PODCAST TRANSCRIPT

Talking Research: Travel, trust and technology

First published: 26 November 2026

Katie Boyce: In 1841, a British cabinet maker called Thomas Cook had an idea. He hired a train, sold almost 500 tickets, and took his passengers on a day trip through the English Midlands. It's often called the first package trip, and the promise behind it was simple: leave the details to us, we'll look after you.

For the next 178 years, his company kept that promise. Thomas Cook became a household name in Britain and across Europe, the company that millions of families trusted with their summer holiday. Then, at 2:00am one morning, September 2019, it collapsed. Around 150,000 holidaymakers were stranded abroad with no flight home.

So who was going to look after them now? Within an hour, rescue planes were in the air. For two weeks, the British government effectively ran one of the country's biggest airlines with more than 700 flights to bring people home. The company had gone, but someone was still there on the other end of the line.

Today, there's a new promise on offer. Artificial intelligence that will plan, book, and even pay for your travel. It raises an old question, when it goes wrong, who's there to put it right?

Hello, and welcome to Talking Research, a podcast from Walter Scott. I'm Katie Boyce, an investment writer at the firm.

And today from our offices in Charlotte Square, Edinburgh, I'm delighted to be joined by investment manager Jamie Zegleman.

Jamie Zegleman: Hi, Katie.

KB: Jamie has recently returned from a two-week trip with his colleague Harry Gray to the US east coast. There, they met with some of the biggest names in the global travel industry, as well as various other companies in different sectors. Jamie, thank you for joining me today. Perhaps you could start by introducing yourself and your time at Walter Scott.

JZ: Of course. So I'm one of the investment managers here, and I've been with the firm for 18 years. Over that time, I've worked across our different regional teams within our global investment team, and I currently work in our EMEA team.

KB: So Jamie, going back to that question of trust in the introduction, it's obviously an area that the travel industry is really grappling with at the moment. As I mentioned, you've been in the US, and as part of that trip, you attended the Skift Global Forum in New York. Perhaps you can start explaining what that's about.

JZ: Sure. So Skift is a global industry body that does a lot of research and journalism, specifically focusing in on the travel industry. So I've used it as a research source for a number of years. And I knew that they arranged these events, these conferences for the travel industry more widely, and had been quite keen to attend one for a while and so got the opportunity to do that earlier this year.

KB: And so who's there? Who are the names on stage at a conference like this?

JZ: Well, I was quite surprised, to be honest, by the sort of gravitas on stage. So it was really quite a full list of who's who in the travel industry. There was the CEO from Booking Holdings, there was the chair of OpenAI was on stage. We also had the CEOs of Uber, Airbnb, Expedia, basically all the large hotel chains as well, so Hilton, Marriott, and so on.

So they were all the sort of key speakers. And then in the audience, you had a lot of industry participants from the advertising industry, for example, startups, AI tech companies that were trying to get involved in the travel industry. So a real range of participants from the…

KB: So it's not an investment event.

JZ: No, not at all. I think it would probably be more the sort of venture capital or the private equity end of the investment industry that would be more likely to be there, but certainly not geared towards them.

KB: And what were the big topics? What was everyone talking about?

JZ: One of the reasons I wanted to go was because AI is the key topic in the industry right now. And so I think naturally that was the key talking point on stage and in the room generally.

KB: And what elements of AI?

JZ: There's a big debate going on in the travel industry right now about how AI might change the way we all travel, the way we research, the way we find out about where we might want to go, and ultimately, how do we go about booking our travel.

And so, it's quite a wholesale conversation about how companies are trying to adjust to that, how they're positioning themselves, how are they investing to make sure that they are not disrupted by some of the new technologies that are coming out, the ChatGPTs that we're all using to research travel more often now. So how does that change the landscape, and how do these companies need to evolve as a result?

KB: And I mentioned in the intro that the agents could literally do the whole process for me from start to finish. How far away is that?

JZ: I think it's probably getting closer, but I think it's important to sort of delineate what is likely to play out. I think certainly from what we heard on stage at the conference from almost every participant is that travel is an extremely complex ecosystem, with a lot of different participants involved. When you make your purchase, it's a large amount of money. It's obviously a big decision that people make, on where they're going to go and how they're going to spend their money. And so, as a result of that, I think the actual booking of these systems is further away, or booking of these trips is further away in the AI world than the research. Clearly, people are using research tools today and they're highly effective. But that next step of allowing ChatGPT or some of these agentic platforms to make the booking on your behalf, I think we're still a little bit of a step away from that.

And the real debate here is how do you end up with that booking after you've made your initial research and looked into where you might want to go and what you might want to do? Do you hand that on to the existing ecosystem, the OTAs (the online travel agencies), or do you allow Muse, for example, Meta Muse, to make that decision more holistically on your behalf?

KB: And how are some of the big players in the industry like Booking dealing with this? Because obviously that's a threat, even ChatGPT is not a travel company. So how are they responding?

JZ: While we were in the area, we met with the CFO as part of the wider trip that we were on. And obviously, the CEO was on stage at the conference. They are very acutely aware that they need to invest in this space to make sure that their products are integrated with AI functionality.

So if you think about travel research, they need to be able to provide similar sorts of tools within their ecosystem. They need to make it easier for you to find what you want when you're on their website or on their app.

So they're making a variety of different investments in that space. But I think it's fair to say they don't know where this is going to end up and exactly how the consumer is going to interact with AI in this area. And so they are spreading their bets. Booking, Expedia, they have multiple different platforms that consumers use and that's allowing them to experiment.

So I think the message from the CEOs on stage was it's not clear where this is going to land, but you need to make sure you're spreading your bets and have a variety of experiments ongoing.

KB: And what is it about getting out and seeing the companies on these trips that you don't get via video calls with, you're obviously meeting with CFOs and other senior management?

JZ: I think you probably get slightly better access because not all management teams travel, and so we don't see them all here in Edinburgh or in the UK. And if you're making the effort to go out to their locations, I think they do tend to make the effort back. So there's that benefit. But I also think a big part of it is getting a broader view of the organisation culturally, understanding the sort of ethos that runs through that business. So if I think to some of the examples here, we went up to IDEXX Labs. That was a bit of a trek to get up to Portland, Maine, from New York. They're the only company in the area, so it was a day trip for us.

But they gave us an hour with their management team, a wide sort of suite of management, and then we got a tour of their facilities. that's where they do a lot of their manufacturing. They have the majority of their employees.

KB: It's kind of veterinary diagnostics.

JZ: Yes. That's right. Yep. And one of the things that - these are soft things to learn about a business - but in their foyer, they have an enormous gym facility for their employees. They have some medical facilities. People can go and get checkups and so on. So you got a sense that this was quite an employee-friendly organisation. Which is something I don't think you would've picked up from reading annual reports necessarily, because most companies do argue that. But when you see it, you can sort of spot it.

Amphenol would be another that I've been to a number of times. They are a very decentralised

model. So this is an interconnect business in Connecticut. They have a very, I suppose I'd say, basic headquarters, so cost-conscious comes across. You get the sense that this really is a very decentralised business model. The sort of key executives are there in Connecticut, but in reality, the work is done by their subsidiaries around the world. So again, that would be another good example.

KB: And you were seeing, as you say, companies across sectors from banks to veterinary. Do you ask the companies similar questions as well, specific ones just to get an idea of the kind of macro scene?

JZ: Definitely. It's, again, one of the reasons for going out and doing two weeks on the road, meeting with a whole variety of companies, is to try and glean some of these things. So topics we were talking about pretty regularly were AI, does it disrupt your business? What are the revenue opportunities? Where are the cost opportunities? So that was pretty consistent across almost every company.

Inflation's a regular topic of debate. So clearly inflation is higher than it has been for most of the last decade. It seems to be sticky. Interest rates have gone up as a result of that, so how are companies trying to manage that?

KB: And on inflation, what are companies saying that you met with?

JZ: I think, well, I suppose the key message I took from the meetings was, it's less about the level of inflation, within reason and much more about the rate of change. So fast acceleration of inflation is problematic. We've kind of been through that period, hopefully.

Where inflation is settling out at a higher rate, but higher rate is not necessarily, in and of itself, a problem if it's consistent and predictable. Because companies can adapt to that.

KB: And some companies are now talking about selling more rather than charging more. Is that something you heard?

JZ: Yeah. Definitely. And I think that comes because we've been through this quite intense period of inflation. Prices have risen reasonably, well, dramatically really since Covid. I would say the consumer has been remarkably resilient given that trend.

But we're starting to see signs of consumer fatigue, and we heard that from the likes of TJX, the retailer, but also Estée Lauder and Colgate talking about sort of now being a bit more focused on trying to drive volume rather than taking price, because ultimately, they're starting to see a bit of pushback in the consumer.

KB: So shoppers are obviously being a bit more careful, but the companies are investing. There's building, whether it's data centres, which are the obvious example, but was that visible on your trip?

JZ: I think there's a lot of investment going on in the US. Data centres, as you mentioned, tend to get the headlines. But there's a huge amount of need for infrastructure investment in North America, and I think the various administrations have identified that as an area to focus on. So roads, bridges, there's a new bus station going in, in central Manhattan, which is an enormous plot of land that is being redeveloped.

So that's just anecdotal, but an example of it. So there's a big infrastructure angle to investment in North America, but you're also hearing from others. There's an energy infrastructure investment cycle ongoing that's really related to ageing infrastructure in North America, but also the advent of more renewables in the grid. That brings grid instability. Therefore, you need more modern and more electric equipment to go into the grid system. So there's a big investment phase going on in that area as well.

The healthcare system seems to be having, well, there's again another drive to nearshore manufacturing within the pharma industry. There's a geopolitical angle to some of this in the semiconductor industry. The Trump administration obviously wants to develop the semiconductor industry onshore. So again, clearly data centres are part of that. But there's also a need for them to try and decouple their global reliance on Taiwanese semiconductor manufacturing. So a whole range of different areas, to be honest, that there are lots of investments going on.

KB: And as you say, lots of these are really grabbing the headlines, whether it's the nearshoring of semiconductor foundries or infrastructure, data centres. But when you're there, do you get a sense from companies what's kind of real versus some of these headlines?

JZ: Yep. I think a lot of it is quite real. United Rentals is a business that kind of sees a lot of this. They're a construction equipment rental business across the US, and they're seeing pretty broad-based demand right now and are pretty optimistic for certainly the medium term. So that kind of speaks to broad-based spend across the infrastructure space. If you speak to somebody or companies like Thermo Fisher, they referenced probably a little bit more…

KB: What do they do, sorry?

JZ: So Thermo Fisher are a medical device business, analytical medical devices. So they benefit from capex in the pharma manufacturing and R&D industry. There's some big headline numbers in the healthcare space that I think you probably do need to take with a bit of pinch of salt.

So to sort of step back, MFN (most favoured nation) policies from the administration is looking to equalise, I suppose, the prices paid by Americans relative to those perceived to be paid by the rest of the world in the drug industry. So the Trump administration's been putting pressure on the pharma industry to change their policies. They've put tariffs in place to try and encourage them to develop more of their manufacturing in the US, and have used these policies effectively like a carrot and a stick. And so you've seen a lot of investment-related announcements from the pharma industry, deals being made - Pfizer being probably the one that's referenced the most often - about putting money into North America.

Some of that I think would probably have happened anyway, but they've definitely made a lot of noise around that. Thermo was talking about maybe, of the US$500bn that is regularly quoted as being captured in these deals coming into North America, probably 10% is relevant to them. But that's still a large potential opportunity for them.

KB: And going back to AI, which we started at the beginning, where are you seeing companies meaningfully, tangible examples of AI improving their businesses?

JZ: The main area at the moment is on productivity enhancement, so rolling out AI tools to their employee base to try and enhance efficiency and enhance productivity. Some of that is manifesting itself in cost opportunities. But I think there is a bit of a debate as to whether, we heard from a number of companies that they weren't sure yet whether, that would mean less people in their staff, or the same number of people hopefully producing more. My best guess would be that most of the savings get reinvested, either into R&D or product development, or just greater sales efficiency through their existing team.

So at the moment it's more cost-focused, but I think the real question in AI, and ultimately, I think this needs to happen given the scale of investments that have been put into the space, is where do the revenue opportunities come from.

KB: Great. Well, Jamie, thank you very much for your time today.

JZ: Pleasure.

KB: We started with the idea of trust, and when these things don't come to good plan, but it sounds like the travel industry is still working on that one. Thank you for your time today.

And the team isn't staying still. Before the end of the year, Jamie's colleagues will be off to California and Texas, France, Germany, and Japan. Hopefully, we'll catch up with some of them once they're back. But until then, thank you so much for listening.

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