

## Advito Industry Forecast 2009 Update

Jan. 21, 2009

Advito, the consulting arm of BCD Travel, has updated its Industry Forecast for 2009 based on economic and industry developments during Q4 2008. This update is prompted by ongoing macroeconomic and industry volatility, and is designed to assist corporate travel executives in navigating complex travel program management scenarios.

The revisions are grounded in the analysis of BCD Travel's global client transaction data, macroeconomic indicators and direct feedback from the sourcing engagements for air, hotel and car program negotiations that Advito conducts on behalf of its clients.

### **The travel industry is trying to find its feet in a continued uncertain economic climate**

Over recent months, the global economic slowdown has accelerated sharply and most advanced economies are now expected to contract in 2009. In addition, emerging economies, including China, India and Brazil, are being hit harder than initially expected, even though they are still growing.

The fear of inflation has given way to fear of deflation in several major markets such as the U.S., Great Britain and Europe; however, the likelihood and timing of shrinking prices depend on the impact of policy stimuli that have been announced in markets across the globe.

Crude oil spot prices have dropped by more than half, to well below US\$50 per barrel, and the International Air Transport Association (IATA) has adjusted its oil price projection to US\$60 for 2009. Advito's revised forecast is based on a crude oil price fluctuating between US\$35 and US\$65 per barrel for the remainder of 2009.

Due to corporate travel's close links to GDP development, as well as the bleak and uncertain economic outlook during the third quarter of 2008, business travel demand dropped during this period. IATA is now forecasting a 3 percent decline in passenger traffic for 2009.

### **Slowing demand and lower oil prices have an impact on the total cost of air travel**

Airlines are trying to preempt or at least reduce the impact of softening demand through capacity cuts, and, in the fourth quarter of 2008, were successful: Demand on the major U.S. carriers declined by over 10 percent, but average load factors increased slightly as capacity was cut faster than the drop in demand. We expect further rounds of capacity cuts if the softening in demand continues until after the first quarter.

In some markets (e.g., Brazil and Mexico) the growing presence of limited service/low-cost carriers limits the ability for traditional airlines to remove capacity without risking market share.

On the North Atlantic intercontinental routes a sharp drop in demand for premium class has led to fare actions and promotions that could even mean potential year-over-year fare reductions on specific routes. However, airlines will look to minimize price erosions by reducing capacity which is likely to mute the discussion around the impact of Open Skies.

Overall, these macroeconomic conditions and industry dynamics require a downward correction of the average corporate fare development as forecast by Advito:

<b>Region</b>	<b>Average 2009 corporate airfare* outlook as of</b>	<b>Sep/Oct 2008 [% change]</b>	<b>Jan 2009 [% change]</b>
North America intra-regional		8 – 10	2 – 5
North America intercontinental		8 – 10	-1 – 4
Asia Pacific intra-regional		2 – 4	2 – 4
Asia Pacific intercontinental		7 – 9	5 – 8
Latin America intra-regional		8 – 10	5 – 7
Latin America intercontinental		8 – 10	6 – 9
Europe intra-region		3 – 5	2 – 4
Europe intercontinental		5 – 7	3 – 5

\* Base fare excluding taxes and surcharges

Even though some airlines – especially in Europe – hedged some of their fuel prices during the 2008 summer price peak and as a result will need to pay above market prices now, the current fuel price level has led to airlines lowering some of the fuel surcharges.

### **The hotel market pendulum has swung faster than originally expected**

While airlines can mitigate slowing demand by reducing capacity, a significant drop in hotel occupancy levels has put considerable price pressure on hoteliers during the 2009 negotiation season.

The preliminary results of current Advito sourcing engagements for 2009 show that overall, Advito's initial forecast holds true. However, some updates are in order to address the lower rates offered in specific markets across all categories, but especially for properties in airport locations.

<b>Region</b>	<b>Average 2009 negotiated hotel rate outlook as of</b>	<b>Sep/Oct 2008 [% change]</b>	<b>Jan 2009 [% change]</b>
North America		0 – 3	-3 – 3
Latin America		10 – 15	5 – 14
Europe		4 – 8	-1 – 4
Middle East		15 – 25	10 – 20
APAC		10 – 20	8 – 20

In addition to the above changes in corporate rates, Advito expects that the best available published rates will decline compared to 2008. Due to the softening demand published rates that are lower than the corporate negotiated rates will be available more frequently. Organizations can thus realize additional savings by complementing their negotiated rates with those market rates.

Travel executives should use any average prediction with caution as differences exist, even within a given market and category type. The importance of these variances – as well as the need to consider the impact of currency fluctuation in making a forecast relevant to a specific travel program – cannot be overstated.

### **With the sourcing season coming to a close, corporate travel executives can use the current climate to drive sustainable program changes to achieve savings**

The practical steps introduced in the Advito 2009 Industry Forecast provide some context to the options for corporate travel executives.

## Pay attention to detail

A successful program is not just about establishing the correct strategy for your organization. Programs that truly work go beyond negotiation to the implementation. Question travel executives need to ask themselves include:

- Does our travel policy need to be updated to achieve expected savings?
- Have the selected hotels loaded the correct rates and are they accessible across designated booking channels?
- Are we sure that there are no squatter rates from hotels that were not selected that could dilute the program?
- Have we communicated the program changes to everyone who should know and do they understand and are they likely to support them?
- Which hotels will be opened later this year that might offer discount levels that might allow to lower our average daily rate in our top destinations?

## Monitor and improve

With an uncertain 2009 in prospect, monitoring your program on a regular basis is more crucial than ever. Managing demand and booking behavior will become as important as tracking changes in the business travel marketplace. Implement techniques and tools that will improve compliance to your program and embrace end-to-end management of the entire trip.



**If you have questions about this 2009 Industry Forecast Update, please don't hesitate to contact your BCD Travel account manager or your Advito representative, or send an e-mail to [advice@advito.com](mailto:advice@advito.com).**