

April 2013 update | Key findings

- Emerging markets' economic performance continues to outpace developed markets, while the euro zone is now heading for contraction in 2013.
- Overall air travel demand is still higher than capacity, leading to moderate price increases.
- Projected intercontinental airfare increases for the Middle East have jumped sharply (from 5% to 9%), with fewer local seats available due to the region's growing importance as a connection hub for Asia-Pacific travel.
- Softer demand growth in Q4 2012 has led to a slight reduction in projected airfare increases for North America, Latin America and Southwest Pacific.
- Most hotel market forecasts remain unchanged. The exceptions are South Africa, where we are adjusting the forecasted average daily rate increase sharply upward, and Saudi Arabia and Australia, where we are revising increases sharply downward. Increases for Brazil, Mexico, China and Singapore were reduced slightly based on current market conditions.

OPPORTUNITIES
COMPLIANCE & COVERAGE ASSESSMENT
SAVINGS BY REGION
PROGRAM SHARE 15%

ADVITO

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update
APRIL 2013
industryforecast 2013

INTRODUCTION

2013 so far

The beginning of the year brought a few sparks of good news. The U.S. avoided plunging off the fiscal cliff, and the euro zone's firewall fund has eased fiscal tensions in the region. But serious risks remain, including the consequences of recently triggered spending cuts in the U.S. and continuing doubts about the ultimate resolution of Europe's fiscal crisis.

Emerging markets, while on track for growth, aren't wholly immune to the fallout of sluggish demand for exports.

In its *World Economic Outlook* (WEO), published in January 2013, the International Monetary Fund (IMF) anticipates that global growth will pick up in the second half of the year. But the IMF nonetheless scaled its GDP forecast down for most regions, most notably in the euro zone (see fig 1).

Corporate travel demand outpacing capacity

Overall demand in corporate travel is growing slowly but steadily in most markets. This growth, while small, is still outpacing changes in available capacity.

Demand in the United States has slowed slightly due to government-spending austerity measures. Latin American demand has fallen off slightly from last year's skyrocket performance, but is still outpacing demand growth in other regions. Demand in APAC is steady and growing moderately, while in EMEA the picture is mixed: Big corporations are scaling down in an effort to cut costs, but demand from smaller enterprises is trending upward.

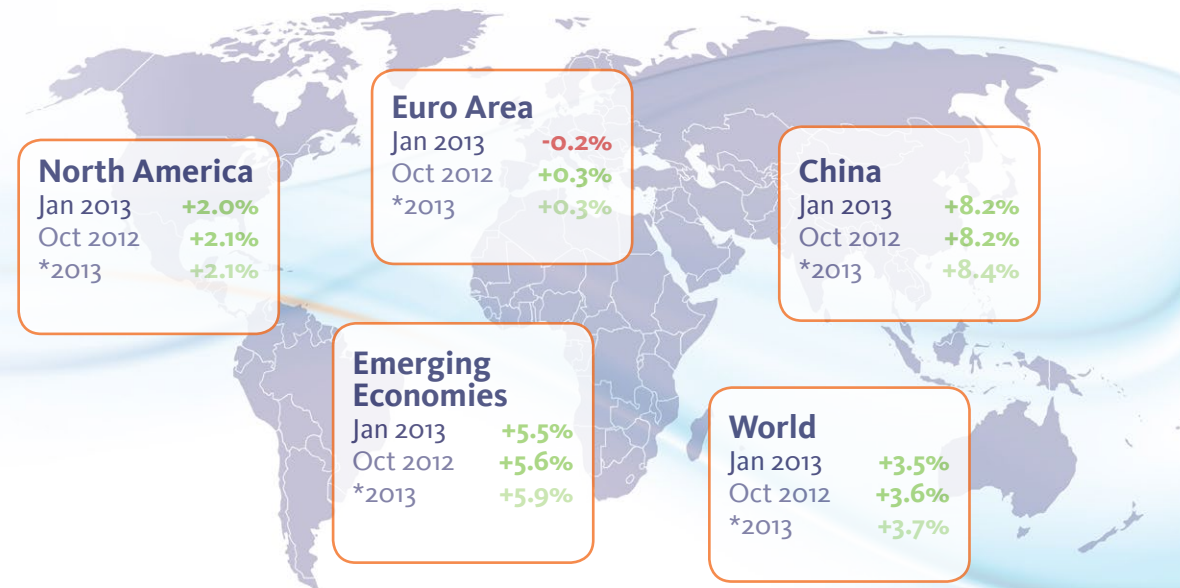
Oil prices remain stable, with the Economist Intelligence Unit (EIU) forecasting an average price of US\$ 103.50 per barrel of Brent crude in 2013. The final per-barrel Brent crude oil price average for 2012 was US\$111.97. However, oil price stability has not stopped airlines from raising fuel surcharges in some markets.

The transactional data analyzed in this update covers the period through December 2012; the economic data covers the period through March 2013.

For more detailed information on key trends in travel management for 2013, as well as recommendations for travel buyers, please refer to the original 2013 Advito Industry Forecast, published in September 2012 and available at www.advito.com.

Fig 1 – GDP Development

*2013 was the IMF outlook in June 2012



Source: IMF, *World Economic Outlook*, Jan 2013

CATEGORY OUTLOOK FOR 2013

Air

North America

Fourth-quarter 2012 data revealed lower than expected cost-per-mile figures in North America, prompting us to lower the region's forecast by one point for international fares and two points for regional fares.

Latin America

Data from Latin America shows a similar development. As a result, we are revising our forecasted fare increase downwards from 6% to 4% for international business and economy class; from 6% to 3% in regional business class; and from 7% to 5% in regional economy class. Airlines may be becoming aware of nearing the threshold of what corporations are willing to pay before cutting back on travel.

Europe

Our forecast for Europe remains unchanged at 2% year-over-year increase for international business and economy and regional business class, and at 3% year-over-year increase for regional economy.

Middle East

The Middle East's growing importance as an alternative to Europe for flight connections to Asia is showing in higher local point-of-sale fares, as passengers transiting the region are filling more seats. As a result, we are raising our forecasted increase from 5% to 9% for international business and economy and regional business class fares.

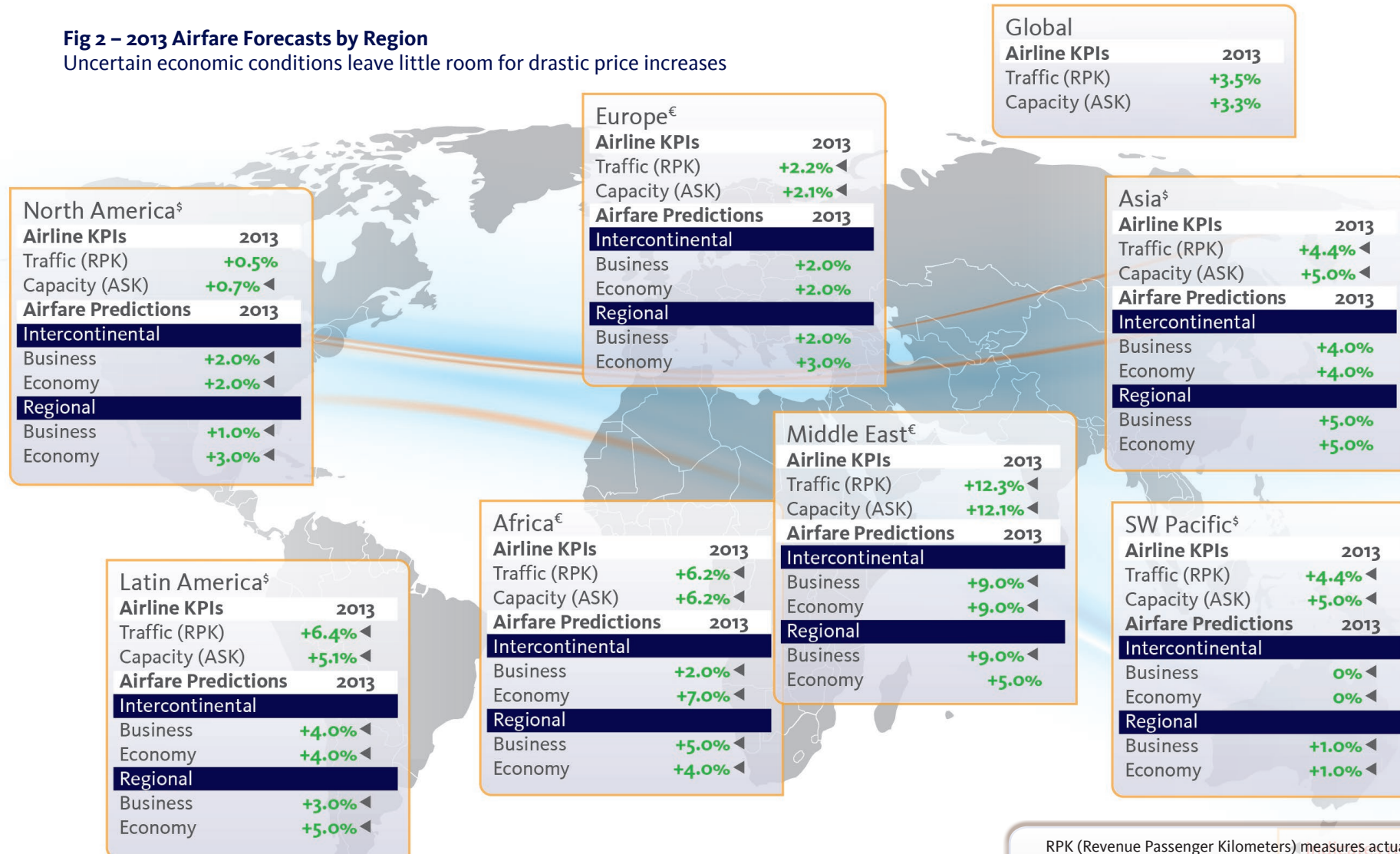
Asia Pacific

Our forecast for Asia remains unchanged, but we are correcting downward the forecast for Southwest Pacific. We are now predicting that in international business and economy class, fares will remain flat over 2012, and regional business and economy class fares will increase by only 1%. This softening is the result primarily of changes within the Southwest Pacific airline industry, such as the emergence of more low-cost carrier alternatives (including several with traditional airlines as parent companies).



CATEGORY OUTLOOK FOR 2013

Fig 2 – 2013 Airfare Forecasts by Region
Uncertain economic conditions leave little room for drastic price increases



RPK (Revenue Passenger Kilometers) measures actual passenger traffic
ASK (Available Seat Kilometers) measures available passenger capacity
Source: IATA

Forecast of average development of airfares used
by corporate clients 2012 against 2011 (in \$ USD or € EUR)

Source: Advito

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CATEGORY OUTLOOK FOR 2013

Spotlight on American Airlines & US Airways merger

The long courtship of US Airways and American Airlines finally ended in a formal engagement. The two airlines announced on Valentine's Day that the boards of each company had approved a deal to merge. Pending regulatory approval by a federal court judge, the tie up will finally bring to an end a remarkable period of M&A. This ends the game of "musical chairs" in the U.S. market that started with the Airline Deregulation Act of 1978. In the 35 years since passage of this act, 15 major carriers have consolidated into a Big Three—plus third-wheeling Southwest.

Expect no immediate changes. Both carriers will continue to operate separately for some time as the merger proceeds through a long process to win financial, regulatory and bankruptcy court approvals. AA and US Airways are both targeting a third quarter 2013 completion date. It's anticipated that AA and US will position the merger as beneficial to the public since the carriers have little overlap in non-stop markets and they believe the new combined company will provide stronger competition for United and Delta.

In the near term as the carriers work toward financial and regulatory approval, expect to see some marketing coordination such as US Airways leaving Star Alliance for oneWorld. US Airways will also need to exit code share and frequent flyer agreements it has in place with United. Two other early activities: reciprocal arrangements between the AA and US Airways frequent flyer programs and flight code shares in some markets.

The ability to better control capacity will improve airline pricing power in the market and over time will lead to higher fares. The improved financial strength of the industry should have benefits in improved and more reliable service, but at a cost to both leisure and corporate travel budgets. At this

point, we expect continued consolidation globally and the trend of moderate fare increases to continue.

New startups represent a wild card. With improved global economic conditions and stable oil prices, they could enter the market if the mainline carriers fail to provide adequate capacity at a competitive price.

The combination of corporate discount programs cannot start until the financial merger has been completed and will take some time. Typically, discount programs are not fully combined until current agreements are renewed or renegotiated. The new AA may opt to provide short-term amendments to some clients giving them access to discounts on the current non-preferred carrier.

Until the financial merger is complete, AA and US Airways will continue to negotiate corporate discount programs separately. Therefore, clients conducting sourcing engagements will need to continue to evaluate the separate offers. However, keep in mind that at some point later this year, you will no longer have the option of selecting only one of the carriers. You will need to have both of the carriers in your program or neither. This can impact program design and the carrier strategy that you select for your new program.

As with other mergers and joint venture arrangements, this merger will further reduce carrier options and flexibility for the majority of corporate accounts that need more than one preferred carrier in their program.

Source: "*US Airways-American Airlines merger ends era of consolidation in U.S. market,*" blog post by Bob Brindley, www.advito.com

CATEGORY OUTLOOK FOR 2013

Hotel

Current market conditions

Most market forecasts are holding steady. However, hotels' inability to push through major increases in their corporate rate negotiations, combined with minor shifts in capacity and demand, are leading us to revise average daily rate growth forecasts in a handful of markets.

Latin America

In Latin America, Brazil's skyrocketing growth is slowing a little, leading us to adjust the forecast to 15-18% down from 18-22%. Mexico is also coming in softer than expected and is decreased to 2-5% from the 5-7% originally forecast. Both these changes are prompting us to adjust the regional forecast, which is now at 8-12%.

Europe

While the regional forecast for Europe stays the same at 2-4%, we have revised our forecast for Germany (downwards to 3-4% instead of 4-5%) and Turkey (downwards to 2-4% down from 4-6%).

Middle East

Excess hotel-room supply contributes to our decision to drop the regional forecast for Middle East ADR development to 2-4%. At the market level, contrary to expectations, Saudi Arabia has not been able to sustain last year's double-digit increases. We have dropped our forecast significantly to 2-4% from 8-11%. While less dramatic, the UAE forecast also shifts downward to 2-4% from 3-5%.

Asia

Two market changes in Asia lead us to lower our regional forecast to 4-6%. China is coming in softer than expected due to new hotel openings and is now anticipated to show increases of 2-5% (down from 5-7%). While forecasts for India, Japan and Korea remain unchanged, we are revising Singapore downward again to 5-7% (from 7-9%) as demand has grown slightly slower than originally anticipated.

Southwest Pacific

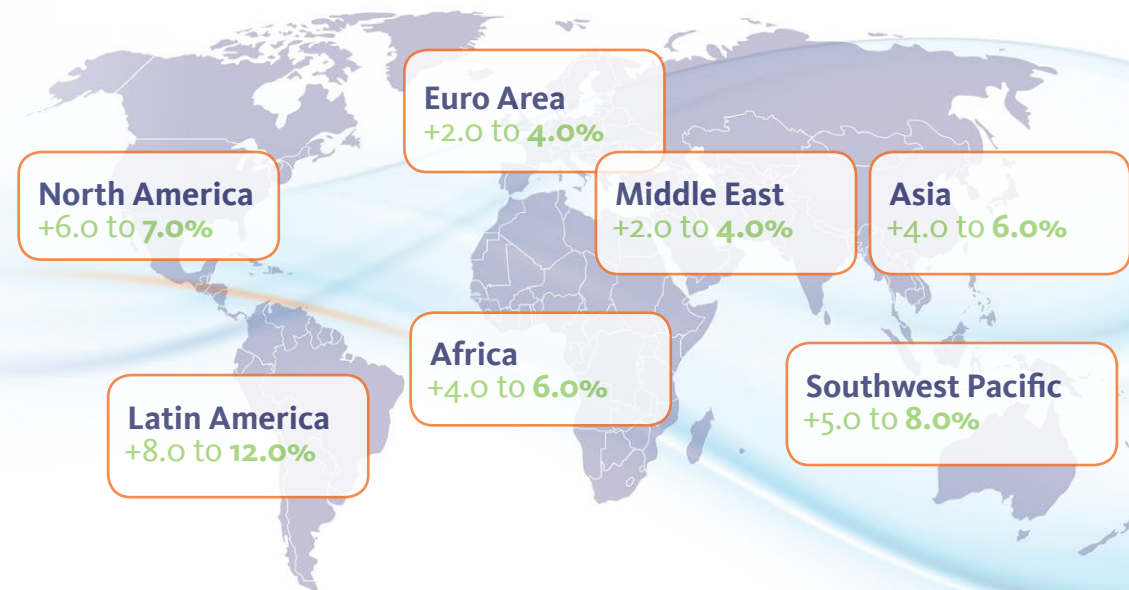
We have also revised Australia downward to 5-8%, after a 2012 price spike on the strength of the mining sector proved unsustainable. We have made a subsequent similar adjustment for the Southwest Pacific region (5-8%).

Africa

South Africa has made a surprisingly strong showing and is now forecast to see ADR increases of 8-10% (formerly 4-6%). This results in the regional forecast being lifted from 3-5% to 4-6% for 2013.

Fig 3 – 2013 Hotel average daily rate (ADR) predictions by region

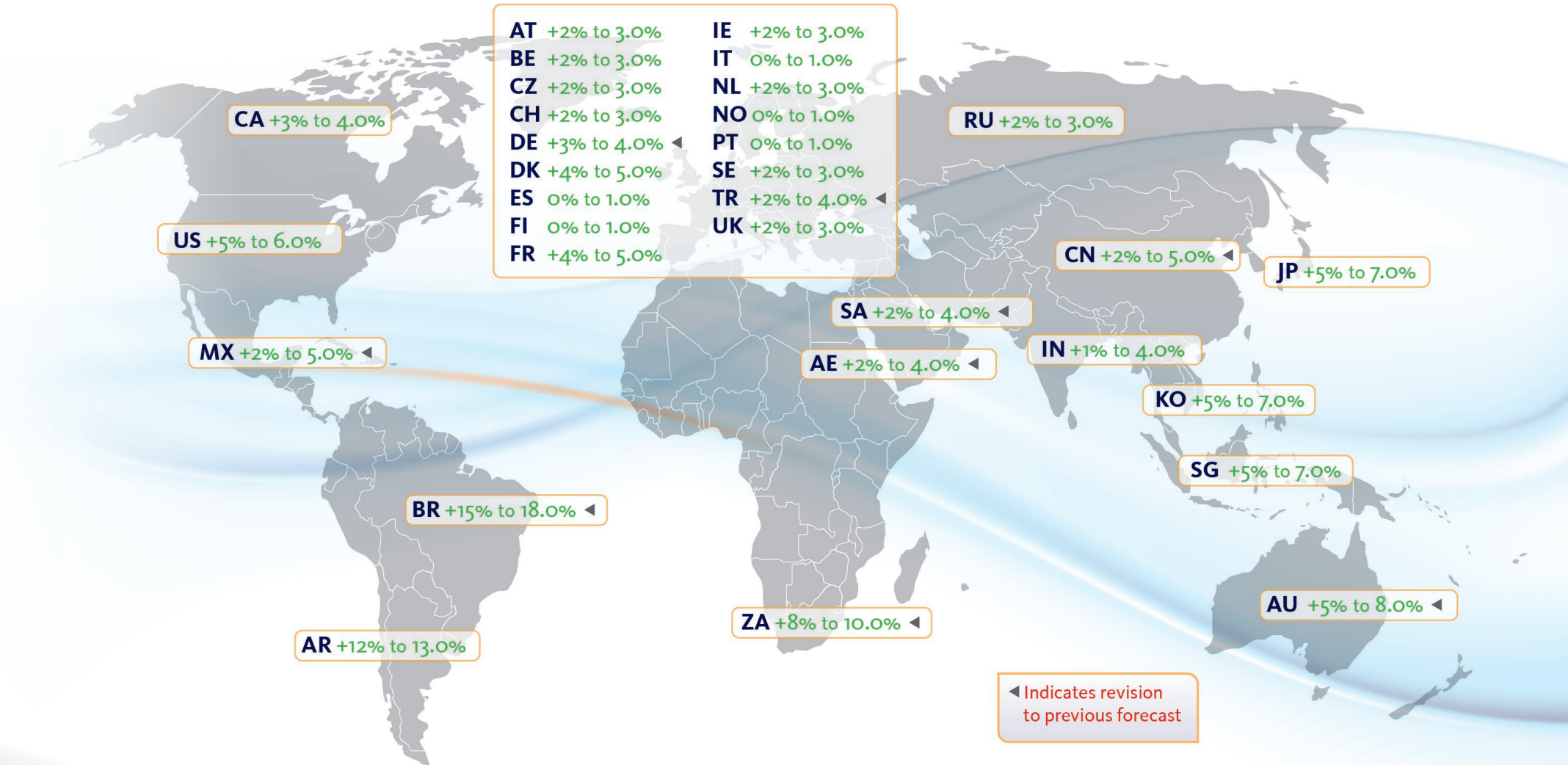
In 2013, biggest increases in ADR are still seen in Brazil. Figures represent YOY changes based on booked ADR



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CATEGORY OUTLOOK FOR 2013

Fig 4 – 2013 Hotel Average Daily Rate (ADR) Predictions by Key Market
 Softened demand at the end of 2012 shows smaller ADR increases than previously thought



Source: Advito. ©2012, Advito. 2013 Industry Forecast

CATEGORY OUTLOOK FOR 2013

Spotlight on traveler management

There's a big shift in the industry: away from mandating travelers and using a 'stick' approach, towards empowering travelers with the right information and using 'carrots' for incentives.

That's why it's more important than ever to use updated demand management techniques to get your travelers onboard with company policy and processes. Here are a few strategies for engaging your travelers to yield better-than-policy results:

1. Start with an explanation. It is essential to communicate to travelers and other key stakeholders why you want to eliminate unnecessary travel or switch from face-to-face meetings to electronic alternatives. Your reasons might include:
 - **Financial savings** – Research indicates that about a third of companies that offer e-meeting alternatives reduce their travel spend. The median savings is 10%, and some companies save 20% or more.
 - **Carbon savings** – Many companies add carbon reduction targets to their travel programs goals to back up commitments of more environmentally responsible business practices.
 - **Work/life balance** – Companies have a duty of care to employees, and that can include cutting down on travel to reduce stress and promote a better work/life balance.
2. Encourage “zero-budget” thinking. Simply asking employees to think more deeply about why they want to travel can lead to fewer trips.
 - Require employees to discuss every proposed trip with a superior to get a balanced view on whether meeting face to face will justify the time and cost.
 - Ask employees to state—in writing—the purpose of the meeting, who needs to participate (especially if more than one employee wants to attend) and why the meeting goal can only be achieved face to face. Make sure the proposal includes a formal meeting agenda with follow-up action plans.
 - Offer non-travel alternatives at point of sale. Provide quick-read charts that compare travel and virtual conferencing. Use pop-up prompts

at key times in the online booking process to promote e-meeting alternatives.

- Provide pricing context by programming the booking tool to show not only the traveler's chosen price, but also the average price on that route, the negotiated fare and the lowest logical fare.
 - Keep frugal thinking going during a trip by delivering relevant mobile messages to influence travelers' decisions. For example, time a text to arrive when a flight lands, reminding the traveler to take the train instead of a taxi.
 - Cascade smart travel-planning strategies throughout your company by making meetings management a mandatory role for supervisors and by requiring departmental business plans to include a meeting plan.
3. Don't overdo it. Demand management is all about influencing the number of trips taken by travelers. It has the potential to reduce costs even more than supply management because nothing saves more than not traveling at all. But don't go overboard. When companies first adopt demand management, many take a heavy-handed approach. For example, they might ban all travel for the last month of the financial year. Complete travel bans may be necessary during a severe cash-flow crisis, but they are not good practice. Here's why:
 - **Missed opportunities** – You may erode your ability to win new business by banning travel. Trips to close new deals or retain clients often will more than justify their expense, even at a time of major cost reduction.
 - **Short-term solutions can yield longer-term problems** – Travelers operating in a travel-restricted environment do not engage in making smart decisions about travel. Only traveler self-analysis can make demand management successful in the long term.

For further information on demand and behavior management in travel, the changes and trends about to happen, please download the white paper “*Traveler Management – how to influence your employees to plan, book and travel smarter*” from www.bcdtravel.com.

Source: “*Respond to traveler power by rethinking your travel program*,” www.bcdtravelinmotion.com

METHODOLOGY

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

- The price of oil per barrel will be within the range of US\$115 and US\$125 over a three month period in 2012.
- World economic output will expand by about 3.5% in 2013. Growth will continue in 2013, with world economic output rising between 0.2 and 0.6% YoY.
- Impact of the long-term structural reduction of travel intensity for most sectors will be insignificant in 2013 (i.e., organizations will not further reduce their number of trips in relation to their business volume).

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

We base our category-specific predictions on our analysis of aggregated transaction data of 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 data pool in question, with a minimum threshold for year-to-date and historical number of transaction for each unit.

We weight monthly averages by category transactions for each unit—the exception is the area/region average for hotel, which is a simple average across all countries in that area/ region. Quarterly averages are simple averages of 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 using 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.

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

- 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;
- Lodging Econometrics for hotel construction pipeline;
- 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;
- Smith Travel Research (STR) for hotel occupancy level.

The estimates and predictions are based on data available through December 2012 for air and hotel transactional data and through February 2013 for macroeconomic and industry indicators.

For more information please contact

Six Concourse Parkway NE,
Suite 2400,
Atlanta, GA 30328

www.advito.com
advice@advito.com

About Advito

Advito provides travel-management advisory, procurement and outsourcing services that guide clients through a complex travel environment. Advito 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. Advito is headquartered in Atlanta, and operates in key business markets around the world. Advito is 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 and Vayama), Park 'N Fly (off-airport parking), TRX (travel transaction processing and data integration), 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.