2014 Industry Forecast

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Executive summary

The global economy should pick up steam in 2014—and we expect business travel demand to follow in its tracks. The Economist Intelligence Unit predicts that GDP next year will grow 4.3% in Asia and 2.5% in the U.S. There's even room for optimism about Europe, which should post growth of 0.6%.

But **corporate travel demand** grew more slowly than expected in 2013. So, how significantly businesses will step up their travel in 2014 remains unclear. That looming question mark will keep suppliers cautious about pushing up fares. Barring any significant economic changes, overall price increases in the air, hotel and car sectors should be in line with inflation at most. And travel buyers may even find attractive negotiating opportunities, especially on trips across the Atlantic and to Asia Pacific.

Although U.S. and European airlines are keeping a tight grip on capacity, soft demand will either keep **airfares** flat or restrain increases to a bare minimum. On the down side for programs, North American carrier consolidation will mean fewer choices in seats and routes for travelers. But in Europe, travel buyers may start looking to hybrid carriers like easyJet and Germanwings to drive costs down even further.

As in 2013, Latin America will present a challenge to cost-conscious travel managers. We predict recent carrier consolidation and strong demand, anchored by a surging Brazil, will drive up airfares by 2-3%.

The three Gulf carriers—Emirates, Etihad Airways and Qatar Airways—will reap the consequences of excessive capacity after their airplane-buying sprees of the past few years. The good news for buyers: The over-capacity could drive down prices on traffic between Africa, Europe, and Asia Pacific. As these carriers continue to expand rapidly, we expect a similar effect on fares between North America and South Asia.

Buyers should focus their energies where competition is intense and they're more likely to find opportunities for discounting. **See page 16** for more air recommendations.

It's business as usual when it comes to **hotels**. Undaunted by their failure to achieve the almost double-digit corporate rate rises they sought in 2013, hotels will look to raise corporate rates by 4-6% for 2014. We believe they'll achieve only half this level on average.

Rate development will follow two tracks. Top international business cities like New York and Hong Kong will again post double-digit rate increases—as will under-supplied emerging destinations like Sao Paolo and Luanda. On the other hand, buyers will find excellent negotiating opportunities in smaller cities.

To make the most of those opportunities, buyers should consolidate spend with fewer hotels and pay close attention to hotel blackout dates and long cancellation policies, which can render those rates less effective. **See page 21** for more hotel recommendations.

Meetings demand remains strong, growing at a faster pace than transient travel. With little change in supply in most markets, we anticipate moderate meeting price increases in 2014. Buyers should decide on venues quickly, as availability is becoming more of an issue and booking lead times continue to shrink. **See page 25** for more meetings recommendations.

In June 2013, Avis Budget tried to raise their rates—but Hertz and National/Enterprise/Alamo have yet to follow suit. Intense competition among these three suppliers should continue to keep corporate **car rental** rates in check. Rate increases in 2014 shouldn't rise above 4%. The popularity of multinational rental agreements will continue to grow, and buyers should lock in prices now, with contracts for three or more years. **See page 29** for more car recommendations.

ADVITO

Introduction

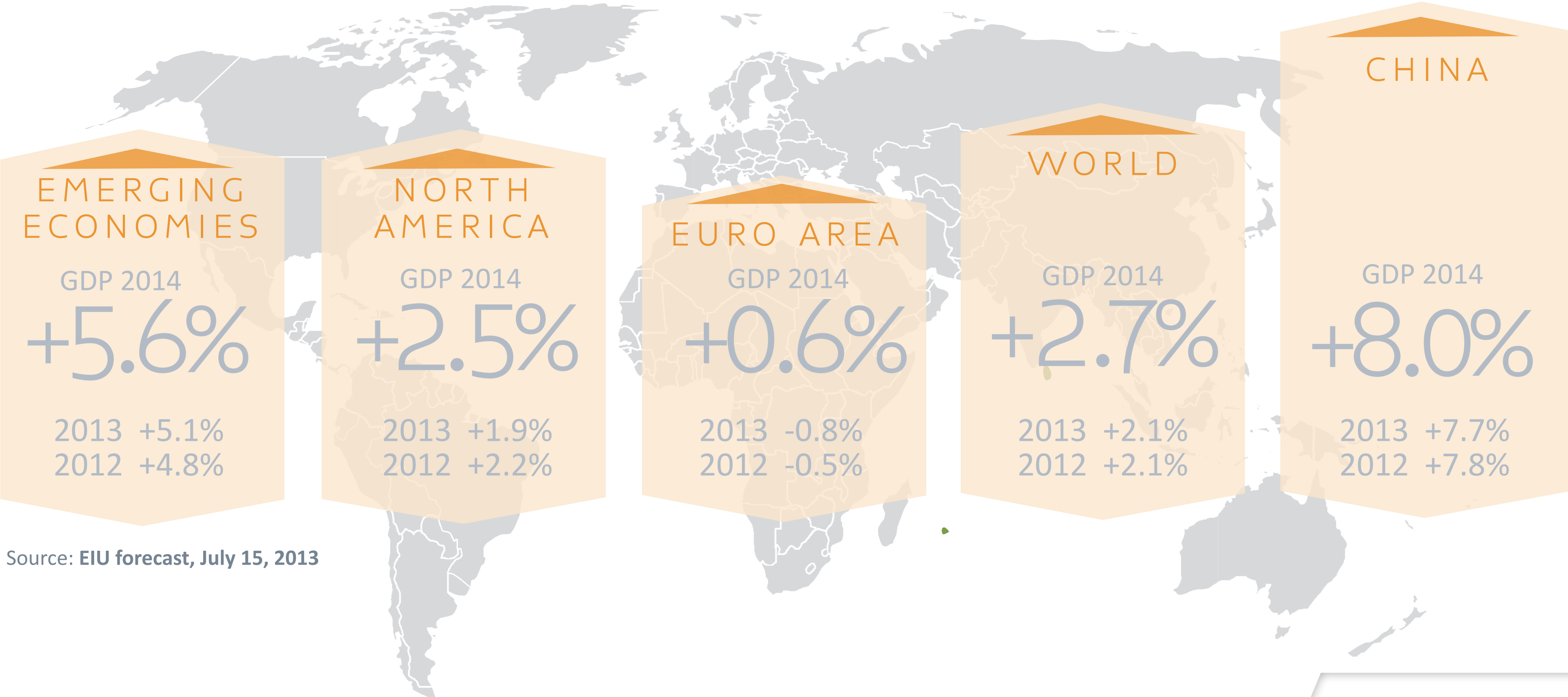
Economic background

Five years after the onset of the financial crisis, the global economy is still in catch-up mode. In its July 2013 forecast, the Economist Intelligence Unit (EIU) expects global economic growth in 2013 of 2.1%, on a par with 2012.

The global figure masks major regional variations. According to the EIU, Asia will deliver growth of 4% for the second year in a row in 2013. North America will see growth dip slightly to 1.9% from 2.2% last year, as austerity measures provide a (smaller than expected) drag. But the euro zone continues to be the main concern. Growth in this region contracted by 0.5% in 2012, and the EIU expects its economy to shrink by a further 0.8% this year.

The global economy is set to pick up speed in 2014, with anticipated growth of 2.7%. In Asia, the EIU expects growth of 4.3% despite recent concerns about China and India. Stronger consumer and business confidence and rising employment should drive U.S. economic growth to 2.5%, its best performance since the start of the economic crisis.

There is even some room for optimism about Europe. After two years of contraction, the EIU expects growth in the region to finally resume in 2014, although at just 0.6%. Until it fully resolves its structural issues, the euro zone will remain vulnerable.



Source: **EIU forecast, July 15, 2013**

ADVITO

Introduction

Oil prices

Oil prices remained above US$100 per barrel (Brent crude spot price) between July 2012 and July 2013, peaking at close to $120 per barrel early this year. Recent signs that low interest rates will continue have encouraged commodity speculation, which helped push current oil prices back up close to $110.

Analysts generally believe that prices will rise no further. With no supply concerns, demand growth will be limited by the economic outlook and the growing use of alternative sources of energy, such as natural gas.

Tight cost controls and more fuel efficient aircraft mean that airlines should still be profitable with oil at around $100 per barrel. At current levels, the cost of aviation fuel need not push up business travel costs in the year ahead. But if the oil price rises above $110, airlines are likely to respond quickly with increased fuel surcharges.

Since the oil price spike of 2008, fuel surcharges have grown as a proportion of the total airline ticket price. Corporate discounts generally don't apply to this part of the airfare, so surcharges have become a useful source of protected revenue for airlines.

Oil prices remain below

US$110

Safety and security

Concerns about disruption from terrorism and health pandemics are reasonably low—but can quickly escalate. One recent example is the U.S. Department of State's decision in August to temporarily close 19 diplomatic missions across North Africa and the Middle East in light of a potential terrorist threat. Other countries followed suit.

Unrest continues to flare in Middle East trouble spots like Egypt and Syria, where possible military intervention is a growing concern for the region. But riots during 2013 in Northern Ireland, Brazil and Turkey have also shown that both mature and fast-growing business markets aren't immune to civil disruption.

Modest growth in travel demand and prices

With the global economy forecast to continue recovering, we expect companies to increase their travel in 2014. The major known threat to this prediction is not oil or security—it's an escalation of economic headwinds. Last year, we said the biggest risks were the collapse of the euro zone or a major slowdown in China. Neither of these risks became reality, but they aren't completely resolved either.

How significantly companies will step up their travel is unclear. Trip growth in 2013 has been slower than expected. Stock prices and corporate profits are up, yet businesses remain extra cautious about loosening their purse strings. Logic suggests pent-up demand will eventually create a major surge in travel to secure new customers. But companies may choose to prioritize cost control over investment for yet another year.

In this environment, we expect suppliers to be equally cautious. In spite of the (admittedly slow) increase in demand, and little new air or hotel supply in mature markets, overall price increases will probably be in line with inflation at most.

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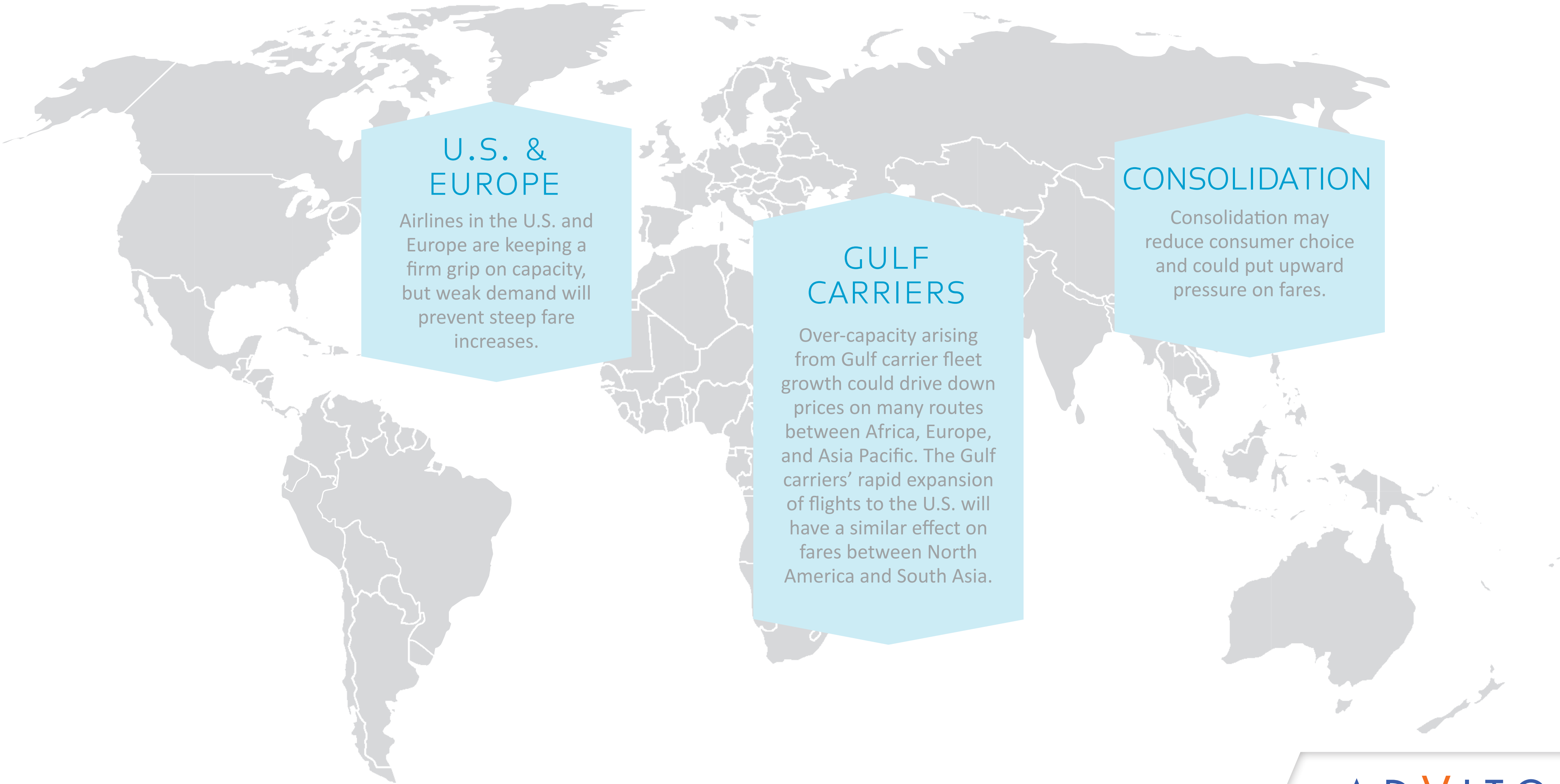

U.S. & EUROPE

Airlines in the U.S. and Europe are keeping a firm grip on capacity, but weak demand will prevent steep fare increases.

GULF CARRIERS

Over-capacity arising from Gulf carrier fleet growth could drive down prices on many routes between Africa, Europe, and Asia Pacific. The Gulf carriers' rapid expansion of flights to the U.S. will have a similar effect on fares between North America and South Asia.

CONSOLIDATION

Consolidation may reduce consumer choice and could put upward pressure on fares.

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North America

Current situation

Domestic demand remains weak. According to the International Air Transport Association (IATA), traffic grew by just 0.5% year-on-year during the first six months of 2013. The premium (first class and business class) segment fared slightly better, growing by 2%.

International demand is a little stronger. Traffic is virtually flat in the North Atlantic and transpacific markets, but total traffic between North America and South America grew by 11.4%. That growth was stronger in the economy segment than in premium classes, which grew by just 8%.

Figures from the Airline Reporting Corporation (ARC), which handles payments between U.S. travel agents and airlines, confirm the general weakness of North American demand. For January-June 2013, ARC reported a 1.2% fall in ticket transactions.

On the supply side, the key factor remains the final stages of consolidating the six major U.S. airlines into three mega-carriers. Following the mergers of Delta Air Lines and Northwest in 2008, and United and Continental in 2010, US Airways and American Airlines were aiming to complete their own merger in the third quarter of 2013. While this deal is now facing a legal challenge, there is still a good chance that it will happen in 2014.

Spotlight on American/US Airways

While the merger of American and US Airways would create the largest U.S. airline, it will also provide some competitive balance in the market, establishing three mega airlines of a similar size. However, the Department of Justice (DOJ) is leading a legal challenge to block the deal. This move is particularly surprising, since the DOJ's past approval of the United-Continental, Delta-Northwest, and Southwest-AirTran mergers effectively paved the way for the marriage of American and US Airways.

In the past, the DOJ focused on non-stop market overlaps and concentrations of service at specific airports, but this time it's looking at wider industry capacity and pricing trends.

Specifically, it is concerned that this latest deal would concentrate more than 80% of U.S. air traffic with just four carriers. The DOJ now fears that further consolidation would compound underlying industry trends towards fare and fee increases, and capacity discipline.

Of course, American and US Airways could merely be suffering the consequences of being the last of the mega mergers. The DOJ may decide that this final deal is taking consolidation one step too far.

American and US Airways are appealing the DOJ's move, and there is still a very good chance that the merger will be approved. However, the conditions to secure approval could prove onerous. For example, the carriers may have to surrender slots at key hubs, such as Ronald Reagan Washington National, New York LaGuardia and JFK, and even London, to facilitate new competition.

Both carriers have stated that they can survive as independent carriers without the merger. But its failure could inspire a new phase of consolidation, perhaps involving Alaska Air or other secondary airlines.

Air

Trends and 2014 forecast

Outside the U.S., Delta is buying a 49% stake in Virgin Atlantic. The two airlines have already started code-sharing, and a joint venture on transatlantic flights is expected to receive anti-trust immunity by the end of 2013. The joint venture removes Virgin as the last significant independent carrier across the Atlantic. Together Delta and Virgin can offer nine flights daily between London and New York, one of the world's most lucrative routes. Their joint venture creates a more effective competitor to the 13 daily services operated by American/ British Airways.

Consolidation has encouraged airlines to put profit ahead of market share. To this end, U.S. carriers continue to trim capacity in markets where demand is weak. The four largest airlines all cut seat capacity in 2012, and we see this trend continuing in 2013. In the first half of the year, United cut capacity by 3.5%, while American and Delta kept their capacity unchanged.

Even U.S. low-cost carriers are scaling back capacity growth. Southwest Airlines has typically grown by 7-9% annually, but the carrier has increased its available seat miles (ASMs) by less than 2% so far this year, as it continues to integrate AirTran.

As they try to improve network efficiency, U.S. carriers are introducing smaller aircraft, reducing frequencies, or even withdrawing from routes completely. This activity is most apparent following a merger.

U.S. carriers are also scaling back on transatlantic routes—but here, they're facing increased competition from foreign airlines, who see the North Atlantic as a profitable market. Seeking to deploy their new aircraft, the rapidly expanding Gulf carriers (Emirates, Etihad Airways and Qatar Airways) and Turkish Airlines are opening up more North American destinations. At the same time, British Airways and Lufthansa are using Airbus A380s to increase seat capacity on existing routes.

On transpacific routes, Japan Airlines and ANA have used the Boeing 787 to open low-demand markets like Boston, San Diego, and San Jose. The aircraft's cost efficiencies are largely responsible for making these services viable.

Concerns about the resilience of U.S. domestic demand have discouraged airlines from using reduced capacity as an excuse to raise prices. They fear jeopardizing any recovery in demand.

On some transatlantic routes, however, U.S. airlines have used capacity cuts as the basis to push up fares. But the impact has been limited, as increased capacity from overseas competitors tempers average fares across the market as a whole. Airlines are also increasing the availability of lower fare classes.

Spotlight on joint ventures

Joint ventures are now firmly established in the transatlantic market. Joint businesses operated by American Airlines, British Airways, Finnair and Iberia; Air Canada, Lufthansa and United Airlines; and Air France-KLM, Alitalia and Delta, have reduced the relevance of the global alliances for buyers negotiating corporate deals in this market. Corporate discounts are becoming increasingly difficult to secure in a tougher negotiating environment. Working with all three joint ventures requires massive volumes and high premium yields—so most corporate customers must choose to contract with only two groups.

Immunized joint ventures in the transpacific market are maturing very quickly. Initially involving Japanese carriers and their global alliance partners in the U.S., they've expanded to include Korean and Australian airlines. It now seems only a matter of time before the major Chinese airlines become involved. We anticipate that they will align with the joint ventures associated with the global groups of which they are already members.

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Outlook for 2014

Uncharacteristically, Southwest Airlines is planning zero capacity growth in 2014, as it continues to focus on a challenging AirTran integration. This provides a strong indication that domestic U.S. capacity is unlikely to expand next year.

Instead, the year should mark the beginning of a trend of reduced consumer choice. As consolidating carriers continue to trim routes, smaller cities will no longer be directly linked to as many hubs. While this development may not adversely affect connecting passengers, business travelers will find themselves with fewer options when they want to fly direct between a secondary and major city.

If the merger between American Airlines and US Airways goes through, we see a real risk that the three domestic network airlines will try to avoid direct competition with one another in dominant hub markets. This could result in a patchwork of monopoly routes across the country. Intense competition will focus on routes between major cities, secondary connecting markets and key international routes.

Any reluctance among the three majors to fight for share, including possible withdrawal from overlapping routes, has the potential to push fares up faster. US Airways was one of the few remaining “disruptors” in the market, often offering a useful alternative to its rivals. However, fear of damaging the weak recovery in demand will be uppermost in airlines’ minds for the time being. So, we forecast minimal domestic fare rises in 2014.

Some attractive price negotiating opportunities should emerge in the transatlantic market, as Delta/Virgin fights hard for market share against American/BA. However, within 12 to 18 months this market could become a less competitive duopoly. We expect little change in intercontinental airfares in 2014; we’re forecasting a 1% rise in business fares and predict that economy fares will stay flat.

More generally, while the growing influence of joint ventures shouldn’t push up fares, it’s likely to put a squeeze on the level of discounts in 2014. The joint ventures will also become firmer about reducing discounts for clients who fail to meet volume or market-share targets.

LOW rise in transatlantic business fares

SOME ATTRACTIVE PRICE NEGOTIATING OPPORTUNITIES SHOULD EMERGE IN THE TRANSATLANTIC MARKET

Air

Trends and 2014 forecast

Europe

Current situation

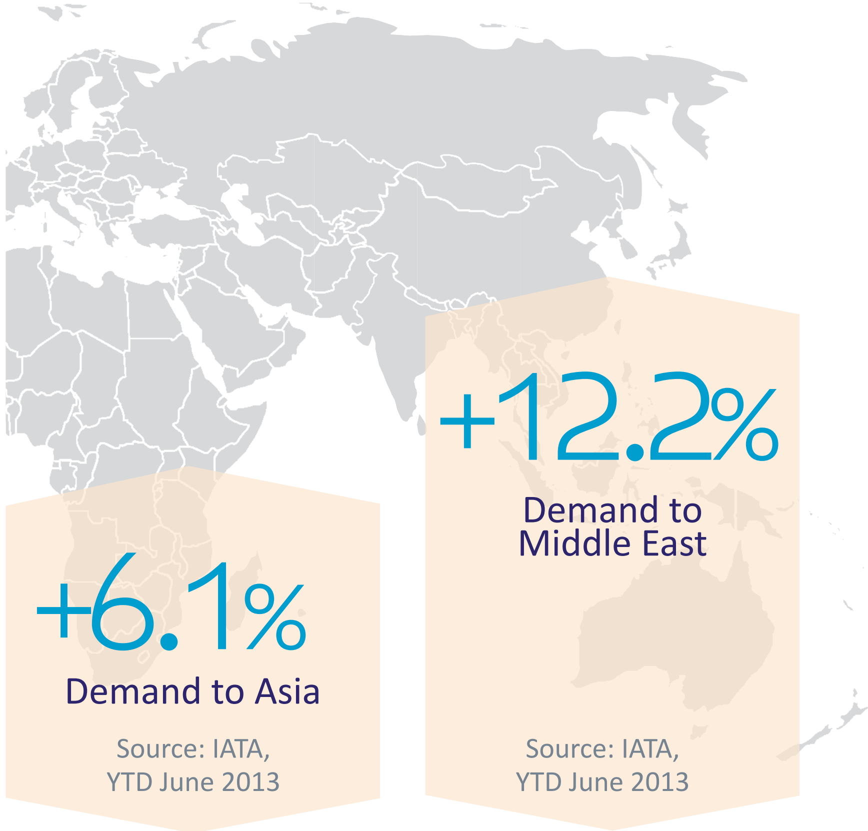
IATA recorded year-on-year growth of just 1.9% in intra-European air travel in the first six months of 2013. Premium demand was especially weak, growing by just 0.7%.

Demand to Asia rose by 6.1%, with premium demand again lagging at 2.4%. Demand for travel between Europe and the Middle East, in contrast, shot up by 12.2%. Here, as elsewhere, growth in the premium segment trailed behind, registering an increase of 8.6%.

In light of this generally weak demand environment, legacy European carriers are keeping capacity largely unchanged. The short-haul market has largely become the domain of three low-cost/hybrid carriers—easyJet, Ryanair and airBerlin—although Wizz Air, Vueling, Germanwings and Norwegian are bringing new competition to the corporate travel market.

Within Europe, this robust competition from and among low-cost carriers has also helped to discourage significant fare rises.

In an effort to lower their own costs, Air France/KLM, Iberia and Lufthansa have responded by developing their own low-cost divisions. It remains to be seen whether Transavia, Iberia Express and Germanwings will prove any more successful than Go, Snowflake and Buzz. These earlier ventures, launched by British Airways, SAS and KLM, were all shut down by 2004, after only a few years of operation.



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Spotlight on hybrid carriers

The business models of low-cost and full-service airlines continue to converge. While a handful of airlines such as Ryanair and the U.S.' Spirit Airlines are still committed to being ultra-low-cost carriers (as they now describe themselves), hybrid carriers are an emerging force in the short-haul market. Here are three examples.

easyJet

easyJet has publicly committed itself to winning more business travel passengers to improve its yield (revenue per seat). Passengers booking easyJet can now choose Flexi fares, which for a higher price include boarding priority, free hold luggage, unlimited date changes and a seat at the front—not unlike a premium product. They can also pay £149 to enjoy these benefits for a year—not unlike a loyalty program. easyJet flights are now available on global distribution systems (GDSs), and the carrier has even started offering modest corporate discounts.

Norwegian

Now one of Europe's largest low-cost airlines, Norwegian has followed Germany's Air Berlin in launching intercontinental low-cost services. It has started flights to New York from Oslo and Stockholm. Few airlines have tried budget long-haul services, and even fewer have thrived. The use of Boeing 787s, with low seat-mile costs, may help Norwegian succeed where others have failed. But the airline will need to attract business travelers. Although Norwegian offers long-haul premium seats, it focuses on leisure passengers and destinations (such as Bangkok and Fort Lauderdale). Corporate travelers may be wary because of previous failures in this sector.

Germanwings

Lufthansa is transferring all short-haul flights, other than those from its Frankfurt and Munich hubs, to its subsidiary Germanwings. Although it offers just one cabin, Germanwings markets three service packages, including a higher-priced option aimed at business passengers. Travel managers have been frustrated by Lufthansa's declaration that the routes transferred to Germanwings are no longer eligible for the volume pot used to negotiate deals with the parent airline. Although the Germanwings fares may be lower, German business travelers have proved more resistant to trading down service standards than their peers in markets such as the U.K. It also remains unclear whether Germanwings will genuinely lower costs for Lufthansa. The jury is out on whether the strategy will succeed.

OUR RECOMMENDATIONS

Don't be afraid to include low-cost/hybrid carriers. Service and punctuality are generally acceptable for business travelers.

On the other hand, don't assume low-cost/hybrid carriers are always less expensive.

Take advantage of the corporate discounts that carriers like easyJet now offer.

ADVITO

Air

Trends and 2014 forecast

In long-haul markets, European carriers continue to contend with rapidly expanding Middle Eastern airlines, as they compete for business to Asia and Africa.

Outlook for 2014

Full-service European airlines show little interest in increasing capacity, aside from the introduction of Airbus A380s on some long-haul routes.

Low-cost carriers and hybrid airlines, on the other hand, will continue to expand. We expect that this expansion will restrain short-haul fare increases within Europe, and anticipate rises of not more than 1%.

On long-haul flights from Europe to the Middle East and many points south and east, excessive capacity is setting the stage for a price war. Since European carriers lack the financial resources of their Gulf competitors, they will have to make some tough decisions over "flight or fight." For example, Lufthansa has already scaled back services to India in response to intense competition from the Gulf carriers and Turkish Airlines.

Flights from Europe to Asia via the Middle East set for a price war.

Excessive capacity from Gulf carriers could work to buyers' advantage.

Asia Pacific

Current situation

Air travel within the Asia-Pacific region is holding up well. IATA recorded a 5.7% rise in premium traffic and 3.8% rise in economy traffic during the first five months of 2013. Demand to the Middle East is also strong, with economy-class growth at 9.4%. Premium demand lagged slightly at a still-encouraging 5.6%.

China continues to drive growth for Asia, with total demand up 13% year-over-year in June.

Africa is also emerging as a high-growth market for Asia-Pacific travel, with premium demand up by 10.4%. The same cannot be said of travel to the more mature markets. Transpacific traffic is flat, while premium demand to Europe is soft, up by little more than 2% so far this year.

As they cope with softened demand, European airlines flying to Asia are closely managing capacity. Continued expansion by the Gulf carriers is putting increased pressure on incumbent airlines in most Asia-Pacific markets, particularly on routes between Asia and Europe.

There is also growing evidence this year of supply restraint among Asian airlines. The airlines have downsized their aircraft on some routes, but are increasing their number of daily (or more) flights to core Asia-Pacific cities—which should keep business travelers satisfied.

In contrast to the general atmosphere of controlled capacity, the four major Chinese airline groups (Air China, China Eastern, China Southern, and Hainan Airlines) are investing heavily in their product to attract non-Chinese travelers. They are also more willing and able to offer negotiated corporate deals, to attract business travelers. And they continue to expand their international networks. China Eastern has added a second daily Shanghai-Vancouver service. Rapidly growing Hainan Airlines has applied to launch a Beijing-Boston service using Boeing 787s in 2014.

With supply and demand growth rates almost in balance, fare increases have been modest on nearly all Asian routes. Only on European routes, where demand is soft, have prices been falling.

Outlook for 2014

As demand growth slows, healthy competition should ensure that economy fares stay flat or rise only slightly. We may see more drastic discounting of fares on long-haul routes, as airlines respond to the excess capacity generated by the Gulf carriers' continued expansion.

Travelers may find some of the best deals in business class. Some Asian companies have started cabin downgrading in their travel policies in recent months, as they look to control their costs more rigorously. We believe airlines will lower their prices to prevent that trend from becoming entrenched. We expect business fares to fall by 2% on both regional and intercontinental routes.

Latin America

Current situation

According to IATA, the performance of the Latin American market has been mixed so far this year. Economic strength and trade momentum drove an 11.4% rise in traffic between North and South America, with premium travel performing well, rising by 8%. Premium travel between North and Central America grew almost as strongly, at 5.9%, but the economy segment has stayed flat.

Demand to and from Europe is a source of weakness, with traffic in the South American market having risen only slightly so far this year.

Within South America, demand continues to grow at a reasonable pace of 5%, although premium demand has lagged at 2.9%.

On the supply side, consolidation continues. Two pan-regional groups have emerged in the form of Avianca-TACA and LATAM. Avianca-TACA is a member of the Star Alliance, while LATAM, a combination of Chilean group LAN and Brazil's TAM, is committed to oneworld.

Outlook for 2014

LATAM will expand its intercontinental service, particularly to Europe and North America. Avianca-TACA will follow a similar path, but will still be some years behind its South American rival. For now, it's most likely to continue expanding within the region.

With Avianca-TACA strong in Central and northern South America, and LATAM present in most South American markets bar Venezuela, the two groups should largely avoid direct competition, other than on international services to key cities.

SkyTeam finds itself marginalized in this market. It has a single member, Aerolineas Argentinas, and its efforts to establish a toehold in Brazil through GOL have proved difficult. As a low-cost carrier, GOL has much to learn about the corporate market. Yet in time it will likely prove to be strategically much more important to SkyTeam than Aerolineas. In the meantime, SkyTeam may have to look to a series of start-up and smaller carriers to enhance its presence in this region.

Based on the competitive impact of consolidation and resilient demand, we expect fare increases of 2-3% in the Latin American market in 2014.

Latin American fares set to increase

2–3%

in 2014

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Middle East

Current situation

Demand has so far this year been strong in all three of the main long-haul markets linked to the Middle East. IATA recorded double-digit growth for traffic on both African and European routes, while demand to the Far East grew by 8.6%. In both the European and Far East markets, premium travel growth has trailed economy demand, most notably to the Far East, where growth fell short of 6%.

In the Middle East, Emirates, Etihad Airways and Qatar Airways are increasingly competing directly with each other—and struggling to hit revenue targets. They are now facing increased competition for east-west traffic from European carrier Turkish Airlines. With excessive capacity, and more new aircraft on the way, the Gulf carriers are discounting heavily to attract passengers traveling between Europe and Asia and Africa. European carriers have tried to respond with lower fares. But the Gulf carrier discounts are tempting enough that some companies are pushing their travelers to them, even when a direct service is available with another airline.

Outlook for 2014

With so many aircraft still on order, competition between the Gulf carriers will likely intensify further, and will keep airfares in check. In fact, we expect business and economy fares to fall by 2% on both regional and intercontinental flights.

Turkish Airlines adds to competition among Gulf carriers for east-west traffic

ADVITO

Air

Trends and 2014 forecast

Africa

Current situation

IATA data shows mixed results for intercontinental and regional demand in the African market so far this year. Demand to the Far East and Middle East has been strong for both premium and economy travel, with growth rates of 10-13%. However, within Africa, demand growth has been weaker, at 4.2% for premium travelers, and 4.6% among economy passengers.

Airlines have added capacity on routes between major cities, where traffic growth has been strongest. But capacity growth isn't keeping pace with the growing demand, so fares remain high.

Buyers are finding it harder to secure corporate discounts, with African airlines rarely prepared to negotiate deals.

Outlook for 2014

We are forecasting a 2% rise in regional business fares as the fundamentals of supply and demand remain unchanged. However, pricing will become more competitive on long-haul routes due to increased activity by the three Gulf carriers and Turkish Airlines. For this reason, we believe intercontinental fares will fall by 1-2% in 2014.

OUR RECOMMENDATIONS

Focus your energies where competition is intense and you are more likely to find opportunities for discounting.

Make airlines aware of how much you're paying in non-negotiable fuel surcharges.

Use the Gulf carriers in your program as lower-priced (but high quality) long-haul options, but also to play off against other carriers.

Consider charter options if you have regular travel within Africa.

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Spotlight on unbundling

Unbundling of airfares into ancillary fees charged for previously free services, such as bag-check and meals, has continued in 2013. Europe is approaching the already high levels of unbundling in the U.S. The best way for travelers to avoid ancillaries is to join airlines' frequent flyer programs, which waive many of these fees for members. However, there is a suspicion among industry observers that airlines are offering waivers only to build up their direct customer databases—and that once the databases reach critical mass, the waivers will disappear. Airlines may then introduce re-bundled packages, drawing in some of what are now termed "extras."

The main problem for buyers is still the difficulty of reporting on ancillary spend. Airlines are slow to provide this information, which would make it easier to negotiate unbundled services.

OUR RECOMMENDATIONS

Encourage travelers to register for airline frequent flyer programs to earn fee waivers—but be aware this may not be a long-term solution.

Continue to press airlines for transparent information.

Spotlight on airfare price assurance

One money-saving tip for North American companies is to use services like BCD Travel's Airfare Price Assurance to secure reduced fares after travelers have made their bookings. In the U.S., an air booking is followed by a "void window" which lasts to the end of that day plus 24 hours. During the void window, a booking can be changed without incurring airline fees. Airfare Price Assurance checks for lower fares on a given itinerary, within the void window. If one is found, BCD Travel will void the original ticket and issue a new one.

Airfare Price Assurance plays two important roles:

- Reality – finding net savings of 3-8% on reissued tickets
- Reassurance – keeping travelers confident that their managed booking channels can find the cheapest fares

ADVITO

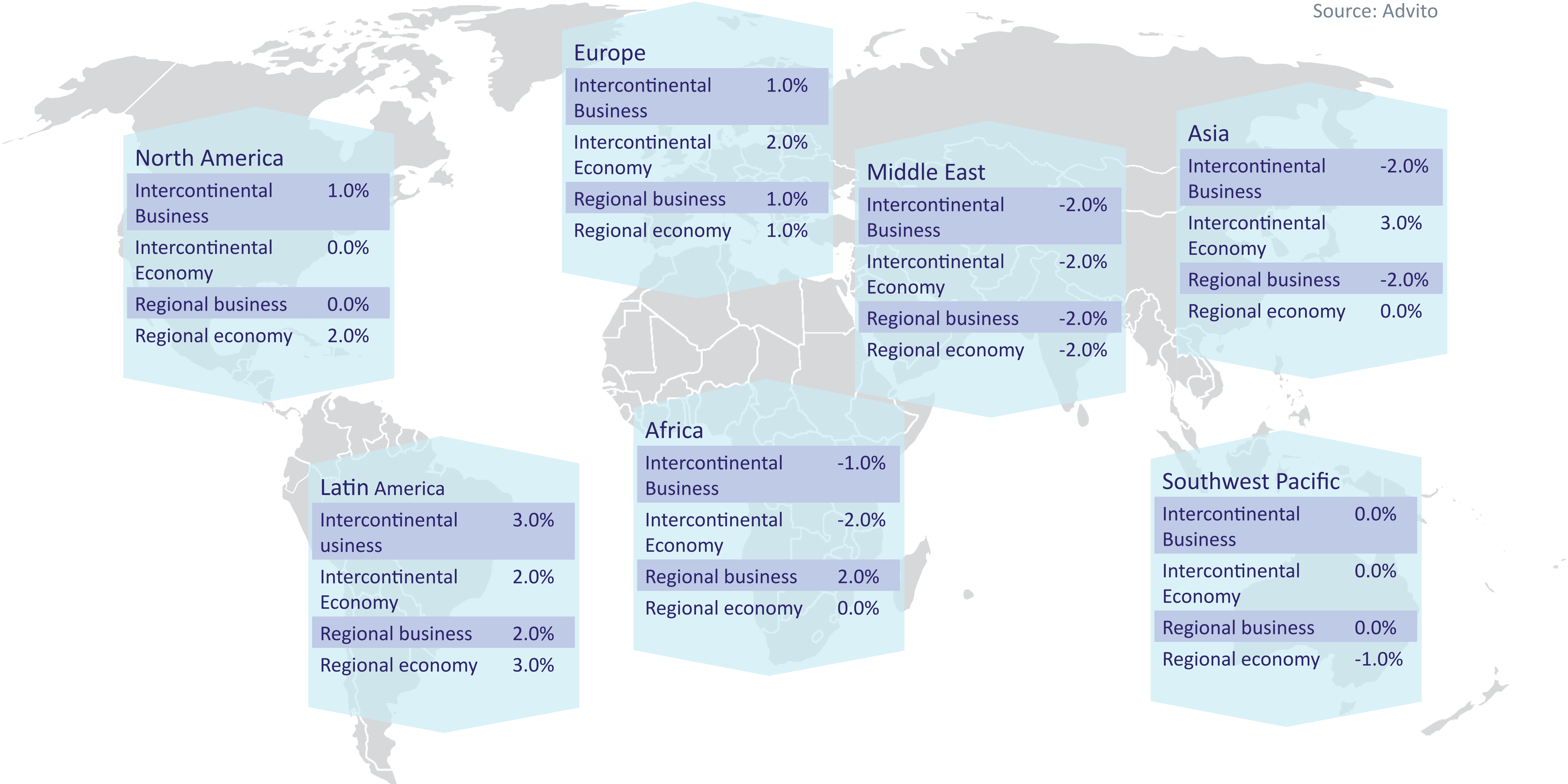
Air

Trends and 2014 forecast

2014 Airfare forecasts by region

We predict small increases in North America and Europe, and more sizable increases in Latin America.

Source: Advito



Europe

Intercontinental Business	1.0%
Intercontinental Economy	2.0%
Regional business	1.0%
Regional economy	1.0%

North America

Intercontinental Business	1.0%
Intercontinental Economy	0.0%
Regional business	0.0%
Regional economy	2.0%

Middle East

Intercontinental Business	-2.0%
Intercontinental Economy	-2.0%
Regional business	-2.0%
Regional economy	-2.0%

Asia

Intercontinental Business	-2.0%
Intercontinental Economy	3.0%
Regional business	-2.0%
Regional economy	0.0%

Africa

Intercontinental Business	-1.0%
Intercontinental Economy	-2.0%
Regional business	2.0%
Regional economy	0.0%

Latin America

Intercontinental usiness	3.0%
Intercontinental Economy	2.0%
Regional business	2.0%
Regional economy	3.0%

Southwest Pacific

Intercontinental Business	0.0%
Intercontinental Economy	0.0%
Regional business	0.0%
Regional economy	-1.0%

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Hotel

Trends and 2014 forecast

GLOBAL

Hotel companies will look to raise corporate rates by 4-6% for 2014, but are likely to achieve only half this level on average.

PRIMARY CITIES

We expect double-digit rate increases in primary international cities such as New York and Hong Kong, and in under-supplied emerging destinations like Sao Paulo and Luanda.

SMALLER CITIES

There will be excellent negotiating opportunities in smaller cities.

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Hotel

Trends and 2014 forecast

Current situation

In most regions, we've witnessed a steady rise in hotel bookings, as demand has climbed back to pre-recession levels. But in Western Europe, growth has been less consistent so far this year.

A number of markets have enjoyed strong demand, including South Africa, Russia, Poland and Israel. Supply and demand imbalances in some emerging destinations, such as Luanda in Angola, have often made it difficult to find a Western-standard room at any price.

Hotel openings continue to be extremely limited in mature business travel markets, especially in Europe (except Russia, which is finally adding some much-needed new room supply). New development is largely confined to the budget and mid-price sectors.

But supply is increasing in many emerging markets, with Asia Pacific leading the way, not only in China but also in countries such as Malaysia and Indonesia. After initial investment in upscale properties, much of the new development here is now in the budget and mid-price sectors. Both Western chains (like Holiday Inn Express) and regional brands (like Tune Hotels) are playing a role in development. Lower-tiered Western brands often deliver higher quality and more amenities in Asia than in their home markets, making them a surprisingly worthwhile option for Western business travelers.

Hotel building continues in the Gulf states, although the once-frantic pace has slowed.

Last year, we predicted that the leading hotel companies would fail to achieve the 9% hike in corporate rates they had targeted for negotiations for 2013. With demand growing less rapidly than foreseen, hotels were lucky to achieve half the hike they'd anticipated. Unsurprisingly, rate growth has been weakest in Europe.

Once again, the most important division has been between major cities, where rates have risen very steeply, and smaller cities, where rates have risen more slowly. This has been most noticeable in the U.S., with New York City, Chicago and San Francisco all accelerating quickly. In Asia-Pacific, Hong Kong and Sydney, hotel prices continue to climb.

Another rate hotspot for travel managers is Brazil, where supply has failed to keep pace with increased demand. Prices here have climbed by double digits for the second year in a row in 2013. The country's hosting of the World Cup in 2014 will keep that pricing pressure in place. In China, in contrast, a surplus of new supply—often of very large properties—has generally tempered rate increases.

Outlook for 2014

Demand will continue to increase in most markets, although not as dramatically as hoteliers might anticipate. Latin America and Africa look set for the strongest rates of demand growth.

There is no significant hotel development planned in mature markets. The pipeline of expected property openings in Asia remains strong, while in Africa key regional suppliers, such as Lonrho and Protea, are starting to build more business hotels.

Hotel companies are seeking negotiated rate rises of 4-6% for 2014. One or two are being more aggressive, but generally they have set a much lower target than the 9% growth they had anticipated in 2013.

Given the uncertainty about demand recovery levels, we think hotels are still being overly ambitious. Aside from Africa and Latin America, we predict that rate rises in 2014 will average 2-3%, once again falling short of what hoteliers are looking for. However, hotels will have more success in securing steep rises in high-demand primary cities, such as New York, and primary markets in other regions. We can't rule out double-digit rate increases in these top markets, but they will be offset by minimal rises in smaller cities.

Corporate hotel programs will probably need a blend of two types of rate:

- **Negotiated rates** – Essential for primary destinations and cities where the client has heavy demand. These rates are commonly about 20% lower than the Best Available Rate (BAR).
- **Chain-wide discount** – Buyers can negotiate a chain-wide fixed discount on the BAR for cities where their demand is too small to merit a specifically negotiated rate.

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OUR RECOMMENDATIONS

Set market caps to encourage smart traveler buying behavior.

Negotiate chain-wide deals with the top two or three chains, to provide coverage in smaller markets and protect against sold-out situations with preferred hotels.

Always spot-buy to take advantage of off-peak and special rates.

Use rate assurance to address the increased rate variability arising from better yield management practices by hotels.

Consolidate spend with fewer hotels to achieve the best negotiated rates.

While restricting choice in smaller locations to leverage spend, don't over-reduce suppliers in primary cities, where first-choice properties are more likely to be sold out.

Continue to negotiate on extras. This is especially important in emerging regions like Africa, where extras are often particularly expensive.

Encourage online adoption. Booking tools are effective at steering travelers towards lower rates.

Don't forget to recover value-added tax on hotel bills. Recovery processes are becoming more automated.

Pay close attention to hotel blackout dates and long cancellation policies, which can render your negotiated rates less effective.

Consider trading down to lower-priced hotel tiers to offset inflationary impacts.

Last Room Availability (LRA) rates will continue to be available at a premium. Negotiate these rates wisely, especially in your high-demand markets.

ADVITO

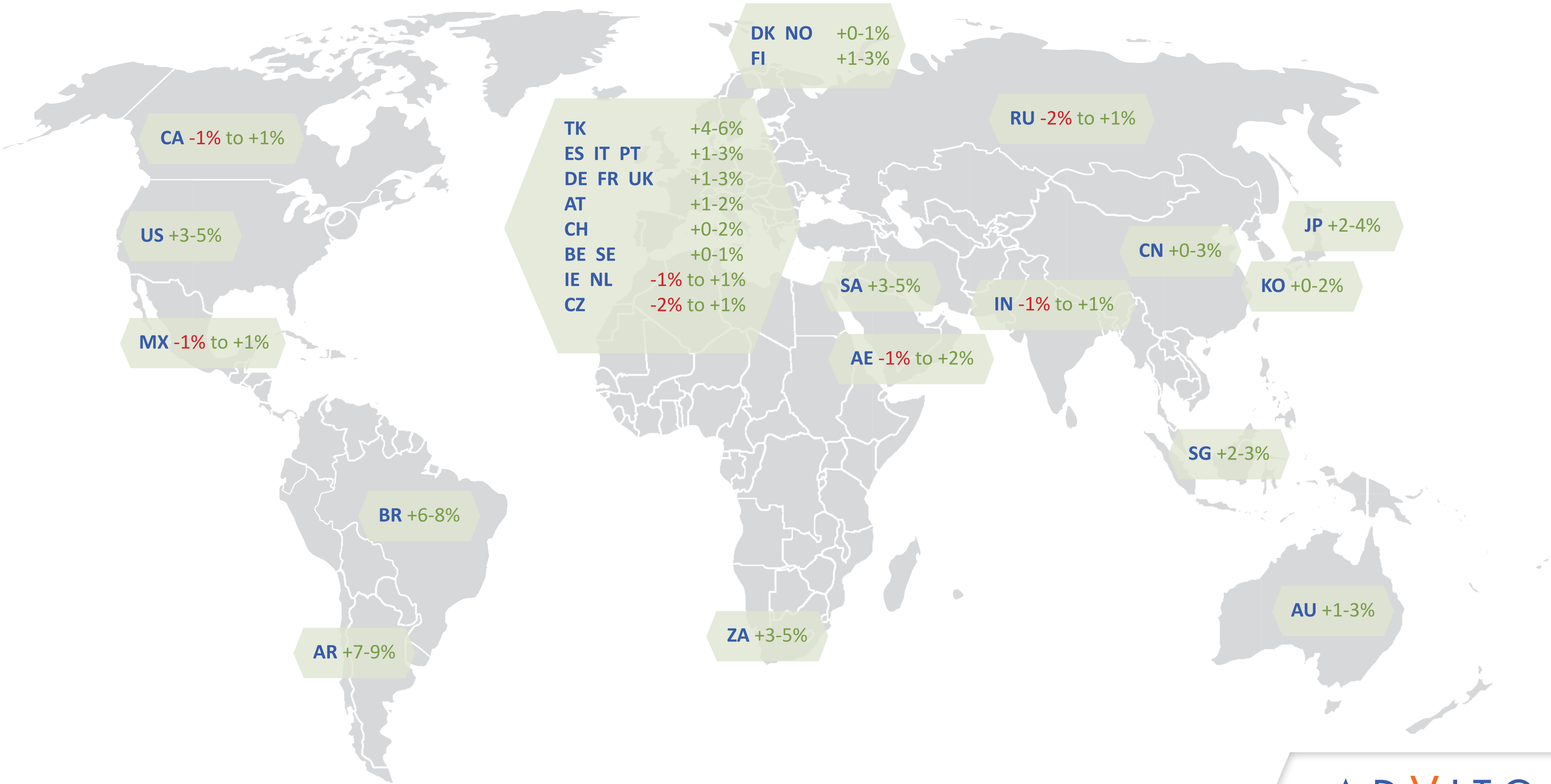
Hotel

Trends and 2014 forecast

2014 Hotel average daily rate (ADR) predictions by key market

Increasing demand will be slightly tempered by a slowdown in the global economy and by the impact of recent development, resulting in moderate ADR increases in most markets.

Source: Advito



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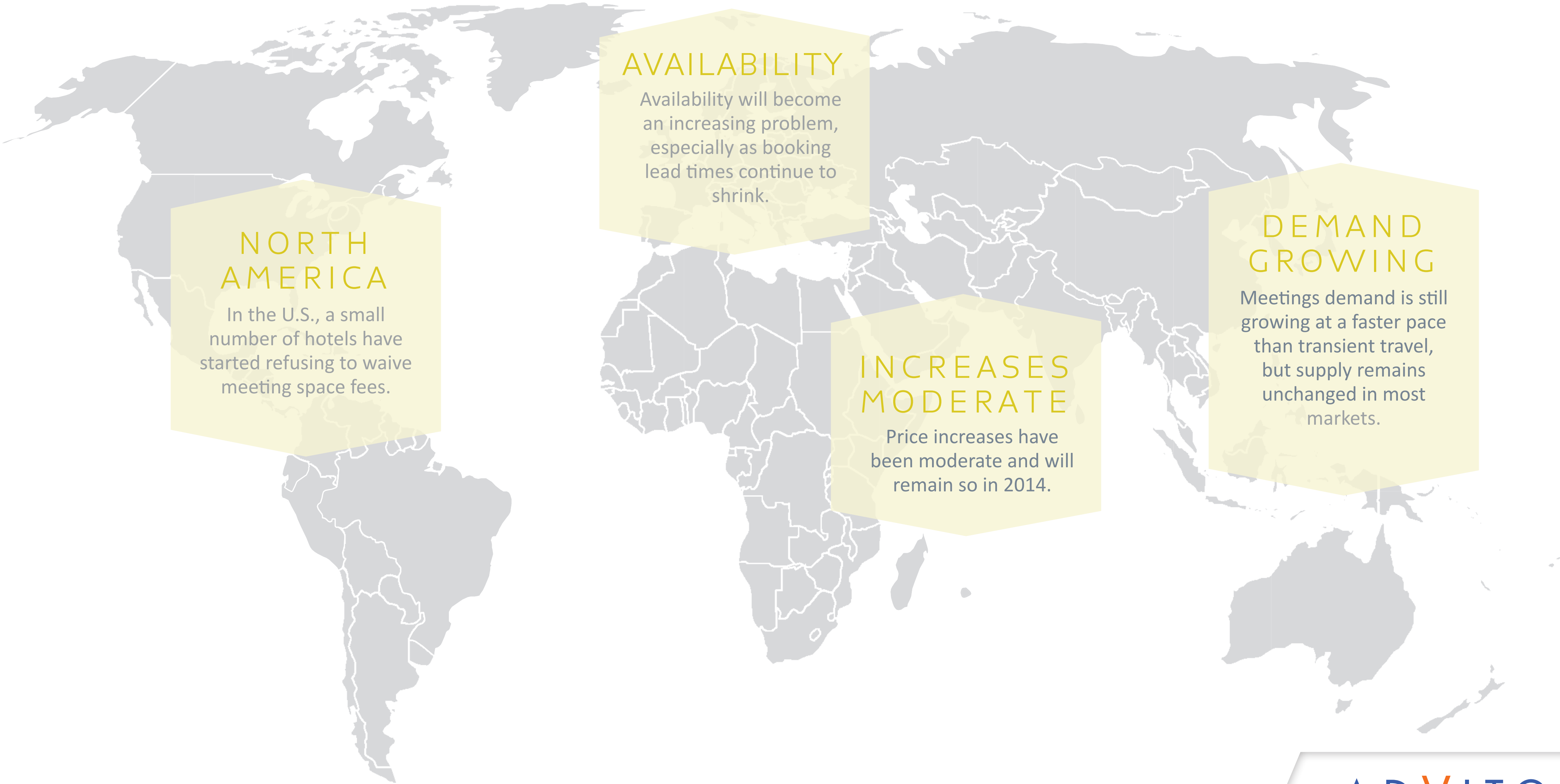

AVAILABILITY

Availability will become an increasing problem, especially as booking lead times continue to shrink.

NORTH AMERICA

In the U.S., a small number of hotels have started refusing to waive meeting space fees.

DEMAND GROWING

Meetings demand is still growing at a faster pace than transient travel, but supply remains unchanged in most markets.

INCREASES MODERATE

Price increases have been moderate and will remain so in 2014.

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Meetings

Trends and 2014 forecast

Current situation

Unlike transient travel, global demand for meetings continues to grow, albeit at a slower pace than in 2012. According to BCD M&I, demand in the U.S. continues to be strong for first-tier cities like New York, Los Angeles and San Francisco, even though rates are rising sharply. Western Europe is registering growth as high as 10% in some countries. Moving east, BCD M&I sees improved demand for locations from Eastern Europe to Central Asia, including Turkey, Kazakhstan and Azerbaijan.

Continuing the trend established in recent years, there's been very little new meeting space added in North America or Europe. However, more meeting space is becoming available in Asian markets such as China, India, Malaysia and Indonesia.

In Asia Pacific, more capacity has led to softer rates. In contrast, the absence of new supply amid rising demand in North America and Europe has inevitably shifted the meetings market in favor of the seller in 2013.

Yet while prices have increased, they have not done so outrageously—just 3-5% in Europe, for example. However, clients who got used to recession-era pricing levels are still trying to keep their total meeting costs down. They're seeking savings in other ways, such as spending less on guest speakers, traveling shorter distances or reducing the number of nights away.

In all regions, companies are increasingly looking to lower travel costs by combining their meetings and transient travel. Many companies choose to start this process with smaller meetings typically booked by administrative support staff.

This trend is being supported by a growing requirement for meetings and transient travel to be managed through a single agency. Where this has happened, companies are now directing more of their meeting air reservations to online booking tools.

Virtual payment (vCard) payment options are gaining traction with companies. vCards increase access to international capacity, while maintaining business controls and capturing spend data.

The shortfall in meeting space capacity has led to shorter lead times (the time between booking and the date of the event) becoming the norm. But fuller venues in 2013 have seen buyers increasingly missing out on preferred places and dates.

Hotels in the U.S. in particular have responded by reducing the time they will hold provisionally booked space. Today, only 30 days is typical, and hotels are more likely to cancel a booking option if a firm reservation comes in from another client. They are also allowing less time—30 days at most—for a contract to be signed. Otherwise, the two parties must return to the negotiating table, with the risk of higher rates climbing as the buyer nears the meeting date.

The issue for buyers is that contracts are taking longer to complete, because hotels are becoming more resistant to amendments and addenda requested by the client. Clients are coming under more pressure to accept contract terms they may otherwise reject.

Virtual and hybrid meetings continue to be considered alternatives, but few companies have implemented the formal policies and procedures associated with them.

ADVITO

Meetings

Trends and 2014 forecast

Outlook for 2014

Meetings demand will grow, but steadily rather than spectacularly.

There are no signs that the supply situation will improve significantly in North America or Europe over the next few years, but it will continue to grow in other markets, especially Asia Pacific.

With a year of improved demand under their belts, hotels will look to increase meeting rates more sharply in 2014 than in 2013. The growing imbalance between supply and demand improves their chances of success. Once again, rates will rise faster in first-tier cities than elsewhere. The main exception will be Asia Pacific, where supply has grown too fast to support rate hikes.

Buyers may also encounter more of the other problems caused by the demand-supply imbalance. Examples include restricted availability, hotels refusing buyers' contract amendments and more ancillary fees, which buyers were able to negotiate away in the past. For instance, hotels may allow meetings participants free emails, but charge for any services requiring greater internet bandwidth.

In the U.S., one particular concern is hotels charging for meeting room rental as well as beds, food and beverage and other extras. In Europe, buyers routinely accept a meeting space fee, but in the U.S. it is nearly always negotiated away. Over the past year, however, a growing number of hotels in the U.S. have insisted that the fee remain inside the contract. This issue may become more of a challenge in 2014.

With tactical bargains proving increasingly hard to find, we believe companies without strategic meetings management programs will push to adopt them next year. This applies particularly to Europe, where strategic meetings management adoption lags behind North America.

OUR RECOMMENDATIONS

Consider multi-year contracts.

Decide on a venue bid quickly, or risk losing the space.

Avoid major cities when possible. Penalties for attrition in these cities will generally be higher and more strongly enforced.

Adopt strategic meetings management now if you haven't already done so. It doesn't have to be a full strategic solution. For example, start by outsourcing the venue sourcing.

In particular, try to find out all the meetings your company has planned for the next 12 months so you can attempt to negotiate them together.

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Spotlight on integrating travel and meetings

Corporate clients are increasingly looking to merge the management of their transient travel and meetings programs. The two main reasons are:

- Improved leverage of spend, especially with hotels – meetings typically account for 35% of total travel spend.
- Improved risk management – businesses want to track meetings participants as efficiently as they do transient travelers.

Companies may experience reluctance on the part of hotels to combine their travel and meetings offerings. The same hotel or chain may have different P&Ls and business managers for these two types of business, and are either unwilling or unable to bring them together. But pressure from clients will increasingly persuade hotels to integrate travel and meetings in 2014 and beyond, making it easier to do one deal.

OUR RECOMMENDATIONS

Start working internally to share meetings and travel data.

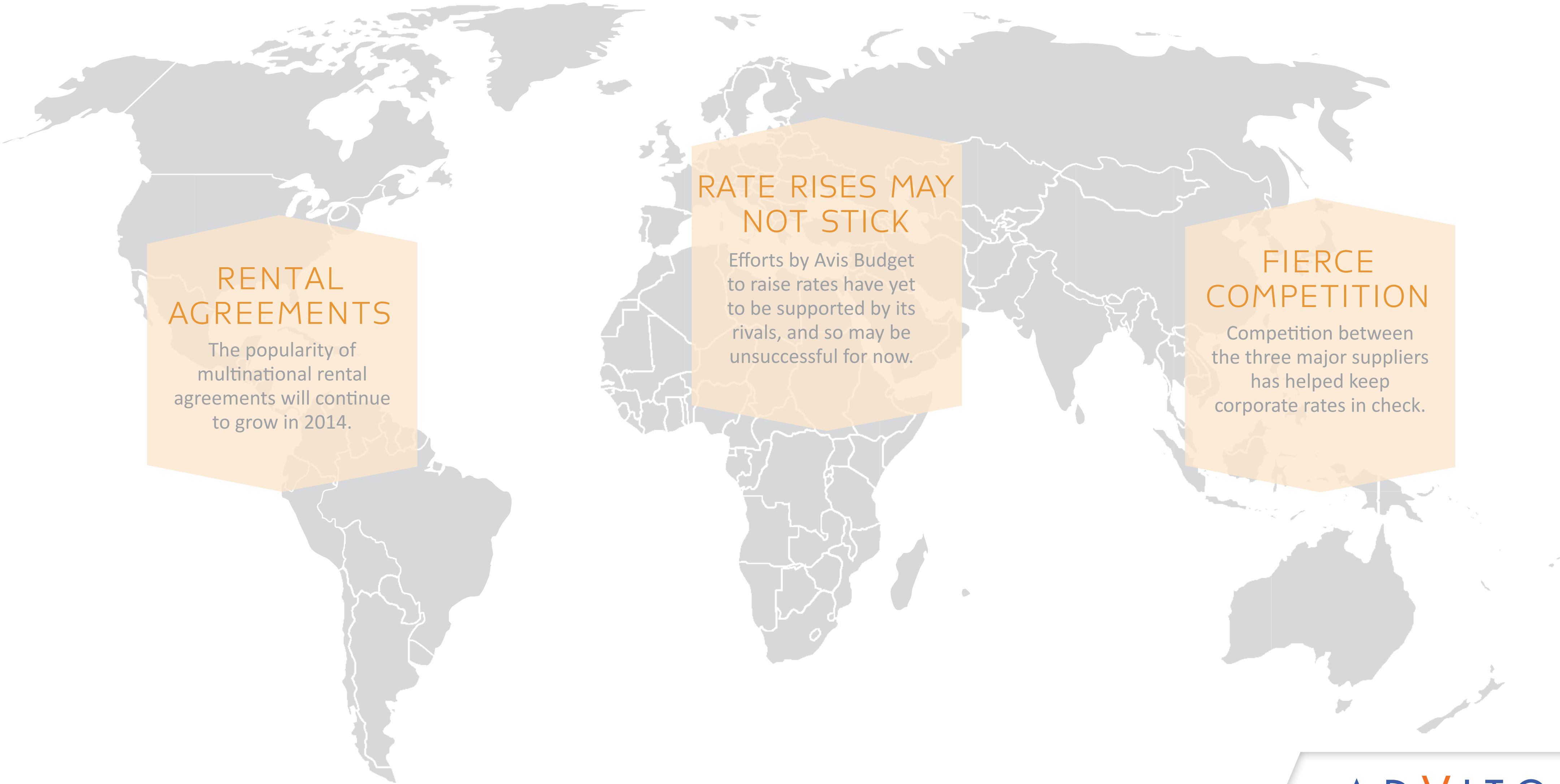
Make it clear to suppliers that you want flexibility to negotiate both spends together.

Spotlight on incentives

Incentive travel has grown even faster than regular meetings over the past year, as companies increasingly recognize the importance of motivating their best salespeople. Purse strings are noticeably being loosened and long distance travel is returning, although companies are still cautious with extravagance for fear of bad publicity. In the past a U.S. company might have ventured no farther than the Caribbean, but now trips to regions such as Europe or South America are gaining in popularity. There is also a growing trend to stage incentives in cities instead of resorts. Popular European destinations for U.S.-originating incentive trips include Rome, Paris, London and Prague.

Car rental

Trends and 2014 forecast



RENTAL AGREEMENTS

The popularity of multinational rental agreements will continue to grow in 2014.

RATE RISES MAY NOT STICK

Efforts by Avis Budget to raise rates have yet to be supported by its rivals, and so may be unsuccessful for now.

FIERCE COMPETITION

Competition between the three major suppliers has helped keep corporate rates in check.

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Car rental

Trends and 2014 forecast

Current situation

Fierce competition between Hertz, National/Enterprise/Alamo, and Avis Budget has been good news for the corporate buyer in the U.S.—by far the world's largest car rental market.

Negotiated rates have barely changed since 2008, with suppliers prepared to use consumer rental rates to subsidize corporate deals. Avis Budget Group, for example, increased leisure pricing by 8% in the first quarter of 2013. This ability to leverage consumer rates may have been behind the company's decision to acquire low-price operator Payless Car Rental in July 2013.

Suppliers' reluctance to increase rates for corporate clients has persisted despite a generally stringent approach to controlling capacity, which has made it harder for travelers to find vehicles (especially at airport locations).

Car rental companies have traditionally made most of their money from the sale of surplus vehicles. With conditions in the used car market recently softening, the agencies could feel some additional pressure to raise rates to make up for the shortfall in revenue.

Outlook for 2014

In June 2013, Avis Budget CFO David Wyshner indicated the company would consider sacrificing a few percentage points from its corporate customer retention rate in order to drive up negotiated rates. This may prove ambitious, as neither National nor Hertz has shown any desire to follow suit. As a result, we predict that rates will rise 4% at most—but may also stay flat for many customers.

Spotlight on international corporate agreements

Enterprise Holdings, which owns the National, Enterprise and Alamo brands, has expanded significantly outside the U.S. in recent years. Its emergence as a third major global player (alongside Hertz and Avis Budget) has made the international marketplace much more competitive and led to an increase in multinational contracting for corporate clients.

Pricing is very competitive for multinational RFPs. The only pitfall? Each of the three global providers has gaps in its coverage. Most companies will need to appoint secondary suppliers to cover these gaps.

OUR RECOMMENDATIONS

Revisit the option of a global contract if you don't have one. It could save considerable money.

Don't rely on just one contracted supplier for your worldwide needs.

ADVITO

OUR RECOMMENDATIONS

If you haven't reviewed your car rental agreement over the past 12 to 18 months, now is the time. Rates will have to go up eventually, so lock in good prices while you can.

Consider locking in rates for three or more years, and explore the option of secured restrictions on rate rises after that time.

You don't have to go through the RFP process if you're satisfied with your existing supplier. Instead, discuss revised pricing to extend the contract.

Use a secondary preferred supplier to ensure access to a discounted rate when the primary supplier has no vehicles available.

Negotiate a cap on how much the supplier can charge for cars returned without a full tank.

Make sure travelers are behaving efficiently: Are they keeping higher priced one-way rentals to a minimum, and returning vehicles with a full tank?

Consider car rental in preference to employees using their own cars. Sometimes it works out cheaper once reimbursement rates are taken into account.

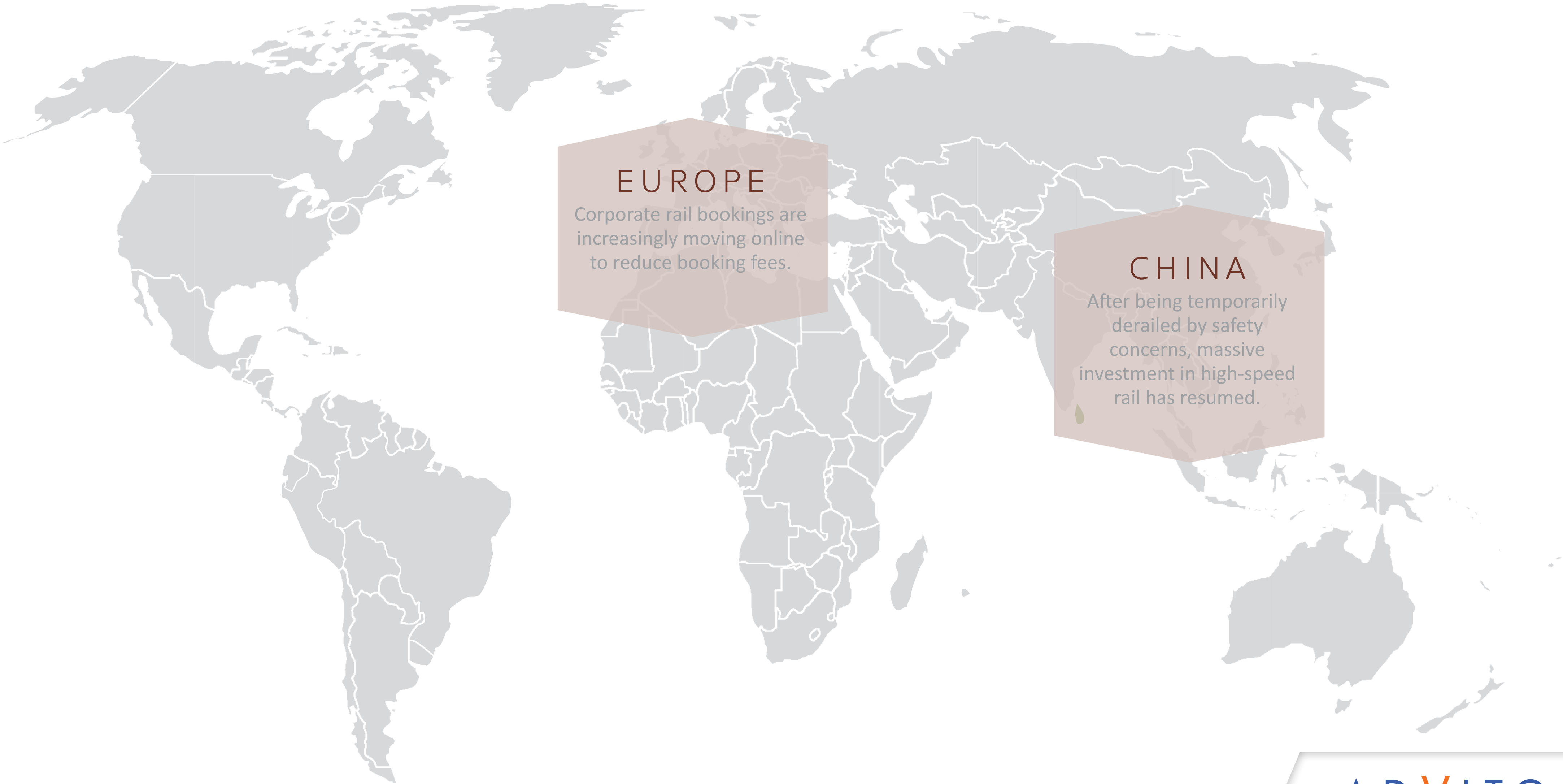
Make sure your corporate agreement covers both airport and local (non-airport) locations.

With high tax on airport locations compared with local locations, consider using a transfer to the city center or hotel and rent from there.

If you are negotiating, be sure to focus on the total cost of rental, and not just the rate, as suppliers are increasingly applying additional fees and surcharges.

Focus on guaranteeing your car and rate type.

ADVITO



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Rail

Trends and 2014 forecast

North America

Amtrak's Northeast Corridor (NEC) and the California High Speed Rail Authority (CHSRA) are the signature projects within the U.S.'s development of high speed rail.

Service on the NEC, which runs between Boston and Washington, D.C., will be enhanced by a US$400 million investment in new locomotives between 2013 and 2016. But years of under-investment mean that it will take much more than this to make the line a credible competitor to air travel.

On the West Coast, the contract to construct the first 29-mile stretch of the CHSRA has finally been awarded. But it will be another 15 years before direct high-speed rail service links San Francisco and Los Angeles—assuming that the project is not held up further by court challenges and environmental impact studies.

Europe

After two decades of rapid development, the expansion of a Europe-wide high-speed rail network has slowed. Future investment prospects have not been helped by the performance of the most recently opened new route: the Fyra service. Linking Amsterdam with Brussels, it was suspended early in 2013 after only two months of operation, as a result of major technical problems. With the trains rejected and returned to the manufacturer, the rail operator is now looking for a new way to provide high-speed rail services between the Netherlands and Brussels.

High-speed rail has tended to enjoy the higher market share when competing directly with air, even though it may often be the more expensive option. To maintain this competitive advantage, French railway operator SNCF is trying to address the price issue with the launch of a low-cost high-speed rail service, called Ouigo.

The new service is intended to compete with low-cost airlines. It mirrors their business model, with departures from a secondary Paris station (Marne-la-Vallée, east of Paris), bag limits, no refunds and no meals. While Ouigo is clearly aimed at the leisure market, like low-cost airlines, its lower costs may prove attractive to business travelers too.

High-speed rail travelers from London may also be looking forward to lower prices, as a result of two recent developments. The European Commission's June 2013 ruling, that Eurotunnel is overcharging passengers, could be the first step in a long journey towards lower Eurostar fares between London and Brussels, Lille and Paris. At the same time Deutsche Bahn (DB) finally received an operating license to start services through the tunnel. The increased competition should help to bring down fares, but travelers may have to wait until 2016 for the first DB services.

Among travelers, perhaps the most significant development over the last 12 months has been a growing preference for online over offline bookings. With minimal competition among rail operators, this switch to online will have little impact on price. It is most likely being driven by a desire to avoid the transaction fees charged by travel management companies for offline bookings.

By booking online, travelers should have greater visibility of the schedule options. By exploiting off- peak and advance booked fares, booking online may help to reduce average ticket prices (ATP).

Asia Pacific

Established in 2007, China's high-speed rail program now covers more than 5,780 miles of track. $400 billion of further investment will complete a 10,000 mile network by 2020, with four main lines running east to west and four from north to south.

The country's program has been plagued by scandal and incidents, including 2011's high-profile accident at Wenzhou. To address concerns, the authorities have pledged to prioritize safety. Investment has resumed at a rapid pace.

The latest milestone is the world's longest high speed rail line, linking Beijing and Guangzhou, cutting rail journey times from 24 to eight hours. The line stops in 35 cities, and will eventually be extended to Hong Kong. At $130, standard seats are twice what they used to be, but slightly less expensive than flying. Business class tickets sell for $410.

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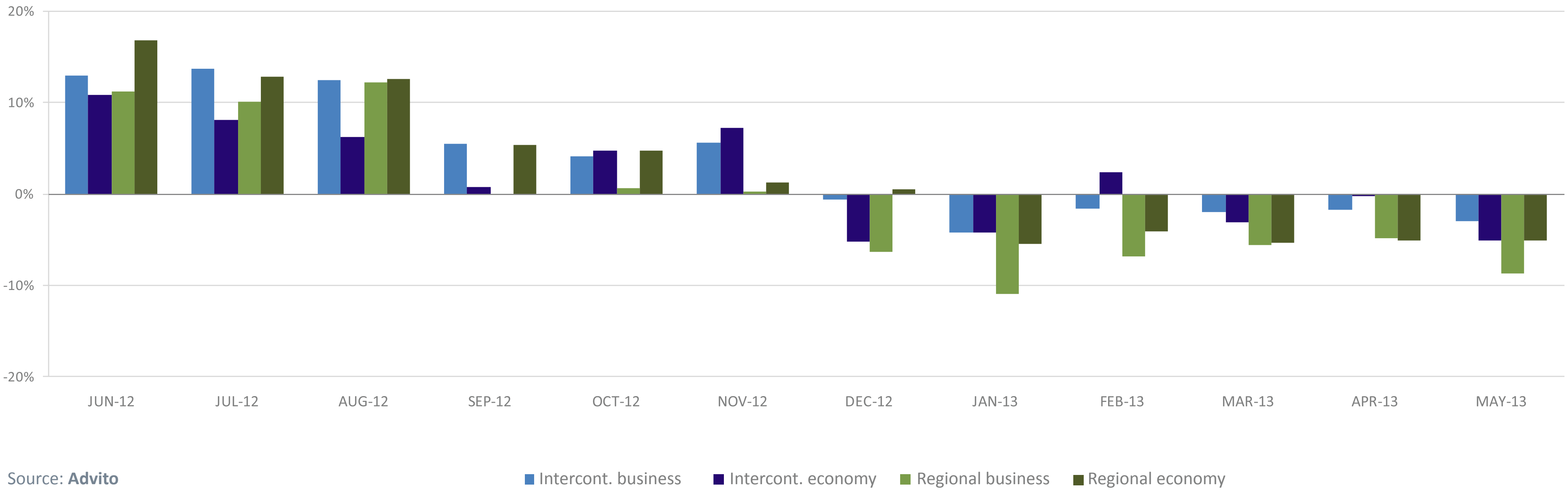
Appendix

Fig 1a – Cost per mile year-over-year 2012 vs. 2013: North America

North America



Source: **Advito**

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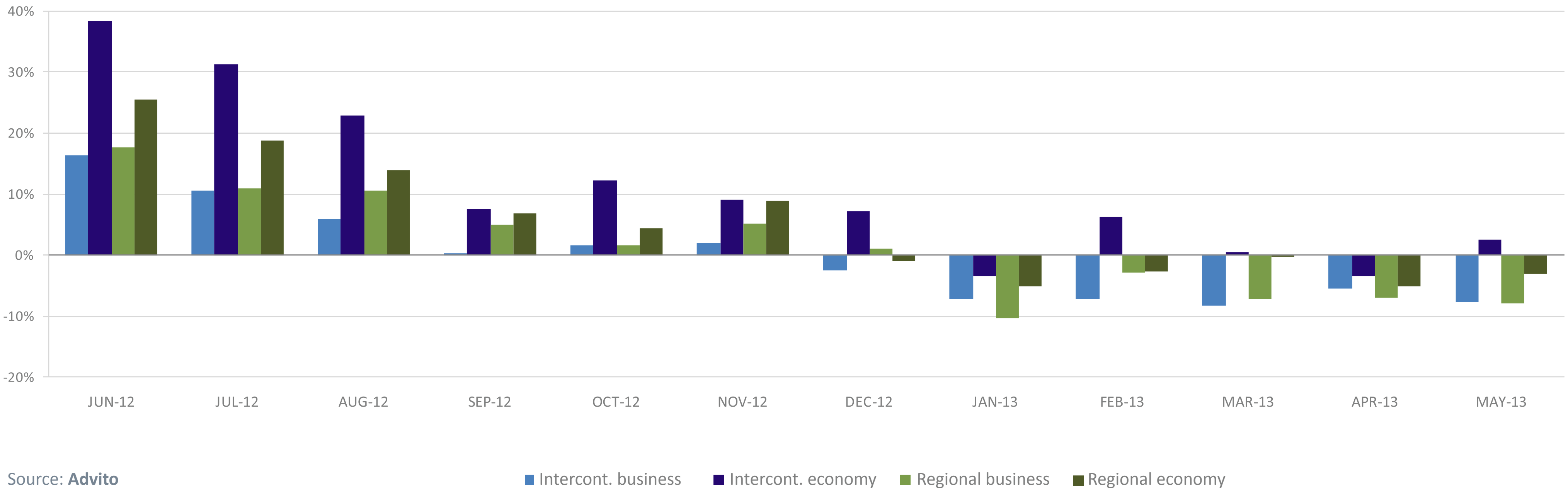
Fig 1b – Cost per mile year-over-year 2012 vs. 2013: Asia

Asia



Source: **Advito**

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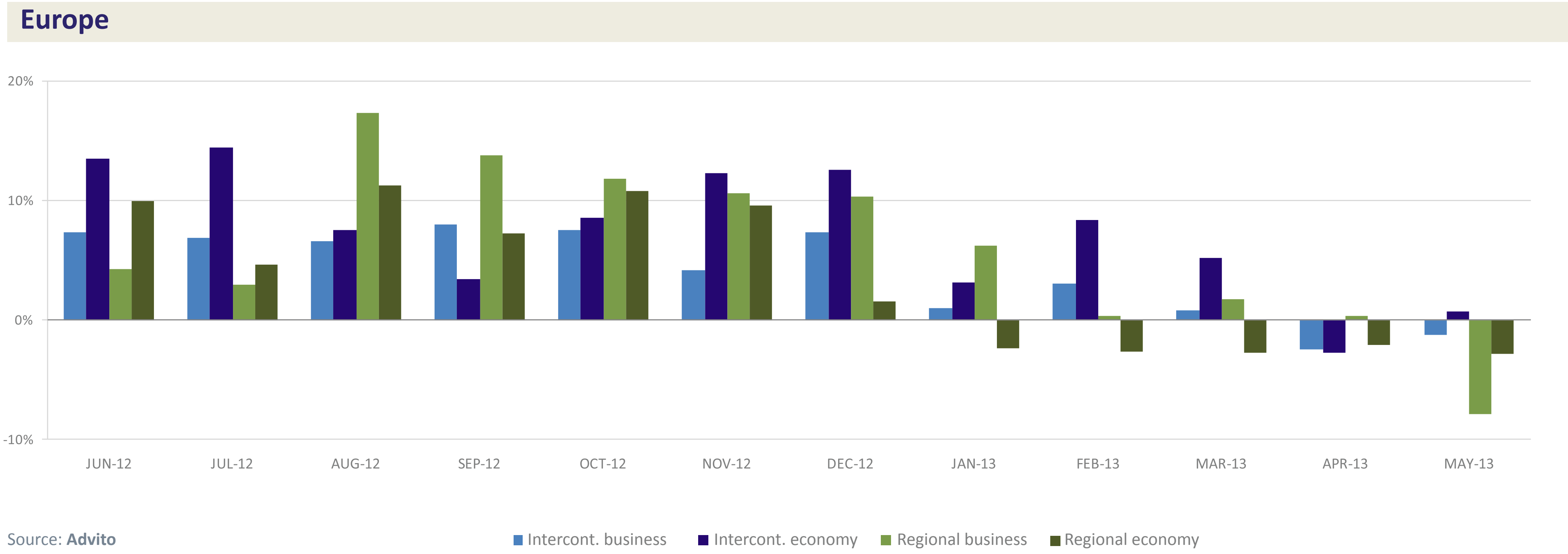
Fig 1c – Cost per mile year-over-year 2012 vs. 2013: Europe



Source: **Advito**

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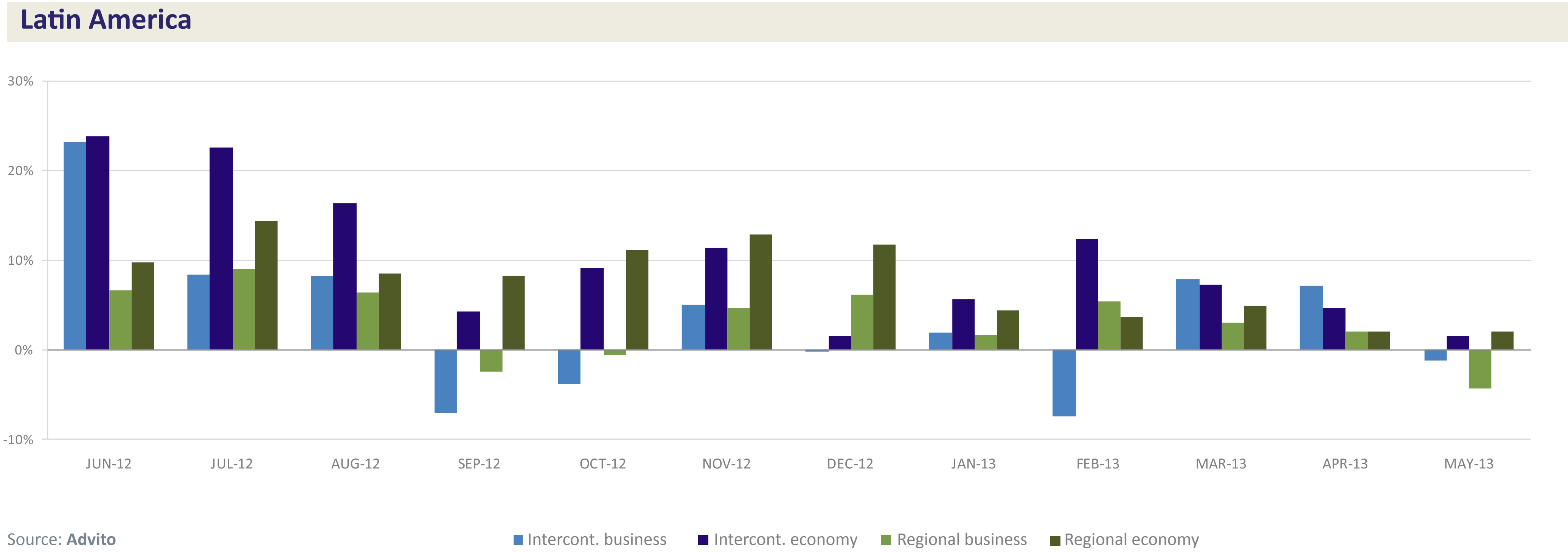
Fig 1d – Cost per mile year-over-year 2012 vs. 2013: Latin America



Source: **Advito**

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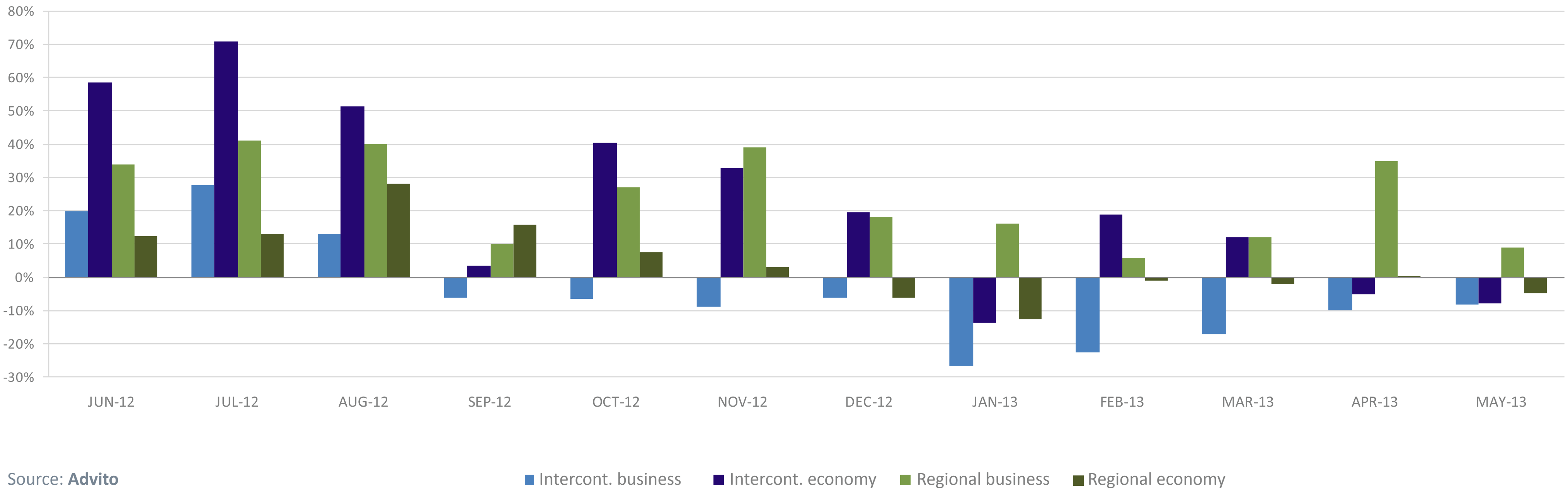
Fig 1e – Cost per mile year-over-year 2012 vs. 2013: Middle East

Middle East



Source: **Advito**

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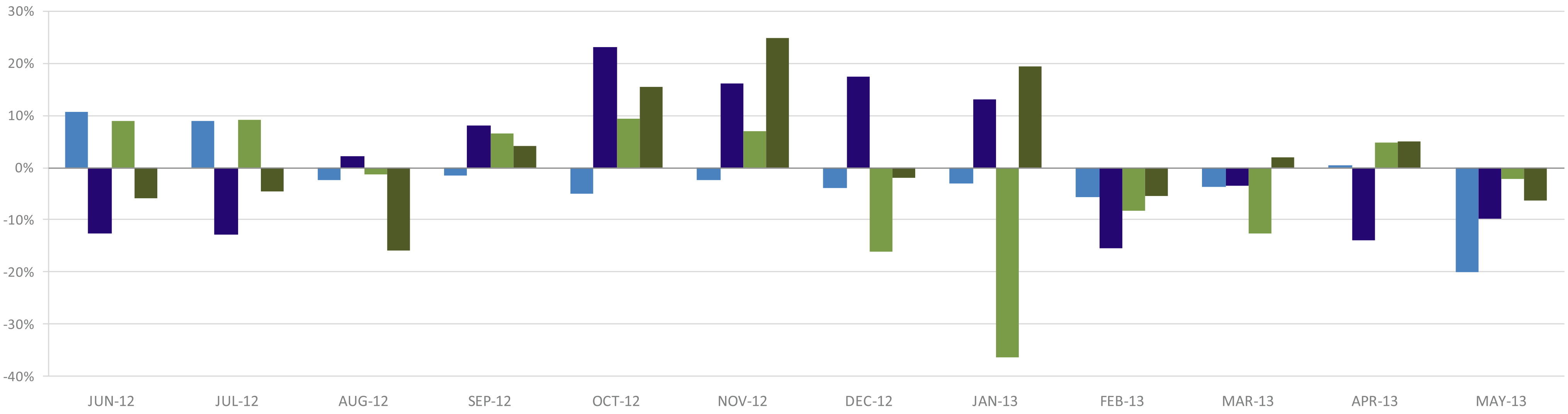
Fig 1f – Cost per mile year-over-year 2012 vs. 2013: Africa

Africa



Source: **Advito**

■ Intercont. business ■ Intercont. economy ■ Regional business ■ Regional economy

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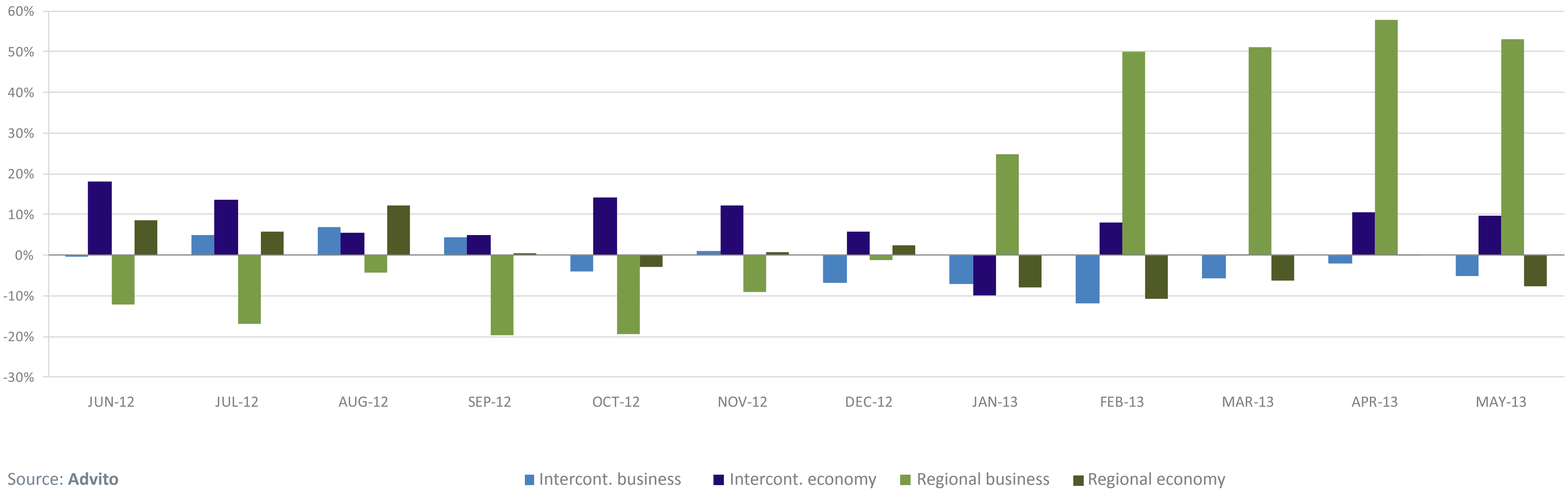
Fig 1g – Cost per mile year-over-year 2012 vs. 2013: Southwest Pacific

Southwest Pacific



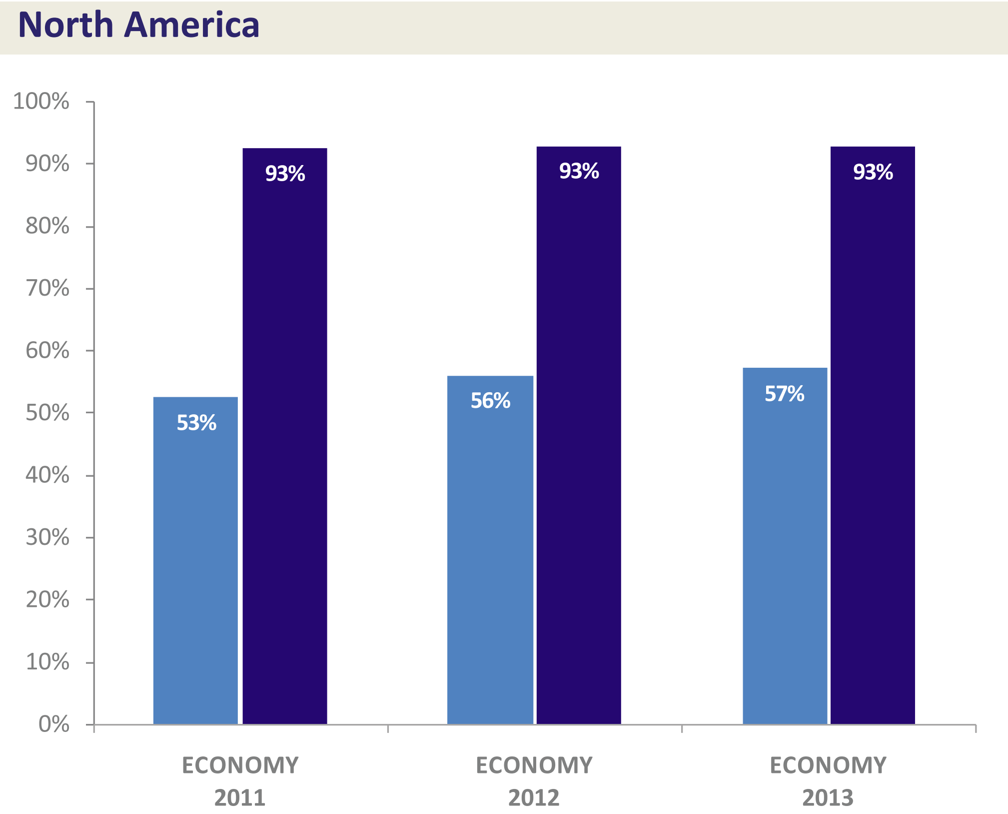
Source: **Advito**

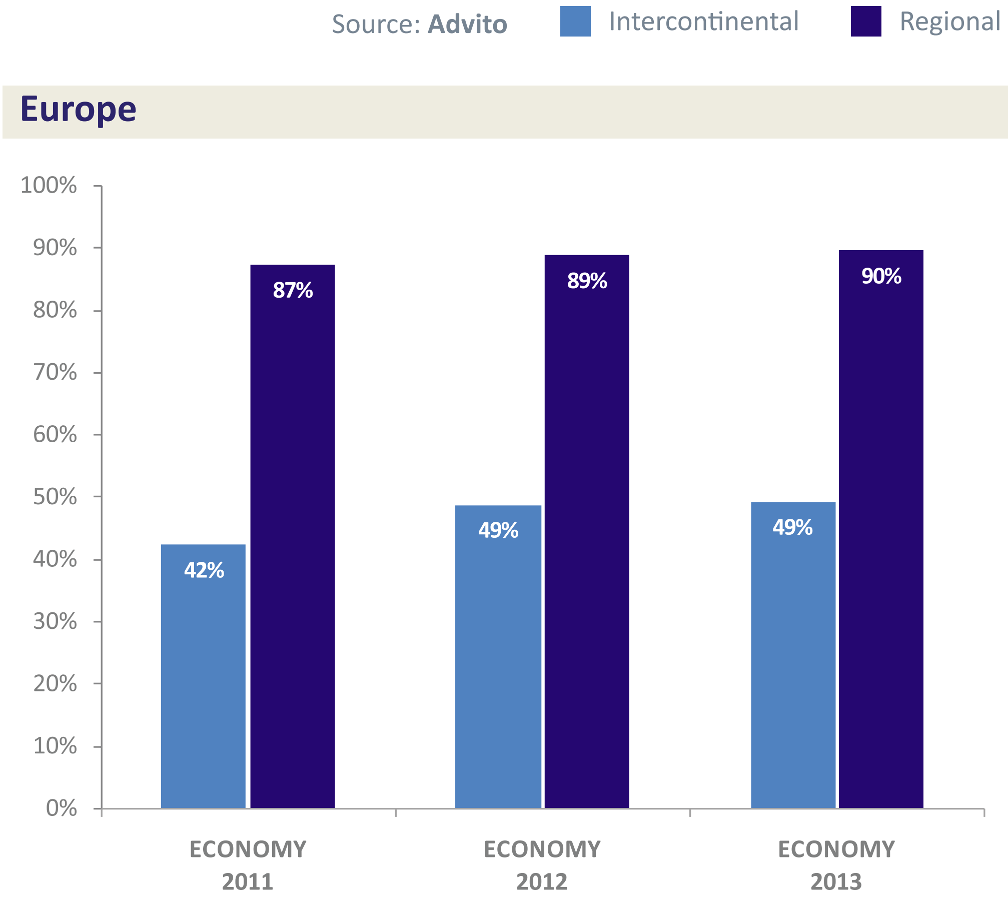
Economy class ratio

Appendix

Fig 3a – Economy class ratio 2011 - 2013

Source: **Advito**





Based on weighted average for first five months in each year

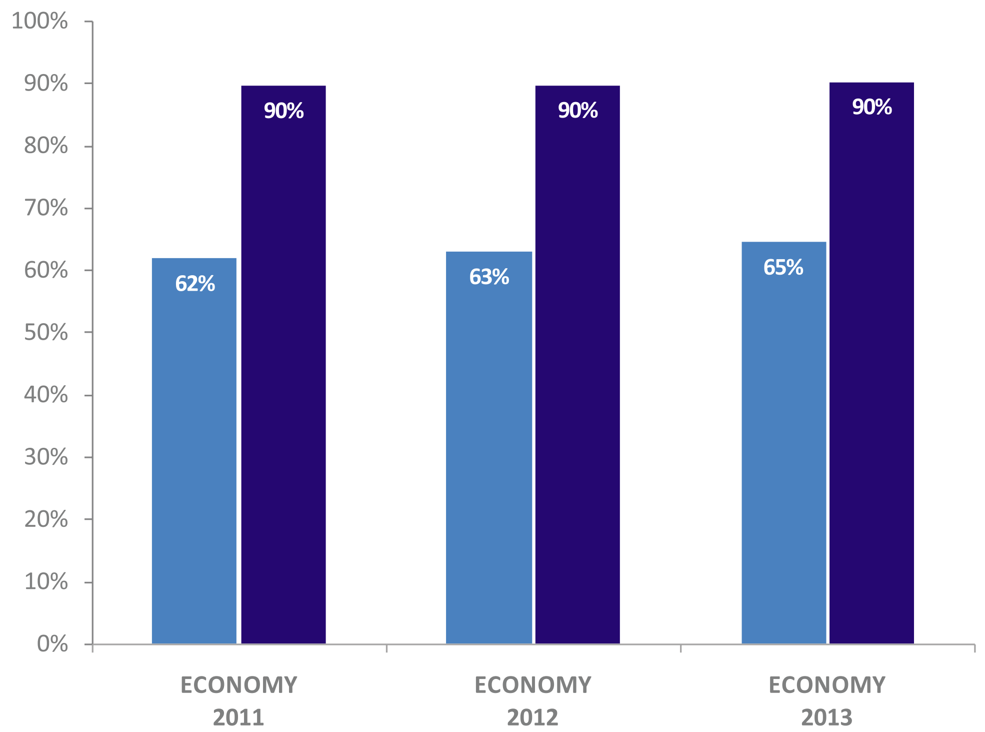
Economy class ratio

Appendix

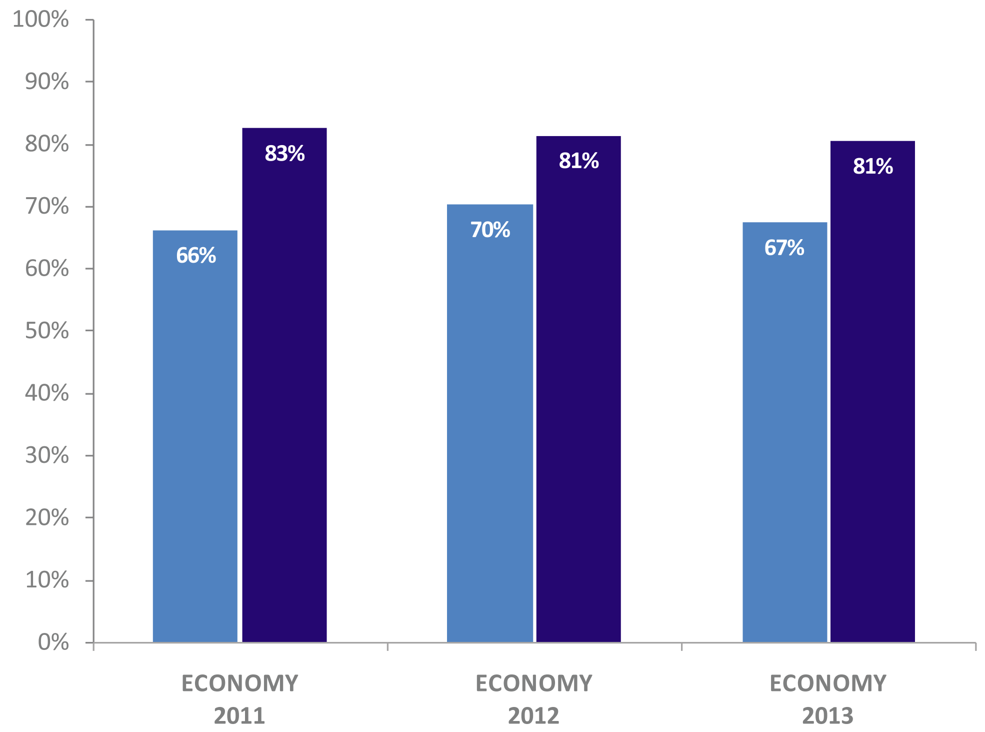
Fig 3b – Economy class ratio 2011 - 2013

Source: **Advito** Intercontinental Regional

Asia



Latin America



Based on weighted average for first five months in each year

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Economy class ratio

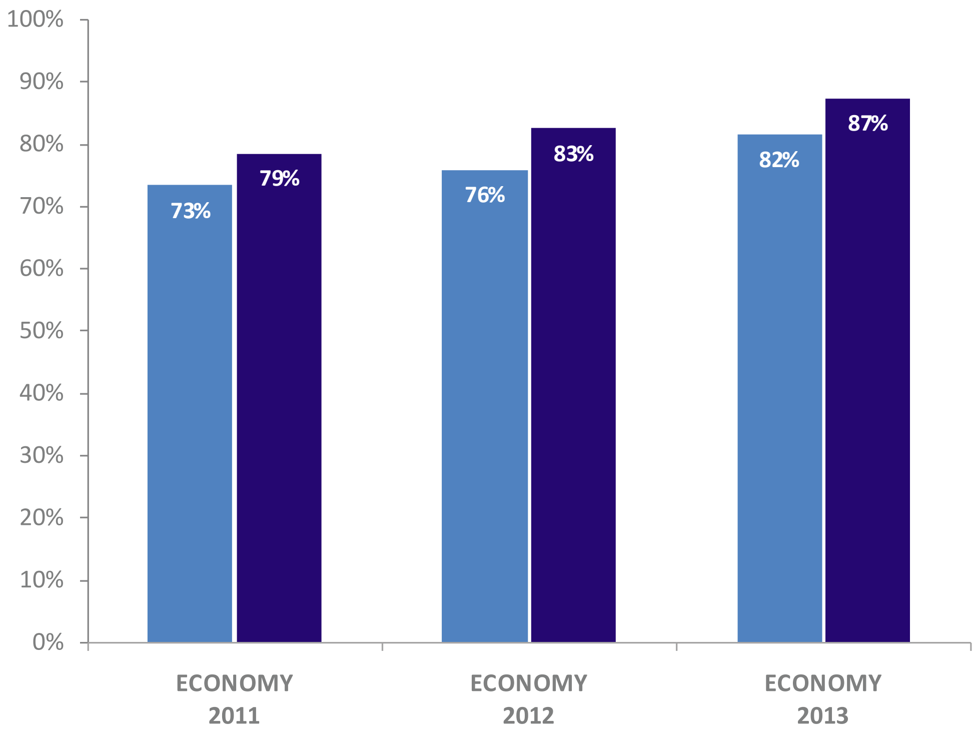
Appendix

Fig 3c – Economy class ratio 2011 - 2013

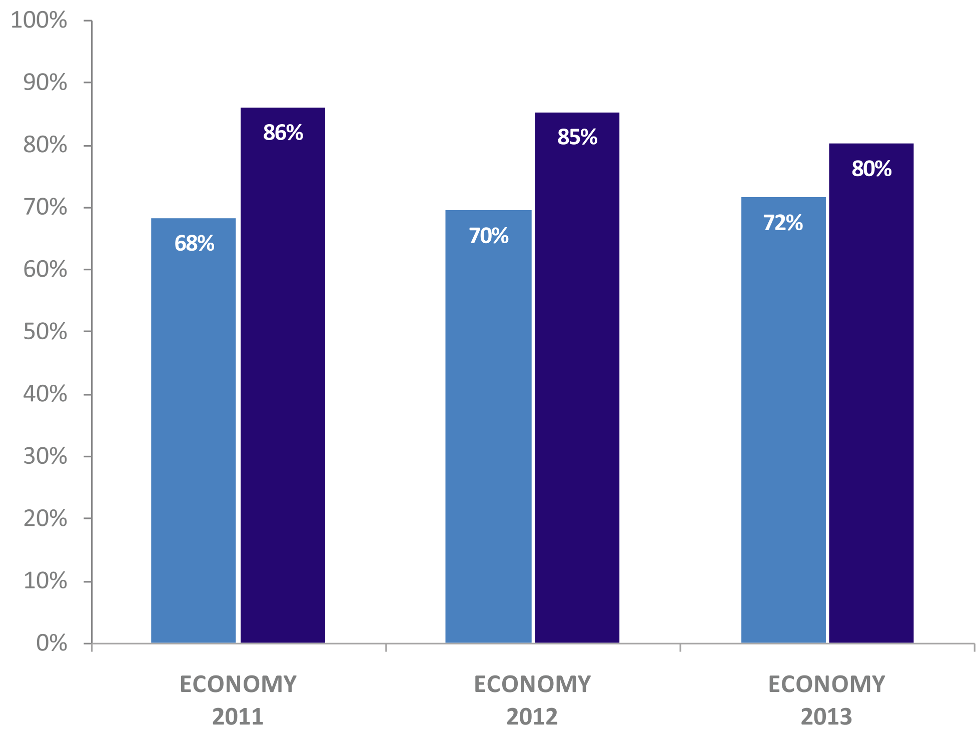
Source: **Advito**

Intercontinental Regional

Middle East



Africa



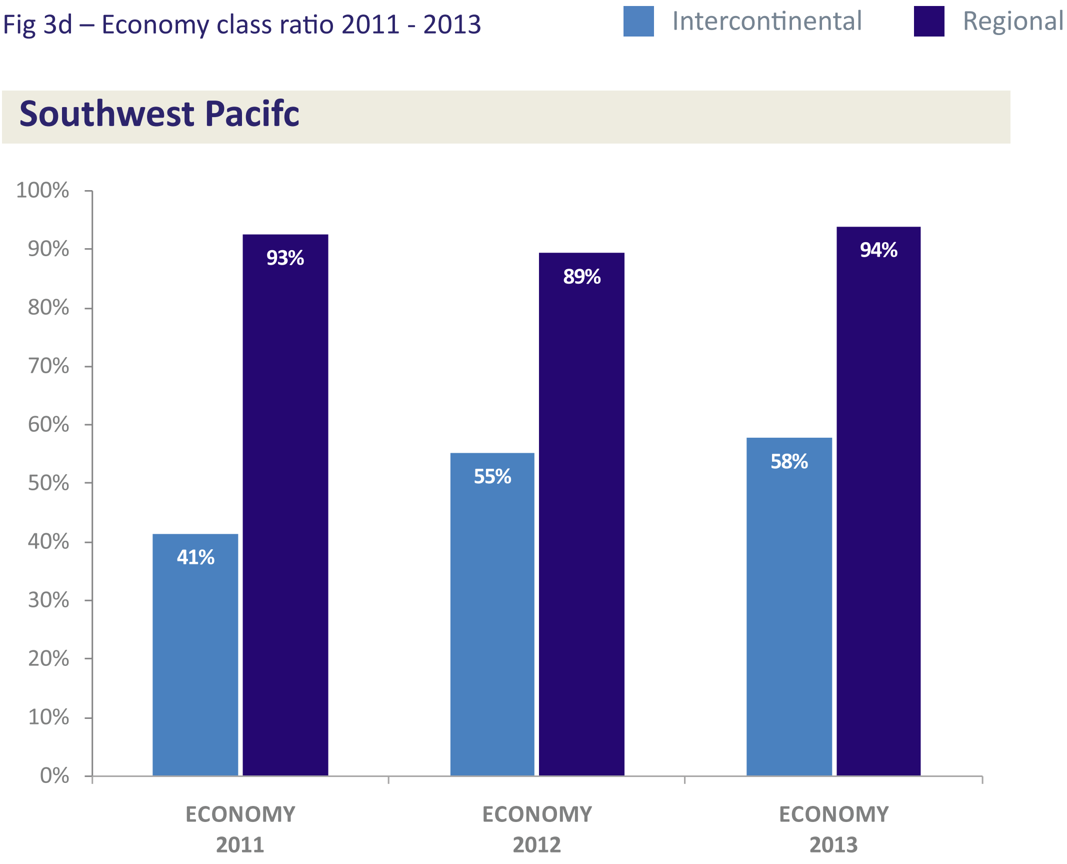
Based on weighted average for first five months in each year

Economy class ratio

Appendix

Fig 3d – Economy class ratio 2011 - 2013

Southwest Pacifc



Based on weighted average for first five months in each year

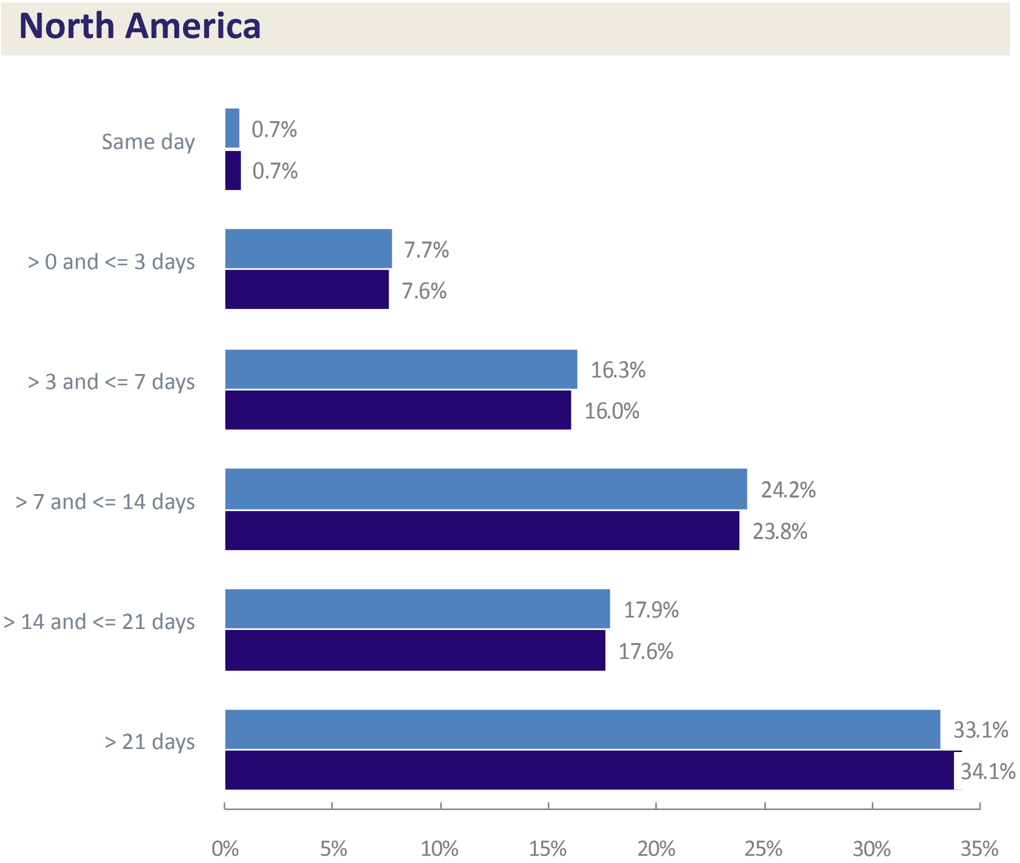
Source: **Advito**

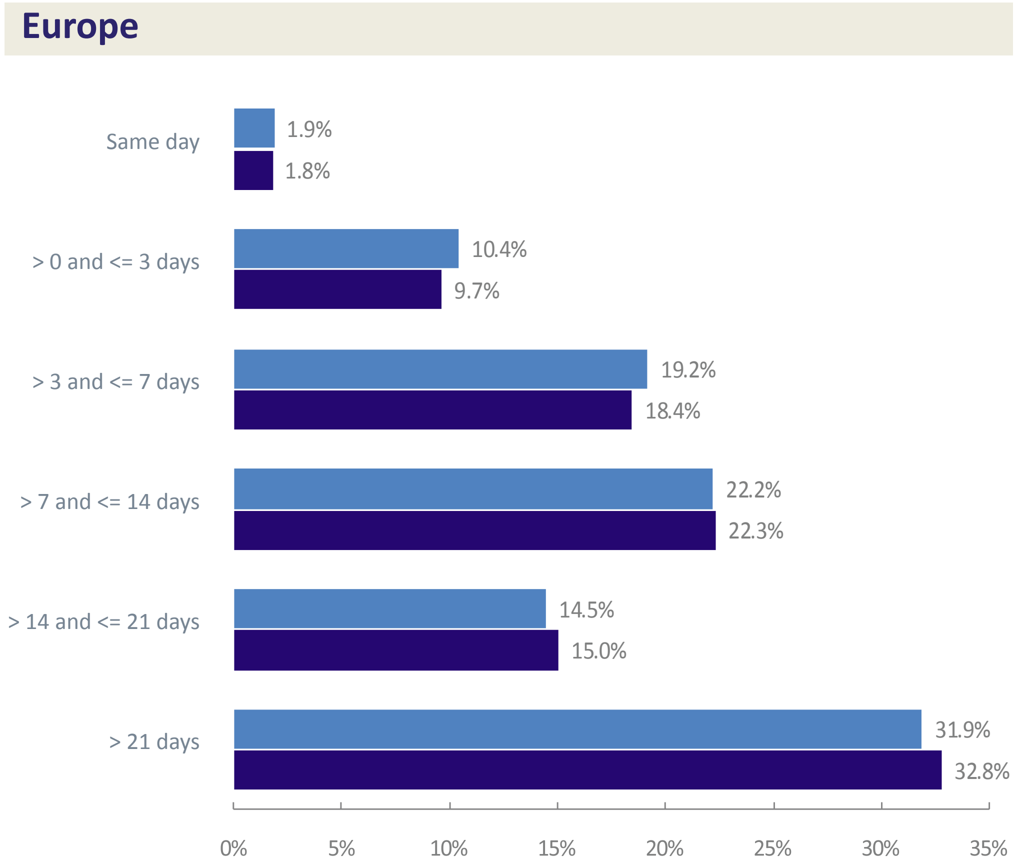
Advance booking

Appendix

Fig 4a – Advance booking 2012 and 1013

Source: **Advito**





Based on weighted average for first five months in each year

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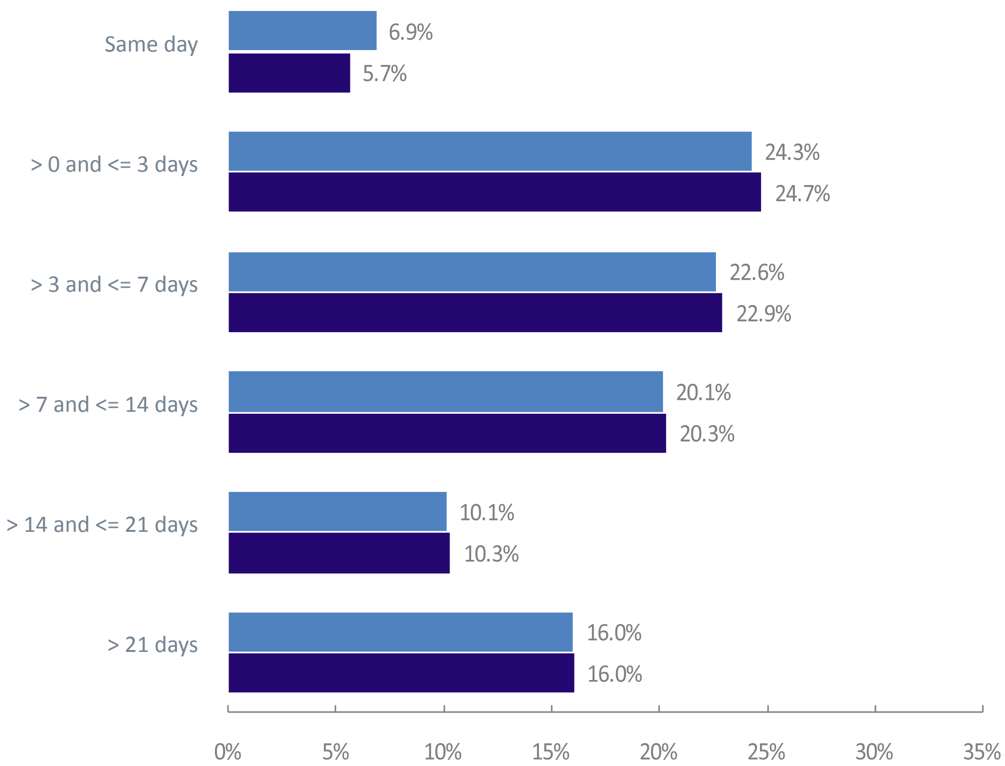
Fig 4b – Advance booking 2012 and 1013

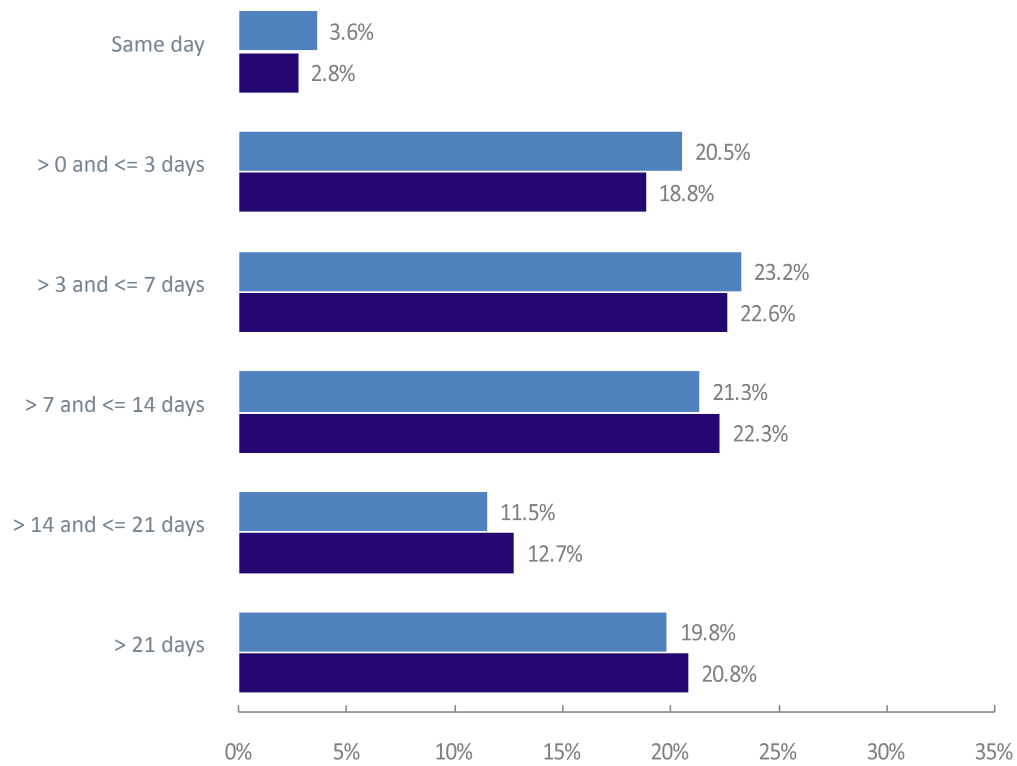
Source: **Advito**

2012 2013

Asia



Latin America



Based on weighted average for first five months in each year

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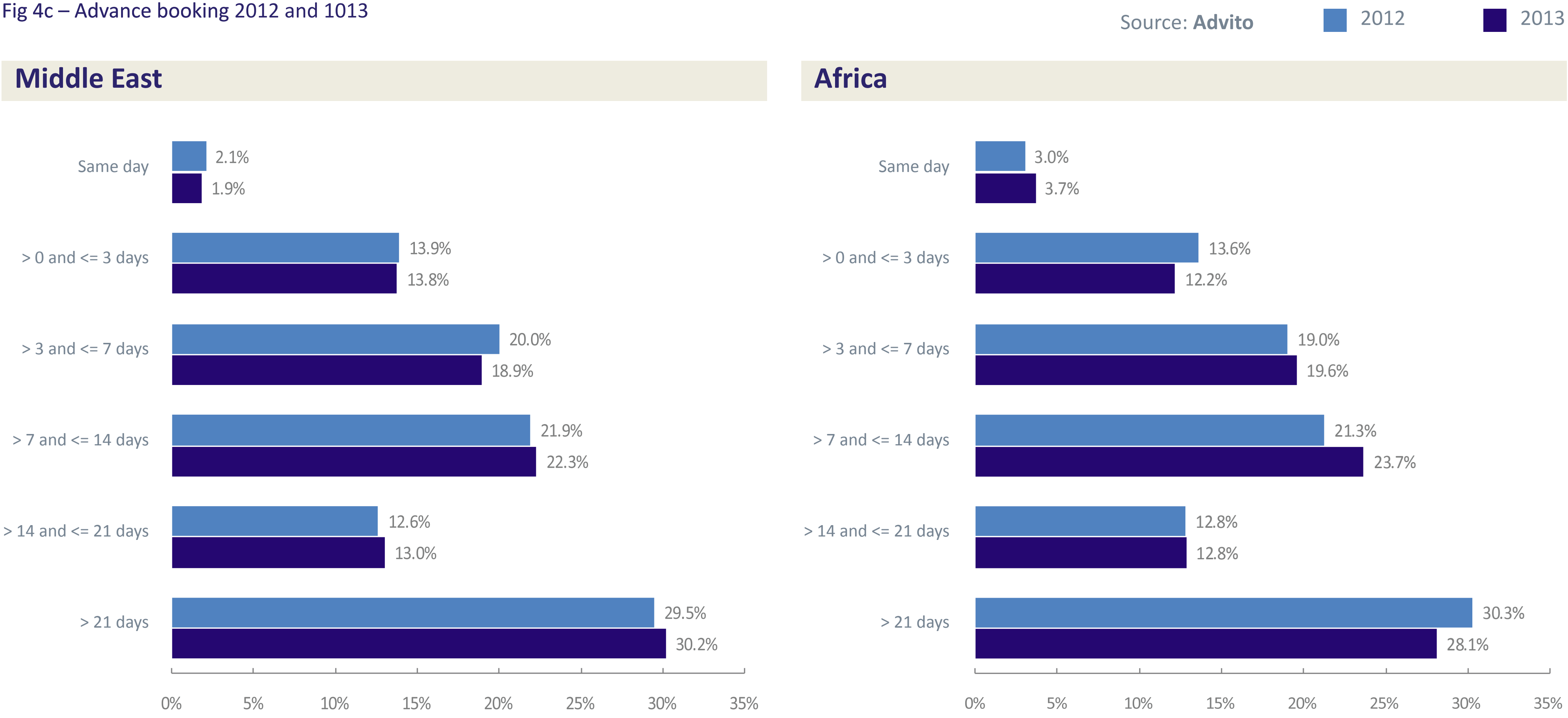
Advance booking

Appendix

Fig 4c – Advance booking 2012 and 1013

Source: **Advito**



Based on weighted average for first five months in each year

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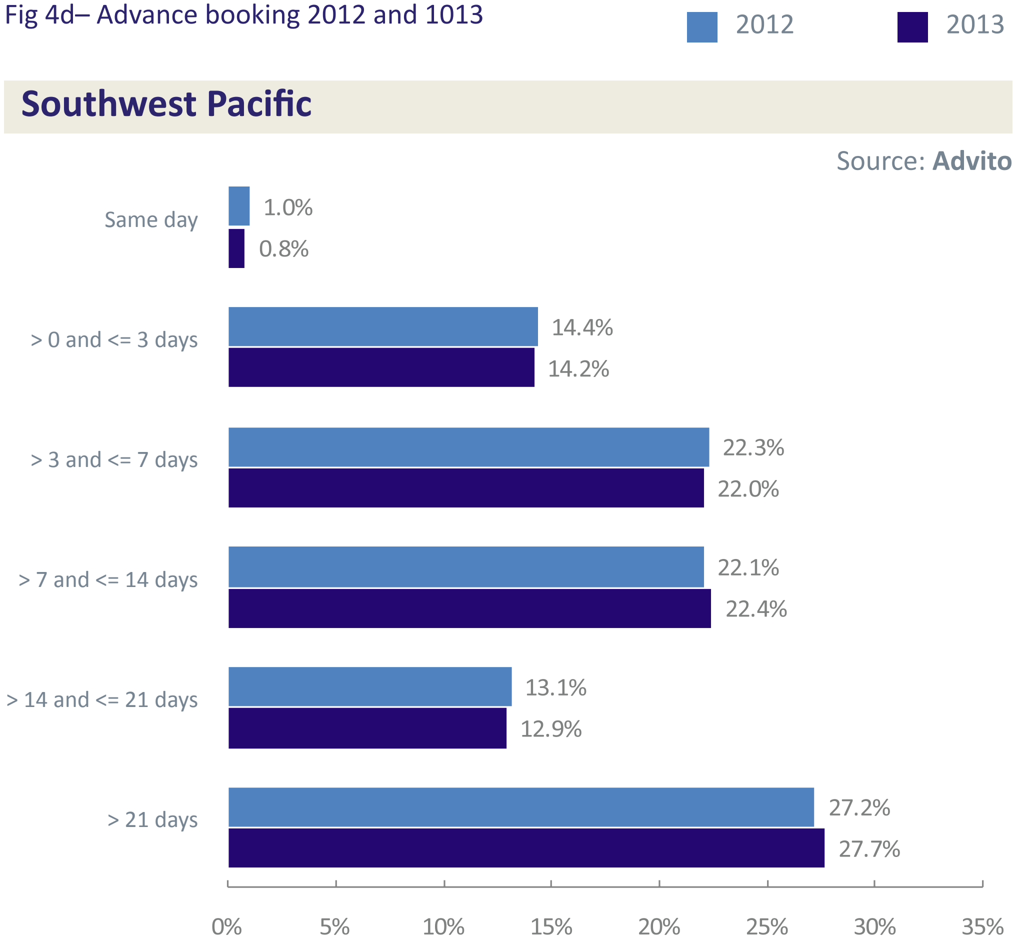
Fig 4d– Advance booking 2012 and 1013

Southwest Pacific



Based on weighted average for first five months in each year

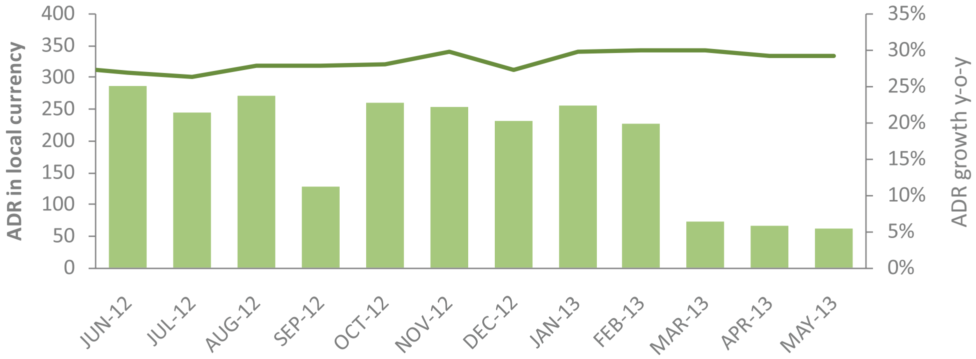
Historical ADR development

Appendix

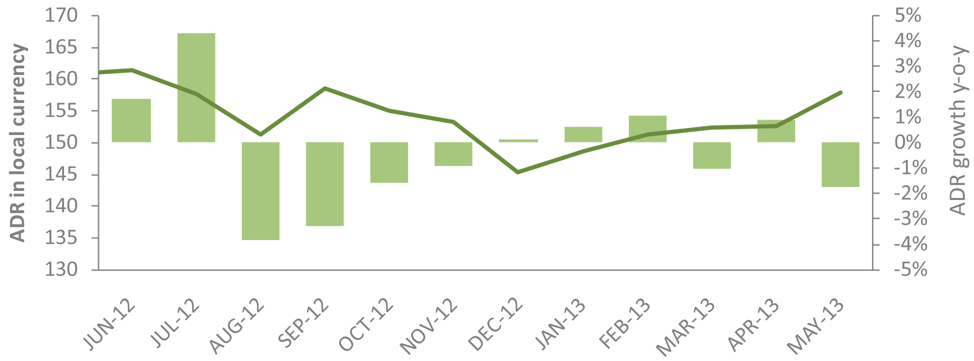
Fig 2a – Historical Average Daily Rate (ADR) development in 2012/2013 (key countries)

ADR growth ADR

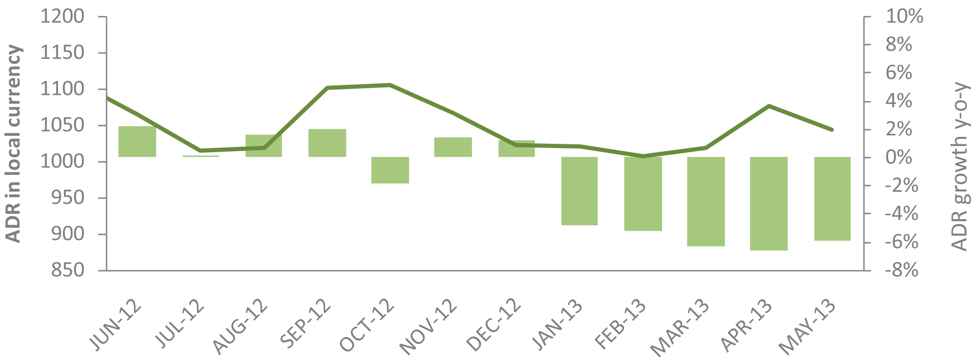
Brazil



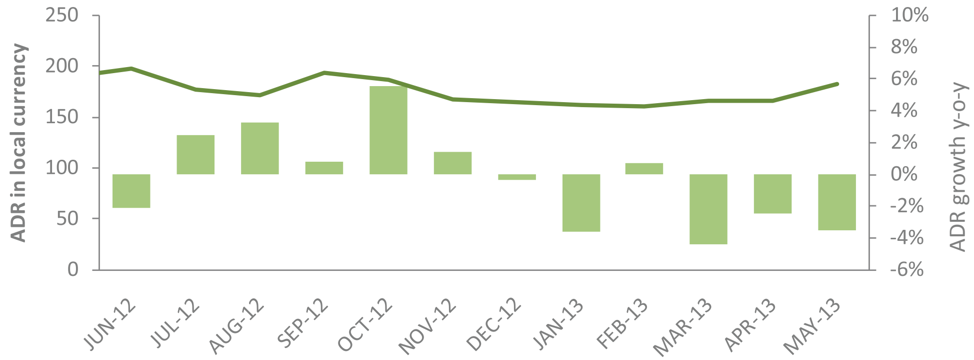
Canada



China



France



Source: **Advito**

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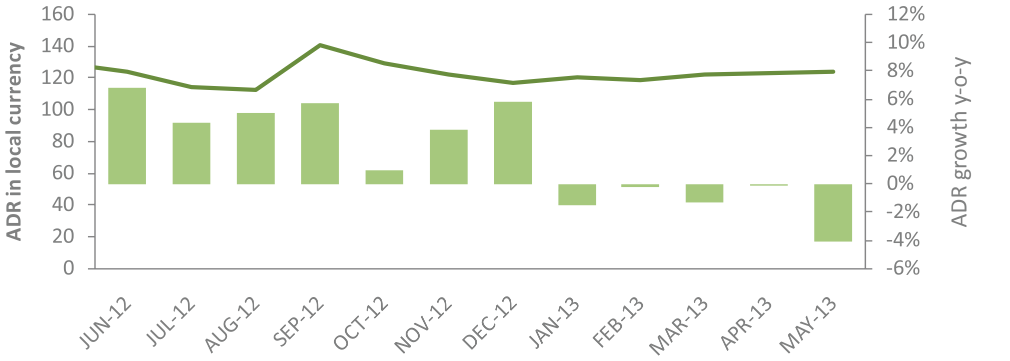
Historical ADR development

Appendix

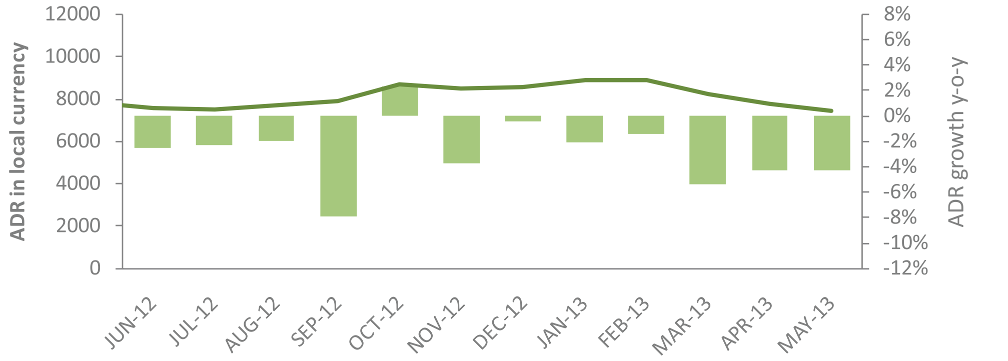
Fig 2b – Historical Average Daily Rate (ADR) development in 2012/2013 (key countries)

ADR growth ADR

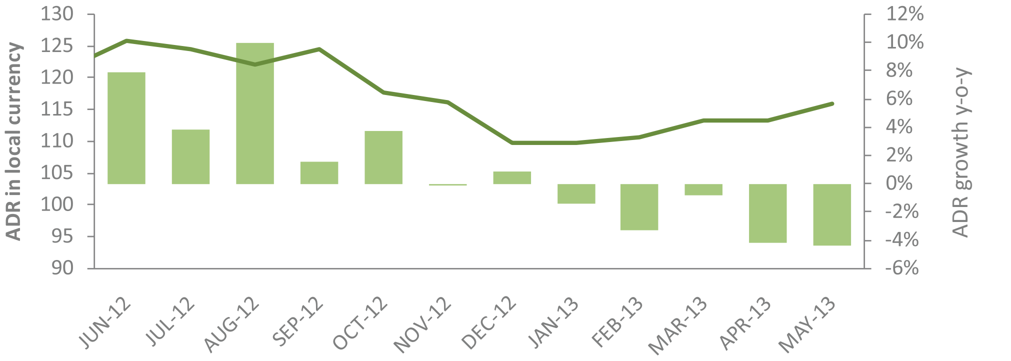
Germany



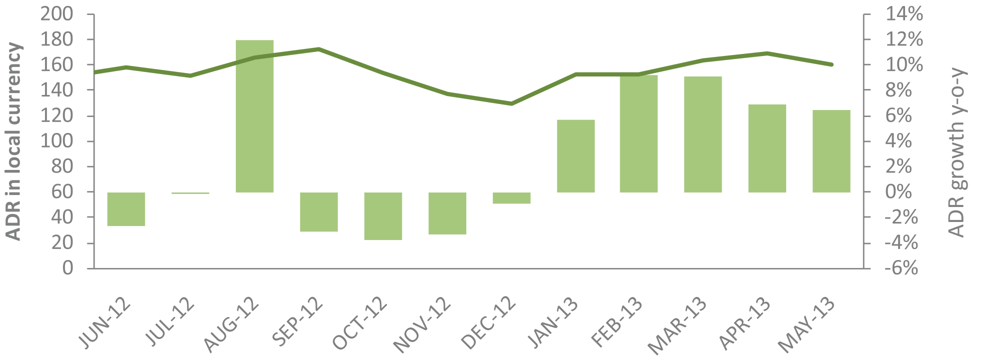
India



Ireland



Italy



Source: **Advito**

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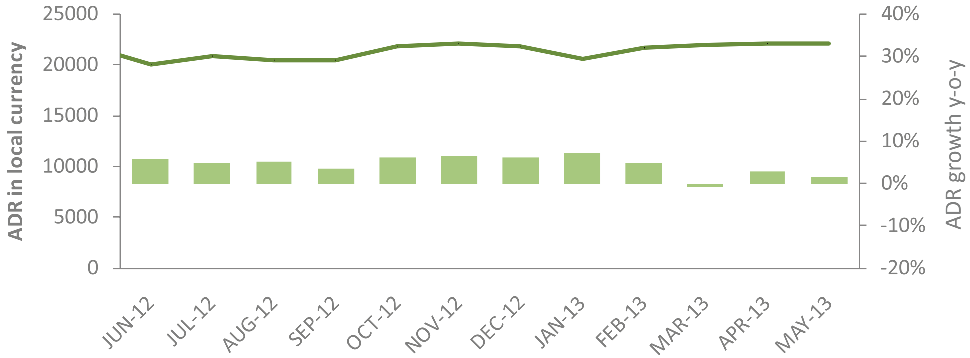
Historical ADR development

Appendix

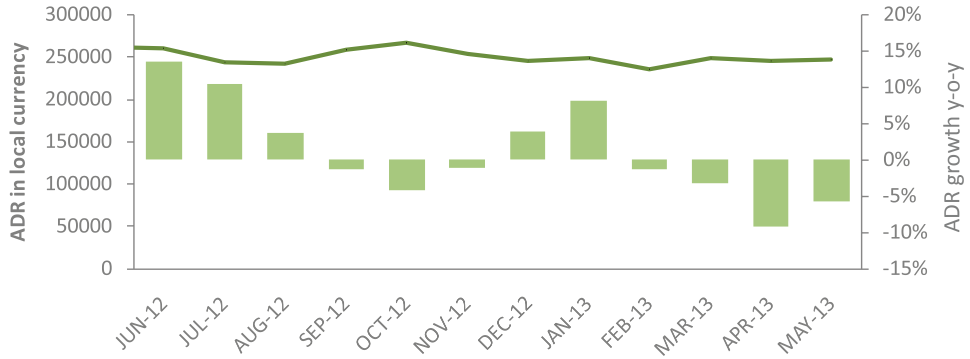
Fig 2c – Historical Average Daily Rate (ADR) development in 2012/2013 (key countries)

ADR growth   ADR

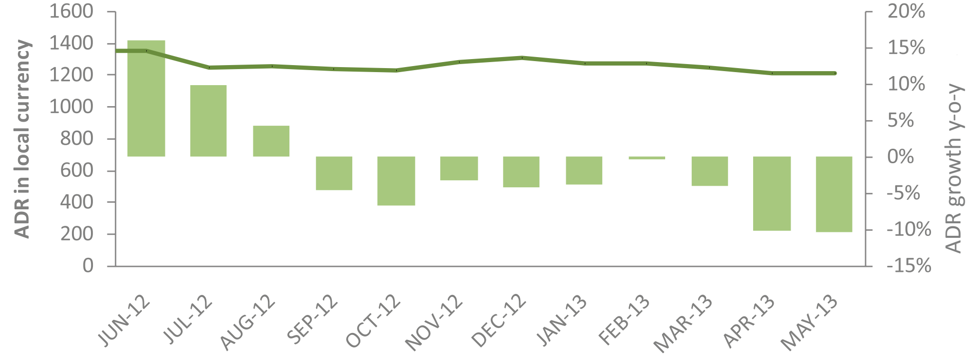
Japan



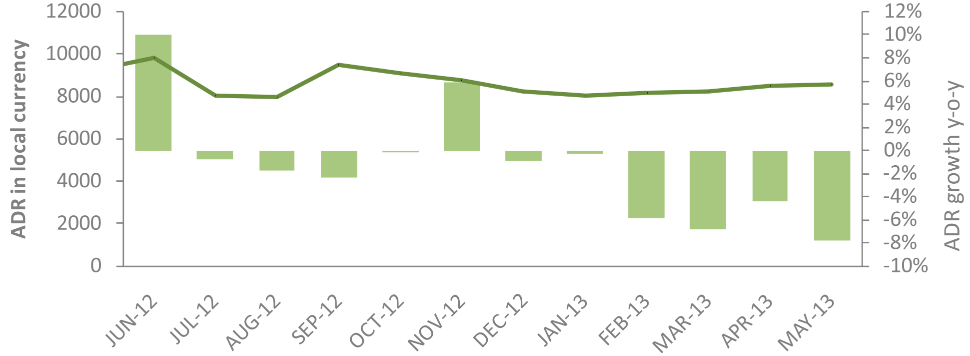
Korea



Mexico



Russia



Source: **Advito**

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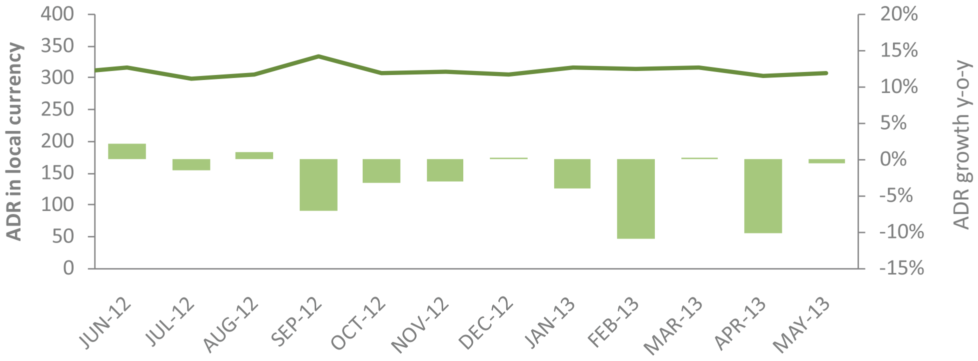
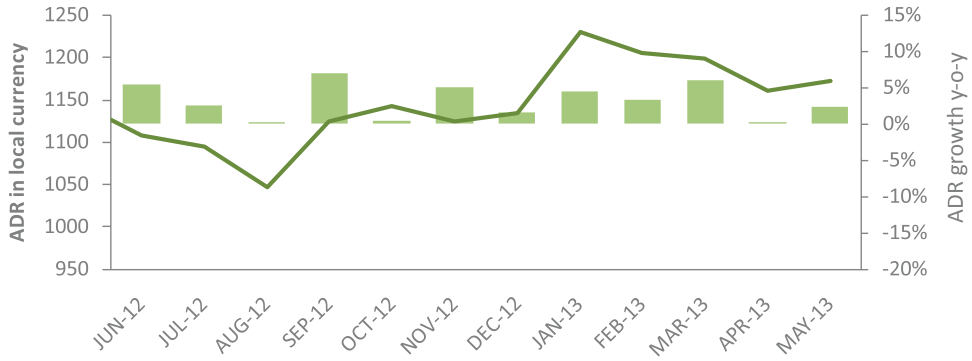
Fig 2d – Historical Average Daily Rate (ADR) development in 2012/2013 (key countries)

ADR growth ADR

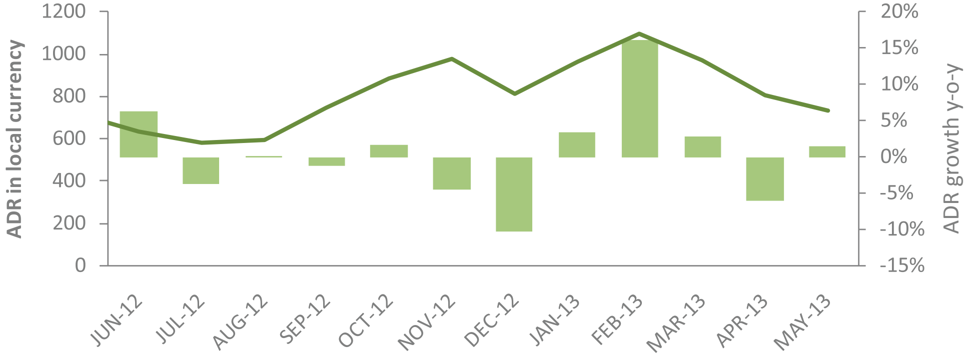
Singapore



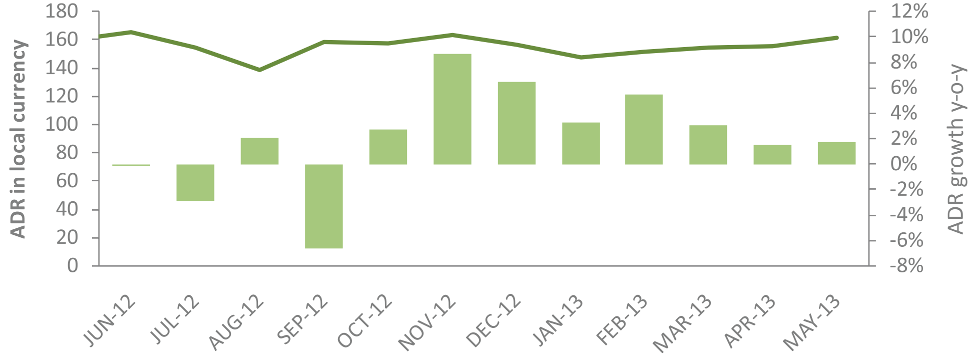
South Africa



United Arab Emirates



United Kingdom



Source: **Advito**

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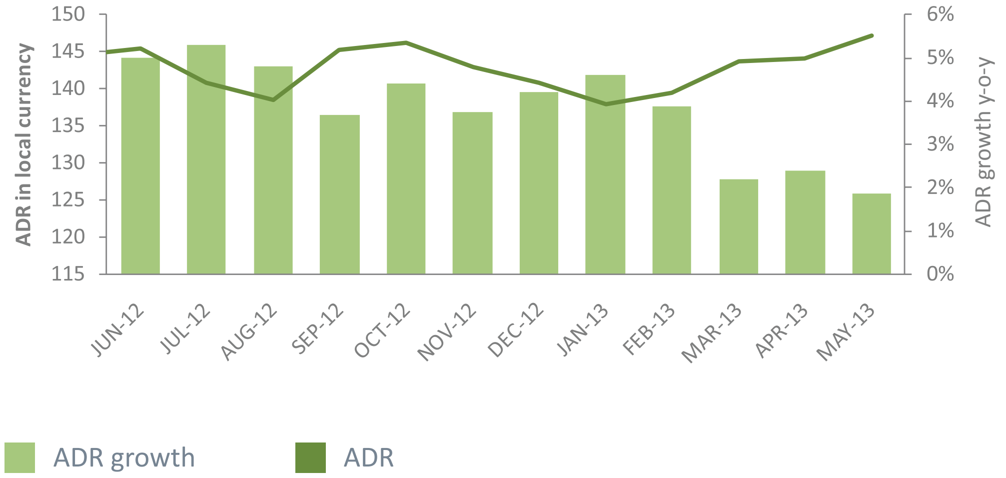
Historical ADR development

Appendix

Fig 2e – Historical Average Daily Rate (ADR) development in 2012/2013 (key countries)

United States



Source: **Advito**

Historical ADR development

Appendix

Fig 2e – Historical Average Daily Rate (ADR) development in 2012/2013: US Cities

Source: **Advito**

Top U.S. cities ADR US$		2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
Atlanta	ADR	139	139	137	142	143
	Y-o-Y	3.0%	4.7%	3.7%	7.5%	3.0%
Boston	ADR	197	273	257	239	196
	Y-o-Y	7.2%	13.7%	3.9%	2.3%	-0.5%
Charlotte	ADR	131	135	138	139	145
	Y-o-Y	0.2%	3.8%	9.0%	6.0%	10.7%
Chicago	ADR	164	222	217	221	172
	Y-o-Y	6.4%	6.8%	6.9%	6.1%	4.8%
Dallas	ADR	138	143	139	141	147
	Y-o-Y	0.6%	8.9%	6.3%	3.6%	6.4%
Denver	ADR	144	154	154	149	150
	Y-o-Y	2.0%	5.8%	2.0%	5.3%	4.2%
Houston	ADR	143	148	141	146	156
	Y-o-Y	6.3%	4.8%	5.5%	8.6%	9.1%
Indianapolis	ADR	120	117	117	117	118
	Y-o-Y	10.5%	4.6%	5.1%	5.9%	-2.0%
Las Vegas	ADR	156	144	124	132	155
	Y-o-Y	8.9%	8.6%	-5.1%	-1.8%	-0.5%
Los Angeles	ADR	181	195	190	189	191
	Y-o-Y	7.6%	15.0%	11.7%	9.9%	5.3%

Top U.S. cities ADR US$		2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
New Orleans	ADR	178	174	135	166	194
	Y-o-Y	9.9%	7.6%	9.1%	1.4%	8.6%
New York	ADR	261	342	328	380	282
	Y-o-Y	0.1%	3.5%	0.3%	5.3%	7.9%
Philadelphia	ADR	167	194	177	177	171
	Y-o-Y	1.6%	9.8%	3.7%	-0.2%	2.3%
Phoenix	ADR	143	117	103	128	149
	Y-o-Y	-6.7%	-3.0%	-1.4%	0.5%	4.3%
Portland	ADR	127	135	142	136	138
	Y-o-Y	7.9%	5.7%	6.7%	6.8%	9.2%
St. Louis	ADR	120	129	127	124	123
	Y-o-Y	0.7%	3.3%	2.3%	0.6%	2.2%
San Diego	ADR	150	152	156	146	150
	Y-o-Y	4.4%	5.7%	3.2%	1.4%	0.2%
San Francisco	ADR	236	245	271	256	250
	Y-o-Y	13.9%	14.7%	15.3%	9.3%	6.1%
Seattle	ADR	158	172	187	164	159
	Y-o-Y	3.7%	5.1%	5.3%	2.4%	0.3%
Washington	ADR	244	281	243	257	247
	Y-o-Y	-0.4%	3.5%	3.5%	2.4%	1.0%

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Historical ADR development

Appendix

Fig 2e – Historical Average Daily Rate (ADR) development in 2012/2013: European Cities

Source: **Advito**

Top European cities ADR in local currency		2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
Amsterdam	ADR	151	166	162	155	144
	Y-o-Y	3.3%	4.2%	1.6%	0.5%	-5.0%
Barcelona	ADR	153	171	155	150	160
	Y-o-Y	26.1%	17.8%	-6.5%	8.5%	4.7%
Berlin	ADR	120	118	130	116	117
	Y-o-Y	-2.1%	0.2%	10.7%	3.6%	-2.2%
Brussels	ADR	160	171	151	166	159
	Y-o-Y	2.2%	4.4%	0.4%	3.2%	-0.9%
Copenhagen	ADR	1168	1314	1245	1158	1112
	Y-o-Y	3.4%	8.0%	2.4%	-1.5%	-4.7%
Dublin	ADR	115	127	130	120	116
	Y-o-Y	4.1%	8.5%	7.7%	1.9%	1.2%
Düsseldorf	ADR	124	131	112	128	120
	Y-o-Y	2.1%	-7.2%	2.7%	0.0%	-3.5%
Frankfurt	ADR	152	160	150	152	156
	Y-o-Y	0.7%	13.4%	4.4%	3.4%	2.5%
Hamburg	ADR	120	124	127	119	113
	Y-o-Y	5.1%	0.6%	-0.1%	1.6%	-5.5%
London	ADR	170	186	184	192	184
	Y-o-Y	5.9%	2.8%	0.1%	8.3%	8.4%

Top European cities ADR in local currency		2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
Madrid	ADR	133	138	125	141	135
	Y-o-Y	12.8%	7.1%	-8.2%	1.6%	1.5%
Milan	ADR	178	178	179	158	190
	Y-o-Y	4.2%	2.9%	0.1%	-7.0%	7.1%
Moscow	ADR	9642	10209	9519	9930	9510
	Y-o-Y	0.9%	6.8%	-1.3%	3.7%	-1.4%
Munich	ADR	135	164	166	161	148
	Y-o-Y	-0.5%	16.5%	7.1%	13.5%	10.0%
Paris	ADR	197	225	223	212	197
	Y-o-Y	7.1%	3.5%	4.3%	6.0%	-0.5%
Prague	ADR	2853	3331	3301	3095	2798
	Y-o-Y	5.0%	5.0%	1.0%	0.9%	-1.9%
Rome	ADR	156	188	195	177	187
	Y-o-Y	-0.8%	-1.0%	6.4%	1.9%	20.4%
Stockholm	ADR	1609	1763	1703	1665	1555
	Y-o-Y	0.1%	1.5%	-1.4%	-1.5%	-3.4%
Vienna	ADR	138	143	155	143	133
	Y-o-Y	4.8%	-0.2%	7.5%	0.8%	-3.7%
Warsaw	ADR	244	281	243	257	247
	Y-o-Y	14.9%	22.9%	-8.9%	-11.6%	12.9%

Historical ADR development

Appendix

Fig 2e – Historical Average Daily Rate (ADR) development in 2012/2013: Asian, Canada and Latin America

Source: **Advito**

Top Asian cities ADR in local currency		2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
Bangkok	ADR	4677	4739	4719	4785	5017
	Y-o-Y	-4.2%	-3.2%	-1.4%	-0.5%	7.3%
Beijing	ADR	1140	1210	1128	1100	1085
	Y-o-Y	5.7%	6.1%	1.4%	-2.1%	-4.8%
Delhi	ADR	6447	5496	3970	7644	5726
	Y-o-Y	41.6%	-5.9%	N/A	-22.0%	-11.0%
Hong Kong	ADR	2438	2307	2219	2461	2476
	Y-o-Y	1.2%	9.5%	4.1%	2.8%	1.6%
Munbai	ADR	9670	8716	8462	9269	9372
	Y-o-Y	-5.3%	-4.5%	-1.9%	-6.7%	-3.1%
Seoul	ADR	256149	273886	257395	264134	253077
	Y-o-Y	5.5%	11.4%	3.6%	-1.7%	-1.2%
Shanghai	ADR	1252	1286	1222	1239	1168
	Y-o-Y	4.6%	4.8%	2.8%	1.1%	-6.7%
Singapore	ADR	333	320	314	307	316
	Y-o-Y	4.6%	4.8%	2.8%	1.1%	-6.7%
Sydney	ADR	275	255	246	276	284
	Y-o-Y	9.3%	7.3%	0.1%	2.5%	3.6%
Tokyo	ADR	22952	23243	22676	24210	24295
	Y-o-Y	9.1%	8.9%	6.8%	10.4%	5.9%

Top Canada & LatAm cities ADR in local currency		2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
Buenos Aires	ADR	809	746	745	792	828
	Y-o-Y	20.1%	10.8%	-0.8%	9.2%	2.3%
Lima	ADR	556	566	564	547	510
	Y-o-Y	4.5%	0.7%	5.0%	5.3%	-8.2%
Mexico City	ADR	1811	1920	1772	1794	1862
	Y-o-Y	5.9%	20.4%	6.5%	-2.2%	2.8%
Montreal	ADR	151	163	159	154	150
	Y-o-Y	2.2%	-0.6%	-2.4%	-3.2%	-0.4%
Rio de Janeiro	ADR	425	442	439	460	479
	Y-o-Y	19.6%	23.1%	18.5%	13.0%	12.7%
San Jose	ADR	83795	69663	65932	63895	68786
	Y-o-Y	11.3%	-9.5%	-12.0%	-22.0%	-21.0%
Santiago	ADR	108194	114509	95409	108790	99740
	Y-o-Y	26.8%	29.5%	5.1%	-1.1%	-7.8%
Sao Paulo	ADR	401	440	408	426	442
	Y-o-Y	32.3%	35.7%	23.4%	24.9%	10.2%
Toronto	ADR	163	167	167	168	167
	Y-o-Y	6.7%	3.5%	1.4%	1.2%	2.2%
Vancouver	ADR	158	183	183	164	158
	Y-o-Y	2.9%	3.4%	0.1%	2.0%	0.0%

Methodology

Assumptions

We have assumed (as working hypotheses rather than predictions) that:

- The price of oil per barrel (Brent crude) will be essentially stable, remaining within the range of US$100 and US$110 in 2014.
- World economic output will expand by about 2.1% in 2013. Growth will pick up pace in 2014, rising to 2.7% year-over-year (YoY).

Approach to analysis

Our ongoing research, including in-depth interviews with international experts in corporate travel and meetings management, forms the basis for our discussion of broader industry developments and trends.

We base our category-specific predictions on our analysis of aggregated transaction data for BCD Travel's corporate clients worldwide.

We base our analysis and forecast on dynamic baskets using the actual number of room nights, car rental bookings and air segments for the period in question to reflect potential shifts in travel pattern and booking behavior. The level of aggregation is determined by the validity of the relevant pool of data, with a minimum threshold set for year-to-date and historical number of transactions for each measure.

We weight monthly averages by category transactions for each unit—the exception is the area/region average for hotel, which is a simple average calculated across all countries in that area/ region. Quarterly averages are also weighted averages of the months in the quarter. Unless stated differently, we base price developments on local currencies; these developments are therefore subject to foreign exchange fluctuations. We normalize local currency transaction data into leading world currencies. To do this, we use the daily average conversion rate on the date of travel (for air and rental car) or planned checkout date (for hotel).

Hotel market tier assignments follow our proprietary classification scheme. Air cabin classes are based on our master table of airline booking classes.

Sources

In addition to the BCD Travel client data, we use the following sources:

- International Air Transport Association (IATA) for airline capacity and traffic;
- International Monetary Fund (IMF) for macroeconomic predictions and oil price;
- Economist Intelligence Unit (EIU) for macroeconomic predictions and oil price;
- PricewaterhouseCoopers (PwC) for macroeconomic predictions;
- Eurostat for historic macroeconomic indicators and predictions;
- OANDA for foreign currency exchange rates;
- Official Airline Guide (OAG) for airline capacity;
- Organization for Economic Co-operation and Development (OECD) for historic macroeconomic indicators and predictions;
- U.S. Energy Information Administration (EIA) for historic oil prices;
- Flightglobal.com for airline industry news and analysis;
- Smith Travel Research (STR) for hotel occupancy level.

The estimates and predictions are based on data available through May 2013 for air and hotel transactional data and through July 2013 for macroeconomic and industry indicators.

Further information

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About Advito

Advito provides travel-management advisory, procurement and outsourcing services that guide clients through a complex travel environment. Our focus on consulting delivers proven value, unbiased counsel and a customized approach for every client and every engagement, together with industry expertise and access to data to drive quantifiable decision-making. We are headquartered in Atlanta, and operate in key business markets around the world. We are an independent operating unit of BCD Travel, the world's third-largest travel management company, owned by BCD Holdings N.V. For more information, visit www.advito.com.

About BCD Holdings N.V.

BCD Holdings N.V is a market leader in the travel industry. The Dutch, privately owned company was founded in 1975 by John Fentener van Vlissingen and consists of BCD Travel (global corporate travel management), Travix (online travel: CheapTickets, Vliegwinkel, BudgetAir, Vayama and Easytobook), Park 'N Fly (off-airport parking), Airtrade (consolidating and fulfillment), VakantieXperts (leisure) and Parkmobile International (mobile parking and traffic applications). BCD Holdings employs more than 13,000 people and operates in almost 100 countries with total sales, including franchising, of US$22.8 billion. For more information, visit www.bcd-nv.com.

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