five of us (19%).

8. No single sector of the travel industry is seen to offer good value and be trusted by consumers. Those sectors that score highly on value are less trusted and those that are trusted are generally not seen to be offering great value.

9. There is a need for greater transparency in pricing – over half of our sample (51%) said that they no longer pay much attention to prices advertised by airlines because they can rarely book at those prices.

10. Two thirds (64%) of us will use internet comparison sites and over half (53%) will use peer review sites before booking our holidays this year.

* Holidays were classified as a stay of at least five nights, excluding visits to family

1: THE VALUE OF TRAVEL: CASUALTY OF THE RECESSION OR A HARD HABIT TO BREAK?

Whilst statistics tell us that the number of people travelling has increased exponentially over the past 20 years, we wanted to understand the following: where travel sits alongside other expenditures at a time when people's disposable income is coming under increased pressure, what drives people's need to travel and what tangible benefits people attribute to holidays and short breaks.

"During what could be the most severe economic downturn of a generation, we prioritise travelling above virtually everything else"

Our research found that the need for travel has ingrained itself amongst British consumers to such a degree that even now, during what could be the most severe economic downturn of a generation, we prioritise travelling above virtually everything else.

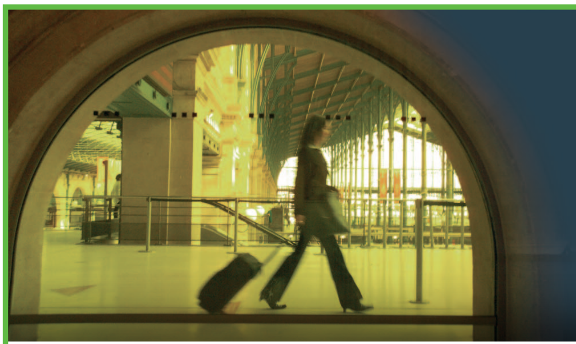
Resources might be scarce but year on year more people may go on holiday this year than last. Our survey found that 68% of people plan to go on holiday in 2009 compared to 65% who went on holiday in 2008.

It would seem that, far from dampening our appetite for travel, the recession has actually increased it. Our results suggest that more people are prioritising holidays this year than last. Our qualitative research, conducted by Dr. John Armstrong, suggests that this is because holidays provide the chance to escape the increased stress at work due to the recession and give us a chance to recharge.

It seems that the recession is forcing us to re-prioritise. We've seen elsewhere that 'value' brands are booming and that larger material possessions such as cars are suffering the most. Our results suggest that we place greater emphasis on experiences, family time and relaxation than we do on conspicuous consumption of material goods.

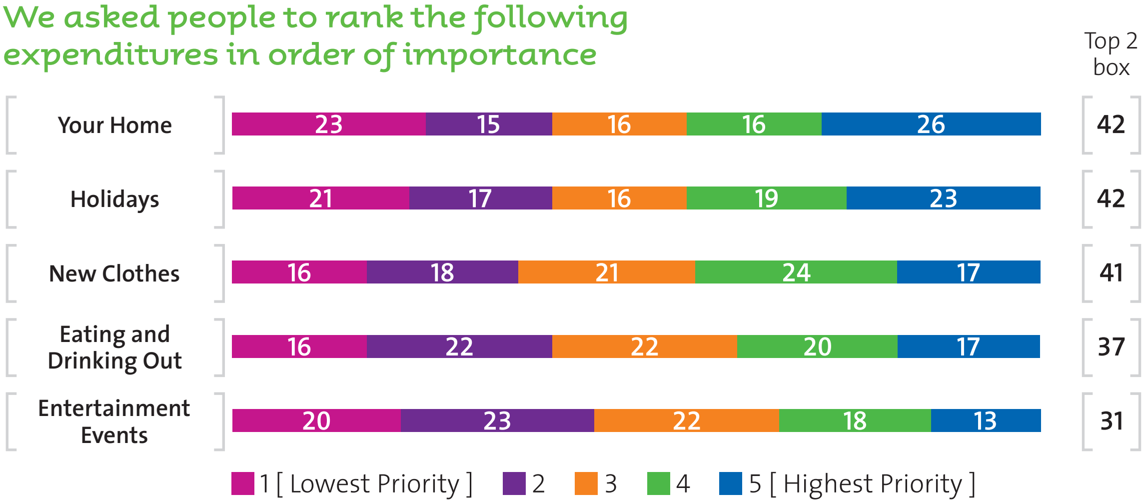
"Far from dampening our appetite for travel, the recession has actually increased it"

VALUE
TRAVEL
RECESSION



THE VALUE OF TRAVEL

We asked people to rank the following expenditures in order of importance



Rank the items from 1 - 5 in order of what your spending priorities might be in the current economic climate; where 1 is your lowest priority and 5 is your highest priority.

Base: Total 1000

Britons love their holidays almost as much as their homes

We can see from the chart that the highest priority for income is home improvements. We know that the British love their homes and that the market is in decline. It could be that because people are unable to move house they are choosing to invest in their current homes to improve their immediate environment. What is interesting though is how many other things we are prepared to forego in order to afford a holiday.

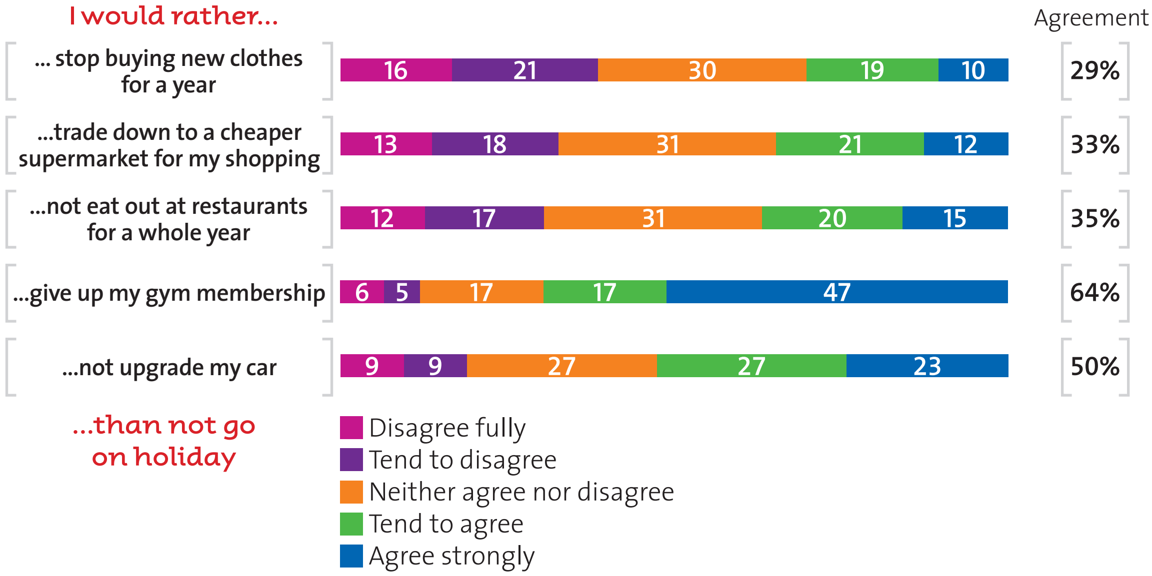
Holidays are the new eating out

After the home, holidays come top of our list of spending priorities - above eating out, buying new clothes and entertainment.

In order to find out exactly where holidays come in our list of spending priorities, we also asked people to make direct trade-offs between holidays and other purchases. The results underline just how central holidays are to our sense of wellbeing.

THE VALUE OF TRAVEL

One in three would go without new clothes or eating out for a year, trade down to a cheaper supermarket, give up their gym membership and not upgrade the car to keep their holiday



Below are a number of statements, which people have made about the types of choices they have to make when it comes to taking holidays given the current economic climate. To what extent do you agree or disagree with each of these statements? Base: Total 1000

We found that nearly one in three of us (33%) would rather trade down to a cheaper supermarket for our weekly shopping than forego our annual break and that over a third of us (35%) would happily not eat out in restaurants for an entire year in order to afford a holiday.

And it's bad news for gyms and car manufacturers - given the choice, 64% agree they would give up their gym membership in order to afford going on holiday and 53% would pass on upgrading the car.

Travel therapy the new retail therapy

What does all this say about us as consumers? It could be that we have come to see travel therapy as the new retail therapy. These results certainly appear to show that we value our holidays and therefore our experiences, much more than material possessions. Other qualitative research commissioned by Eurostar, conducted by Dr John Armstrong (see appendix), tells us that holidays and travel experiences provide us with social currency. Indeed, a closer inspection reveals the depth of the need that holidays meet.

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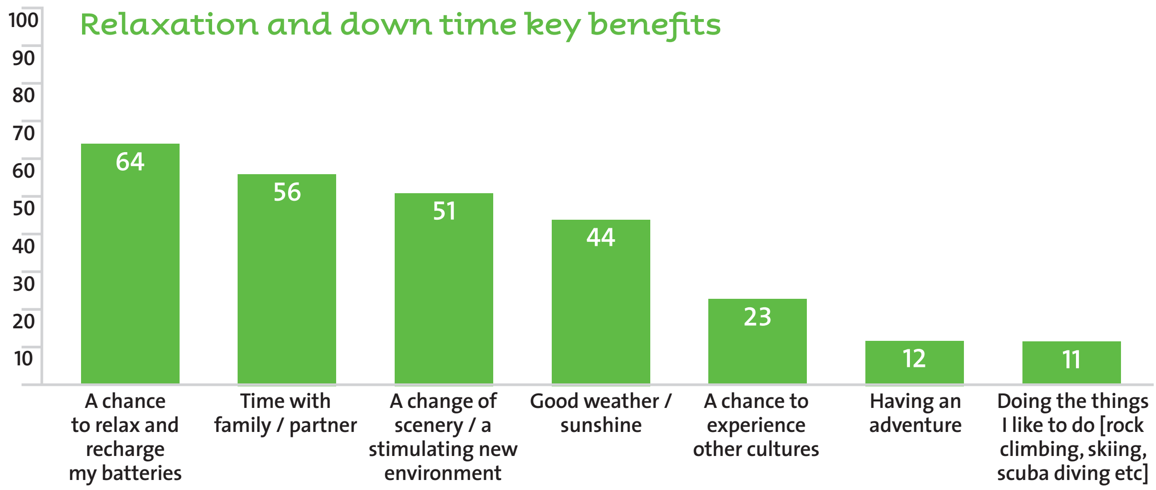


Below are some benefits that other people have identified about taking a holiday or short break. In your opinion, from the list below, what are the main benefits of taking a holiday or short break? Please choose a maximum THREE answers from the list below. Base: Total 1000

Relax and recharge

Holidays are prioritised above virtually everything else, suggesting that the need being met is one that we hold very dear. Are we all adrenaline junkies, sun seekers or culture vultures?

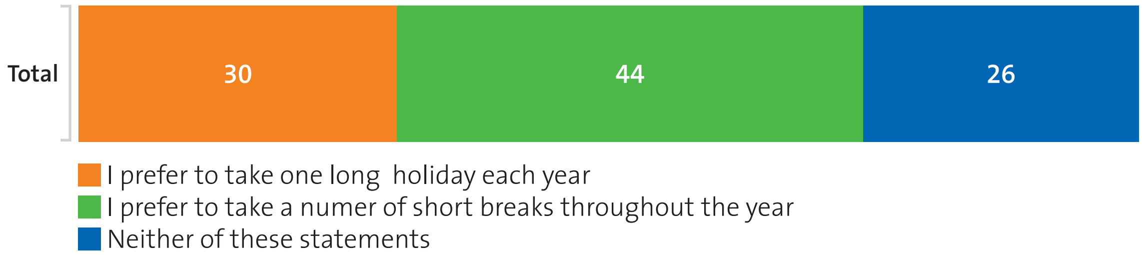
In fact, for most people, the key attractions of taking a holiday or a short break are much simpler. The top three benefits, as identified by the majority of our respondents, are: a chance to relax; spend time with their family or partner; and a change of scenery.

It would appear that, while having an adventure and pursuing interests are very enjoyable, they are actually far less important than the need to spend time relaxing, away from the everyday pressures found at home and work.

These results must go some way to explaining why, during a period of economic pressure, the number of people taking a holiday is going up, not down. The key motivator for the majority of people taking a holiday is the chance to escape, relax and recharge the batteries in preparation for the everyday challenges of living during some of the most unsettling times seen for several decades.

THE VALUE OF TRAVEL

Almost half of our respondents declared a preference for shorter breaks throughout the year compared to just a third who prefer one longer holiday



Below are two statements that other people have made about their holiday habits.
Which of these statements, if any, comes closest to your own view about holidays? Base: Total 1000

Top-up Britain

Just as many of us need to top-up our phones, it would seem that we also need constant holiday top-ups to maintain our equilibrium throughout the year. One holiday a year is no longer enough - we want to escape regularly, even if it means decreasing the length of each trip.

More than four out of ten people (44%) would prefer a number of short breaks throughout the year compared to the number of people who prefer one long holiday. A single long holiday no longer does the job - we might come back relaxed and recharged in September, but it clearly leaves us craving a break throughout the rest of the year. Other qualitative research commissioned by Eurostar, conducted by Dr John Armstrong, tells us that we see our year as a series of mental peaks and troughs and that regular breaks give us multiple peaks to look forward to throughout the year. With increasing pressure at work, a regular holiday fix has become essential for our overall wellbeing.

> "Regular breaks give us multiple peaks to look forward to throughout the year"

> "Just as many of us need to top-up our phones, it would seem that we also need constant holiday top-ups to maintain our equilibrium"

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2: CHANGING SPENDING PATTERNS: CONSPICUOUS CONSUMPTION VERSUS CONSIDERED SPEND

Home is where the holiday is

In this section we wanted to explore some of the hypotheses and theories put forward by media and other stakeholders as to what impact the recession will have on where, why and how people go on holiday.

As we shall see in the next section, cost is the central theme for the top three factors that impact people's choice of holiday destination. But cost alone is not the sole driver. A pattern of risk averse, cautious behaviour is starting to emerge and this trend starts to enter into a more emotional territory: 50% of our sample said that these uncertain times made them more inclined to holiday closer to home – the 'no-haul holiday'.

> " The exchange rate is not considered a significant factor as it influenced choice of destination for less than one in five of us "

> " 50% of our sample said that these uncertain times made them more inclined to holiday closer to home – the 'no-haul holiday' "

You can't control the... exchange rate

Surprisingly, our panel told us that they would be continuing to travel to the same European destinations in roughly the same numbers as last year, suggesting that the fall in exchange rate of the pound against the Euro has not had the dramatic impact on travel to the Eurozone that has been widely predicted.

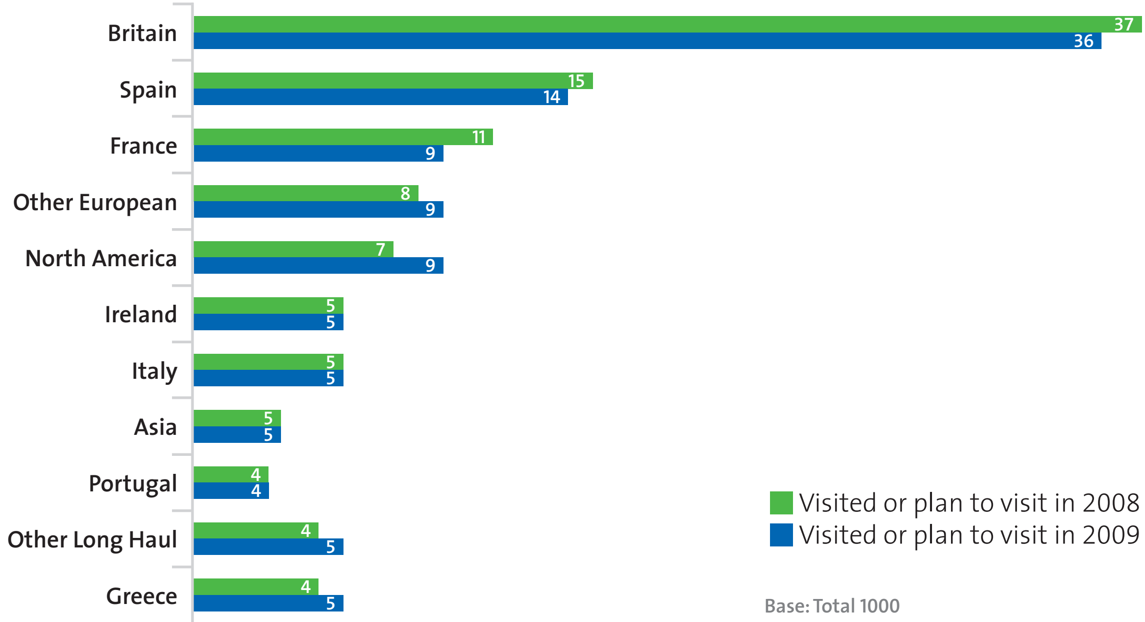
As we shall see in a moment when we look at factors affecting destination choice, the exchange rate is not considered a significant factor as it influenced choice of destination for less than one in five of us. Like the weather, it is out of our control and therefore not something which can be factored in to the same degree as the cost of the train tickets or the deposit needed for the accommodation.

It may be that the reasons for our continued loyalty to the Eurozone are less rational than this: habits are hard to break and it could be that it will take longer than a few months of recession to change behavioural patterns formed over several decades.

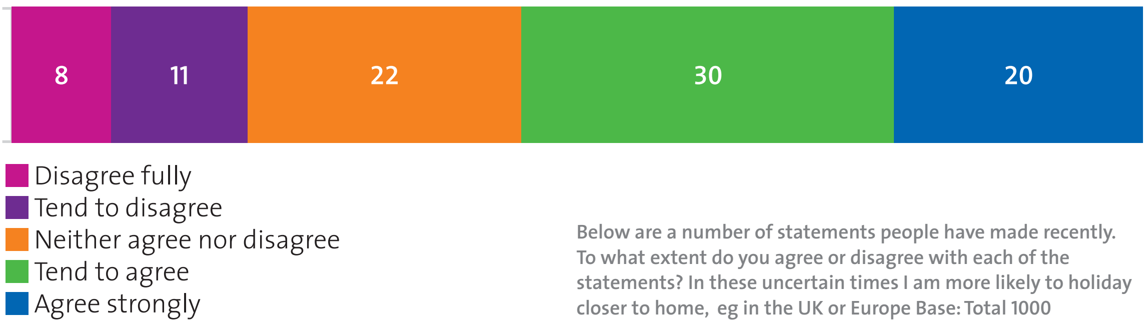
SPENDING PATTERNS

CHANGING SPENDING PATTERNS

According to our results the UK will see an increase in domestic travel during 2009. Surprisingly, the Eurozone doesn't appear to be significantly affected...yet



In these uncertain times, half the sample will holiday closer to home



Below are a number of statements people have made recently. To what extent do you agree or disagree with each of the statements? In these uncertain times I am more likely to holiday closer to home, eg in the UK or Europe Base: Total 1000

CHANGING SPENDING PATTERNS

Cost remains key factor

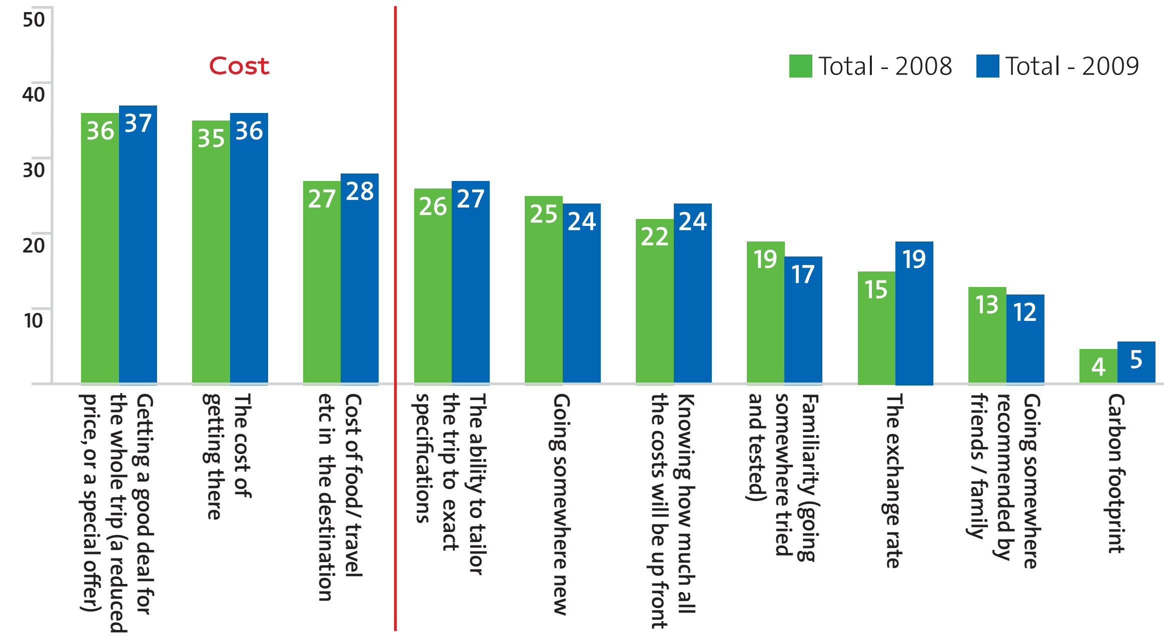
The top three reported factors which affect destination choice are all centred on cost.

In first place is 'getting a good deal for the whole trip'. As value becomes ever more important, consumers are the first to admit that they love a bargain and many say that they will be swayed by 'special offers'.

In second place is the cost of travelling to a destination, which goes a long way towards explaining the trend towards holidaying closer to home as this should substantially cut travel costs for most families. In third place are the costs such as travel and food at the destination. Our qualitative research tells us that people's sense of control over their holidays has shifted from wanting the ability to choose between a variety of modes of transport, destinations and accommodation to wanting to make careful decisions about how they spend their money.

These results emphasise how central cost is to the current consumer mindset and therefore how crucial it is for all operators to be perceived as good value.

In 2008 and 2009, deals and costs are still the most important factors affecting holidays and destinations. Transparency of costs is increasing in importance



Below are a number of factors, which may or may not affect your choice of holiday destination. Please indicate which factors were important when choosing your holiday or short break destination in 2008 and which will be important factors this year. Base: Total 1000

CHANGING SPENDING PATTERNS

All aboard the green train?

These results also show that, while green is lower than cost on the list of priorities, its influence has not declined.

Over the last twelve months, although media focus has switched from impending environmental disaster to imminent financial disaster, green has remained a constant on the consumer agenda.

The fact that it is undiminished by the economic downturn suggests that, while they are yet to become mainstream, environmental concerns are here to stay. Indeed, in other qualitative research conducted by Eurostar, there is strong reason to believe that environmental concerns are becoming increasingly important to consumers.

With the recession top of mind for now, most people consider a low carbon impact a nice-to-have, not a must-have. For the majority, whilst it is a less significant factor affecting people's choices, it nevertheless plays a role in reinforcing decisions.

Considered spend

Although at first glance it would seem that there are no significant changes in the factors affecting destination choice between 2008 and 2009, there is one pattern which is significant in its consistency. While no individual factor has changed to a statistically significant degree, there is an increase across the board. **Every factor** is considered slightly more important this year than last. This shows that people are making more cautious, more considered decisions.

We have seen that people are prioritising their holiday or short break above other leisure spends in difficult economic times, but this prioritisation means it is more important than ever that the holiday delivers the best possible experience.

> "While they are yet to become mainstream, environmental concerns are here to stay"

> "Every factor is considered slightly more important this year than last. This shows that people are making more cautious, more considered decisions"

Stick to what you know: in turbulent times we shy away from risk

For many this has led to an increased desire to 'stick to what you know', shying away from the unnecessary risk of the unknown. As we saw earlier, more and more people are opting to holiday closer to home and minimise risk in this way. And, while familiarity may not make it into the top three here, it still has a significant influence over destination choice.

As we see in the chart below, more than one in three of us (35%) agree that holidays are a risky investment and these uncertain economic times mean we are 'more inclined to go somewhere tried and tested'. And nearly two thirds of us (63%) would like to manage risk by doing our homework, 'looking for advice' on how to get the best value from our destinations.

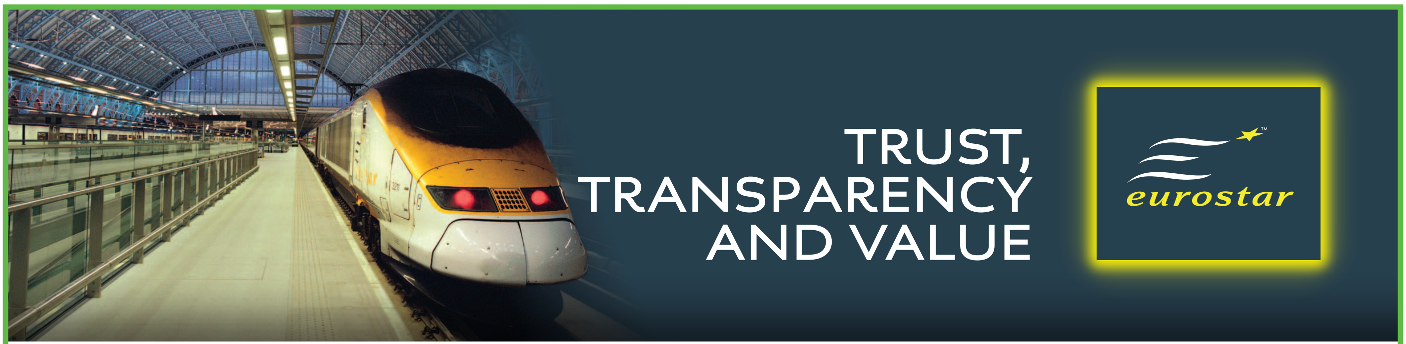
The recession means that our attitude to consumption has become more constrained. This brings with it a more considered approach to travel spend, meaning people will increasingly seek ways to minimise risk and maximise on overall value.

CHANGING SPENDING PATTERNS

One in three will opt for tried and tested destinations and two in three will look for advice on good value trips

Below are a number of statements people have made recently.
To what extent do you agree or disagree with each of the statements?

Base: Total 1000



3: TRUST, TRANSPARENCY AND VALUE: ARE WE MEETING CONSUMER NEEDS?

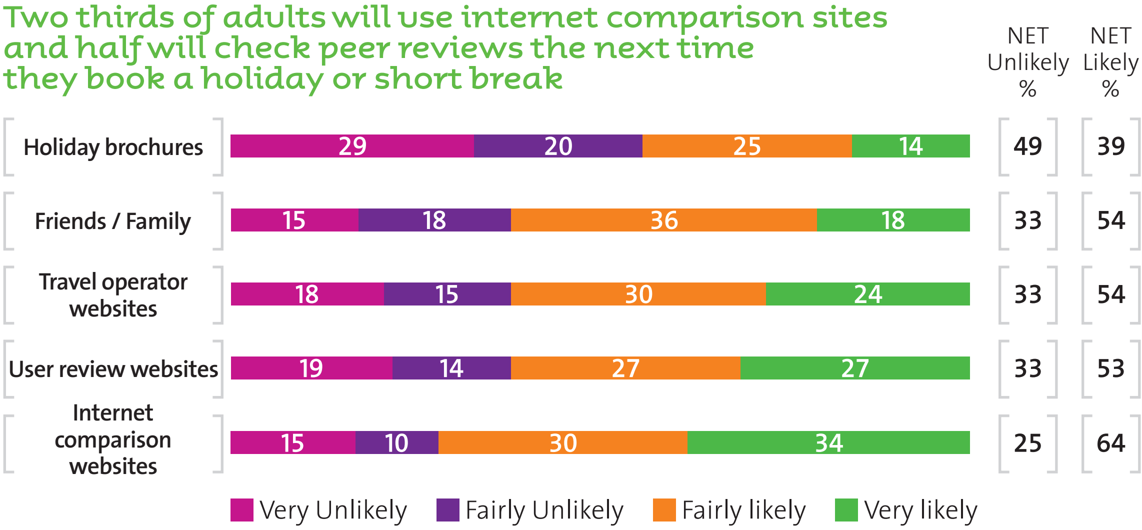
In this final section we will turn our attention to consumer interactions with the travel industry and people's views on how well served they are by the industry.

Consumers are doing it for themselves

The internet has empowered consumers and enabled a much greater degree of individual control, resulting in a significant shift of power in all sectors, away from companies and towards consumers. In our industry this has had particularly far-reaching effects. This access to information means that, as an industry, our communications are open to consumer scrutiny and comparison in a way unimaginable just ten years ago.

The two sources which people rely on most heavily when booking holidays are internet comparison sites and user review websites.

Two thirds of adults will use internet comparison sites and half will check peer reviews the next time they book a holiday or short break



Thinking about the next time you book a holiday or short break, how likely is it that you will consult each of the following sources of information?

Base: All adults who have ever travelled to mainland Europe [Total 846]

TRUST
TRANSPARENCY
VALUE

TRUST, TRANSPARENCY AND VALUE

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The “net set”- the new friends and family

The use of peer review sites is a trend that we expect to grow exponentially over the next few years. Consumer empowerment means that canny customers can access the knowledge of virtually unlimited numbers of other travellers before booking their holiday. Previous travellers have always been the best and most trusted source of information, but before we had to rely on the relatively limited experiences of our friends and family. The internet has increased this potential for sharing expertise and consumers are clearly eager to both give and receive this information.

This ability to harness the common wisdom of the crowd through the web means that two thirds of us will use internet comparison sites and over half will use peer review sites when planning their holiday this year.

We must examine these results and see what lessons we can learn. We predict that the most successful travel operators will be those that are far-sighted enough to embrace open-source creativity and the consumer empowerment that comes with it.

In this new connected world it is impossible to imagine a future where transparency and consistency are not the lynchpins of reputation and the key drivers of success for any travel company.

> “In this new connected world it is impossible to imagine a future where transparency and consistency are not the lynchpins of reputation and the key drivers of success for any travel company”

The Pursuit of Value – at what cost?

The past decade has seen increased competition strip costs out of the industry in the belief that consumers value price above everything else.

The question is: have we gone as far with that model as we can? What impacts will these strategies on pricing have on consumer emotional engagement with the industry?

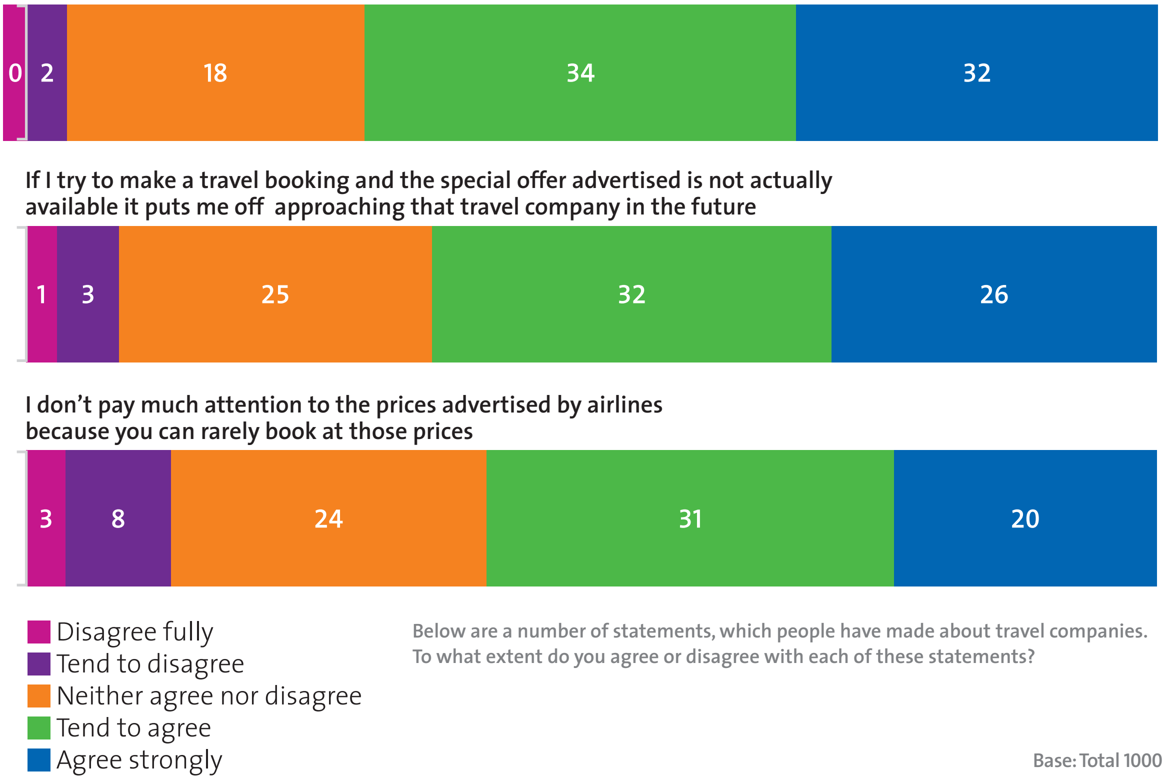
Two thirds of our respondents (66%) said that ‘travel companies or operators who advertise deals that you have little chance of booking’ give the whole industry a bad name, a finding also highlighted by a recent Skyscanner survey which found that hidden charges are the “most annoying” aspect of travel.

Over half of our sample (51%) said that they ‘no longer pay much attention to prices advertised’ because you can rarely book them and 58% said that they are put off from revisiting any company which has advertised prices that have then been unavailable when booking.

These findings are hardly a ringing endorsement - in fact they are a clear sign that a lack of transparency in pricing has left consumers feeling frustrated and tainted the reputation of the industry as a whole. The industry must now work hard to reconnect with consumers.

TRUST, TRANSPARENCY AND VALUE

Lack of transparency on prices and limited availability of offers is damaging the reputation of the industry as a whole, resulting in ambivalence towards price-led campaigns



Below are a number of statements, which people have made about travel companies. To what extent do you agree or disagree with each of these statements?

Base: Total 1000

Trust and value

We all know from our own experiences of travelling that value for money and peace of mind are high up the agenda. Unfortunately, it seems that this is a difficult balance to find in the travel industry.

And never the two shall meet

We can see that the industry generally suffers from polarisation, whereby those sectors that are trusted on pricing are not seen to represent value and vice versa.

We know from our earlier results that the first priority for travellers, at least at the moment, is cost. We also know that nobody enjoys making a purchase which leaves them feeling uneasy – why should people be forced to compromise on either of these when travelling?

TRUST, TRANSPARENCY AND VALUE

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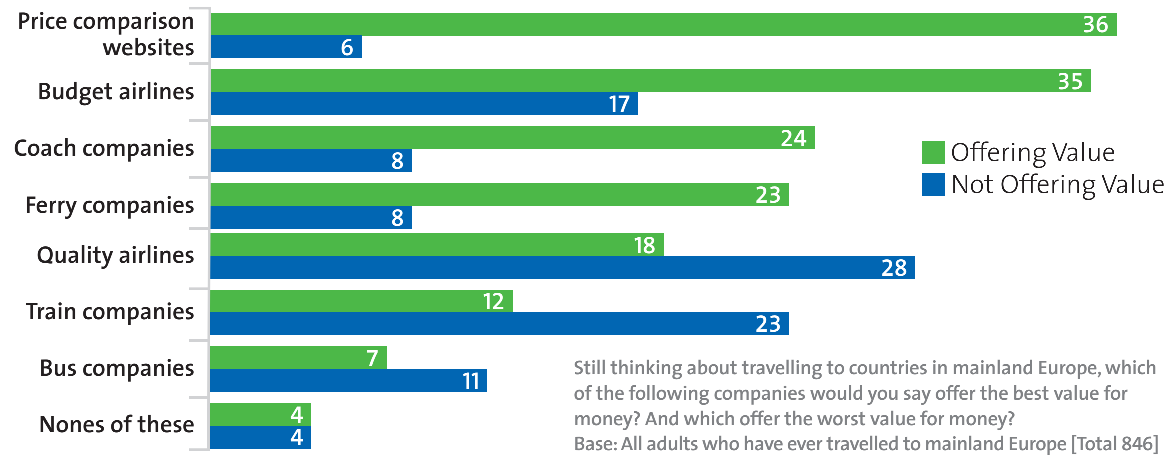
BUDGET AIRLINES AND ARE SEEN AS THE BEST SOURCE OF VALUE

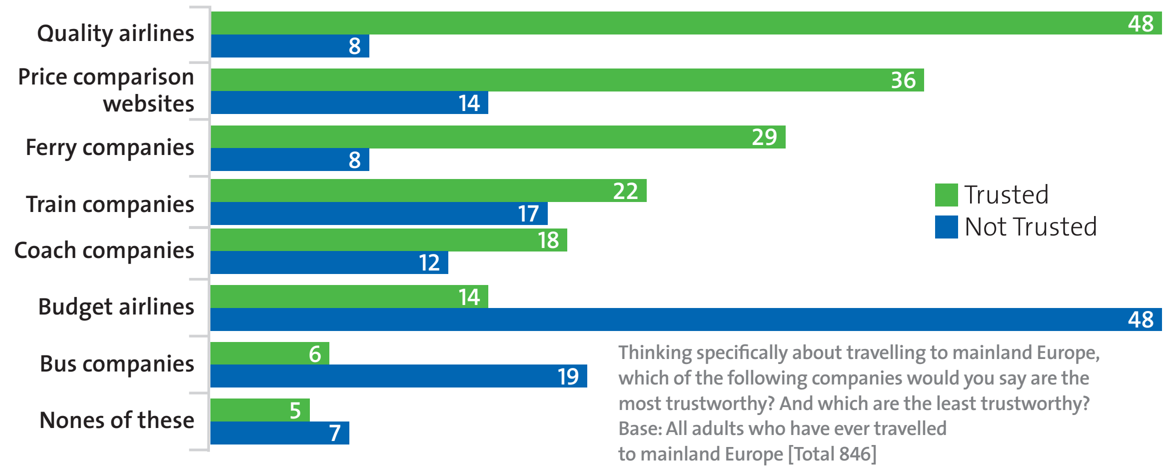
Perceptions of Value:



Still thinking about travelling to countries in mainland Europe, which of the following companies would you say offer the best value for money? And which offer the worst value for money?
Base: All adults who have ever travelled to mainland Europe [Total 846]

QUALITY AIRLINES ARE SEEN AS THE MOST TRUSTWORTHY

Trust in the Industry



Thinking specifically about travelling to mainland Europe, which of the following companies would you say are the most trustworthy? And which are the least trustworthy?
Base: All adults who have ever travelled to mainland Europe [Total 846]

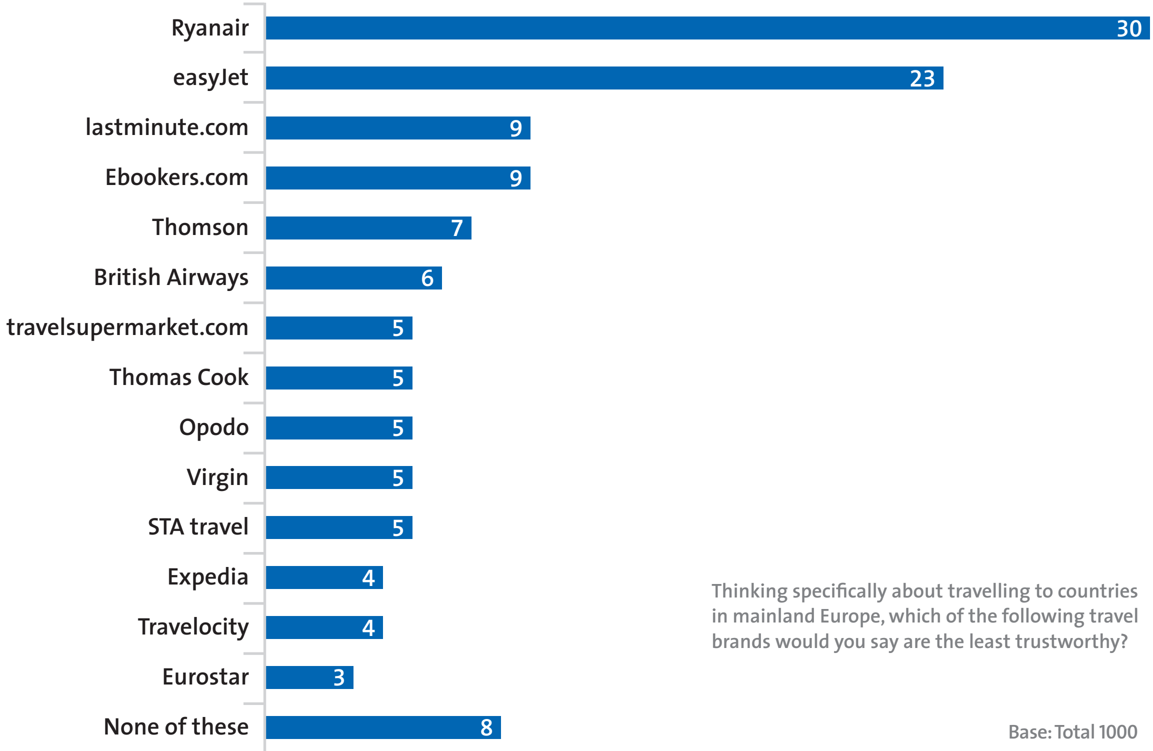
TRUST, TRANSPARENCY AND VALUE

In the airline industry, it seems consumers are stuck on a seesaw, weighing up a choice between an operator whose pricing they trust, or one that they believe is less trustworthy but offers better value.

For train companies the picture is more complicated. While the number of people who trust train companies is high, behind only quality airlines and ferries, people's views are far more polarised, as almost an equal number of people don't trust train companies. This polarised picture is echoed on value - 23% think train companies do not represent value, but 12% do.

This polarisation could reflect the lack of consistency across the industry and therefore the very different experiences people will have had with different train operators.

Budget airlines top least trusted brands

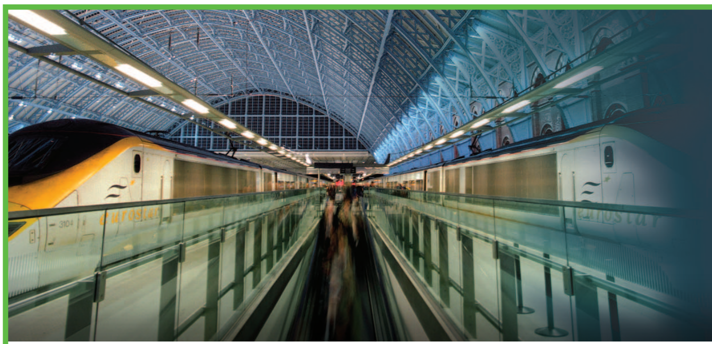


Thinking specifically about travelling to countries in mainland Europe, which of the following travel brands would you say are the least trustworthy?

Base: Total 1000

Taken as a whole, these results serve to remind the industry that nobody is delivering on both value and trust, which in the long term is an unsustainable position. Trust is dependent on a commitment to both transparency and value.

In recessionary times, where people have told us that they are willing to cut back on material possessions to afford a holiday, they are looking to maximise their experience and minimise their risk. This increases the pressure on the industry to respond in ways which are trustworthy and transparent.



SUMMARY

SUMMARY

The aim of this research was to better understand evolving consumer travel needs during this period of economic flux. We wanted to explore the impact the economy is having on our holiday patterns and the mindset of the people of Britain because only by understanding consumers can any business hope to meet their needs.

What is clear from our findings is that the recession has increased, not decreased, our desire to travel. During what could be the most severe economic downturn of our generation, we have found people are prioritising travelling above other discretionary spends. Certainly above material goods or socialising, people are rejecting conspicuous consumption in favour of greater emphasis on experiences, family time and relaxation.

Travel therapy is the new retail therapy because our single most urgent need is to escape, relax and recharge. In addition, concern about the environment remains stable, despite the economy.

That said, the economy is having an impact - this prioritisation of travel brings with it its own pressures, people are demanding that their money delivers more than ever and assuming a more cautious and considered approach to spending. Travellers want to minimise the financial risk involved and are adopting a number of strategies to achieve this; greater research and planning, sticking with tried and tested destinations, staying closer to home, taking on board more advice.

This more considered approach means consumers are more demanding than ever. They are frustrated with an industry they feel lacks transparency in pricing and where they believe misleading advertising is commonplace. The industry has prioritised communicating on price but has failed to be transparent on what consumers actually pay versus what is advertised, and in doing so has damaged its reputation for integrity. Consumers want value in its truest sense and are determined to search for it. We believe the industry must do more to restore a reputation for transparency.

The internet has created an empowered and educated consumer, one who seeks advice and willingly shares their own experiences with others. The future success of the industry lies in embracing consumer empowerment and harnessing it in new and creative ways which seek mutual understanding between consumers and those providing the services. Ultimately the economic crisis does not represent a fundamental threat to the travel industry because our desire for travel is so great, the need for it so ingrained. It will however amplify the pressure on the industry to understand and meet consumers' needs. If consumers want value and transparency then the future success of the industry depends upon our ability to deliver it.

APPENDIX

APPENDIX

This report is based on:

- This project was carried out by Ipsos MORI on behalf of Eurostar A sample of 1,000 adults aged between 16 and 64 years across England, Scotland and Wales responded to the survey. Fieldwork was conducted using an online methodology, and took place between February 27th and March 2nd 2009. Data has been weighted to the known UK population.

- Eurostar's proprietary programme of qualitative research, conducted by Dr John Armstrong, a consumer psychologist, consisting of over 70 focus groups with business and leisure travellers between 2004 and 2009.