



CORPORATE TRANSFORMATION SERVICES

North American Travel and Hospitality Trend Outlook for 2025

The travel and hospitality industry has undergone an extraordinary and tumultuous business cycle over the past five years. From the devastating effects of the pandemic to a swift recovery fueled by revenge travel, followed by challenges from inflation and economic uncertainty, the period from 2019 to 2024 has been one of the most volatile in the industry's history. As global inflation begins to ease and demand returns to, and even surpasses, pre-pandemic levels, we anticipate that 2025 will mark the first year in many with a stabilization of travel behavior. However, with travelers aiming to get the most value for their money while still seeking unforgettable experiences, travel and hospitality companies will need to distinguish themselves in an intensely competitive market.

A&M EXPECTS 2025 TO MARK A RETURN TO STABILIZATION FOR THE TRAVEL AND HOSPITALITY INDUSTRY.



6 Trends in Travel and Hospitality for 2025

A&M has identified six key trends that will shape the travel and hospitality industry in 2025. To gain a competitive edge, drive growth and optimize operations, travel and hospitality companies must develop and implement effective strategies and capabilities to capitalize on these trends.

1 STABILIZATION OF TRAVEL CONSUMPTION PATTERNS

In A&M's 2024 Consumer Sentiment Survey,¹ it was observed that personal financial uncertainty is leading to cautious economic behavior, as consumers grapple with understanding their future financial security. The survey identified inflation, interest rates and the job market as the top three macro-economic factors impacting consumers. When asked about their allocation of a moderate-income increase, respondents prioritized spending on groceries and savings, followed by travel and entertainment, and dining out. When looking into how these trends broke down by income, we saw high/medium-income households contributed to pushing travel/entertainment into the third position.

On a positive note, our survey shows that consumers continue to prioritize spending on travel and entertainment, which has been a key driver for the leisure travel industry's recovery post-pandemic. Furthermore, it is expected that international tourism growth is expected to remain strong — total international arrivals will continue to increase significantly over the next two years and in 2025 will surpass pre-pandemic 2019 visitation, according to the National Travel and Tourism Office's International Visitor Forecast.² Total international arrivals will increase 9.7 percent to 85.2 million in 2025, increase 7.0 percent to 91.1 million in 2026, increase 3.8 percent to 94.6 million in 2027, and increase 2.3 percent to 96.8 million in 2028, according to the forecast. As such, it is critical that travel and hospitality companies maintain a global view of their customer base and account for any variations in their demand and consumption trends.

We expect travel demand patterns to stabilize in 2025, fueled by steady leisure demand, renewed consumer confidence, moderating inflation, robust international demand, and an uptick in return-to-office policies. Improving economic conditions will bolster group travel and drive growth in transient business travel. However, pricing pressures are likely to continue, highlighting the need for effective capacity and inventory management to optimize revenue and profit. The most successful companies will be those that can accurately forecast demand across a balanced mix of leisure, group and business travel, and implement moderate pricing increases to sustain and enhance profitability. They will also identify experiences and offers that resonate with different guests of all income brackets to provide the right balance of luxury and value to attract customers across the travel consumption spectrum.

A&M SURVEYED MORE THAN 2,100 U.S. CONSUMERS TO GAUGE THEIR OPTIMISM LEVELS, SHOPPING AND PURCHASE DESIRES, AND PREFERRED SHOPPING CHANNELS.

FINANCIAL UNCERTAINTY IS LEADING TO CAUTIOUS ECONOMIC BEHAVIOR, AS CONSUMERS SEEK VALUE AMONG THE EXPERIENCES, LUXURY AND OFFERS THEY CONSIDER.

¹ Alvarez & Marsal Consumer Sentiment Survey Fall 2024, "Alvarez & Marsal Consumer and Retail Group," <https://alvarezandmarsal-crg.com/insight/consumer-sentiment-survey-fall-2024/>.

² United States Department of Commerce, "The National Travel and Tourism Office's International Visitor Forecast," Accessed December 18, 2024, <https://www.trade.gov/travel-and-tourism-forecasts>.



**TECH WILL PLAY A CRUCIAL ROLE IN
PRODUCT INNOVATION AND IN SATISFYING
THE YOUNGER CUSTOMER EXPERIENCE.**

2 TECH-ENABLED PRODUCTS AND EXPERIENCES

In 2024, a notable industry trend saw companies prioritizing the creation of new product offerings, particularly more luxury-focused offerings, aimed at delivering memorable experiences for guests to better compete for travelers' attention and spending. This trend involved reimagining core products to highlight experiences over mere physical attributes. In the airline industry, this translated to increasing the availability of premium seating (Alaska Airlines, jetBlue and Southwest all announced plans to increase this offering.) and bundling it with amenities like lounge access (United offers add-on bundles which include access to its United Club.) to enhance comfort and reduce stress. In the lodging and vacation ownership sectors, companies like Marriott and Hilton Grand Vacations provide access to unique and exclusive events such as sporting events, concerts, culinary experiences and wellness activities. For cruise lines, significant investments are being made by Carnival and Royal Caribbean to develop or expand private destinations to avoid overcrowded ports and capture more of passengers' land-based spending.

Looking ahead to 2025, we anticipate travel and hospitality companies will continue to refine and evolve their product offerings through a test-and-learn approach. This strategy allows for controlled implementation of changes to ensure they meet evolving customer demands before scaling up. Key areas of innovation we expect to see include diversifying product offerings to appeal to various income brackets, not just the luxury segment, and expanding flexible consumption options, including trial memberships, membership tiers and subscriptions, to build long-term relationships with guests without requiring lifetime commitments.

Technology will play a crucial role in the product innovation process, not only for scalability and consistency but also because younger customer demographics now expect technology-enabled capabilities as standard. On the front end, leading companies will leverage technology to both inform and entice customers about new offerings. For instance, generative AI can be used to create personalized travel planning and concierge services that engage guests throughout their travel journey — pre-planning, day(s) of travel, during the stay, and post-stay. These services can provide targeted recommendations based on personal preferences and a better understanding of the type of travel the customer is undertaking, whether for business or leisure, individual or family trips. Such personalized recommendations not only build awareness of new product offerings but also create a feedback loop to understand how these products are being utilized and received. On the back end, technology will be essential for ensuring consistency and scaling process changes associated with new products. Enhanced data and AI capabilities will be used to monitor the usage and operational and financial success of these products.

3 STRENGTHENING LOYALTY

Loyalty programs are a cornerstone of the travel and hospitality industry. Traditionally, these programs were designed to cater to business travelers and their less price-sensitive travel habits. However, as business travel has struggled to recover post-pandemic, many companies have shifted from travel-based programs (based on miles, nights, etc.) to spend-based programs, often facilitated by co-branded credit cards. Additionally, some companies have restructured their loyalty programs to adapt to changing customer behaviors, the rise of leisure travel, the blending of work and personal trips, and increasing consumer expectations.³

In 2025, leading companies will continue to innovate their loyalty programs and redefine how they measure success. Rather than focusing on the number of new or existing loyalty program accounts, there will be a shift toward measuring the number of active loyalty members and emphasizing customer lifetime value to identify the most loyal and profitable customers. Instead of merely counting co-branded card users, companies will analyze the discretionary spending patterns of these cardholders to enhance customer retention and increase their share of the customer's wallet.

From a rewards and redemption perspective, A&M's 2024 Consumer Sentiment Survey highlights a clear generational divide in reward preferences. Nearly two-thirds (64 percent) of participants under 45 prioritize experiential elements, with exclusive access being the most valued feature. In contrast, those age 45 and older prefer tangible benefits, with 60 percent prioritizing reward value and attainability. These insights suggest that loyalty programs should adopt age-segmented approaches to better meet the diverse preferences of their members.

In 2025, we anticipate a greater use of advanced analytics and AI to enable travel and hospitality companies to offer more personalized and custom-generated redemption options, making it easier for members to redeem their rewards in a way that better meets their consumption needs.

**BEHIND THE SCENES, ADVANCED ANALYTICS AND AI WILL
ENABLE TRAVEL AND HOSPITALITY COMPANIES TO OFFER
PERSONALIZED AND CUSTOM-GENERATED OPTIONS.**



³ "Revolutionizing Loyalty Programs in Travel and Hospitality: 4 Driving Forces and 6 Steps for Transformation."



4 GROWTH OF ECOSYSTEM PARTNERSHIPS

As travel and hospitality companies aim to drive growth and engage with guests throughout their travel journey, many have turned to partnerships to rapidly expand and scale their services. A notable example is the collaboration between Marriott and MGM, which provided Marriott customers access to approximately 40,000 rooms across the MGM portfolio and gave MGM better access to Marriott's over 200 million Bonvoy members. Another example is Travel + Leisure's multi-year marketing agreement with Allegiant Airlines, allowing both companies to share promotional offerings across their respective customer bases.

In 2025, we anticipate an increase in ecosystem partnership arrangements as companies strive to engage with customers throughout multiple stages of their travel journey, not just where they are the primary provider. To be valuable to customers, these partnerships must enable unique end-to-end experiences and provide compelling reasons for customers to extend their loyalty from one company to another. For travel companies, it is crucial to monetize these relationships profitably while also building long-term relationships with new customers accessed through these ecosystem partners, thereby influencing their future buying patterns and driving a greater share of wallet. Additionally, it will be essential for companies to have the necessary technology infrastructure, including robust APIs and cross-channel integration, to ensure transactions across partnerships are seamless and simple to execute.

5 THE RETURN OF M&A

The rise of ecosystem partnerships as a growth driver has been partly fueled by the challenges companies have faced in pursuing inorganic growth through mergers and acquisitions (M&A). While smaller deals, such as Alaska Airlines' acquisition of Hawaiian Airlines, Travel + Leisure's acquisition of Accor's vacation ownership portfolio, and Hilton's acquisition of Graduate Hotels, have been approved, major deals like the merger of JetBlue and Spirit have been blocked. This has forced companies to re-evaluate their strategies, with Spirit even seeking bankruptcy protection to survive.

In 2025, we anticipate that the incoming administration in the United States will be more open to and accepting of larger-scale M&A deals. If executed correctly, this would enable travel and hospitality companies to build scale more rapidly and acquire capabilities and offerings where partnerships are not feasible. Leading companies will have developed a preliminary list of acquisition targets aimed at achieving specific goals — growing market share, entering new markets, expanding products to new or different customer segments, and improving scale and profitability — to have first-mover advantage when the M&A environment improves.

6 LEVERAGING AUTOMATION AND AI TO FUEL REINVESTMENT AND MAINTAIN OPERATIONAL EFFICIENCY

As companies aim to build capabilities to drive growth, they must ensure that they have the necessary capital to fund their strategic initiatives. While an improving interest rate environment is beneficial, companies must continue to explore ways to reduce costs through operational efficiency to provide resources for reinvestment. Additionally, with the potential risk of large-scale deportations in the United States exacerbating an already tight labor market, companies will need to maximize their human capital and deploy employees in the most efficient and strategic manner possible.

In 2025, we expect leading companies to further invest in and scale automation and AI technologies to minimize the effort spent on low-value, manual tasks, allowing employees to focus on higher-value activities centered on enhancing the guest experience. The following are several example use cases (non-exhaustive) of how A&M has helped clients achieve operation efficiencies via AI:

- Leveraging AI to optimize contact centers, promoting greater use of self-service while maintaining or improving the associate and guest experience
- Using automation to support data migration and code refactoring, thereby reducing technical debt and enhancing technology-enabled capabilities
- Improving the legal contract review process to improve procurement speed while mitigating unfavorable and potentially costly terms
- Utilizing AI and advanced analytics to review safety performance, aiding discussions with insurance providers to potentially lower insurance premiums
- Enabling finance transformation initiatives focused on reducing manual reporting and consolidation efforts and increasing the focus on proactive financial performance monitoring and insight generation

While it may be tempting to direct the savings from these initiatives straight to the bottom line, leading companies will balance this with a strategy to reinvest savings into future capability growth.

AI AND AUTOMATION WILL PROVIDE MYRIAD USES TO ATTAIN OPERATIONAL EFFICIENCIES.



³ "Revolutionizing Loyalty Programs in Travel and Hospitality: 4 Driving Forces and 6 Steps for Transformation."

5 Steps Travel and Hospitality Companies Can Take Now

There are five practical steps travel and hospitality companies can take now to jumpstart their efforts to gain first-mover advantage with current trends, delight the modern vacationer, drive growth, improve EBITDA, and gain market share:



1. SELF-SCOUT OPPORTUNITIES FOR GROWTH, OPERATIONAL IMPROVEMENT AND NEW PRODUCT OFFERINGS.

To stay ahead in the market, conduct a comprehensive analysis to identify emerging trends and customer preferences, considering socioeconomic and cultural factors. Explore new product offerings that cater to modern vacationer demands, such as personalized experiences and eco-friendly options. Assess and enhance loyalty programs to improve customer engagement and brand relationships. Identify potential ecosystem partnerships and acquisition targets to diversify offerings and support growth. Evaluate current operational processes for efficiency improvements and benchmark against industry leaders to identify gaps and opportunities for differentiation.



2. DEVELOP THE STRATEGY, PRODUCT ROADMAPS, BACKLOG OF IDEAS AND SUPPORTING INFRASTRUCTURE.

To achieve long-term business goals and align with market trends, create a clear strategic vision. Develop detailed product roadmaps with timelines for new offerings. Maintain and prioritize a backlog of innovative ideas. Leverage AI to streamline due diligence, review customer feedback, and monitor brand performance. Ensure that data governance and technology architecture capabilities support product roadmaps. Engage stakeholders to ensure alignment and buy-in for the strategic plan and necessary operational changes.



3. BUILD THE BUSINESS CASE.

To ensure informed decision-making and secure executive approval, conduct a thorough financial analysis to quantify the potential ROI for each initiative. Identify key performance indicators (KPIs) to measure the success of new products and operational improvements. Prepare detailed cost-benefit analyses to support decisions, and develop risk assessments and mitigation plans to address potential challenges and uncertainties.



4. DEFINE THE CAPITAL STRATEGY AND ESTABLISH A MULTI-YEAR INVESTMENT FUND.

To support strategic initiatives, assess current financial resources and identify funding gaps. Develop a capital allocation strategy that balances short-term needs with long-term growth objectives. Establish a multi-year investment fund for financing strategic projects and innovations. Explore various funding sources, including internal reserves, external investors, and strategic partnerships to ensure a diversified financial foundation.



5. ESTABLISH CROSS-FUNCTIONAL TEAMS WITH BUSINESS KPIS AND ASSOCIATED CHANGE MANAGEMENT.

To drive collaboration and innovation, form cross-functional teams with clear roles and responsibilities to ensure accountability for business-centric KPIs. Implement change management strategies for smooth transitions and adoption of new processes. Establish feedback mechanisms with partners and customers to evaluate new offerings and pivot as needed. Provide ongoing training and support to employees to build necessary skills for successful implementation.

By following these steps, travel and hospitality companies can position themselves as leaders in the industry, ready to capitalize on emerging trends and meet the evolving needs of modern travelers.



Start Here: Define Your Path Forward

We believe 2025 marks the first year in over half a decade when macro events will not have a seismic impact on the travel and hospitality industry. While it might be tempting for companies to use this period to catch their breath after the turbulence of recent years, the environment remains highly competitive. Companies must continue to innovate and differentiate to secure their share of travel spending. The most successful travel and hospitality companies in 2025 will be those that continuously evolve their product offerings, maintain a balanced growth strategy utilizing both organic and inorganic methods, leverage technology to deliver innovative and memorable experiences at scale, and relentlessly pursue operational efficiency to improve EBITDA and fund strategic initiatives.

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