

# Global Corporate Travel Forecast: A Guide for Pricing and Negotiations in 2013



# EGENCIA<sup>®</sup>

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AN EXPEDIA, INC. COMPANY

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# Global Corporate Travel Forecast: A Guide for Pricing and Negotiations in 2013

Jet fuel prices that continue to fluctuate, airline consolidation, tighter management of capacity, an upcoming U.S. presidential election, a slowly increasing (although historically weak) amount of new hotel supply – all are factors in Egencia's Global Corporate Travel Forecast: A Guide for Pricing and Negotiations in 2013.

Accordingly, and based on improving, albeit sluggish market conditions, we forecast that Average Ticket Prices (ATPs) and hotel Average Daily Rates (ADRs) for top corporate travel destinations will be slightly up overall in North America, Europe, and Asia-Pacific.

Airfare Average Ticket Prices are expected to be:

- Slightly up (5%) in North America
- Slightly up (3%) in Europe
- Slightly up (5%) in Asia-Pacific

Hotel Average Daily Rates are expected to be:

- Slightly up (3%) in North America
- Slightly up (2%) in Europe
- Slightly up or flat (1%) in Asia-Pacific

In this guide, Egencia examines the supply environment at a market-level for over 50 destinations in North America, Europe, and Asia-Pacific. In addition, we share recommendations and best practices on how to manage travel programs, anticipate travel industry changes, and optimize business results amidst the 2013 supply landscape.

Data and insight for this report were based on the statistical analysis of past and present industry trends, macroeconomic factors, market research and vendors' capacity forecasts for 2013. Smith Travel Research (STR) and OAG filings were leveraged for a market-level analysis of Lodging and Air capacity, respectively. ARC, STR and Egencia Internal Data were used for market-level analysis of pricing.



North America  
ATP Forecast & Advance Purchase  
Savings

Destination	YoY ATP Change 2013	YoY Advance Purchase Savings
Atlanta	1%	21%
Boston	5%	15%
Calgary	0%	23%
Chicago	8%	20%
Dallas	6%	26%
Denver	3%	20%
Houston	7%	30%
Los Angeles	9%	13%
Minneapolis	5%	25%
Montreal	2%	28%
New York	4%	17%
Philadelphia	7%	22%
Phoenix	8%	17%
San Diego	6%	17%
San Francisco	7%	14%
Seattle	6%	15%
Toronto	2%	30%
Vancouver	-2%	12%
Washington DC	1%	23%
London	3%	
Paris	3%	
Hong Kong	5%	
Tokyo	4%	

Long-Haul

Long-haul flights are coach, non-package, round-trip to that destination city originating in NA.

Advance purchase savings based on tickets booked more than 21 days before departure.

## Airfares Overview

### North America

In North America, United States mergers (Delta-Northwest and United-Continental) have helped the airline industry emerge stronger after a difficult few years. Even LCCs (Low Cost Carriers) have begun consolidating, as seen by Southwest's purchase of Air Tran. These mergers have helped carriers maintain a disciplined approach to capacity growth, resulting in fuller planes and higher ATPs. Further industry consolidation is possible with American Airlines and US Airways entering into merger talks. Meanwhile, carriers continue to adjust their route networks and frequencies to match demand.

Like their US counterparts, Canadian airlines have been slow to increase capacity, leading to record load factors. Competition in the aviation industry will remain high in 2013 with Air Canada announcing the launch of a low cost subsidiary.

Looking ahead, however, the North American economy's slow pace of recovery and weak business confidence indicators point to sluggish demand growth in 2013. Fuel prices are expected to remain steady (although still high) based on current economic forecasts. Capacity in the top destinations will remain flat. For specific cities in North America:

- Capacity reductions in Los Angeles, San Francisco and Houston will contribute to the expected increase in ATPs for those cities. Los Angeles at 9% has the largest forecasted ATP increase.
- Philadelphia has seen some decrease in LCC capacity while demand has stayed constant, in part due to a strong tourism program. This demand will cause ticket prices to go up by 7% on average.
- Markets with maximum projected savings, based on tickets purchased more than 21 days prior to departure, are Toronto and Houston at 30%, followed by Montreal (28%) and Dallas (26%).

Sources: Egencia Internal Analysis, based on data from Egencia Market Managers, OAG, ARC and Expedia Inc.

\* Advance Purchase (AP) savings are estimated based on average savings realized from January 2011 to August 2012. Actual savings will vary due to seasonality, travel time, and other factors affecting overall supply and demand in a particular market.

## Europe ATP Forecast & Advanced Purchase Savings

Destination	YoY ATP Change 2013	YoY Advance Purchase Savings
Amsterdam	6%	44%
Barcelona	4%	30%
Berlin	-1%	47%
Brussels	6%	28%
Dublin	11%	41%
Frankfurt	7%	51%
Glasgow	1%	34%
London	-3%	46%
Lyon	4%	43%
Madrid	4%	41%
Manchester	0%	38%
Marseille	0%	46%
Milan	6%	46%
Moscow	1%	28%
Munich	7%	48%
Paris	6%	44%
Stockholm	0%	48%
Los Angeles	6%	
New York	5%	
Hong Kong	4%	
Tokyo	9%	

### Long-Haul

Long-Haul flights are coach, non-package, round-trip to that destination city originating in Europe.

Advance purchase savings based on tickets booked more than 21 days before departure.

## Airfares Overview

### Europe

Eurozone countries continue to face economic problems with Greece, Spain, Portugal and Italy particularly hard hit. Yet, demand for air travel has held up remarkably well so far in 2012.

Legacy carriers in Europe continue to face difficulties with some, like Air France and Lufthansa, in the midst of turnaround plans aimed at returning to profitability. These plans entail rationalizing capacity and refocusing networks. Lufthansa is also considering launching a European LCC subsidiary. Competitive pressure also comes from LCCs like easyJet which changed its distribution strategy and ancillary fee structure to appeal to business travelers. Amidst all this, European carriers also face increasing competition from Middle Eastern carriers who continue to increase their global footprint and provide an alternative transit point to Asia-Pacific.

Furthermore, taxes and airport charges continue to rise. The UK increased Air Passenger Duty by 8% in April 2012 and a further increase is scheduled for April 2013. The Emissions Trading System (ETS), a cornerstone of the European Union's policy to combat climate change, has resulted in higher fees levied by many airlines since the beginning of 2012. Most carriers and non-EU countries oppose the EU law and have called for a global agreement under the umbrella of the ICAO, but if an agreement is not reached by April 2013, it may result in further fees being passed on to the traveler.

Demand in 2013 will be a mixed bag depending on the destination. On the pricing front, average airfares are forecasted to increase moderately as capacity remains tempered.

- Moscow, Manchester and Brussels will all see capacity increase substantially in 2013, resulting in flat to moderate ATP increases and creating an environment favorable to buyers looking for higher discounts.
- Amsterdam, Frankfurt, Paris and Madrid will all have less seat capacity next year, leading to ATP increases ranging from 4% to 7%.
- Travelers can gain excellent savings in Europe for travel booked more than 21 days before departure\*. The biggest projected savings are in Frankfurt (51%) followed by Stockholm and Brussels.

Sources: Egencia Internal Analysis, based on data from Egencia Market Managers, OAG, ARC and Expedia Inc.

\* Advance Purchase (AP) savings are estimated based on average savings realized from January 2011 to August 2012. Actual savings will vary due to seasonality, travel time, and other factors affecting overall supply and demand in a particular market.

Asia-Pacific  
ATP Forecast & Advanced Purchase  
Savings

Destination	YoY ATP Change 2013	YoY Advance Purchase Savings
Bangkok	9%	10%
Beijing	6%	15%
Dehli	9%	1%
Hong Kong	2%	20%
Jakarta	0%	3%
Manila	0%	18%
Melbourne	-2%	20%
Mumbai	10%	0%
Seoul	5%	17%
Shanghai	9%	16%
Singapore	-2%	8%
Sydney	1%	15%
Taipei	6%	19%
Tokyo	5%	17%
London	0%	
Los Angeles	7%	
New York	5%	
Paris	3%	

Long-Haul

Long-Haul flights are coach, non-package, round-trip to that destination city originating in APAC.

Advance purchase savings based on tickets booked more than 21 days before departure.

## Airfares Overview

### Asia-Pacific

The continuing economic uncertainty in North America and Europe has also hurt the Asia Pacific region; its major economies are experiencing a slow-down after several years of strong growth. Yet, even as international traffic growth has slowed, regional demand remains strong.

China demand has slowed recently, having a moderating effect on prices, even though fuel costs remained high. Elsewhere in Asia, a number of new LCCs have taken to the skies and legacy carriers will continue to face challenges on the pricing front.

The Indian aviation sector continues to struggle, with most carriers heavily in debt and unprofitable. The Indian Government's move to allow foreign investment is a positive step for the industry. However, high fuel costs as well as increasing airport charges which get passed on to passengers, will most likely result in increased air ticket prices.

In Australia, domestic competition remains a key factor in keeping prices contained. Virgin Australia has made a concerted effort to attract business travelers, directly impacting Qantas. One factor that will result in slight increases in airfares is the recent carbon tax imposed by the Australian government. Meanwhile, in a bid to regain profitability in international operations, Qantas announced that it would end its joint business with BA and instead partner with Emirates on flights to European markets.

In 2013, Asian markets will see growth moderate. New LCCs will increase capacity to regional markets, adding competitive pressure and keeping prices contained. Hong Kong and Sydney will see capacity increases of 13% and 11%, respectively. These large capacity additions will mean prices remain almost flat.

- Prices in India will increase by 10% for Mumbai and 9% for Delhi as seat growth is limited.
- Buyers' negotiation power for Singapore will improve, as prices are expected to decline slightly over 2012.
- In a reflection of the situation in Europe, airfares to key markets such as London and Paris will be flat or show a very small increase.
- Key North American destination airfares are forecasted to increase as traffic increases with the weakening US dollar. New York is expected to increase by 5% and Los Angeles by 7%.
- Maximum savings may be realized for intra-APAC travel if business travelers book their tickets more than 21 days prior to departure\*.
- As domestic competition in Australia heats up, opportunities for savings are projected to be up to 20% in Sydney and Melbourne.
- Taipei and Manila also offer high savings of up to 18% for bookings made more than 21 days in advance.

Sources: Egencia Internal Analysis, based on data from Egencia Market Managers, OAG, ARC and Expedia Inc.

\* Advance Purchase (AP) savings are estimated based on average savings realized from January 2011 to August 2012. Actual savings will vary due to seasonality, travel time, and other factors affecting overall supply and demand in a particular market.



## Recommendations for Travel Buyers: Air

**Ensure supplier targets can be met before committing to them.** Airlines, these days, are less willing to ignore a volume or share shortfall than in the past. Buyers need to deliver on their volume or share commitments to get higher discounts and realize incremental savings.

Airlines may be more willing to negotiate higher discounts if a company can demonstrate its ability to drive share shift to preferred suppliers. Buyers can drive volume to preferred suppliers by creating a strong travel policy, ensuring that online booking tools are set to display in line with policy, and communicating and enforcing it across the organization.

**Negotiate beyond fares and discounts.** With load factors at record levels and capacity growth restrained, some pricing power has shifted back to the airlines. Airlines are increasingly reluctant to offer high discounts on cheaper, more restrictive fare classes. Many companies, having enforced strict advance purchase and lowest logical fare rules, are finding it difficult to realize savings from their travel programs. Additionally, airlines continue to add ancillary fees which can add substantially to trip costs.

While airlines may be reluctant to negotiate discounts on the lowest fares, they are often willing to provide amenities and perks such as waived bag fees, frequent flyer status matches and upgrades. Buyers should make these ancillary services a part of their negotiations.

**Avoid over-negotiation.** Attempting to have too many negotiated rates can be an arduous administrative task and result in frustration for travelers and travel buyers alike. Instead, analyzing travel patterns and focusing on obtaining higher discounts on city-pairs which have significant traffic can yield better savings for the company. Egencia's Client Services team helps companies analyze and gain insights into their travel data, identify opportunities to optimize travel programs and can negotiate on their behalf.

**Optimize number of airlines in the program.** Another area that buyers should pay close attention to is the number of contracted airlines. Having too many carriers in a travel program increases administrative costs and can result in the company not meeting share or volume commitments. The decision to contract with an airline should depend on past travel patterns as well as expected changes. LCC carriers are now more open to negotiating with business travel buyers and should be considered as viable alternatives. Egencia works with airline partners to offer preferred rates to their clients, cutting out the burden for buyers while enabling lower costs.

**Encourage travelers to book early and consider alternative routings.** With capacity growth constrained and ticket prices rising in many markets, booking in advance remains critical. In 2013, airlines are expected to continue to place tough restrictions on lower fare classes, meaning that travelers need to book farther in advance to secure less expensive flights. While not every trip can be planned well in advance, Travel Managers should encourage their travelers to book as early as possible to secure the best prices.

Airlines often price direct flights at a higher premium than connecting flights. Companies can control costs and increase savings by considering alternative or one-stop itineraries where time permits.

Companies can utilize tools offered by their online booking solutions to communicate these and other policy messages to their travelers. Egencia's online solution offers dynamic messaging capabilities, allowing Traveler Managers to customize their messages as often as needed.

## ADR Forecast North America

Market	YoY ADR Change 2013	Neg Index*
Atlanta	2%	Neutral
Boston	8%	Unfavorable
Calgary	2%	Neutral
Chicago	3%	Neutral
Dallas	2%	Neutral
Denver	4%	Neutral
Houston	2%	Neutral
Los Angeles	5%	Unfavorable
Minneapolis	3%	Neutral
Montreal	1%	Neutral
New York	2%	Neutral
Philadelphia	4%	Neutral
Phoenix	0%	Neutral
San Diego	4%	Neutral
San Francisco	12%	Unfavorable
Seattle	4%	Moderate
Toronto	3%	Favorable
Vancouver	2%	Neutral
Washington DC	2%	Favorable

Sources: Egencia Internal Analysis, based on data from Egencia Market Managers, OAG, ARC and Expedia Inc.

\*Egencia's Hotel Negotiability Index is an indicator of the overall supply landscape in top domestic cities.

## Global Hotel Landscape

Average daily rates (ADR) exhibited strong growth in many markets in 2012 with hotel supply playing an important role in the industry's performance this year.

The past few years have seen very little new supply come online in North America and Europe. As leisure and corporate demand has recovered, the limited supply combined with effective yield management has contributed to rising occupancy and higher ADRs.

The picture in Asia is a little more complex. New hotel construction has added significant supply in several markets. The additional rooms were expected to help balance the strong demand seen in the last few years. However, as economic growth slowed, some markets experienced a softening in the pricing environment.

In 2013, occupancy levels are expected to improve slightly or remain steady in almost every top business market worldwide.

Accordingly, at a regional level, ADRs are expected to rise by about 3% in North America, 2% in Europe and by 1% in Asia-Pacific. However, there will be significant variation at individual market level as supply, demand and local economic conditions also play a part.

## North America

- North American hotels, this year, reached peak occupancy levels last seen before the 2009 recession. Demand growth is projected to continue into 2013 though the growth rate will slow as economic uncertainty continues to plague the globe. Very little new hotel supply will enter the North American market in 2013, so hotels will be able to maintain higher ADRs.
- The largest ADR increases will be San Francisco (up 12%). San Francisco's booming economy has meant increasing demand for rooms. With no new supply added in 2012 and freshly renovated product at key hotels, hoteliers will not see much resistance to aggressive pricing.
- Average rates in Boston are forecast to increase by 8% next year. Supply is expected to remain fairly stagnant. If demand continues to increase, high occupancy rates will help hotels there maintain higher rates.
- Hoteliers expect to realize significant corporate negotiated rate increases in 2013 and consequently, negotiations are expected to be a lot tougher than in the past few years. While pricing power has shifted slightly in the hotels' favor, buyers should still negotiate hard to keep price increases contained.



ADR Forecast Europe		
Market	YoY ADR Change 2013	Neg Index*
Amsterdam	2%	Neutral
Barcelona	2%	Neutral
Berlin	3%	Neutral
Brussels	2%	Neutral
Dublin	10%	Favorable
Frankfurt	5%	Neutral
Glasgow	-1%	Favorable
London	0%	Neutral
Lyon	4%	Neutral
Madrid	-1%	Neutral
Manchester	-3%	Favorable
Marseille	-2%	Neutral
Milan	3%	Neutral
Moscow	-2%	Neutral
Munich	10%	Unfavorable
Paris	7%	Unfavorable
Stockholm	0%	Neutral

Sources: Egencia Internal Analysis, based on data from Egencia Market Managers, OAG, ARC and Expedia Inc.

\*Egencia's Hotel Negotiability Index is an indicator of the overall supply landscape in top domestic cities.

## Europe

- The European hotel market is likely to remain mixed in 2013, much as it has performed in 2012. While Dublin and Munich are forecast to show double digit ADR increases, Moscow's increased supply will drive rates down.
- Now that the Olympics are over, London has a large amount of new hotel supply that will need to be filled. This means that buyers should be able to negotiate better rates for their programs. Elsewhere in the UK, Manchester and Glasgow should also offer buyers a favorable climate for negotiations.
- Demand for rooms in Paris remains strong, resulting in predicted ADR increases of close to 7%. On the other hand, Marseille is expected to show a slight decline in rates.
- In Germany, demand will catch up with supply, specifically in Frankfurt, where rates will increase by 5% on average. Munich, with a 10% ADR increase, will be the most robust market in Germany. Berlin will exhibit a modest 3% increase as the supply pipeline is large.



**ADR Forecast  
Asia-Pacific**

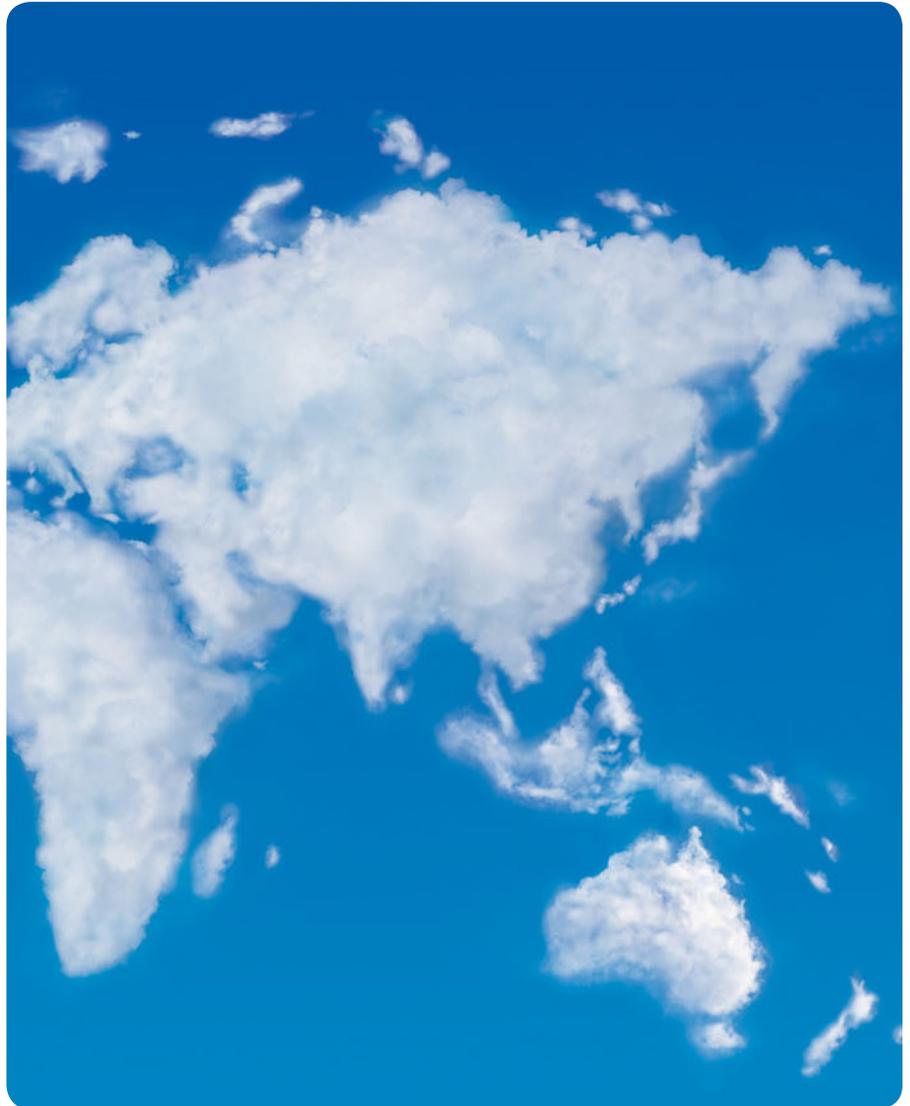
Market	ADR Change 2013	Neg Index*
Bangkok	-1%	Favorable
Beijing	3%	Neutral
Dehli	-5%	Favorable
Hong Kong	9%	Unfavorable
Jakarta	5%	Neutral
Manila	-3%	Favorable
Melbourne	2%	Neutral
Mumbai	-2%	Favorable
Seoul	4%	Favorable
Shanghai	-5%	Favorable
Singapore	3%	Unfavorable
Sydney	5%	Neutral
Taipei	4%	Neutral
Tokyo	-3%	Neutral

Sources: Egencia Internal Analysis, based on data from Egencia Market Managers, OAG, ARC and Expedia Inc.

\*Egencia's Hotel Negotiability Index is an indicator of the overall supply landscape in top domestic cities.

**Asia-Pacific**

- Hotel outlook for Asia varies greatly by country, though overall, the region will experience a very modest ADR increase. ADRs are predicted to be highest in Hong Kong (up 9%) and Sydney (up 5%).
- As global chains entered India to take advantage of the growing economy, hotel supply in India has grown significantly. However, demand has been unable to keep up, affecting ADRs negatively in 2012. This trend looks set to continue into 2013. Delhi and Mumbai will see average rates decline.
- In China, Shanghai has a similar situation with supply outstripping demand. ADRs will continue to decline in 2013 as they have in the last two years. Meanwhile, Taipei is experiencing high hotel inflation but several new luxury hotels are in the pipeline for 2013.
- Hong Kong and Singapore have seen strong demand growth and that looks set to continue into 2013. Consequently, negotiations will be difficult and rates are forecast to rise next year.





## Recommendations for Travel Buyers – Hotel

**Use data driven insights to structure the hotel program.** Buyers should use insights gleaned from analyzing their data in each market as the basis for the number of properties to contract with. A common rule of thumb is one hotel property for every 500 room nights or \$10,000 spend. Having fewer contracted properties will also enable buyers to use volume commitments as a point of leverage to gain additional discounts. Egencia's Client Services team can help buyers analyze data, identify opportunities and negotiate with suppliers. For markets with high occupancy rates, more properties may need to be added to the program. Last Room Availability (LRA) can be negotiated in top markets, meaning that properties must offer negotiated rates even if only one room type is available. This can drive ADRs down even in high demand destinations or peak periods. However, LRA represents additional costs. So, it should be limited to key markets and be monitored on a regular basis to ensure it provides value.

**Tier down.** Data indicates that there are more mid-range properties in the hotel supply pipeline than low or high end properties. Though conditions vary from market to market, negotiations are likely to be somewhat easier for these 3 to 4 star mid-range properties than upper-scale, 4+ star range.

Another way to drive costs down is to tier down within the same hotel chain. This is especially true of mid-range properties. Contracting with 3-star hotels within the same chain rather than 4-star property will allow travelers to earn rewards and receive similar amenities while also saving the company money.

**Avoid over-negotiation.** Too many negotiated rates can be difficult to administer and track. A simpler approach is to limit hotel selections to high volume destinations that drive results buyers are seeking. For smaller volume destinations, TMC negotiated rates can fill the gaps in a program. Apart from highly competitive rates, many of these preferred hotels also include benefits and amenities like no charge for same-day cancellations, breakfast, free wi-fi, etc.

**Enforce strict policy management.** By demonstrating a consistent effort to drive share, buyers can be in a better bargaining position when talking to suppliers. Mandating hotel bookings via the agency of record is one way of showing commitment to suppliers. Another way is to monitor travel data and enforce policy by instituting action plans for unauthorized out-of-policy bookings.

**Include amenities during negotiations and contracting.** Amenities are important to business travelers. Like airlines, hotels are more amenable to offering additional benefits like airport shuttle services, inclusive breakfast, free internet and wi-fi, etc., as part of the corporate package than increasing discounts. Having these included in the contract can result in large cost savings.

## Research Methodology

Data and insight based on the statistical analysis of the past and present industry trends, macroeconomic factors, market research and vendors' capacity forecasts for 2013. Smith Travel Research (STR) and OAG filings were leveraged for a market-level analysis of Lodging and Air capacity respectively. ARC, STR and Egencia Internal Data were used for market-level analysis of pricing.



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