



ADVITO

2013 industryforecast

DECEMBER 2012 UPDATE

December 2012 Update | Key Findings

- The health of the global economy depends largely on U.S. Congress compromises over tax cuts, the euro zone avoiding breakup of the single currency, and China's recent progress on infrastructure spending and manufacturing improvements.
- Average oil prices of US\$103.4 per barrel of Brent crude oil for 2013 reflect a struggle between political unrest and relatively slow economic growth.
- We are maintaining our forecast for moderate price increases for air in 2013 due to stable oil prices and because demand is growing faster than capacity. However, airfare increases are still less than they were in the last three years.
- Our hotel forecast remains unchanged except for lower average daily rate (ADR) increases in Singapore, due to softened demand.

Category Outlook for 2013

Air | Hotel

Methodology

Introduction

Entering the fourth quarter, global economic performance continued to stall. Economic uncertainty hinges on two key issues: the euro zone's new funding and firewall framework, and how the U.S. handles tax-cut extension and large fiscal deficits as well as other measures to avert the fiscal cliff. In its World Economic Outlook (WEO), published in October, the International Monetary Fund is cautiously optimistic about the resolution of these issues. We expect our next forecast, scheduled for March 2013, to reflect their impact.

With sufficient stimulus, says the IMF, the world will see healthier GDP growth overall; the U.S. will further stabilize; the euro zone will just about stagger out of recession; and emerging economies will be able to largely maintain their GDP growth rate.

In the WEO, the IMF has nonetheless scaled its GDP forecast down by a fraction for most regions:

GDP Development	WEO Forecast 2013 June 2012	WEO Forecast Update October 2012
World	3.7%	3.6%
United States	2.1%	2.1%
Euro area	0.3%	0.2%
China	8.4%	8.2%
Emerging and developing countries	5.9%	5.6%

Source: World Economic Outlook, IMF, Oct. 2012

Corporate travel demand steady

Global corporate travel demand is mirroring global economic uncertainty.

Our analysis of BCD Travel client travel data shows that overall current demand is steady. However, we do not expect it to grow significantly in the near future, as businesses adopt a waiting-game approach and avoid additional travel until the economy stabilizes.

As part of that cautious, cost-focused approach, we're seeing some clients revert to requiring pre-trip approvals over a certain travel spend threshold.

Lingering political unrest in the Middle East and concerns over economic uncertainty have kept oil prices at a rough equilibrium. Prices have been in the US\$105 dollar per barrel range for most of the fourth quarter. The Economist Intelligence Unit (EIU) is maintaining their forecast of an average oil price of US\$103.40 per barrel of Brent crude oil in 2013.

However, a jump in economic growth and/or unrest in the Middle East could send oil prices skyrocketing, which could dramatically alter our current forecast.

The transactional data analyzed in this update covers the period through August 2012; the economic data covers the period through November 2012.

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 Sept. 2012 and available at www.advito.com.

CATEGORY OUTLOOK FOR 2013

Air

For the time being, we are maintaining our global airfare forecast.

While capacity is relatively flat in North America, it is growing moderately in Europe and significantly in the Middle East. In Europe, the rise in low-cost carriers is contributing to the steady capacity increase, whereas carriers in the Middle East are buying new aircraft and upgrading fleets. Continued industry consolidation will more than likely limit future capacity growth and lead to higher prices. With demand flattening, we believe those increases will be minimal—but we do predict very full domestic, regional and transatlantic flights.

As we observed in the 2013 Industry Forecast, traditional carriers in Europe and Asia continue to transfer their short-haul business to their low-cost subsidiaries. Examples of this trend in Europe include Iberia to Iberia Express, Lufthansa to German Wings, and for Asia, Qantas and Vietnam Airlines to JV and Singapore Airlines to Scoot. This model did not work in North America, where carriers like Ted, Song, and Continental Lite failed and were absorbed back into the mainline carrier.

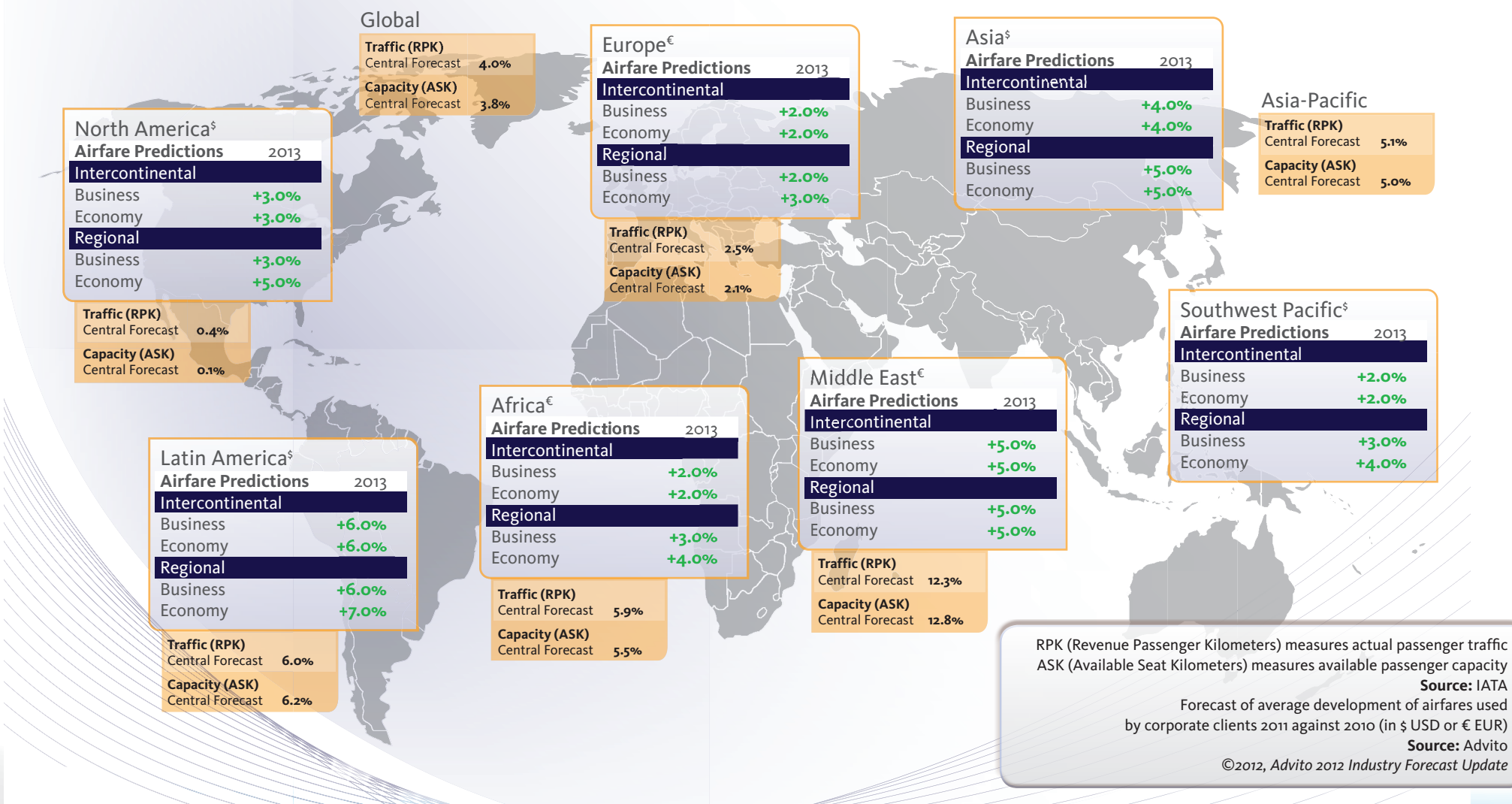
Following the North American carrier trend, we expect the European air market to require surcharges and ancillary fees, which currently is the domain of the low-cost carriers.

In Asia, Singapore Airlines and Etihad Airways bought a 10% stake in Virgin Australia. The other major news is the British Airways-Qantas divorce and Qantas' decision to align with Emirates as of April 2013. Overall the region is still performing much better than the rest of the world, which mirrors our forecast of higher demand and capacity.

Travel program managers should continue to be mindful of a range of factors that affect the total cost of air travel, from fuel surcharges and ancillary fees to credit card payment fees.



Fig 1 – 2013 Airfare forecasts by region
Uncertain economic conditions leave little room for drastic price increases



PANEL

Spotlight on Air in Asia Pacific

More low-cost carriers (LCCs) are making an appearance in Asia, through joint ventures (JV) and agreements with well-known traditional carriers. This year alone, Air Asia and Lion Air each ordered 200 new aircraft. An overview of the current major players in the region follows:

- Japan Airlines has a JV with Qantas, creating low-cost carrier Jetstar Japan
- All Nippon Airways has an agreement with Air Asia, creating AirAsia Japan
- Qantas and Vietnam Airlines have a JV, creating Jetstar Pacific – a domestic LCC in Vietnam
- Qantas and China Eastern Airlines are launching Jetstar Hong Kong in 2013
- Singapore Airlines launched Scoot in 2012 - a long-haul LCC flying only Boeing 777s
- Singapore Airlines and Virgin Australia have ownership stakes in Tiger Airways
- Singapore Airlines and Etihad Airways each recently acquired a 10% stake in Virgin Australia
- Virgin Australia bought SkyWest, which is fully rebranded and competing head-to-head with Qantas.
- Tiger Airways, like Air Asia, has offshoots in core countries, with Mandela Airlines servicing Indonesia, and Southeast Asian Airlines servicing the Philippines

There are many other independent LCCs in the region, but these are the major ones that have connections to mainline carriers. The airlines are hoping to cover as many sectors as possible to take advantage of increasing living/wage standards.

Leisure travelers still outweigh corporate travelers on Asian LCCs, but corporate interest is growing. Business travelers and agencies are closely monitoring the new airlines to see how their primary concerns will be addressed: on-time reliability, premier status, airport and terminal inconveniences, and the ability to collect frequent flyer miles. Another traveler concern is comparability of offers which is difficult at the moment due to highly fragmented distribution channels.

Corporate travelers should pay attention to the number of cross-alliance code-shares and partnerships that will affect the region (e.g., Etihad with Indonesia's Garuda, Etihad with Air France/KLM.) This could cause some confusion for corporate travelers trying to keep their miles within one alliance.

CATEGORY OUTLOOK FOR 2013

Hotel

Initial hotel negotiation rounds confirmed our overall regional hotel average daily rate (ADR) forecast. In a reflection of overall economic uncertainty, Europe's ADR increases remain minimal. Latin America and Australia are the only regions forecast to show double-digit increases.

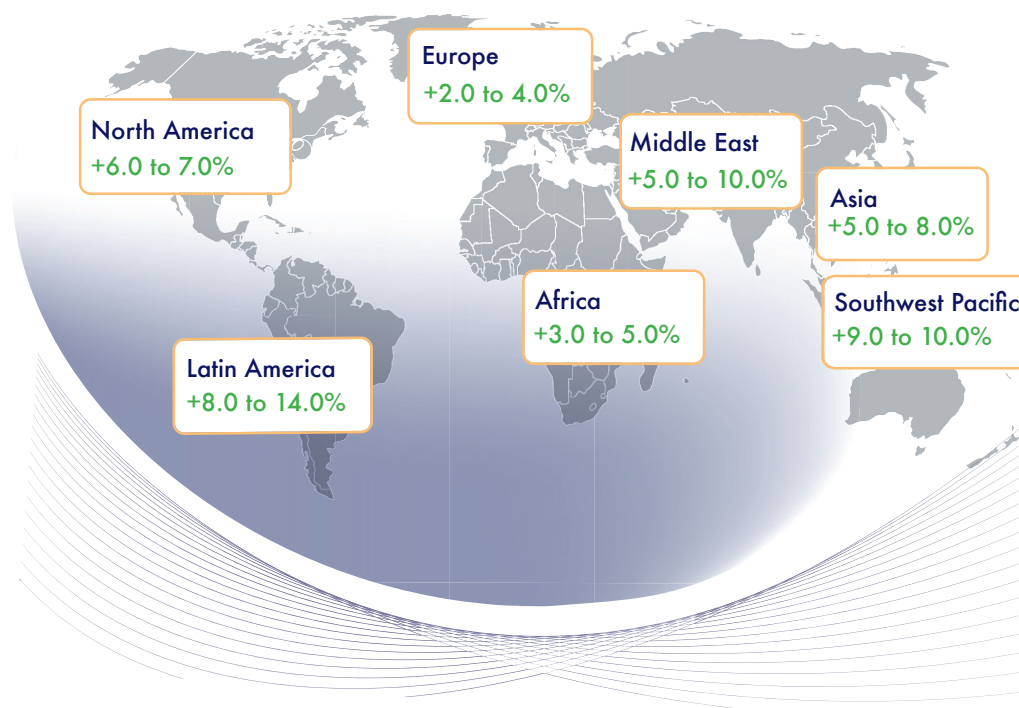
The gap between buyer and hotel expectations—which has been widening in the past couple of years—is making negotiations difficult. See our spotlight on hotels for further details.

At the individual market level, however, we are making adjustments to Singapore, with year-over-year ADR increase down from - 9-12% to 7-9% because growth in demand is slower than expected.

Rate increases in gateway cities are split into two tiers, with London and New York City forecast to grow less aggressively than the double-digit increases we anticipate in San Francisco, Boston and Chicago.

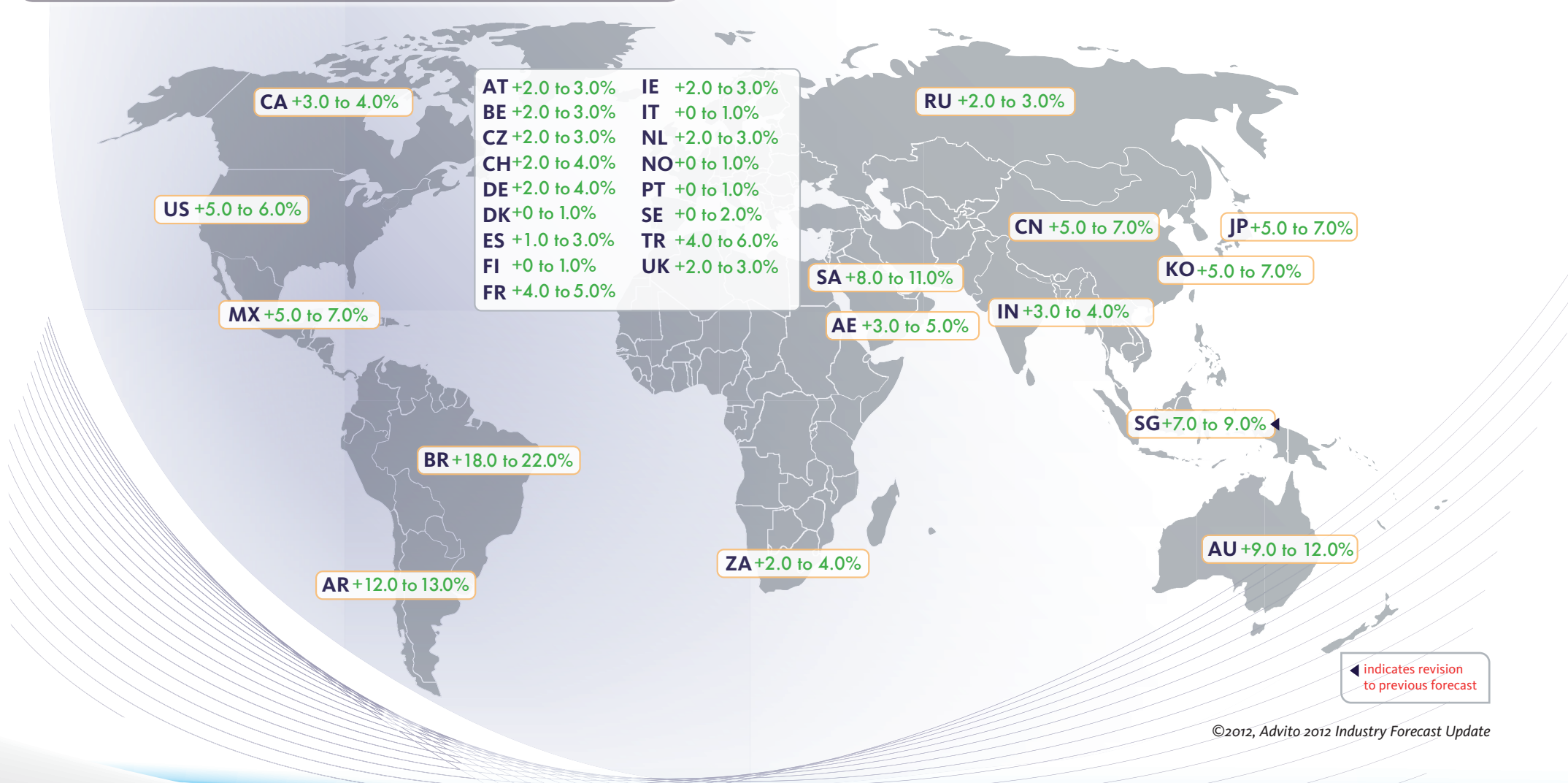
Fig 2 – 2013 Hotel average daily rate (ADR) predictions by region

In 2013, ADR will grow slowly in Europe, and more vigorously in the other regions. Figures represent YOY changes based on booked ADR



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Fig 3 - 2013 Hotel average daily rate (ADR) predictions by key market
Corporate travel buyers will struggle to hold down rate increases in 2013, as the gap between buyer and supplier expectations widens.



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PANEL

Spotlight on hotels

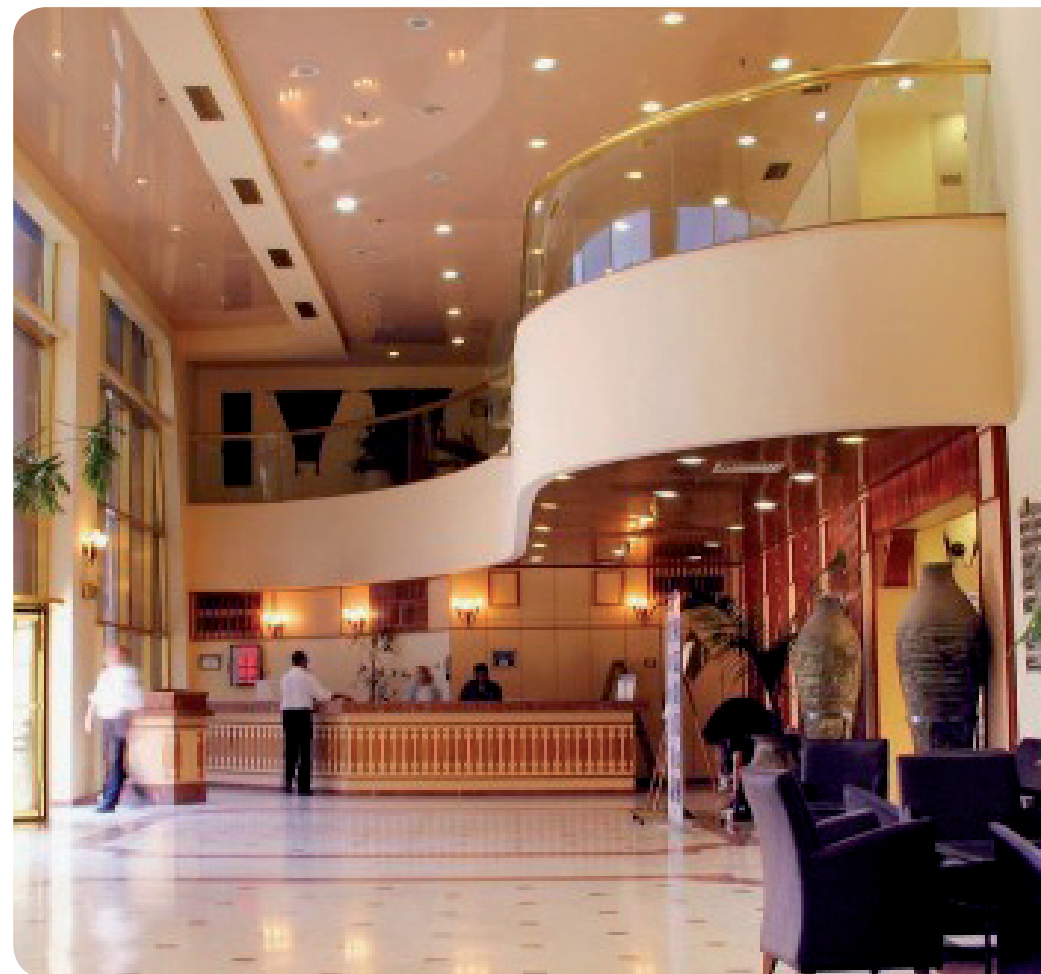
During these tough economic times, the relationship between the hotel and the customer is even more crucial. As a buyer, you need to focus on the long-term benefit for your travel program, as opposed to short-term savings. However, this doesn't mean you should accept everything the hotels request.

Remember that quality data is an absolute necessity for your hotel negotiations. Start gathering data early, as you will need not only booking data from your agency, but preferably credit card spend and hotel data too. If you can, pull data from your meetings business, as this will give you even more leverage. Many of the big hotel chains are moving towards total account management (servicing transient business and meetings business in one RFP). Marriott, Accor and IHG are already on top of this, Hyatt is going to implement, and Hilton may soon follow.

If the hotel is adamant on price increases, try to negotiate value adds instead. Some value adds to consider are cancellation fee waivers, a relaxed cancellation policy (especially important since the trend is going to a 72-hour advance policy), complimentary breakfast and Wi-Fi and loyalty upgrades for your frequent travelers. With the data mentioned above, you should be able to see what your travelers use and need most often, and negotiate it.

It's important to be clear in what you are negotiating: last room availability seems to be a standard in the industry, but every hotel might interpret it slightly differently, possibly not to your benefit. Ask questions and clarify the room categories and agreements in writing, so you have a back-up if rates are not loaded as promised.

Throughout the program, be diligent about monitoring traveler behavior and preferences. How many of your travelers use this hotel? What percentage of market share is that? How can you influence the travelers' behavior? This information will save you time when you screen the data for negotiations, and will make you a much better negotiator—with confidence and proof on your side.



PANEL

Spotlight on meetings

Demand for meetings and events is as strong as expected, driving up rates—especially in gateway cities, such as New York City, London and Paris. Many variables continue to affect the meeting industry, including ongoing economic concerns and oil price fluctuations.

BCD M&I is seeing a continuation of the trends from earlier this year due to increased meeting demand. In the U.S., hotel rates are still rising higher than inflation, with little increase in supply, making it difficult for companies to find available space on preferred dates. Additionally, hotels remain strict on holding space without a firm commitment and are less willing to negotiate on concessions and terms and conditions. Furthermore, the use of electronic RFPs continues to be on the rise, creating challenges for hotels and buyers alike.

Throughout 2013, budgets should remain mostly flat, creating stability in the marketplace, while the number of anticipated attendees per event increases.

Interest in consolidated meeting programs continues to rise. Companies are looking to apply the same level of cost savings and efficiencies to meetings that they have established for corporate travel. This is a complex undertaking; most companies without established programs have a hard time obtaining the necessary full visibility into existing meeting spend to develop a compelling business case for senior management. BCD M&I continues to see an increase in customers seeking both education and consultation in building a business case to launch a strategic meetings management program.

Companies with existing strategically managed meeting programs are looking to expand their regional solutions globally. Most consider implementing an overarching global strategy or efficiencies while advocating regional program flexibilities based on the culture and nuances of each country.

The socialization and mobilization of meetings continues to grow. Companies are looking to keep the momentum from the meeting going outside its formal setting. Social media and mobile app solutions have created a new level of attendee engagement, allowing companies to generate buzz around a trade show or event and giving attendees the ability to connect with colleagues, share information and receive real-time content through their mobile device. In 2013 we expect many companies will use mobile technology for the first time to expand their reach, increase attendee engagement and capture valuable metrics. Those companies that previously implemented a mobile solution will look to expand beyond the basic offering and include functionality like gamification and deeper integration into social media.



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 2012. 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 2012 (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 August 2012 for air and hotel transactional data and through November 2012 for macroeconomic and industry indicators.

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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 approximately 13,700 people and operates in more than 95 countries with total sales, including franchising, of US\$24.4 billion. For more information, visit www.bcd-nv.com.