2018 Industry Forecast

ADVITO

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Global

Air fares

Improving economic conditions and lower airfares in some markets are supporting strong global air travel demand. Traffic grew at 8% year-over-year during the first five months of 2017.[1] Cautious capacity expansion means airlines continue to grow revenues. But prices may start trending slowly upwards in markets where demand is strongest.

We expect business class fares to rise by 1% in 2018. Regional economy fares should also increase by 1%, but there will be no change in intercontinental economy fares. A closer examination of these figures reveals regional variations in our fares outlook.

Business fares for intercontinental travel will increase in Europe and North America. They will fall in Africa and remain flat in all other regions. Regional business fares will increase in all regions except Africa, where they will stay steady, and Latin America, where they will fall slightly.

Economy fares for intercontinental travel will stay flat or fall, with the biggest decreases for flights from Africa and the Southwest Pacific. The outlook for regional economy fares is more mixed. Four regions will see increases, while they will stay unchanged in Africa and the Middle East. But we expect these fares to fall by 3% in Latin America.

Hotel rates

Global hotel rates will increase by 2% to 4% in 2018, as demand continues to outpace supply in many markets. But a healthy pipeline of new supply will help moderate the extent of these increases in some emerging markets. And there are signs that the pricing power, which hotels in North America and Europe have enjoyed for several years, may soon pass its peak.

Economic outlook

As international trade recovers, global economic growth will accelerate from 2.7% to 3.0% in 2018. Emerging markets will drive this improvement, as economic growth strengthens in Latin America and the Middle East. But there will be little change in Asia. While the outlook for the U.S. economy improves, expect European growth to be weaker in 2018.

Advanced economies[2]

U.S. economic growth will accelerate from 1.6% to 2.2% in 2017, as a solid labor market supports the moderate wage growth needed to maintain consumer spending. Business investment and trade will also make a bigger contribution to the economy. A delay in the fiscal stimulus from tax cuts and infrastructure spending beyond the end of the year will provide an extra boost in 2018, pushing economic growth up to 2.7%.

Airfare forecasts

Average ticket prices % year-over-year

	Intercontinental		Regional	
	Business	Economy	Business	Economy
Africa	-1%	-2%	0%	0%
Asia	0%	-1%	2%	2%
Europe	2%	0%	1%	2%
Latin America	0%	-1%	-1%	-3%
Middle East	0%	0%	1%	0%
North America	1%	0%	1%	1%
Southwest Pacific	0%	-2%	3%	2%
Global	1%	0%	1%	1%

Hotel rate forecasts

Average daily rates % year-over-year

Region	Forecast
Africa	9% to 11%
Asia	1% to 3%
Europe	1% to 3%
Latin America	2% to 4%
Middle East	0% to 2%
North America	2% to 4%
Southwest Pacific	3% to 5%
Global	2% to 4%

Source: Advito

1 IATA, Air Passenger Market Analysis, May 2017

2 IMF: based on per capita income, export diversification and integration into the global financial system.

Global

The Eurozone economy is recovering at a faster-than-expected pace. Over the past 12 months, Oxford Economics has upgraded its 2017 growth outlook from 1.5% to 2.2%. But growth will slip back to 1.8% in 2018, as inflation starts to weigh down on the economy. Outside of the Eurozone, the performance of the U.K. economy will be subdued, as fiscal austerity and political uncertainty limit annual growth to just 1.5% in 2018.

Emerging market economies

The recuperation of emerging market economies will continue in 2018, as growth advances to 4.5%. Two regions will drive this improving performance.

- Latin American growth will rise from 1.1% to 2.4%, as momentum returns to the Brazilian economy. This will, in turn, improve the prospects for neighboring countries like Argentina and Colombia.
- An end to OPEC oil production cuts by 2018 will promote a rebound in Middle Eastern economic growth from 1.7% to 3.6%.

But there will be little change in Asian growth in 2018. The slowdown in China will continue, offsetting the positive effects of a stronger performance by India's economy.

Economic risks

The risks to the global economic outlook have become more balanced. On the upside, the cyclical recovery in world trade could prove to be much stronger than expected. A successful program of fiscal stimulus from the Trump administration could also mean faster economic growth in the U.S. But the uncertainty surrounding the policies of the U.S. government also presents a major downside risk. Increased protectionism and a much smaller, or delayed fiscal stimulus, could result in a much weaker U.S. performance.

Other downside risks include an escalation of tensions in the Korean Peninsula, a faster slowdown in China, a populist victory in Italian elections that casts doubt about its Eurozone future, and the wider fall-out of the U.K. adopting a "hard" approach to Brexit.

Oil prices

Efforts by OPEC (Organization of the Petroleum Exporting Countries) members to use production cuts to prop up oil prices appear to have been ineffective. Since the cuts were first implemented in December 2016, Brent crude oil spot prices have hardly moved, slipping back by US$1 to below US$48 per barrel.[4]

Despite an agreement to cut supply, output across the cartel actually increased year-over-year in May 2017, as production levels recovered in Nigeria and Libya; two countries exempted from the quota deal.[5]

Economic growth assumptions

World GDP **Growth**

2016	2017
2.3%	**2.6%**

As international trade recovers, global economic growth will accelerate from 2.7% to 3.0% in 2018. Emerging markets will drive this uptick, as economic growth strengthens in Latin America and the Middle East. But there will be little change in Asian growth, as a Chinese slowdown offsets a stronger performance by the Indian economy. Advanced economy growth will be largely unchanged at 2.1%. While the outlook for the U.S. economy improves, rising inflation will lead to weaker European growth in 2018.

Regional economic growth forecasts 2016-2018[3]

	2016	2017	2018
Africa	2.5%	3.2%	3.8%
Asia	4.6%	4.7%	4.6%
Europe	1.9%	2.1%	1.8%
Latin America	-1.5%	1.1%	2.4%
Middle East	3.1%	1.7%	3.6%
North America	1.6%	2.3%	2.6%
Southwest Pacific	2.6%	2.5%	2.4%
Global	2.3%	2.7%	3.0%

OPEC's efforts are also being undermined by rising U.S. oil shale output, which has climbed 10% since mid-2016. As well as meeting domestic demand, U.S. producers have resumed exports, leveraging a price advantage over Brent crude to capture market share.[6]

Global oil supply will surge after the OPEC production deal expires in the first quarter of 2018. Combined with growing U.S. production, this will make it difficult for oil prices to rise above the average of US$51 per barrel expected for 2017.[7] For this reason, we assume oil prices will average US$50 per barrel in 2018.

3 Oxford Economics, July 2017
4 EIA, July 17, 2017
5 Oilprice.com, June 7, 2017
6 Oilprice.com, June 11, 2017
7 EIA, Short Term Energy Outlook, July 2017

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Global

Travel risk and security

- The Terror Threat: While high-impact terror events, such as the May 2017 Manchester bombing in the U.K., still occur, the London Bridge and Barcelona attacks confirm that terrorism has become increasingly characterized by smaller, less predictable incidents. As it's virtually impossible to predict where and when the next incident will occur, travel managers must ensure travelers remain vigilant and know how best to react in such an event. They must also put in place measures to ensure travelers are looked after if they are caught up in any incidents.
- Health: Health is always a risk issue for travelers. While diseases like malaria and Ebola remain a hazard for travel to certain destinations, there's no sign of any imminent pandemic disease with the potential to disrupt global travel.
- Natural Disasters: Travelers must occasionally deal with the consequences of natural calamities. Many of these disasters can significantly affect travel. Most are almost impossible to predict, but where possible, travelers and travel managers should plan a response to them.
- Geopolitical: The rise of populist politics is putting longstanding geopolitical roles and relationships under strain. The Brexit decision has made Europe less stable, while President Trump's "America First" philosophy may well change the role the U.S. plays on the international stage. Deteriorating diplomatic relations between the U.S. and Russia and escalating tensions in the Korean Peninsula are adding further geopolitical stress.

As the world we've become used to changes, relationships with business partners will be more important than ever to maintain trust. Business trips will continue increasing since face-to-face meetings are crucial to relationship building. But in such uncertain times, that means exposing more travelers to risk. Travel may also become more difficult, if visa and immigration regulations change and as security authorities do their best to safeguard travelers from perceived threats with measures like inflight bans on electronic devices.

Oil prices

Oil price assumption
US$
50
per barrel

Supply disruption and signs of improving demand have lifted oil prices. The U.S. Energy Information Administration (EIA) expects them to rise 19% in 2017, averaging US$52 per barrel (pb). But this only returns them to 2015 levels. As most forecasts largely agree with the EIA, we assume oil prices will be US$50 pb in 2017.

What **NDC** means for you

In September 2015, Lufthansa Group imposed a €16 surcharge for bookings made outside of its website and other direct channels. In our *2017 Industry Forecast* we noted that other airlines might follow as their existing "full-content" agreements with global distribution systems (GDSs) expire.

This is now happening. International Airlines Group (IAG) subsidiaries British Airways and Iberia will introduce a €9.50 (US$10, £8) per "fare component" surcharge on November 1, 2017. In most cases, a fare component is equivalent to an origin and destination journey.[8] The surcharge applies to bookings made through all indirect channels, which do not support New Distribution Capability (NDC).

American Airlines (AA) is taking a different approach to promote NDC engagement among travel agents. It's offering a US$2 incentive payment per AA-marketed segment booked through an NDC connection. AA claims travel management companies (TMCs) will benefit by offering customized bundles, seamless access to waivers and favors, and enhanced duty of care capabilities. However, all AA content currently remains in the GDS channel. TMCs will need to understand whether AA's approach to NDC means anything substantially different to them and their clients. And the underlying challenges of access to transparent, consolidated information for efficient comparison shopping and the provision of the full range of TMC services remain.

NDC is an IATA-promoted program that has created a technology standard that allows airlines, travel agencies and travel technology providers to communicate electronically. It enables airlines to merchandize and sell their product via any channel in the same way they currently do via their own websites. Airlines want more control over their offers to customers. They want to bundle customized offers, including meals, baggage allowances and other items that will particularly appeal to corporate travelers - like lounge access, on-board Wi-Fi and perhaps even guaranteed last seat availability.

Lufthansa Group, IAG and now AA are encouraging TMCs and their mutual corporate clients to move to new booking channels, using NDC standards. But no single solution exists so far. Corporate deals could evolve, shifting the emphasis from pure fare discounts towards negotiating customized packages.

The NDC proposition may sound attractive, but travel buyers have some concerns:

- One of the great strengths of a GDS is its aggregation of content- at scale, efficiently and globally- enabling full and transparent comparison shopping. This could become much less efficient, if the industry fails to adopt a new single standard and "direct connect" becomes more common.
- Travel bookers may need to look at each supplier's offering in separate channels. This adds complexity. If the offers vary by channels, customers can never be sure they're getting the best deal.
- By using a surcharge to pass on their costs from the GDS channel, airlines are unfairly penalizing corporate customers, who require the full services provided by a TMC. Typically corporate customers provide airlines with the most loyal repeat business and the highest yielding fares, coupled with a lower average number of flights in a trip – compared to leisure travelers.
- For transactions a TMC makes in a GDS, it can support clients throughout the trip, as it has full access to the live booking. For direct connect transactions, it's the airline that "owns" the booking. This makes it difficult for TMCs to support travelers in a timely manner, provide consolidated information and deliver duty of care services, particularly when their trips are disrupted.

All three GDSs have committed to incorporating IATA NDC standards. GDS engagement with NDC may enable clients to potentially avoid the distribution penalty, while continuing to rely on the same full booking service that the TMC channel currently ensures. This is as long as airlines do not continue to apply surcharges in that environment or start withholding content from indirect channels.

8 Travel Weekly, May 26, 2017

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Machine learning uncovers savings opportunities

The travel industry is embracing artificial intelligence (AI) and, particularly, machine learning techniques. Early attention has focused on the use of machine learning to enhance and analyze data about traveler behavior. This enables more accurate and targeted segmentation, allowing suppliers and travel managers to engage with travelers in a more meaningful way, with more relevant offers.

Though chatbots have grabbed all the headlines, the real opportunity for the travel industry may lie in something less visible and potentially more impactful. Machine learning can be applied to spot entirely new opportunities to make savings and take some of the stress out of travel. Here are three examples of start-ups that are doing just that.

By combining historical data and machine learning techniques, FLYR's FareKeep and SmartRate tools predict the likelihood that airline tickets and hotel rooms will be available at lower prices. Equipped with a "wait or buy" recommendation, travelers can be more confident of timing their booking to get the best rate for their company.

FairFly aims to lower the cost of travel by re-booking flights after tickets have been purchased. It uses machine learning to refine the ticket and fare types shopped in order to improve savings and conversion rates. Working through the global distribution systems (GDS) using client credentials, FairFly automatically tracks price variations for individual bookings, factoring in travel policies and preferences. It notifies clients or their travel management company (TMC) if the price, including cancellation fees, falls below a certain threshold.[9] The TMC or travel manager can handle the rebooking; or they can let FairFly's software do it automatically. The company claims to re-book 26% of all processed tickets with average savings of US$254 per ticket.[10]

Using predictive analytics to identify flight delay patterns, Flightsayer is able to predict in real-time the chances of an individual flight being delayed. Clients can compare alternatives and reschedule to avoid delays. Travelers can book smarter and react more sensibly to potential delays or cancellations.[11] Companies save the cost of flight delays, while travelers face less stress from disrupted journeys.

While suppliers were early adopters of machine learning to make more relevant offers to travelers, new applications of these techniques are giving some control back to travelers and helping them make smarter travel decisions.

9 Tnooz, August 15, 2016
10 Techninasia, August 23, 2016
11 Business Travel.iQ, April 19, 2017

Hotel rate availability

Hotels are becoming more sophisticated in their use of yield management techniques as they look for ways to boost revenues. This is resulting in a profound change in their relationships with corporate clients.

Business travelers find they are increasingly unable to find and book rooms at their preferred rate, even when their contract specifies last-room availability (LRA) on a standard room. By regularly re-designating in their booking systems what constitutes a standard room, hotels are able to manipulate their inventory and availability.

To meet the levels agreed with corporate clients, hotels offer high availability during off-peak periods, but restrict it when demand is high. Across the year, this may average out at the contracted level, but it means travelers often find standard rooms are not available at the preferred rate when they really need them. This means the average rate paid is above the preferred rate for many companies.

Analysis by Advito found clients' preferred rates were unavailable for booking a significant proportion of the time on a global basis. In Europe, preferred rates were unavailable over a third of the time while in the other regions, they were unavailable at least a fifth of the time.

Many companies do not realize just how often hotel suppliers block preferred rate availability. So it is essential to monitor it – consultancies like Advito can help. Presenting hotels with hard evidence may get them to reverse this practice. It's critical to tighten the wording of hotel contracts, restricting the scope for such yield management tactics. A rate assurance program can also help, automatically re-booking a room if a better rate becomes available.

There is a risk that this behavior becomes entrenched among hotels. Negotiated corporate rates can no longer be the only component of a hotel buying strategy. For example, using a hotel's best available rate (BAR) can often be the most cost effective approach.

A search of global hotel rates by Advito found BAR to be lower than preferred rates more than 30% of the time. And in some regions, like Europe, the Middle East and Southwest Pacific, preferred rates can be higher than BAR more than 40% of the time.

As hotels adopt aggressive yield management strategies buyers must reappraise their hotel sourcing strategy to deal with this new reality. Negotiated rates should sit alongside chain-wide deals, best-price-on-day purchasing and dynamic pricing to maximize cost savings and program effectiveness.

Key points

- Intercontinental airfares will fall, but regional fares will not change.
- Strong increases in Egypt, Nigeria and South Africa will drive up hotel rates across the region by 9% to 11%.
- Uber will face growing competition from local ride-hailing services.
- Africa's first high-speed rail services will start in 2018, linking Tangier and Casablanca.

Current situation

Poor connections, inadequate frequencies and high prices mean air travel within Africa remains challenging. Travelers often find it can be quicker and less expensive to fly between African cities via a third point in Europe or the Middle East.

The capacity situation is slowly improving. Ethiopian Airlines is one African carrier that's modernizing its fleet and rapidly expanding its network. During 2017 it has launched new services to four African and five long-distance destinations.

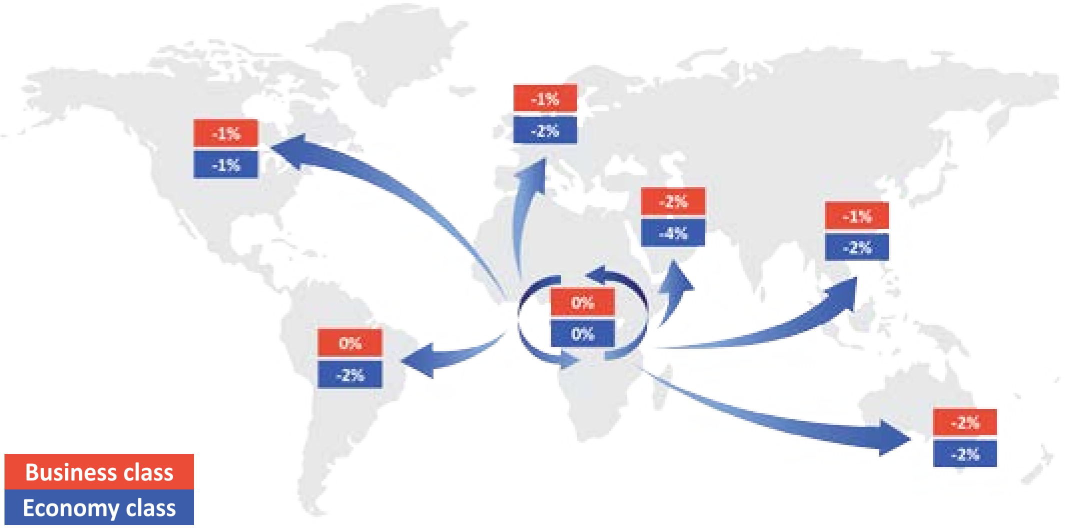
In spite of the problems experienced by Fastjet, low-cost carriers (LCCs) are also growing in the African market. They've been most successful in South Africa, where FlySafair, Kulula and Mango provide an alternative to full-service airlines for short-haul journeys. LCCs are emerging elsewhere in Africa; most notably Kenya Airways-owned Jambo Jet.

The affordable air travel that LCC expansion brings is one reason why demand is surging in many African countries. During the first half of 2017 passenger numbers across Africa increased 8.1% year-over-year (y-o-y).[12] But the biggest driver is economic development across the continent in markets other than South Africa. Ghana and Kenya are good examples where rebounding economic fortunes are driving strong growth in business travel.

Negotiating corporate deals is difficult in Africa, because suppliers hold a strong position. Discounts are available, but are rarely more than 5%. However, airlines are increasingly offering corporate clients "waivers and favors," such as free ticket changes and baggage allowances.

Airfare forecasts by destination

Average ticket prices % year-over-year



Forecasted year-over-year change in average corporate client airfares (in €EUR), point of origin Africa.

12 IATA Air Passenger Market Analysis, May 2017

Outlook for 2018

Increasing competition means intercontinental fares will fall by 1% in business class and by 2% in economy. On average, we do not expect fares for regional travel to change in 2018, although growing competition should push down domestic fares in South Africa by 1%. High operating costs and a lack of competition means domestic fares should rise by 1% in Nigeria.

Our recommendations

- Look out for new carriers and routes as Africa's airline network expands rapidly. They could save travel time and cost.
- When negotiating with airlines, look for complementary service benefits in addition to discounted air fares.

Driving down costs through better traveler behavior

With only limited corporate discounts on offer, managing traveler behavior is key to reducing air costs in Africa. Many companies are looking at changes to their travel policies, including increasing the threshold at which flying business class is permitted from 4 to 6-8 hours. They are also mandating advance purchase, which normally results in much lower fares.

Intra-African travel to become easier?

Visa costs are the biggest burden to travel within Africa. The region is home to 57% of the world's population that needs to apply for a traditional visa prior to international travel.[13] This has fallen from 88% in 2008, as some African countries have introduced helpful measures like visa on arrival and e-Visa.

From 2018, the Pan-African Passport could change travel within Africa, particularly if it coincides with the implementation of the Single African Air Transport Market (SAATM). Even a partial implementation of SAATM would enhance air connections within Africa, making travel more convenient and lowering prices through increased competition. And the new passport would make international travel easier. But this may all be wishful thinking, with previous attempts at liberalization making little progress.

13 World Tourism Organization

Current situation

International chains have responded to growing demand from business, government and non-governmental organizations with a number of hotel openings across Africa in 2017. Supply is growing fastest in key commercial centers like Accra, Lagos, Nairobi and Johannesburg.

However, although supply is growing, economic expansion is pushing up demand even faster, so rates continue to rise. There are some opportunities to negotiate deals in the four key business cities, mainly for customers on long stays who use facilities such as in-house restaurants.

While price is important, security considerations remain the priority when choosing a business hotel in Africa. After a spate of attacks in recent years, hotel security has become far more visible and is heavily influencing the design of new properties.

Outlook for 2018

Massive pent-up demand for quality accommodations will ensure rates rise by an average of 9% to 11% across Africa in 2018; much higher than in any other region. But this headline figure masks a wide variation between countries. We expect some particularly strong rate increases in Egypt and Nigeria.

South Africa will see rates rise 5% to 7% in spite of its political and economic problems. Strong meetings demand from events booked in 2017, when the South African rand was weaker, will guarantee high occupancy rates in the first half of 2018. This has reduced hotels' exposure to prevailing market conditions, giving them the confidence to increase ADRs for transient customers.

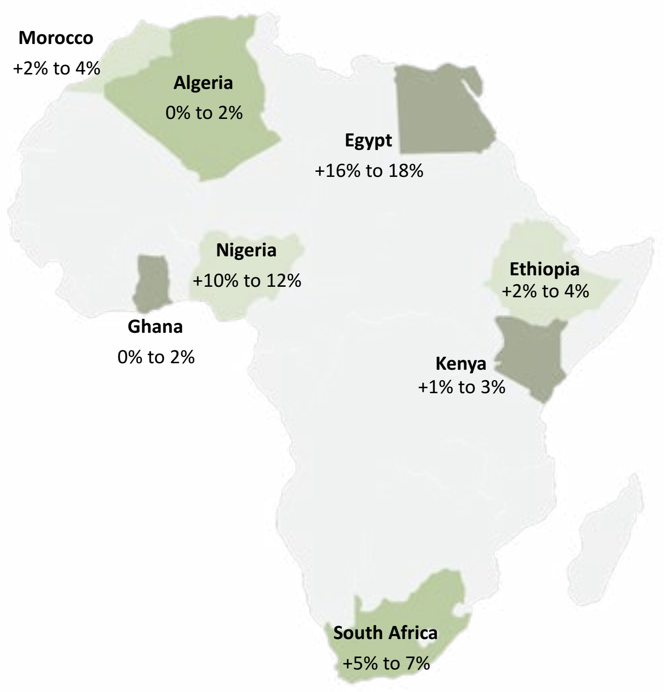
Demand is improving significantly in Kenya as memories of terrorism-linked events fade and economic growth accelerates. But new hotel openings across upscale brands like Hilton Garden Inn and Four Points by Sheraton will limit rate rises to 1% to 3% in 2018.

Our recommendations

- Safety remains a priority. Rigorously review security for each preferred property in your program. Consider Airbnb and other alternative accommodation providers.
- Refresh your program by including some of the many new hotels opening in Africa.

Hotel rate forecasts

Average daily rates % year-over-year



Based on hotel rates in local currency.

Ride-hailing

As it continues its expansion across Africa, Uber is facing challenges in the region's biggest market, South Africa. Discontent is growing among its drivers, who are unhappy about the 25% commission they must pay the company.[14] And it must deal with growing competition from rival operators, including Taxify and Africa Ride, as well as from traditional taxi operators, who are launching their own apps like Easy Ride SA.[15]

Competition among ride-hailing operators and taxis is also well-developed in East Africa. Fone Taxi is the latest app to have launched to take on Uber, Little Cab and Taxi Chap Chap in Rwanda, Uganda and Kenya. By using only registered taxi drivers, it should avoid the regulatory issues Uber faces in some markets.[16] Competition in the region will intensify further, as Volkswagen launches a ride hailing service in Rwanda, as part of a strategy to offer pay-per-use transportation in markets where Uber has yet to gain traction.[17] Kenyan operator Little Cab plans to expand its service to Nigeria, bringing competition to Uber in Abuja and Lagos.

Rail

Africa's first intercity high-speed rail (HSR) service will start operations between Tangier and Casablanca in 2018, halving the journey time between the two cities to just over two hours. But, other than the expansion of South Africa's Gautrain network, which may not even qualify as a true HSR service, there are no other projects in the pipeline.

Rail development in Africa will continue to be characterized by projects like the Manaraka Express, which has reduced journey times between Nairobi and Mombasa from 12 hours to less than five hours. The new line, which is not high-speed, is the first phase of a planned East Africa Railway connecting Kenya, Uganda, Rwanda, Burundi, DR Congo, South Sudan and Ethiopia.[18]

14 Financial Times, May 13, 2017
15 OIL, March 17, 2017
16 Techcabal, September 6, 2016
17 Reuters, December 22, 2016
18 Kenya opens Nairobi-Mombasa Madaraka Express railway, BBC, May 31, 2017

Asia

Key points

- While strong demand will drive up regional airfares by 2%, intercontinental fares will stay flat or fall.
- Hotel rates across Asia will rise by 1% to 3%, as strong demand outpaces new capacity in major markets.
- More event space will ease the pace of meeting rate rises, but a new Goods and Services Tax could increase costs in India.
- High-speed rail continues to be a credible option for domestic business trips in China and Japan.

Current situation

China

Although economic growth has slowed a little, supply and demand are both expanding rapidly. During the first five months of 2017, capacity on domestic routes was up 12%, but traffic was up even faster at nearly 15%.[19] Growth in business travel continues to accelerate, even though the country's notorious air traffic delays are getting worse.[20]

Capacity on international routes was up even more dramatically, by 22%, causing over-supply in many markets. This is a cause for concern for other Asian carriers like Cathay Pacific and Singapore Airlines. International flights no longer depart only from the Tier 1 cities of Beijing, Shanghai and Guangzhou. Cities like Xian, Chengdu and Chongqing, for example, all now have direct services to the U.S., although many of these routes are initially publicly funded and depend on low-yielding passengers visiting friends and relatives (VFR). But with 93% of China's population yet to own a passport, the potential for international travel growth is substantial.

Even though domestic passenger load factors have so far this year climbed two-points to 84.2%, fares are holding steady thanks to a relaxation of government pricing controls and LCC competition. However, since domestic fares are low anyway, the monetary value of even a 20% saving by using an LCC is unlikely to appeal to business travelers, except on routes to smaller cities where no alternative exists.

Many companies have simple domestic corporate deals with the big three airline groups (Air China, China Eastern and China Southern). Chinese carriers are not yet tracking market share, so agreements are based on total spend instead. Discounts cover all routes but are usually only offered on full fares, so an airline might agree, for example, a flat 15% saving on all economy Y class fares. Advance-booked public fares are also recognized in deal target spend.

India

India's air network is growing rapidly to support its booming economy and the ambitions of the Modi government. The country's nine scheduled airlines operate around 500 aircraft between them and are all committed to expansion. Domestic capacity increased 16% in the first half of 2017[21], but was still outpaced by an 18.6% rise in demand. There's no sign of an end to this rapid growth. The government aims to treble flights over the next three years, with domestic passenger numbers also projected to treble to 300 million. Four LCCs (IndiGo, SpiceJet, GoAir and AirAsia India) currently account for more than 60% of passengers.[22]

With Mumbai and Delhi airports at capacity, airports like Hyderabad, Bangalore, Ahmedabad, Kolkata, Pune and Lucknow are seeing rapid expansion. The national government wants airline expansion to provide some relief for the country's vast but slow and overcrowded rail network. A regional connectivity scheme came into effect in April 2017, authorizing five airlines to operate on 128 new routes connecting 45 under-served or unserved airports. Fares for half of all seats on these new flights will be capped at INR 2,500 (approximately US$39) per seat per hour.

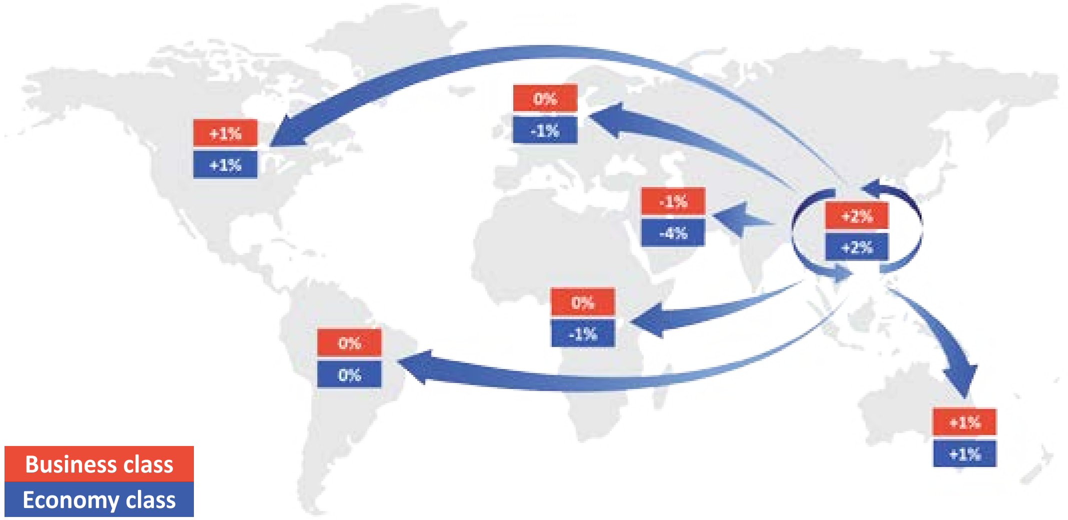
Such strong rates of domestic capacity and demand growth have made fares volatile. Fares fell sharply during 2016, but they have been increasing y-o-y during 2017. Generally, India's airlines have used lower oil prices to allow them to compete aggressively on price.

Both full-service carriers and LCCs offer corporate fares, but they tend to be cost-effective only for bookings made close to departure.

Demand for international flights is growing more modestly, rising by 4% to 6%. Government restrictions on the international operations of Indian airlines mean most travel is indirect. This has made pricing very competitive and has kept fares on international routes flat in 2017.

Airfare forecasts by destination

Average ticket prices % year-over-year



Forecasted year-over-year change in average corporate client airfares (in USD), point of origin Asia.

19 IATA, Air Passenger Market Analysis, May 2017
20 China's Airports Can't Solve The Serious Problem Of Flight Delays – Here's Why, Forbes, June 6, 2017
21 IATA
22 DGCA

Middle Eastern carriers continue to dominate the market, although recent political and security problems may make them less attractive. Indian travelers will also have more local options for overseas travel, as the government enables domestic airlines to bring forward the start of international operations. Several carriers have launched new routes in 2017, with even more to follow later this year and in 2018. LCC SpiceJet and full-service airline Vistara are already exploring the start of their first long-haul flights.

Japan

Supply and demand are both steady. Airlines have not added domestic capacity, partly because Japan Rail's high-speed network serves this market so well and continues to expand. All Nippon Airways (ANA) has added some international routes, like its new daily Tokyo-Mexico City service, but Delta Air Lines has ended its direct New York-Tokyo service. American Airlines and United Airlines are both trying to win more business in the Japanese market, but Japanese business travelers remain reluctant to fly with foreign carriers whose language and service style are different.

Outlook for 2018

Capacity and demand on Chinese domestic routes will expand again. Growth will slow and be more concentrated on Tier 2, 3 and 4 cities. We expect fares to rise by 2%.

International services will continue to grow, with airlines competing to be the first to launch new routes. Demand will also grow, but not fast enough to keep pace with capacity. Fares are likely to fall from China to Europe and the Middle East, but will stay flat or rise slightly to North America and much of Asia Pacific.

Domestic demand in India will continue its strong growth in 2018, possibly rising by as much as a further 15%. But capacity growth is likely to be even higher and will prevent anything more than modest fare increases. We expect domestic fares to be flat in 2018.

On international routes, demand growth will be more measured – up by not more than 5%. AirAsia India and Vistara may launch their first international flights. Jet Airways will introduce more routes, while Air France, Delta, Turkish Airlines and Chinese carriers are all expected to increase their presence. Rising charges, such as airport fees, are likely to push up total ticket prices on some flights. India's new Goods and Services Tax (GST), introduced in July 2017, is having a mixed impact on fares. For economy class tickets, at 5%, GST will be lower than the 5.6% Service Tax it replaces. But for business class, travelers will see the 8.4% Service Tax replaced by GST at 12%.[23]

In Japan, supply will remain stable, but demand will grow, especially as the government promotes foreign direct investment and tourism. Fares will stay flat or rise, especially for flights to China, Europe, the Middle East and Africa, where demand is rising fastest. Domestic airfares should rise by 2%.

Across Asia, the strength of demand will help drive up regional fares by 2% in 2018. Growing competition will ensure that intercontinental business fares do not rise, while economy fares will fall by 1%.

Our recommendations

- Develop a coherent air buying strategy for China. Chinese carriers are starting to collect the information needed to introduce market share clauses from 2018, hoping to improve their negotiating positions.
- Encourage Indian travelers to save money by booking earlier.
- Around one-fifth of tickets booked by Indian travelers are cancelled or re-issued.[24] Raise traveler awareness about the costs of this behavior, and try to negotiate rebooking and cancellation fee waivers.
- Persuade Japanese travelers to use low-cost and foreign carriers. Loyalty to ANA and Japan Airlines is extremely strong, but their prices are typically higher.

Over-capacity in Mumbai and New Delhi

India's two largest airports, Mumbai and Delhi, are not participating in the country's air capacity boom for a simple reason: They are already full. Passengers using the two airports regularly suffer delays caused by air traffic congestion. Business travelers from elsewhere in India prefer to fly via a third point – usually the Middle East – when they travel abroad, rather than connect through Mumbai or New Delhi. Other major airports face similar concerns. The majority of India's 40 largest airports will exceed their designated capacity within 10 years.

The situation should improve. In June 2017, the Indian government approved the building of a second airport for Delhi, with the first runway projected to open within five years.[25] Work has already started on a new airport for Mumbai, scheduled to open by May 2020.[26]

Demonetization moves air payments to card

In November 2016, with little warning, the Indian government withdrew INR 500 and INR 1,000 banknotes as legal tender. This resulted in the removal of 86% of the cash value from circulation in a country where 90% of financial transactions were in cash.[27]

Many payments to travel management companies (TMCs), even for air tickets, were in cash, but that practice ended almost overnight. Around 40% of TMC payments are now by card, with the remaining 60% by check or direct transfer. We expect card usage to move to 60% in 2018, either through corporate or lodge cards (centrally billed accounts). For hotels, payments have moved swiftly from cash to corporate or personal cards.

23 Clear Tax, June 10, 2017
24 BCD analysis
25 Indian government approves New Delhi airport plan, Air Cargo News, June 28, 2017
26 Navi Mumbai airport put on fast track; state to issue letter of intent by July, DNA India, June 6, 2017
27 Why Modi's Demonetization Vision is a sad Case of Myopia, Huffington Post, February 9, 2017

Current situation

China

Both domestic and international brands are opening up new hotels outside the largest cities. Expansion paused in 2013, after a government crackdown on corruption reduced state spending on conferences and business trips. As government business returns, and wider demand continues to grow strongly, hotel openings have resumed.

As a result, supply is expanding even faster than the 10% annual growth in demand, leaving too many rooms in the market, not only in smaller cities but also in Shanghai and Beijing. Demand will catch up with supply in the next few years, but for now rate increases have slowed a little in China. There are some exceptions: Five-star properties in very good locations or with excellent local reputations continue to command high prices, and rapid economic development is keeping rates buoyant in the west of the country.

Rates are soft in five-star hotels in smaller cities with few international visitors, as government employees are still prohibited from staying in high-end hotels. Some properties are trying to get their star rating lowered to regain access to government business.

Chinese brands are strongest in the budget market. They compete mainly on price instead of marketing.

India

There is a critical shortage of hotel beds, with current supply only around two-thirds of what the country needs to meet booming demand. There are enough low-price properties, which are used overwhelmingly by Indian travelers. But there are too few higher-tier branded hotels, although more continue to open. Occupancy in these hotels is very high, even though rates can be twice those in a non-branded hotel.

Rates continue to rise fast in India – typically by 5% to 10% y-o-y. Rate hotspots include Mumbai and Delhi, especially during trade shows and congresses.

However, a massive increase in new hotels has eased the rate pressure in Bangalore. Hotel capacity is also growing fast in Hyderabad.

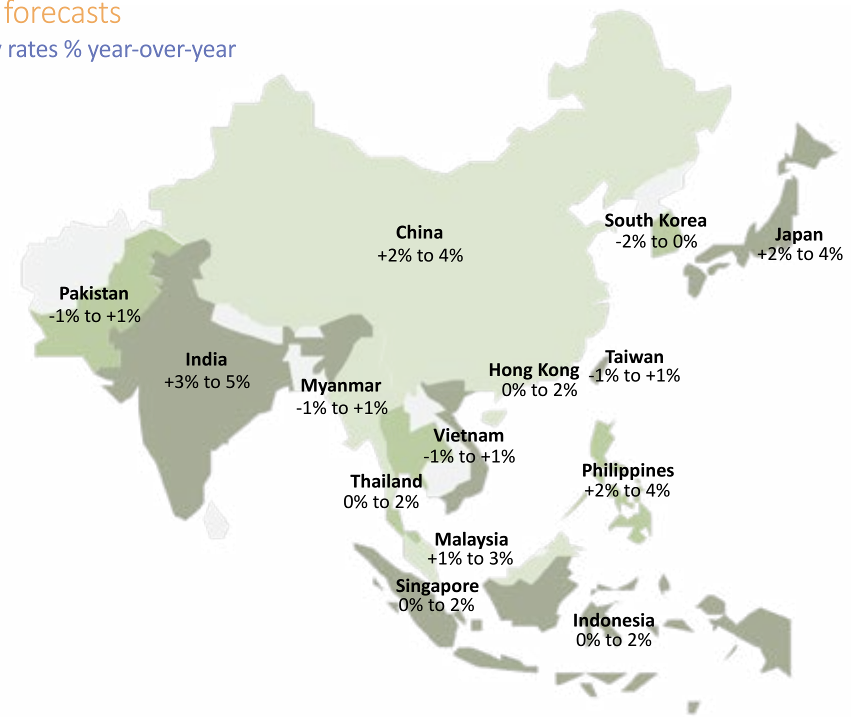
Non-branded hotels could become a more feasible option as aggregators make them easier to compare and book on a single website. OYO claims to operate India's largest hotel network across more than 6,500 properties in 199 cities. Its promise to offer standardized rooms with the same amenities means travelers can expect the same experience wherever they stay in one of OYO's own or partner hotels. Such aggregator websites are making rates more transparent, which is also helping corporates to benchmark prices in their negotiations with suppliers.

Hong Kong

Weaker demand means rates have effectively stayed flat in 2017. Buyers are trying to negotiate lower rates and asking for more complimentary extras, like free Wi-Fi. Hotels are encouraging clients to switch to dynamic rates. Similar market conditions should keep prices flat into 2018, as more properties – especially boutique hotels – are set to open.

Hotel rate forecasts

Average daily rates % year-over-year



Based on hotel rates in local currency.

Japan

Room availability is scarce in Japan, especially in Tokyo and Osaka, because of strong local demand and a surge in visitors from China. Fortunately, supply is growing, but mainly in lower tier properties with rooms that many Western business travelers would consider very small. A typical example is APA Hotel, which is popular with domestic, Chinese and Taiwanese business travelers and has 65 properties in the Tokyo metropolitan area alone. Westerners nearly always choose Western brands, even though their rates can be double those of local chains or independents.

Rates have remained in stable in 2017, but they can fluctuate hugely according to time of year, with prices peaking around public holidays.

Japanese hotel companies do not offer chain-wide corporate discounts. Negotiated agreements with individual hotels are possible, but are only given in return for substantial room night commitments because occupancy levels are so high.

Outlook for 2018

China

The supply boom will continue. Chinese developers are shifting their focus from global to local brands as they target domestic customers. Some of the leading local brands could consolidate in 2018.

Although supply is expanding fast in China and economic growth has slowed a little, there is still enough new demand from both business and leisure travelers to keep rates moving upwards. Overall, rates will climb by 2% to 4%.

Rates may rise more steeply in Shenzhen, a city expanding rapidly thanks to its booming IT sector. Hotels are opening fast, but not quickly enough to meet demand.

India's guest house option

One accommodation alternative for business travelers is guest houses, which are cheaper than branded hotels and offer corporate rates. Guest houses are sometimes owned or leased by companies for their own travelers, or they can be converted houses or apartments let to corporate clients on a long-term basis. Privately owned guest houses are not bookable through a GDS. Instead, the TMC normally books by phone on behalf of the traveler.

Corporate hotel agreements in China

Larger companies – both domestic and foreign – have negotiated deals, but these typically only cover about ten cities. There is definite potential to expand them. One major problem is that last-room availability is very unusual in China. Hotels set aside a maximum number of rooms they will sell each day at the corporate rate on a first come, first served basis. Only the very biggest clients can persuade hotels to guarantee last-room availability.

ADVITO

India

Fast-growing demand from both domestic and foreign visitors will push rates upwards by 3% to 5% in 2018, especially as costs are increasing significantly for hoteliers. On top of this rate increase, hotel guests will also have to pay the Goods and Services Tax (GST) (see box).

Japan

Japanese hotel rates will rise by 2% to 4% in 2018. Expect much bigger rate increases ahead of the Rugby World Cup in 2019 and the Summer Olympics in 2020. Supply will increase, but demand and rates will grow even faster.

Our recommendations

- Concentrate on securing better deals with a smaller number of hotel suppliers in China.
- Encourage travelers to book through official channels, like a TMC. It is the best way to ensure reliable data, as official Chinese government receipts (known as "fa piao") only show total price paid.
- Use your TMC in India to source rates from a variety of branded and non-branded hotels and guest houses.
- Consider deals with non-branded hotels for domestic Indian travelers, making sure to conduct due diligence and use local knowledge.
- Urge travelers to Japan to book early because of high occupancy levels.
- Avoid ultra-high rates in Tokyo by booking hotels outside the city center. Look instead at hotels on main Japan Rail train lines, especially the Tokaido and Yamanote lines, which offer very frequent and fast services to downtown Tokyo.
- Consider booking Japanese economy hotels for business travelers. Although the rooms are small, they are modern, clean and surprisingly comfortable – and rates are much lower.

India's Goods and Services Tax

The GST, which came into effect on 1 July 2017, aims to harmonize a number of local taxes. But it will affect travel budgets significantly.

Hotels
GST does not apply to room rates below INR 1,000 (approximately US$15), but these are not used by business travelers. A 12% GST rate then applies to daily room tariffs up to INR 2,499. The tax rises to 18% for daily room rates between INR 5,000 and INR 7,500. Stays in hotels where the daily rate is above INR 7,500 face a GST of 28%.[28]

Transportation
GST is 5% for economy air tickets and 12% for business class. The rate is 5% for rail tickets.

Dining
GST is 5% in small restaurants and 18% in all other restaurants, including those in luxury hotels.

Companies registered in India for GST can reclaim the tax. Foreign companies which are not registered will be unable to claim GST refunds.

Private accommodations

Regulatory restrictions have held back Airbnb in China, but local competitors Xiaozhu and Tujia are growing fast. Security concerns deter multinational companies from using them, but they are popular with Chinese businesses, especially for salespeople and employees on extended stays in the country's smaller cities, where conventional hotels are in short supply.

Airbnb-type accommodation is gaining popularity among leisure travelers in Japan, but not business travelers. The Japanese government is considering regulatory restrictions and taxation for Airbnb.

28 Booking a hotel after GST rollout? Here's how much you will pay, The Economic Times, June 22, 2017

Current situation

Overall, demand for meetings continues to outpace supply in a region where face-to-face communication is supremely important. Supply is growing in several Asian countries, including India, Indonesia and China, where domestic hotel chains are adding significant event space to fulfil not only corporate but government and consumer demand.

Although companies are organizing more events, they are trying to keep overall costs stable by inviting fewer, better qualified attendees and spending less per head on options such as catering. However, much of the good work on containing costs can be undone by a strong culture in Asia of booking late, making rates much more expensive than they need to be.

Price rises have been strongest in Singapore in 2017. China is more stable, while India has offered good value, mainly due to increased supply.

Outlook for 2018

Rates will not rise dramatically in 2018, thanks mainly to increased competition. There will be some good opportunities for customers prepared to consider destinations they haven't used before.

The main pricing concern in 2018 will be India, where costs may rise because of the new GST. The impact of the highest GST tax band will vary across the country, as a luxury tax already applies in some Indian cities. The new 28% rate will replace a 15% luxury tax in Delhi and 10% in Mumbai. But the increase will be much bigger in states like Andhra Pradesh and Telangana, which had previously charged just a 5% luxury tax.[29]

Singapore, Bangkok and Shanghai will once again be key conference destinations in 2018, thanks to their excellent air connections. Meetings outside China's largest cities will also grow dramatically.

Our recommendations

- Persuade meetings organizers to book earlier, even if it is only for their biggest events.
- Book meetings through TMCs, not directly with hotels. TMCs have more buying power and can negotiate better deals.

29 Economic Times, June 22, 2017

Ride-hailing

Ride-hailing has become big business in China. The market is led by Didi Chuxing, which combined with Uber China in 2016. It has signed direct deals with corporate clients that include an option to pay by monthly invoice. There are other competitors in the market, notably UCAR, which offers a fleet that is owned in-house with licensed drivers. China's top local services firm Meituan has recently added a ride-hailing function to its app, while car maker Geely is expanding its Caocao Zhuanche service to more cities.[32]

India is a similar story. Conventional taxis have rapidly lost market share to the two ride-hailing leaders, Ola and Uber. Ola enables booking and payment for more than 600,000 vehicles across 110 cities in India. It has partnered with Concur to send transaction information to mutual clients. Both Ola and Uber could face competition from the Indian government. It plans to launch its own taxi-booking app, allowing commuters to choose any mode of travel from numerous service providers.[31]

Ride-hailing has had much more limited success in Japan, where it is little used outside central Tokyo and mainly by foreign visitors. One of the many reasons the concept struggles is that Japan remains heavily cash-based, yet ride hailing apps require payment through a registered card.

Rail

China's fast-expanding high-speed rail network, which now connects more than 200 cities, is winning over increasing numbers of business travelers from air. The poor punctuality record of China's airlines is encouraging them to make the switch to rail. It has become an attractive option for business trips up to 800 km. High-speed trains run from city center to city center. They also offer dining cars, good Internet access and no time-consuming security checks. There were some initial safety concerns, but there have been no major accidents for four years, after maximum speeds were lowered to 300 kilometers per hour.

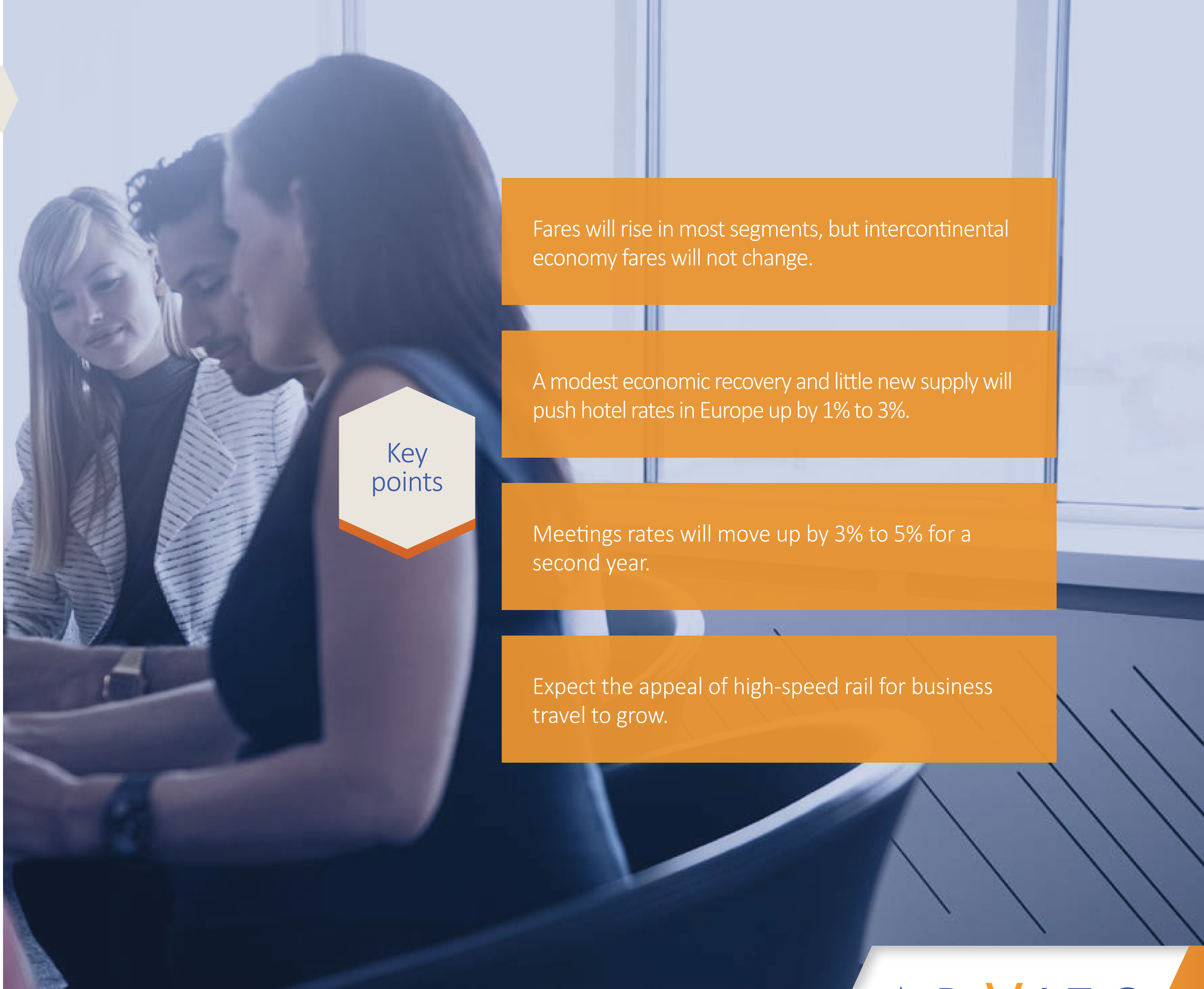
Prices are comparable with air. Chinese high-speed trains offer three classes of service. Business class is nearly twice the cost of first class and nearly all companies mandate travel in first or, more likely, second class.

Rail remains the preferred option for domestic business travel in Japan. The world's first high-speed network continues to expand, with projects under construction or planned for the next three decades. Japan Rail does not offer negotiated discounts for corporate customers. It does offer discounted booklets of 30 tickets on routes like Tokyo-Osaka, but the tickets may only be used by one or two passengers.

India is also beginning to build high-speed rail lines. A Mumbai-Ahmedabad bullet train service is scheduled for completion in 2023.[32]

30 Tech Crunch, March 2, 2017
31 Let the Race begin, Quartz India, July 25, 2017
32 Times of India, May 22, 2017

Europe



Key points

- Fares will rise in most segments, but intercontinental economy fares will not change.
- A modest economic recovery and little new supply will push hotel rates in Europe up by 1% to 3%.
- Meetings rates will move up by 3% to 5% for a second year.
- Expect the appeal of high-speed rail for business travel to grow.

Current situation

The airline business is booming in Europe. Supply rose 6.3% year-over-year (y-o-y) in the first half of 2017, but demand was up even more sharply at 8.8%.[33] Yet fierce competition, especially from low-cost carriers (LCCs) on short-haul routes, continues to ensure that fares are not rising for business travelers.

On long-haul routes, airlines that previously competed with each other are forming joint-ventures, consolidating their operations but using code sharing to give passengers seamless access to a wider range of destinations. Competition has discouraged the joint ventures from exploiting their position. Fares have been kept in check by the rapid expansion of the Gulf carriers and Turkish Airlines, which offer low fares.

However, the one-stop connections they offer in many long-haul markets are now being challenged by Asian and European airlines, using Boeing 787s and Airbus A350s to operate non-stop in smaller markets. Business travelers flying between Europe and Asia often have a choice of flying over the Gulf or paying more to fly direct.

The structure of negotiated fares is changing in Europe. Corporate deals are disappearing fast on short-haul routes but are still available on long-haul routes, where airlines are offering deeper discounts than a year ago. But there are fewer deals, with agreements restricted to clients considered most likely to meet volume or market-share commitments.

Airlines are firmly ruling out discounting the least expensive booking classes, but are showing some willingness to discount the next lowest classes. However, once again airlines are making this kind of concession mainly to clients, which reliably deliver contracted volume or market share on negotiated fares.

Outlook for 2018

The political situation has calmed since 2016's Brexit vote in the U.K. thanks to the election of centrist leaders in the Netherlands and France and a minority parliament in the U.K. The recovery of Europe's economy should therefore remain on track in 2018, or at least until the consequences of the U.K.'s 2019 scheduled exit from the European Union look clearer.

While demand should stay strong, robust competition will prevent fares from rising sharply. On routes within Europe, we expect business class fares to rise by just 1%, while economy fares will increase by 2%. Fares may rise more quickly in countries where a well-established airline collapses or is acquired. Even in these markets, however, only a limited number of monopoly routes would experience significant fare increases.

The outlook for domestic fares across Europe's major markets is varied. Fares should not change in France and the U.K., but should increase by 1% for domestic travel in Germany, Italy and Russia. Continued weak demand will ensure that fares fall by 3% in Turkey.

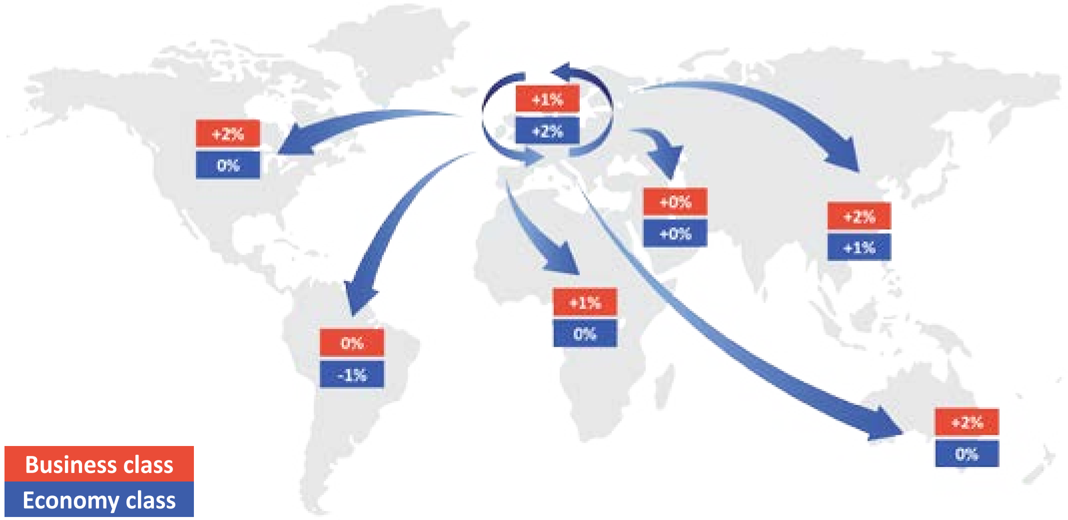
For intercontinental travel, business fares will increase by 2% in 2018, but economy fares should stay flat. On eastbound long-haul routes, various political and security issues could reduce demand on the Gulf carriers and Turkish Airlines, although they may choose to continue unprofitable services to and from Europe rather than ground aircraft. But they are no longer the only challenger competitors in the game. Expect Indian carriers, freed from tight government restrictions, to step up their presence, as well as Chinese airlines, which will continue to expand long-haul services.

On transatlantic routes, Delta Air Lines will combine previously separate joint ventures with Virgin Atlantic and Air France-KLM in a single operation. As the three airlines already co-operate, IAG chief executive Willie Walsh may be correct in thinking that little will change in practice for corporate customers.[34]

Longer term, there may be greater significance in Air France-KLM taking a 31% stake in Virgin Atlantic, with

Airfare forecasts by destination

Average ticket prices % year-over-year



Forecasted year-over-year change in average corporate client airfares (in €EUR), point of origin Europe.

33 IATA
34 BA-owner IAG expects to profit from higher airfares, Reuters, July 28, 2017

49% already owned by Delta. Meanwhile, Delta is buying 10% of the Franco-Dutch group, as is China Eastern. Such cross-shareholdings could be the next step towards forming truly integrated global air groupings.

Our recommendations

- Make a clear decision between a best-fare strategy for long-haul fares or committing fully to negotiated agreements. Don't focus just on sourcing.
- A program that includes total collaboration management (travel alternatives like virtual conferencing), managing traveler behavior and dynamic performance management will help maximize savings.
- Make sure you understand what the General Data Protection Regulation (GDPR) means for you. Knowing what happens to passenger data is no longer a matter of best practice; it's now a statutory requirement.[35]

Italy

Several European airlines, among them Alitalia, are in financial difficulty, and may face closure or sale. A survivor of several rescues and restructurings, Alitalia is up for sale after voluntarily entering administration in May 2017. It should have new owners by October 2017. Ryanair is likely to be among the bidders. As it is already well-established in Italy, with a market-leading 20% share, Ryanair is likely to have little interest in Alitalia's short-haul network beyond a small number of routes from Milan's Linate and Malpensa airports and Rome Fiumicino. But it would be interested in Alitalia's long-haul routes, which it could feed from its existing network. Other airlines, like Lufthansa, are also interested in Alitalia. Or the Italian government could find yet another way of keeping Alitalia flying.

Germany

Another airline in financial difficulty is Air Berlin which filed for insolvency in mid-August, after key shareholder Etihad Airways withdrew its support. A bridging loan from Germany's federal government will keep Air Berlin flying for now. It if ceases operations, fares would rise on domestic routes and on the small number of international routes where it is the sole competitor to Lufthansa (or its low-cost subsidiary Eurowings). Germany's cartel authority, the Bundeskartellamt, will scrutinize any rescue deal to ensure it does not create market distortion.

Long-haul low-cost carriers

The first low-cost services have already appeared on transatlantic routes, operated by carriers like Norwegian, Wow Air and WestJet. They are being joined by new low-cost divisions from full-service airline groups, like IAG's LEVEL and Lufthansa Group's Eurowings. Fares are generally in line with the lowest fares offered by full-service carriers, once ancillary extras are taken into account. There is little evidence to date that these airlines are attracting business travelers.

For now, the biggest impact for corporate travel is that additional competition for incumbent transatlantic carriers is helping to keep fares down. Delta Air Lines cited the new competitive threat as one reason for strengthening its joint-venture partnership and increased cross-shareholdings with Air France-KLM and Virgin Atlantic, announced in July 2017.

Business traveler enthusiasm could grow over the next few years, if the long-haul LCCs get their product and marketing right. Air France's new lower cost unit Joon could be the catalyst, as it will offer a service aimed at millennial travelers on routes that attract both business and leisure passengers.

General Data Protection Regulation

The European Union's General Data Protection Regulation (GDPR) takes effect from May 25, 2018. It harmonizes and reinforces existing rules protecting the personal data of EU citizens. Companies which fail to handle personal data securely, do not report breaches promptly, use personal data for non-approved purposes, or fail to delete personal data when no longer required, can be fined up to 4% of their global turnover.

For managed travel, companies who are the data "controllers" for their employees' data have to ensure their TMC and other suppliers they engage comply with the new data protection obligations.

Travel managers should also look into the requirements for travelers being profiled – enabling them to receive special offers for example – and ensure adequate protection is given to personal data transferred outside the EU.

35 Protection of EU citizens' data is now your domain, Business Travel News, July 19, 2017

Current situation

Demand is moving upwards as most of the region's economies steadily improve. Security remains a concern following terror attacks in the U.K. and elsewhere. The U.K.'s 2019 exit from the EU will have minimal impact other than perhaps to make hoteliers more cautious about the prospects for demand.

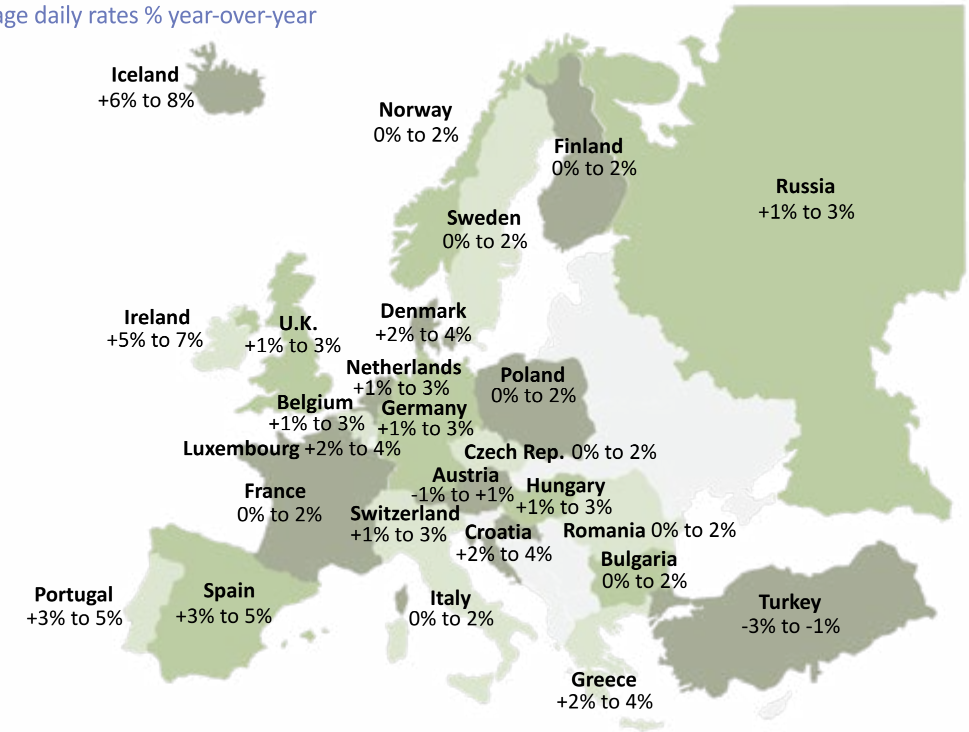
Europe does have some new hotels opening in 2017, mainly in the midscale range. These new properties are more attractive and comfortable, and often better-located, than in the past. As a result, they are attracting cost-conscious business travelers, who might previously have stayed in an upscale hotel.

Increasing competition from midscale hotels may partly explain why hotel negotiations were a little easier in 2017. Hotels were more willing to sign deals and rates went up in line with inflation instead of above it.

However, just as in North America, negotiated rate availability has emerged as a major issue for travel buyers. This problem is not limited to chain hotels. Independent properties are also using yield management tools to limit corporate client access to preferred rates. European buyers need to respond by auditing availability, challenging hotels and considering a move to dynamic rates.

Hotel rate forecasts

Average daily rates % year-over-year



Based on hotel rates in local currency.

European hotel rate winners and losers

Cities where rates are going up:

- Baku – A big recovery as occupancy bounces back.
- St. Petersburg – Low double-digit increases.
- Dublin – A booming economy has pushed rates up 6%.
- Barcelona and Madrid – High occupancies thanks to stronger demand for business, meetings and leisure.
- Brussels – Rates recovering after terror attacks of 2016.
- Anywhere visited by British business travelers – Hotels are more expensive due to the fall in the value of the British currency following the Brexit vote.

Where rates are going down:

- U.K. – Rates aren't down in local currency but its weakness makes hotels much more affordable for foreign business travelers.
- Istanbul – Security and political problems have depressed rates by 25%.

36 BA-owner IAG expects to profit from higher airfares, Reuters, July 28, 2017

37 Protection of EU citizens' data is now your domain, Business Travel News, July 19, 2017

Outlook for 2018

Across Europe, we expect average daily rates (ADRs) to increase by 1% to 3%. ADRs will generally rise in line with inflation, or higher in cities with strong economic growth, such as Dublin and Barcelona. The corporate rate availability issue will intensify as more hotels improve their inventory management. Business travelers will save money by staying in newly opened or refurbished high-quality midscale hotels.

Our recommendations

- Only negotiate complimentary "extras" with hotels where they are really needed. Most hotels now offer free Wi-Fi anyway and your travelers may not require breakfast at the hotel.
- Understand how much volume a hotel wants from you. Some properties may look for a significant increase in commitment, but others will be wary of committing to too much corporate business.

Airbnb

Airbnb is less popular with business travelers in Europe than it is in North America. European travel managers tolerate the use of Airbnb, even though they do not encourage it actively. Some are investigating ways to incorporate it into their programs, but are still concerned about security and service.

Europe
Meetings

Current situation

Demand for meetings in Europe has strengthened significantly over the past two years. While incentive trips have not regained their popularity, there has been a surge in events for both internal and external audiences. Companies are staging more of these meetings within Europe, mainly to save time and cost.

The problem is that supply is not growing. Few new hotels feature meetings space. In fact, there's arguably less supply, as safety concerns and political uncertainty have severely damaged the appeal of Turkey and Russia as meetings destinations, despite a rapid expansion of facilities in these countries. Business has switched from Turkey and Russia to southern European destinations – Greece, Italy, France and Spain.

With supply static and demand rising, rates have increased by 3% to 5% this year. This presents a problem for buyers whose budgets have not increased as quickly.

The relationships hotels have with online travel agencies (OTAs) are also helping to support higher rates. European buyers typically booked meetings early and renegotiated a better price nearer to the event. Today, hotels know they can easily capture last-minute business through OTAs, so they are refusing to lower the originally agreed rate.

Outlook for 2018

Barring political, economic or security shocks, continuing strong demand and insufficient new supply will push prices up at least 3% to 5% again in 2018. Buyers will have to think more creatively to keep costs down.

Our recommendations

- Consider second-tier destinations, which often offer lower prices and better availability than larger cities. You may need to use more than one hotel to accommodate all meetings attendees in smaller destinations.
- Persuade individual properties or chains to give you better deals by locking in repeat business.
- Negotiate meetings with hotels where you already have a preferred relationship for your regular business travelers.

ADVITO

Car rental

Enterprise's European expansion continues, recently adding Armenia and Georgia to its network. Since 2012, it has expanded from the U.K., Ireland and Germany to 40 countries throughout Europe and the Middle East.

Europcar is also investing in its European operations, with acquisitions of franchisees GoCar in Ireland, Europcar Denmark, as well as Buchbinder in Germany and fast-growing budget operator Goldcar.

Ride-hailing

Taxi operators are fighting back against Uber and other ride-hailing services. Daimler Benz-owned taxi-hailing app Mytaxi has merged with UK-licensed taxi hailing app Hailo to create Europe's largest smartphone-based taxi-hailing company. Uber is thriving in most parts of Europe, commanding substantial business from corporate as well as leisure travelers. However, it continues to face opposition and partial or total bans in many markets, including Bulgaria, Denmark, Hungary, Italy[36] and Germany.[37] And there have been suggestions that Uber drivers in the London market are conspiring to artificially create surge periods, allowing them to charge higher prices more frequently.[38]

Chinese ride-hailing app Didi Chuxing, which is emerging as Uber's main global rival, has enhanced its presence in the European market with an investment and strategic partnership with Taxify.[39] The Estonia-based company currently operates in 14 European countries, largely in Eastern Europe, but also including the U.K.

Rail

The expansion of France's high-speed rail network has continued with the opening of two more lines in July 2017. This has cut the journey time between Paris and Bordeaux by 70 minutes to 2 hours 4 minutes. Passengers can now also travel between Paris and Rennes in just 90 minutes. Although rail is likely to capture market share from Air France on these routes, the extension of France's high-speed network to less busy markets means passenger traffic is failing to keep up with the new capacity. In response, the country's main high-speed rail service, TGV, aims to offer a more business travel-friendly experience, with more reliable Wi-Fi and customized service onboard its new trains. Rebranded inOui, services will initially appear on the Paris-Bordeaux and Paris-Lyon routes during 2017, and will be rolled out across the network by 2020.

Eurostar, which mainly operates London-Paris and London-Brussels, is thriving. Business travel passengers rose 5% in the first half of 2017. Eurostar also hopes to launch a London to Rotterdam (3 hours 15 minutes) and Amsterdam (4 hours) service by the end of 2017.

36 Where Uber Is Banned Around the World, Condé Nast Traveler, April 20, 2017
37 Uber Germany retreats to Berlin, Munich, Reuters, October 30, 2015
38 Uber drivers “working together to drive up prices”, Evening Standard, August 2, 2017
39 Didi adds another piece to its global jigsaw, tnooz, August 2, 2017

Latin America

NOTE: Mexico is covered as part of North America

Key points

Expect most fares to decrease, except those for intercontinental business travel, which will be unchanged.

Local currency hotel rates will increase by 2% to 4% across the region. But expect a much stronger rate rise in Argentina due to currency fluctuations.

Ride-hailing competition will intensify, as Brazil’s largest ride-hailing service, 99, benefits from a strategic partnership with China’s Didi Chuxing.

ADVITO

Current situation

Latin America's air travel market is staging a slow recovery. After modest growth of 3.6% in 2016, strong international demand across the region has propelled the figure to 6.6% year-over-year (y-o-y) during the first six months of 2017.[40] The Brazilian market, which suffered a 6% slump in domestic demand in 2016 has seen a more fragile recovery, with domestic airline traffic up just 1% so far this year.

Brazil dominates the Latin American economy and its air travel market. While the Brazilian economy should expand in 2017 after a two-year recession, political instability and corruption continue to cloud its outlook. A stronger Brazilian economy is key to promoting a regional revival, as Chile and Peru look to recover from downturns in their mining sectors, and Colombia's economic growth fails to meet expectations.[41]

Many routes still have too many flights for current demand – and that's in spite of seat capacity in the Brazil-U.S. market still being 19% lower than its 2015 peak. Across the region, local carriers like LATAM, Aerolineas Argentinas and Avianca have all resumed international services. U.S. carriers are restoring some services too, like United Airlines' resumption of Newark-Buenos Aires flights.

The region's leading carriers still have a number of challenges to address.

- Though slow, the co-ordinated introduction of unbundled domestic fares in six markets in response to the threat from low-cost carriers (LCCs) shows the group is making some progress towards integration.
- Colombian carrier Avianca is beset by financial problems and a legal dispute among key shareholders. Its fortunes could improve considerably if it finalizes a 10-year joint-venture with United Airlines, but the deal could take a year or more to clear regulatory hurdles.
- Aerolineas Argentinas faces a significant increase in competition in its home market, as the Argentine government permits new entrants like LCC start-up FlyBondi.

The deep discounts airlines were offering in 2016 have now largely ended, but while average fares have risen significantly this year, they are still much lower than in other regions. Return tickets from Brazil to the U.S. can start from US$250 in economy and $900 in business class.

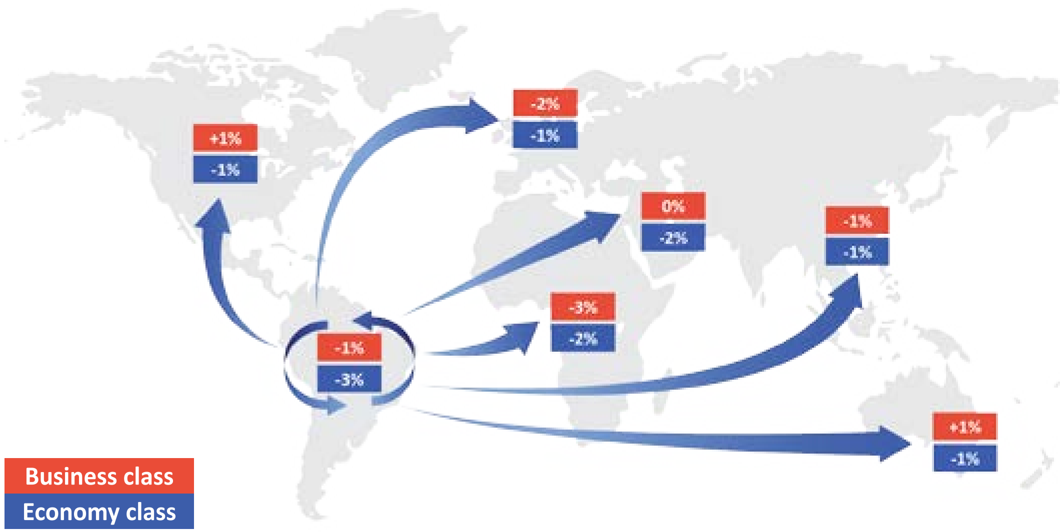
Outlook for 2018

The recovery of the Latin American market will continue in 2018, but fragile confidence and weak demand will ensure that fares fall. For regional travel, we expect them to be 1% lower in business class, and 3% lower in economy. Intercontinental economy fares will also fall 1%, but business fares should be flat.

Airlines based outside Latin America will offer competitive deals. The region's major carriers have yet

Airfare forecasts by destination

Average ticket prices % year-over-year



Forecasted year-over-year change in average corporate client airfares (in USD), point of origin Latin America.

40 IATA, Air Passenger Market Analysis, June 2017
41 Finance Colombia, July 12, 2017

to integrate enough to offer corporate clients group-wide agreements, and their weak profitability prevents them from offering significant discounts.

Expect airlines in Brazil to unbundle fares and start charging for more of their services. Latin American carriers have been slower than others to introduce ancillary fees, but Brazil's civil aviation regulator has recently allowed the country's airlines to start charging for checked bags for the first time.

Recovering demand will enable airlines to increase domestic fares in Argentina and Brazil by 3% in 2018. But they should fall by 1% in Chile, as the launch of Jetsmart adds to existing LCC competition.

Our recommendations

- Monitor the market for opportunities to secure excellent deals as carriers introduce more flights in a recovering, but fragile market.
- Establish relationships with LCCs in the region and understand how they can fit your strategy. As travelers prefer some budget airlines over others, it's important to be aware of their preferences.

North American tie-ups

The three largest U.S. full-service carriers are developing relationships with Latin American counterparts. United Airlines has forged strong links with Copa Airlines of Panama, but it has struggled to make progress with Brazilian LCC Azul, which until recently avoided distribution through the global distribution systems (GDSs). Azul has launched services to New York and Orlando.

Another Brazilian LCC, GOL, will soon start GDS distribution as part of its deepening ties with Delta. The U.S.remains its preferred partner as part of the Star Alliance.

LATAM Group has faced some resistance from the travel industry and corporate clients over tie-ups with BA/Iberia and American Airlines. Brazilian regulators have approved a joint-venture with BA/Iberia owner IAG, though LATAM will have to surrender some airport slots to competitors. Approval is still required in Chile. American has a challenging relationship with LATAM, which often sees itself more as a competitor than a partner. But their joint-venture has been approved in Colombia and Uruguay, though not yet in Chile, Brazil or the U.S. If these joint-ventures secure immunity, they will control 82% of the market in Chile, which could push up fares.

Latin America

Hotel

Current situation

Demand is improving after a difficult 2016. Although political concerns are affecting business confidence in Brazil, hotel bookings are slowly returning in Peru, Chile, Colombia, Costa Rica and even Argentina. However, properties in markets dependent on natural resources are struggling, and Venezuela is in deep economic and political turmoil, with very little business travel to or from the country.

Overall, occupancy is 10% lower than in other regions, yet, paradoxically, travelers can have difficulties finding availability in international hotels. Supply is increasing as hotel developments commissioned during the boom years at the beginning of the decade finally open. The increase in rooms is dampening price rises, mainly in Brazil, but also to a lesser extent in Chile. There is more supply due in Brazil, especially in Sao Paulo. A couple of new hotels have opened in Lima, Bogotá and Santiago.

In spite of the new supply, there has been a mild increase in rates so far this year. But a 1.5% rise will do little to offset the severe rate reductions of the past two years.

Negotiations are usually conducted with individual hotels rather than chain-wide. The best rates may often be found by approaching the hotel directly. This poses a problem for businesses, which need a managed program to provide data for negotiations and duty of care.

Outlook for 2018

Demand will strengthen in 2018, as long as the economic recovery continues. Across Latin America, we expect rates in local currency to increase by 2% to 4%, but they could rise by as much as 25% to 30% in Argentina, because of the inflationary effects of currency devaluation.

Across the rest of the region, rate increases will be more modest; typically not higher than 3%. But they could be higher, if the Brazilian economy recovers more quickly than expected. There's likely to be more consolidation involving regional chains, either through acquisition or partnerships with large global chains, like Wyndham's recent acquisition of Fen Hotels. International brands are also likely to increase their presence in secondary and tertiary cities, where they are significantly under-represented.

Expect 2018 to present a big opportunity to switch to more efficient payment methods for hotel stays, such as virtual credit cards. Conferma is increasing the use of virtual cards in Latin America and corporate cards are on the increase too.

Hotel rate forecasts

Average daily rates % year-over-year

Based on hotel rates in local currency.

Our recommendations

- Be prepared to be flexible in order to find the best rates in Latin America. Include a combination of globally and locally negotiated rates, but also allow spot buying where contacting hotels directly offers the best price.

Ride-hailing

Car rental is not as popular with business travelers in Latin America as it is in regions like North America and Europe. Together with poor public transportation options and widespread smartphone usage, this has made the region fertile ground for ride-hailing.

But users in Brazil will face higher charges if the country's Senate approves a bill requiring Uber and other transportation apps to be authorized by municipal governments.[42] They may require ride-hailing companies to pay taxes, provide insurance for passengers and offer pension benefits to drivers. Ride-hailing companies may find it difficult to fully pass on these extra costs to passengers, as competition intensifies. China's biggest ride-hailing company, Didi Chuxing, has moved into the market through a strategic partnership with local operator 99.[43] It may use 99 as the platform from which to launch into other Latin American markets.

Uber is also facing troubles in Argentina. In 2016, after violating local transportation and labor standards, a Buenos Aires court ordered Uber to stop operating in the city.[44] An appeals court is now considering a nationwide ban on Uber services.[45]

Opposition to Uber is also growing in Colombia, where taxi drivers have staged a nationwide protest, demanding that local mayors enforce a law prohibiting unlicensed taxi services, which they claim applies to Uber.[46]

42 Associated Press, April 5, 2017
46 Financial Times, January 5, 2017
44 Reuters, January 30, 2017
45 CNN Tech, January 30, 2017
46 Finance Colombia, May 10, 2017

Middle East

Key points

- Strong demand will drive a 1% increase in regional business fares but other airfares will not change in 2018.
- Hotel rate changes will range between 0% and 2%.
- The introduction of VAT in the GCC countries could increase travel costs by a further 5%.
- Careem is the region's leading ride-hailing company, offering a service tailored to the needs of the Middle Eastern market.

Current situation

2017 has been a challenging year for Middle Eastern airlines. After more than a decade of relentless growth, the region's three largest carriers have hit their first patch of turbulence. Emirates is restructuring after a 75% slump in profits; Etihad Airways is in the middle of a strategic review of its operation after posting heavy losses in 2016; and Qatar Airways has had to deal with airspace restrictions imposed due to political conflict.

The year started well, with total traffic for Middle Eastern airlines increasing by more than 9% year-over-year (y-o-y) in the first three months, as the three Gulf carriers continued to open new destinations and add frequencies on existing routes.

Then, in March, the U.S. Department of Homeland Security banned passengers from carrying large electronic devices onboard flights from 10 airports in the Middle East and Africa. As a result, passenger traffic from the Middle East to the U.S. dipped 1.2% in April, only the second y-o-y fall this decade. During the first half of 2017, this traffic grew by just 2%.

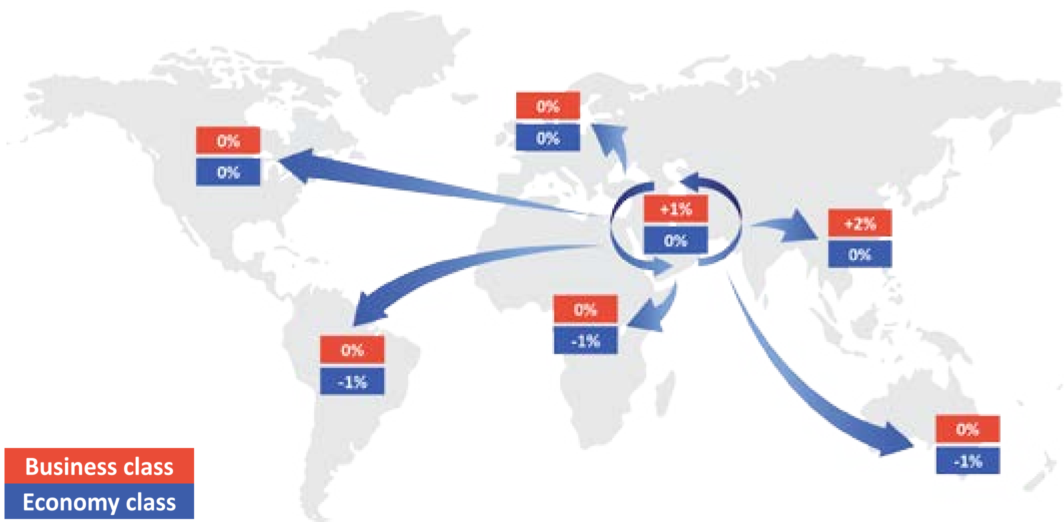
The 2.1% rise in traffic to all destinations the Middle Eastern airlines recorded in June was close to an eight-year low.[47] Unable to adjust capacity quickly enough, passenger load factors are now falling.

Traffic has been further affected by Gulf Cooperation Council (GCC) member countries cutting diplomatic links with Qatar in a row over alleged funding of religious militant groups. As part of this action, Saudi Arabia, the U.A.E., Bahrain and Egypt have also closed their airspace to flights to and from Qatar. This has had limited effect on flight times from Qatar to Europe and Asia, but routes to Africa, especially to northern destinations, have been hit severely by the closure of Saudi airspace: Doha-Khartoum flight times have almost doubled to six hours.[48]

The big three Gulf carriers, and Emirates in particular, have already reduced flights to the U.S . Though the U.S. government lifted its electronics ban in July 2017, the carriers may choose to shift capacity to the Far East, and to China in particular rather than restoring the suspended services. They may also adjust capacity by slowing aircraft deliveries, although Qatar's transport minister has refuted this option.[49] A number of the 24 new routes Qatar Airways was planning to open by the end of 2018 could be at risk, as the airline deals with an expected drop in revenues caused by the diplomatic dispute with its neighbors.[50] Unsurprisingly, over-capacity and a slowdown in demand growth have weakened pricing considerably, both for travel within the Middle East and farther afield. Cheaper tactical fares are encouraging travelers to book outside their managed program. Airlines are not counting these best-on-day fare purchases towards corporate deal targets.

Airfare forecasts by destination

Average ticket prices % year-over-year



Forecasted year-over-year change in average corporate client airfares (in USD), point of origin Middle East.

Saudi Arabia

Capacity is growing fast in the Saudi market. To meet increasing demand for air travel, the Saudi authorities have allowed some new entrants to the market. Full-service airline Saudi Gulf launched in 2016. Low-cost carrier Flynas is also expanding, not only domestically but internationally, and could become a significant player. Saudi-owned Nesma Airlines launched in Egypt in 2010 and is now expanding in its parent company's home market. Despite these extra seats, demand is so strong that we still expect domestic fares to rise by 2% in 2018.

47 IATA
48 The Blockade of Qatar Airways' Home Base Is Trouble for the World's No 1 Airline, Bloomberg Businessweek, July 20, 2017
49 Qatar Airways Sticks to Jet Orders Despite Crisis, Official Says, Bloomberg, July 27, 2017
50 The Blockade of Qatar Airways' Home Base, op. cit.

Outlook for 2018

Much depends on whether Qatar and its neighbors settle their differences, whether Middle Eastern carriers face any new challenges when flying to the U.S. and whether the price of oil and gas, on which the Gulf economies depend so heavily, moves higher. Whatever the outcomes of these issues, it is difficult to see anything other than over-capacity continuing to define the Middle East market. For this reason, we expect most fares will not change in 2018, although strong local travel demand should support a 1% rise in regional business fares.

Our recommendations

- Monitor this fast-changing market closely. Make sure your travelers have access to discount offers as well as corporate fares.
- Convince carriers to include discounted fares in addition to negotiated fares in deal targets.
- Track geo-political developments to understand how they might affect the security and convenience of your travelers; both those based within the region and those flying to it.

Current situation

Hotels in most GCC states enjoyed a positive start to 2017. Kuwait, where rates had been weak in 2016, was among the better performing markets. It is too early to say what effect the Qatari diplomatic crisis is having. Prior to it, demand in the region had been running ahead of supply, resulting in a strong rise in occupancy.

There are 160,000 rooms in 583 hotels either being built or in the confirmed planning stage in the Middle East.[51] Hotel construction is concentrated in Saudi Arabia and Dubai. Until recently, hotel supply in the region, and especially in the U.A.E., had been dominated by luxury properties. But there has been growing demand from business as well as leisure travelers for mid-to-lower tier, more reasonably priced accommodation. Economy-to-upper midscale properties (such as the Centro brand from hotel group Rotana) are now opening across the region. Demand for them is very strong, while it has fallen slightly for luxury accommodation.

Hotel rate forecasts

Average daily rates % year-over-year

Based on hotel rates in local currency.

Outlook for 2018

Even if demand stays strong, substantial new supply matched with heightened political and economic worries will weigh down on rates in 2018. Prices are likely to stay flat or rise by 2% at most, unless oil prices recover significantly, in which case they could go up more. Rates are likely to fall in Qatar, unless its external relations improve.

Our recommendations

- Policy leakage persists in this region, partly because bookings are often still made over the phone by travel assistants. Provide the support these assistants need to adopt official booking processes.

Iran

Business travel to Iran continues to grow following the easing of sanctions in 2015. European carriers Lufthansa, British Airways, Air France-KLM, Austrian Airlines and Alitalia have all returned to Tehran, and Austrian is also flying to secondary cities like Isfahan and Shiraz.

Accommodation options are improving too. AccorHotels, Melia and Rotana are all active in the Iranian market, responding to forecasts that visitor numbers will rocket from 5 million today to 20 million by 2025. However, big U.S. air and hotel brands have not yet made moves to enter the market.

Gulf states introducing VAT

All six Gulf Cooperation Council states – Saudi Arabia, U.A.E., Kuwait, Bahrain, Oman and Qatar- are scheduled to introduce value-added tax (VAT) in 2018, as they seek to reduce their governments' reliance on oil revenues. It's unclear what impact the Qatari crisis might have on this initiative. VAT will initially be set at 5%, but it could rise over the coming years. Hotels may choose to absorb some or all of the new tax, or may simply raise their prices by 5%.

The introduction of VAT should speed the introduction of automated expense management in the region. However, managing the change could be difficult. Per diem arrangements are the norm in the Gulf and attempts to switch to transparent reporting and reclaiming of expenses could meet resistance.[52]

51 Hospitality.net, July 13, 2017
52 Introducing VAT in Gulf States Is Likely to Raise Prices & Speed Expense Automation, Business Travel News, May 25, 2017

Ride-hailing

Careem is the biggest ride-hailing player in the U.A.E. and is expanding elsewhere in the Middle East. It has tailored its services to the needs of the market. This means it's able to address specific regional challenges, including dealing with local payment infrastructure and accommodating cultural attitudes towards women driving and traveling alone.[53] Careem is Uber's biggest rival in more than 50 cities across the Middle East and North Africa[54]. A recent investment by Daimler Benz should help it tap into the automobile giant's technology, especially self-driving cars, and ensure it remains a serious contender in the ride-hailing market.

Careem has also attracted an undisclosed investment from Chinese ride-sharing company Didi Chuxing, as part of its strategy to establish a global presence to challenge Uber.[55] Didi Chuxing's AI capabilities, insight and expertise will help Careem as it enters its next phase of growth.

Rail

After a year's delay, Saudi's first high-speed rail service, a 444 kilometer route taking in Makkah, Jeddah and Madinah, is expected to open partially in late 2017 and be fully operational in March 2018.

Qatar has signed a memorandum of understanding with China to build a high-speed line connecting the country to Bahrain in 40 minutes and Kuwait in two hours. It was eventually due to expand all other GCC countries. How this project will be affected by the present diplomatic crisis is unclear.

53 Mashable UK, June 17, 2017
54 Careem, March 2017
55 Tech Crunch, August 7, 2017

Key points

While intercontinental economy fares will stay flat, all other fares will increase by 1%.

Hotel prices will rise 2% to 4%. Corporate rate non-availability will become a major issue.

Meetings rates will increase 3% to 4%. Availability will be a severe challenge.

Corporate car rental rates will rise for the first time in many years; by as much as 5%.

ADVITO

Current situation

Demand for business air travel in the U.S. has grown slowly but steadily in 2017 in spite of a volatile political situation. But supply is also increasing, and this has kept fares from rising.

On domestic routes, the big three legacy carriers (American Airlines, Delta Air Lines and United Airlines) and Southwest Airlines are all expanding their fleets. United is leading the way, abandoning a three-year strategy of non-expansion to grow capacity by 2.5% to 3.5% year-over-year (y-o-y) during 2017, in order to recover market share.[56]

Business travelers are benefiting from additional flights on existing routes and new routes from key hubs. Much of the expansion is in western states. United is growing fast in Denver and San Francisco and all carriers are adding services to Los Angeles.

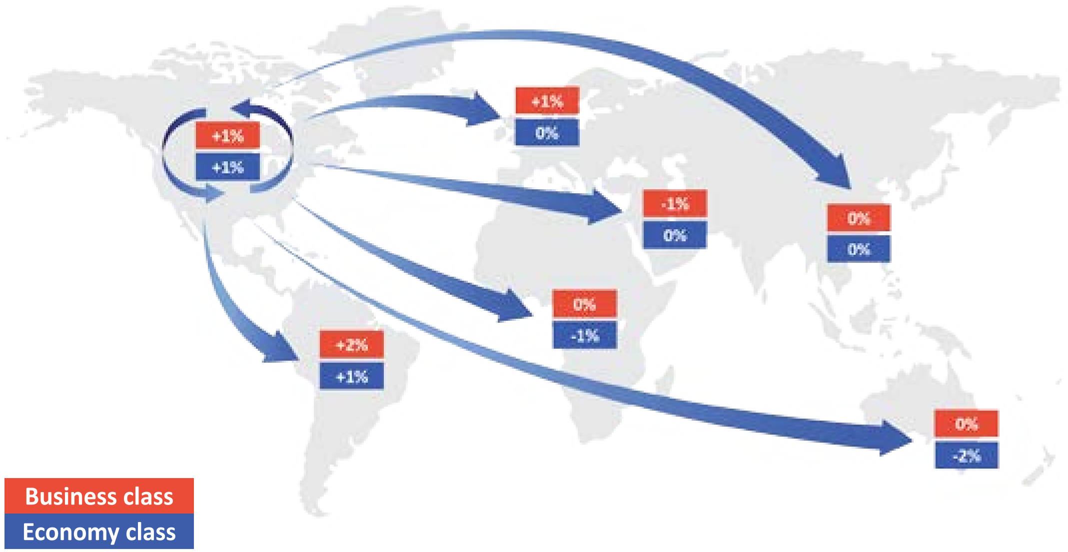
The big three legacy carriers are also responding to passenger feedback by replacing 50-seater regional jets with larger aircraft. They are redeploying the 50-seaters to relaunch service in smaller markets.

On international routes, non-U.S. carriers continue to add capacity to the region, attracted by high passenger load factors.[57] However, the Gulf carriers and Turkish Airlines were most exposed to the temporary restrictions on onboard electronic devices. Amid a fall in bookings, these airlines are cutting some services. Emirates has reduced service on five of its 12 U.S. routes. Demand was already lower than expected before the ban. The prospect of less financial support from their government owners is encouraging Gulf carriers to adopt a more commercially rational approach to network and capacity decisions.

Prices on both domestic and international routes have been flat or have fallen slightly because of increased capacity. Airlines accept this for now, as low oil prices are keeping profit margins strong. And in an uncertain economic and political environment, carriers fear demand could fall

Airfare forecasts by destination

Average ticket prices % year-over-year



Forecasted year-over-year change in average corporate client airfares (in USD), point of origin North America.

Basic economy fares

The big three legacy U.S. airlines have introduced basic economy fares on routes where they compete with ultra-low cost carriers like Spirit. These rock-bottom fares, which are non-refundable and include no frills whatsoever, are aimed squarely at leisure travelers, but some companies are buying them for business travel too. The downside is that corporate travelers are unaccustomed to frills-free service on mainstream carriers (even though they accept it on a low-cost carrier) and this is causing some resentment. Travel managers can choose to block basic economy fares but should prepare for possible complaints if they allow travelers to book them.

56 United Airlines, Q2 2017 results presentation
57 IATA

away if they raise fares sharply. The big three also know they risk encouraging low-cost carrier (LCC) competition on any route they price too highly.

As a result, pricing is under pressure on almost all intercontinental routes. Buyers can negotiate excellent discounts and use their international spend as leverage for better domestic fares too. As was the case last year, competition is particularly intense between the American Airlines/British Airways and Delta Air Lines/Virgin Atlantic joint ventures, particularly on routes between the U.S. and London.

Expansion by North American carriers in 2014 and 2015 means many transpacific markets are now over-supplied. With little sign of any capacity cuts, airlines find it very difficult to raise fares.

On international routes, average fares have remained flat or fallen slightly because airlines are moving more seats into lower fare classes. Average fares are falling fastest on transpacific routes, although Gulf carriers are also cutting prices because of their specific problems.

Carriers are discounting more aggressively, especially for clients they are confident will reliably deliver business to them. There are especially good opportunities in the U.S.-U.K. market, where competition remains fierce. Customers able to give U.S. carriers both domestic and international business are also winning particularly attractive deals.

Corporate recognition programs

Delta Air Lines has, for some time, operated a corporate recognition program which standardizes the benefits offered to corporate clients. American Airlines may soon launch something similar.

These schemes offer complimentary service benefits to all of a corporate client's employees, whether they are members of the airline's loyalty program or not. Benefits include higher priority when boarding, protection from offloading from overbooked flights and priority rebooking following disruption. Corporate recognition programs can reduce stress for travelers at no extra cost to their employers.

Canada

Air Canada has expanded aggressively in 2017. It is adding destinations as remote as Australia and launching more routes from U.S. cities to feed long-haul connections in Toronto and Vancouver. Flying via Canada is proving popular with U.S. travelers because on return they clear customs in Canada before taking an onward "domestic" flight to their home destination.

Air Canada's ambitious strategy has disappointed some of its partner airlines, because the additional capacity is softening pricing on some mutual joint-venture routes. However, Air Canada itself faces increased international competition from WestJet, which has launched transatlantic services from Toronto, Vancouver and Calgary to London, and is promising more to come.

Strong competition from WestJet within Canada will limit domestic fare increases in 2018 to 1%.

Mexico

Increasing competition from LCCs is preventing leading Mexican airline Aeroméxico from increasing fares. LCC competitors include Interjet, which has proved popular with business travelers, and Volaris. That's just one reason why 2018 will be a buyer's market, and we are forecasting a 2% drop in domestic fares. Open skies deregulation with the U.S., expansion of cross-border services by Southwest Airlines and the development of a joint venture between Delta Air Lines and Aeroméxico will limit increases in international fares.

Outlook for 2018

Political and economic uncertainty will limit airlines to modest fare increases of 1% at best in 2018, even if demand continues to rise. And we expect intercontinental economy fares to stay flat. However, carriers may assign fewer seats to lower fare classes, and this could push up average ticket prices (ATPs).

Domestic capacity plans of the major airlines will also impact fares. If American, Delta or United adds capacity in pursuit of market share gains, fares could fall. Our current outlook suggests a 1% rise in U.S. domestic fares.

Extra capacity already looks likely on international routes, with foreign carriers (other than the Gulf airlines) planning expansion. Chinese carriers will set the pace and the first LCCs in the transatlantic market, such as Norwegian, may begin to attract business travelers. Fare rises on overseas routes therefore look very unlikely, except to Latin America, where prices will recover from their current low levels as the region's economies slowly improve, and for business class fares to Europe and economy class travel to Southwest Pacific.

Our recommendations

- Understand your North American travel patterns to identify the airlines that best satisfy your needs.
- Negotiate with different partners in the same joint-venture on foreign routes.
- Challenge joint-ventures on service consistency. If your travelers are not getting the same service benefits (free baggage or early boarding for example) across partner airlines, call them out on it.
- Keep monitoring and changing. Don't wait for the next renewal before making deal adjustments if the market changes.
- Be prepared to ask for a deal. Airlines are swinging back towards valuing corporate relationships and may make agreements where previously they were uninterested.

Will JetBlue go transatlantic?

U.S. carrier JetBlue Airways has signaled it may finally enter the transatlantic market, using the Airbus A321 aircraft it has on order.[58] A good reputation in the U.S. corporate market could make JetBlue a popular alternative choice for business travelers and travel buyers. However, the airline would have to work hard to win new clients based in Europe, where brand recognition is low. The potential transatlantic debut of JetBlue demonstrates how narrow-bodied aircraft are reducing the cost of entry into long-haul markets, and offering attractive pricing for customers too.

U.S.-India

India is the biggest onward market served by Gulf carriers from the U.S.; especially important for the IT sector. The onboard electronics ban from March-June 2017 led some corporate clients to switch to European carriers. The big winner has been British Airways (Lufthansa and others had previously scaled back their Indian networks). The Gulf carriers have cut fares to retain market share, but European airlines are holding their prices firm as they sense an opportunity.

58 JetlBlue eye transatlantic premium market, Air Transport World, June 6, 2017, for example.

Current situation

Hotels have opened throughout the U.S. over the past year, especially in the midscale and upscale tiers. Demand has been steady but not spectacular.

Corporate rates have continued to rise, but the rate of growth has slowed during 2017 as hotels fear political volatility could hit guest numbers, especially from overseas. Rate growth has softened in cities including Chicago, San Diego, Dallas, Boston and Washington D.C. Average daily rates (ADRs) in Los Angeles have fallen slightly.

Pricing movements are just one piece of the U.S. hotel story that buyers have to deal with. Just as important is the growing trend of corporate clients being unable to access the room rates they have negotiated.

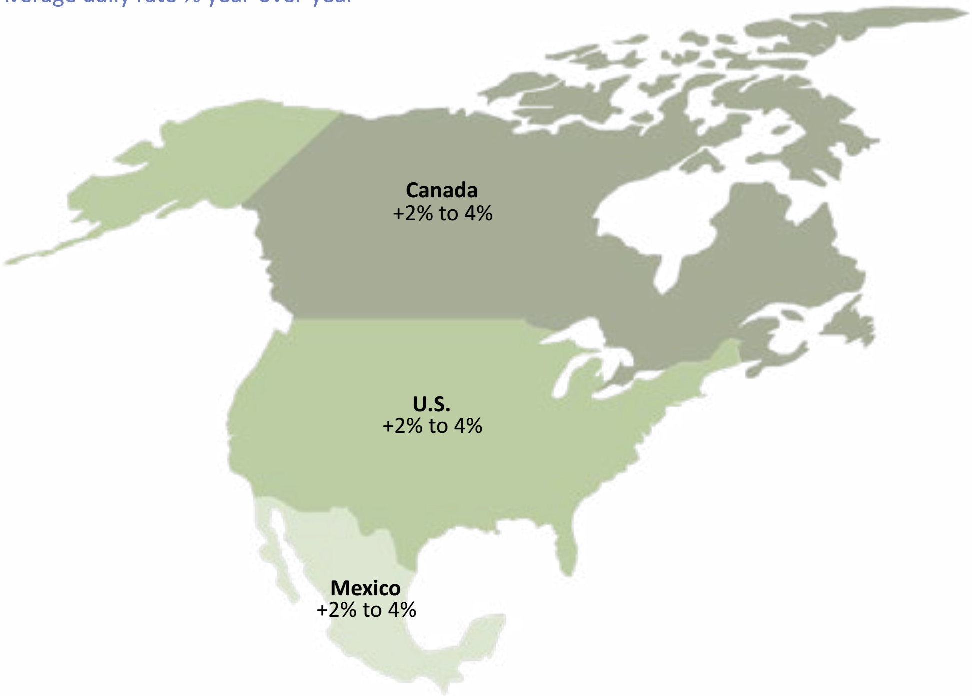
It is no longer enough for buyers to engage annually with preferred hotels during the negotiating round. The relationship needs to be monitored and managed throughout the year.

Outlook for 2018

U.S. businesses will remain cautious in their travel planning for 2018. So while the big chains, led by Marriott, will publicly be aggressive about wanting to push up rates as much as 7% to 8%, the reality will be very different. Rate rises are likely, but will be limited by fragile business confidence and more hotel openings to a range of 2% to 4%. Hotels may respond by reducing further the availability of preferred rates.

Hotel rate forecasts

Average daily rate % year-over-year



Based on hotel rates in local currency.

Direct marketing to business travelers

Hotel chains have directly targeted business travelers over the past couple of years, telling them they will always find the best rates through the brand's online loyalty program. The chains launched these strategies mainly to steer guests away from online travel agencies, which charge high commission rates.

In some cases chains have also withdrawn their best rates from corporate booking channels, even though commission in these channels is much lower.

Corporate criticism has persuaded some hotels to reinstate their lowest rates to business programs, but there is a risk they could go back on this. Watch out too for other potential tactics such as charging for amenities unless a booking is made directly. For example a midscale chain could charge travelers not in its loyalty program for breakfast and Wi-Fi.

San Francisco and New York – hotspots cool

One major surprise this year has been a tailing off of rate rises in San Francisco. The city's booming IT and start-up economy inspired annual corporate rate increases of around 10% annually between 2014 and 2016. But this has slowed to a more modest 2% in 2017. One likely explanation is a decline in conference business, freeing up more rooms for transient business travelers. Sky-high rates have sent event organizers elsewhere, as has the closure of the Moscone Center for renovation. But don't expect any bargains: at US$320, San Francisco still had the highest ADR in the U.S. in 2016.[59]

New York City remains the other U.S. rate hotspot, yet the ADR is down 1% to 2% y-o-y in the first quarter of 2017.[60] The reasons include new, more moderately priced properties in Midtown and the downtown financial district, and perhaps some competition from Airbnb.

Impact of Marriott-Starwood merger

Marriott International and Starwood Hotels & Resorts completed their merger in September 2016 to create a group with 1.2 million hotel rooms and 30 brands. The newly merged group is still working through its integration, which has delayed the presentation of its overall pricing strategy. Marriott's move from a 24- to a 48-hour cancellation period for bookings not made at a preferred rate may signal what lies ahead. This will cost clients more in one of two ways: Either by paying the fee, or by booking later, and therefore possibly at a higher rate, once their plans are clearer. Hilton has since adopted the same policy, and may even go to 72-hours at some properties, as the company moves towards a more flexible approach to pricing to improve the way hotels manage inventory.[61] IHG has introduced a uniform 24-hour policy (some IHG brands previously allowed cancellation on day of check-in).

Whether the merged Marriott/Starwood will eventually force rates up remains unclear. This may be possible in cities, or districts of a city, where most hotels are allied to Marriott brands; but it's important not to under-estimate competition between hotels within the same group. Different properties within a brand may have different management companies or owners and may have independent pricing strategies too. However, buyers will have to be careful about promoting competition within the Marriott portfolio. It could win them deeper discounts at some properties but cost them a comprehensive deal across their wider program.

The merger is likely to affect competition in only a very limited number of cities outside North America.

59 BCD Travel analysis
60 BCD Travel analysis
61 Hilton tests incentives to encourage earlier cancellations, Tnooz, August 8, 2017

Our recommendations

- Actively manage your travel program year round. Work with experts like Advito who can provide the right data, analytics and guidance.
- Tackle the non-availability of preferred hotel rates (see Hotel Rate Availability spotlight). Make sure last-room availability in your contracts is being honored.
- Make sure you have other options for favorable pricing – chain-wide discounts and dynamic pricing, for example.
- Negotiate with fewer properties but hold them to higher standards, especially over rate availability.
- Monitor the Marriott/Starwood merger to help decide whether to spread your spend among more competitors.
- Beware of two-year deals. Hotels may impose restrictions or demand more volume in return. If anything, this is the time to shift the other way towards more dynamic hotel program management.

Airbnb

In spite of impressive figures about client signings, there is still little evidence of Airbnb making major inroads into the corporate market. The alternative accommodation provider is used for business travel mainly by travelers staying for an extended period, multiple travelers traveling together, or when a city's hotels are sold out or ultra-expensive. Airbnb is affecting the hotel market most in New York, followed by San Francisco and Los Angeles.

U.S. businesses have become more open to including Airbnb in their accommodation programs, but are still figuring out how to create an appropriate policy. And concerns remain about security and duty of care. As a result, few employers explicitly endorse Airbnb.

Watch out for the potential influence of incentive programs where travelers share the savings if they spend below a set trip budget. It could encourage increased use of Airbnb when it works out cheaper than a hotel stay.

Canada

ADRs increased by close to 5% in the first half of 2017, helped by strong economic growth and improving travel links.[62] A steady increase in hotel openings will limit the pace of rate increase to 2% to 4% in 2018.

Mexico

Demand is increasing in Mexico, and average rates are climbing fast, up more than 7% y-o-y in the second quarter of 2017.[63] There is some new hotel supply, of which about half is located in Mexico City, but underlying growth in demand should be enough to push rates up another 2% to 4% in 2018.

62 Market Report Canada, Hotel News Resource, August 7, 2017
63 Hotel News Resource, July 28, 2017

North America

Meetings

Current situation

2016 was a challenging year for meetings buyers, and 2017 has proved no different. Demand is very strong, but capacity is limited, with fewer new hotels including meeting space. And even when new convention hotels have opened in cities like Austin and Denver, they have quickly been booked as far as five years ahead. Other cities experiencing ultra-high meetings demand include Atlanta and Nashville.

The supply/demand imbalance is causing buyers problems both with availability and price. Availability is perhaps the bigger issue, with bookers missing out on their first-choice destination at their preferred time. In large part this is because many companies continue to book late; 45 to 90 days being the typical lead time. Lead times continue to shorten as political volatility persuades buyers to wait as long as possible before committing.

The clamor for meeting space is leading hotels to hold provisional bookings only for very short periods. In fact, many are effectively selling space on a first come, first served basis. Hotels are also being more selective about their customers, favoring those they believe will deliver the highest total spend once food & beverage and other extras are included.

Average prices have continued to rise steadily, increasing by 3% to 4% in 2017. Perhaps the only surprise is that rates haven't been pushed up even higher. The higher prices are not the result of increased rates, but of much smaller discounts on existing rates, especially for bookings during peak periods. Clients unwilling or unable to be flexible on date or location have little choice but to pay the higher prices.

Another trend is the addition of meeting room rental costs. Traditionally, these used to be waived in the U.S. but that is now happening less and less often.

Outlook for 2018

The fundamentals will not change in 2018. Demand for meetings will remain very strong and buyers will move quickly to reserve any newly added capacity. Expect to pay an average 3% to 4% more once again.

Our recommendations

- Confirm your booking soon after agreeing on the price, or risk losing it.
- Give hotels detailed information about your event so they can assess their likely revenue from the meeting. They will respond much more positively to informed clients than vague ones.
- Encourage meeting owners to be more flexible. Choosing a different time or venue can make an enormous difference to availability and price.
- Consider booking multiple meetings or multi-year agreements for recurring events with the same hotel, brand or group.
- Look at using convention centers. They have significantly improved their facilities in recent years and many now have hotels attached or nearby.
- Stage your meeting in smaller destinations, which often offer great facilities at lower prices. For example, Cleveland and Louisville have excellent convention facilities.

San Francisco

San Francisco's biggest meeting space, the Moscone Center, is closed until the end of 2018 for renovation and expansion. Its absence will lose the city an estimated 490,000 room nights over a two-year period. The city has responded by organizing hotels into neighborhood clusters to offer slightly smaller meetings than the citywide mega-events San Francisco is famous for.

Hotels are reportedly offering lower rates than usual while the Moscone Center is shut. But take advantage of the favorable pricing while you can. 2019 is already expected to be a record year with at least two major events per month scheduled already. And although there will be 2,200 new rooms in San Francisco by 2021, more than three-quarters will be in limited-service or smaller hotels with no additional meeting space.

Security concerns

Following terror incidents in popular European meetings cities like London and Paris, some U.S. companies, which usually favor long-haul destinations, are instead choosing the U.S., Canada, Mexico or the Caribbean for their events. The ever-present threat of terrorism has made clients more aware of the need to risk-manage all events. Crisis plans and due diligence on venues' security measures have become the norm when planning most events.

Car rentals

Current situation

Car rental companies have held supply steady even though demand has strengthened slightly in 2017. This has led to an increase in the incidence of rental locations selling out all their vehicles.

This should have resulted in the first rise in corporate rental rates in almost a decade. They had previously been held in check by aggressive competition from Enterprise Holdings, owner of National, Enterprise and Alamo. Having led the market in competitive pricing for a number of years, Enterprise is now trying to lead pricing higher. But, efforts by Hertz to win back market share will prevent corporate rates from rising for another year in 2017.

Outlook for 2018

It's hard to see the favorable pricing environment extending for into 2018. If all three major players prioritize profitability over market-share, corporate rates may increase by as much as 5%.

Buyers may have little option but to accept an overdue price correction. There is little sign of any other new competition: German rental company Sixt has scaled back its U.S. operation, reversing a period of rapid growth.

One remedy would be to switch to the big players' budget brands, such as Budget and Alamo. But there is little appetite for this among travel buyers or their travelers, and it would probably take more than a 5% price hike to make them think again.

Ride-hailing

Uber and Lyft continue to grow at the expense of regular taxi services, although ride-hailing services are still not available at some U.S. airports. Together, the two accounted for 63% of ground transportation expenses in the second quarter of 2017.[64]

Most companies are content for their travelers to use ride-hailing. There are no national taxi operators with whom to negotiate agreements, so there is little to lose. However, few companies have a policy either allowing or disallowing ride hailing. Uber and Lyft have corporate programs, but these are more about billing and data than discounting.

Program reviews

Buyers are scrutinizing their car rental programs more closely, looking not just at daily rates but at other ways of keeping total rental costs down. For example, some have negotiated caps on refueling and GPS charges.

They have extended negotiations beyond airport rentals to include local rentals. These have largely gone unmanaged in the past, as no flight booking was involved. Consolidating local and airport rentals with the same supplier improves negotiating power and actual savings.

Black cars

Buyers are reluctant to tackle spend on black cars, because they are used mainly by high-level executives for whom service often takes precedence over price. However, more companies are creating policies as the market starts to consolidate. London-based Addison Lee acquired Flyte Tyme, one of the largest chauffeur-drive suppliers in the U.S.; Dav El Boston Coach parent Marcou Transportation bought GroundLink and Limo Anywhere. More will follow as smaller operators struggle to compete with these larger companies. Such consolidation offers better opportunities for supplier negotiation. Black car operators are more willing to compete hard for corporate business, as they feel the competition from Uber and Lyft.

Technology is making it easier to manage this category. Marcou Transportation Group, for example, is developing an on-demand platform for chauffeured transportation suppliers. ICars, which provides on-demand and traditional reservations, now has a mobile app and connections to Concur and Sabre.[65] Other platforms like GroundSpan and Deem bring ground transportation companies together into a single portal, allowing travel managers, travelers and travel agents to compare and book different suppliers. Blacklane, an intermediary that works with 10,000 professional drivers around the world, has connected to GroundSpan, in turn connecting it to corporate travel points of sale. Once these developments are firmly established, customers will have much wider access across more distribution channels for pre-reserved and on-demand services.

Rail

The Trump Administration has given mixed signals about the future of rail. Though President Trump expressed admiration for high-speed rail, budget proposals include severe cuts to federal funding for rail operator Amtrak,[66] which potentially would end rail services in more than 220 towns and cities.

Elsewhere, California's high-speed rail project, the most advanced in the U.S., has hit budgetary and other problems, and is not due to open until 2029.[67] In Texas, plans for a high-speed Dallas-Houston line have made some progress, but continue to attract virulent political opposition.[68]

Our recommendations

- If you are more than one year into a multi-year car rental contract, arrange a new deal now, before rates rise in 2018.
- Negotiate caps on additional costs such as refueling and GPS.
- Offer clear policy guidance about ride-hailing services like Uber and Lyft.
- Start managing black car spend if you don't already do so. Improved supplier choice and technology have made the category far more manageable.

64 SpendSmart Report, Certify
65 The Company Dime, March 3, 2017
66 Donald Trump is making huge promises about rebuilding America's infrastructure. Does that include trains?, MinnPost, April 24, 2017
67 The dream of high-speed rail in California is taking longer and costing more, The Mercury News, March 14, 2017
68 Full speed ahead for a Texas bullet train? Lawmakers let the market decide – for now, Dallas News, June 23, 2017

Southwest Pacific

Key points

- Capacity discipline will push up regional fares, but intercontinental fares will fall or remain flat due to competition.
- Domestic fares will rise in Australia, but will fall in New Zealand.
- Insufficient new supply means hotel rates will rise by 3% to 5%, as demand picks up.
- The arrival of Enterprise has made the car rental market more competitive.

Current situation

In Australia's domestic market, Qantas and Virgin Australia have cut capacity from the "resource-based" markets of Western Australia and Queensland. They have diverted some of this capacity to the "Golden Triangle" routes connecting Sydney, Melbourne and Brisbane, reflecting the contrasting strength of demand in Australia's non-resources sectors.

So far this year domestic demand has been essentially flat.[69] When combined with the capacity reductions, this means domestic fares are rising – by as much as 5% on Golden Triangle routes. Negotiated corporate deals are available, but airlines are increasingly withdrawing discounts if clients fail to meet their spend or volume commitments.

The situation is quite different on international routes. After rising sharply at the beginning of the year, demand levelled off by March. This has coincided with strong growth in supply, with capacity up 6.2% year-over-year (y-o-y) in the first quarter of 2017, following a 10% increase in 2016. As a result, average ticket prices (ATPs) are falling for the second year running, and tactical discounted fares offered close to day of departure can often be lower than corporate fares. Unlike on domestic services, airlines recognize discounted consumer fares as part of a client's spend or market-share commitments if booked through a channel like a travel management company (TMC).

Some of the strongest capacity growth has been on services to China and Hong Kong. On top of significant expansion in 2015-2016, especially by Chinese carriers, both Qantas and Virgin Australia have this year launched daily services from Sydney to Beijing. Virgin Australia has also started flying to Hong Kong from Sydney and Melbourne. This additional capacity will keep ATPs to China and Hong Kong in check for the foreseeable future.

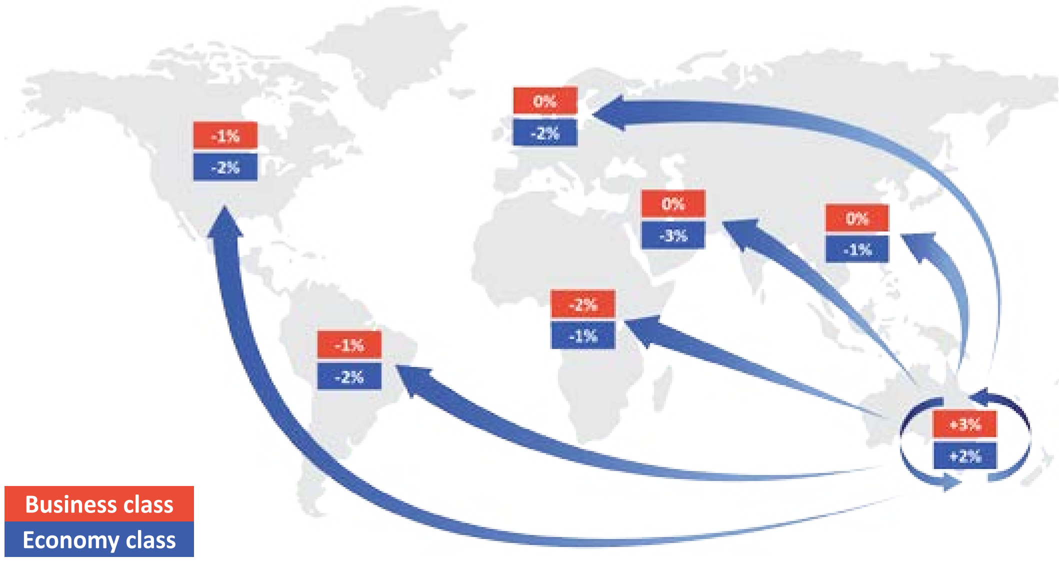
It's a similar story on transpacific routes. Qantas and Virgin Australia have added flights between Melbourne and Los Angeles, while Air Canada now operates Brisbane-Vancouver daily. The withdrawal of anti-trust immunity from Qantas and American Airlines has made the market even more competitive, as American will now need to negotiate its own corporate deals against keen competition from United Airlines.

In New Zealand, Qantas-owned low-cost carrier Jetstar Airways has added significant capacity on the key domestic routes from Auckland to Wellington and Christchurch. Jetstar has also introduced small jets and much lower fares to challenge Air New Zealand's turboprop services on monopoly routes to smaller destinations such as Napier and Palmerston. Although domestic demand continues to grow substantially, the extra choice Jetstar presents means domestic fares are falling.

A similar situation exists on overseas routes, due to major capacity increases over the past couple of years by Gulf and Chinese carriers in particular. It is very much a buyer's market, and fares are falling.

Airfare forecasts by destination

Average ticket prices % year-over-year



Forecasted year-over-year change in average corporate client airfares (in USD), point of origin Southwest Pacific.

69 IATA, Air Passenger Market Analysis, June 2017

Southwest Pacific

Air

Outlook for 2018

As neither of Australia's two leading airlines seems inclined to start a price war, we expect domestic fares to increase by as much as 4% in 2018.

For regional travel, capacity discipline will enable airlines to increase business class fares by 3% and economy class fares by 2%. On intercontinental routes, excess capacity is likely to push economy fares down by 2%, but we expect no change in business class fares. One risk to this outlook is the intentions of the Gulf carriers, which have arguably over-expanded in the Southwest Pacific. A culling of unprofitable routes would reduce some over-capacity. If this happens, fares from Australia to Europe and the Middle East could start to climb again.

A scaling back of Gulf carrier capacity could affect New Zealand too. But there's so much overcapacity that it's hard to see anything other than continued soft pricing in almost all markets. On domestic routes, competition between the two major players is more intense than in Australia. With Jetstar likely to launch additional routes, another drop in fares, of 1%, looks likely.

Our recommendations

- The domestic and international markets are very different from one another in both Australia and New Zealand. Treat them as separate buying exercises, even though airlines will want to have one agreement covering both.

Current situation

Hotel pricing trends vary across the Australian market. In Brisbane and Perth, average daily rates (ADRs) have fallen sharply as occupancy levels plummet. But as they had been extremely high during the resources boom, this represents more of a price correction than a slump.

In contrast, occupancy exceeds 90% most nights in Sydney and Melbourne. This has helped push up rates by 8% in Sydney. Both cities have two new hotels opening in 2017, but this is not nearly enough to satisfy demand.

In New Zealand, the strong economy and a lack of hotels has pushed average rates up 9%. Auckland had the biggest increase: Rates soared 12.1% y-o-y in May 2017.

Outlook for 2018

Tight supply and strong demand will push hotel rates even higher in both countries in 2018, with ADRs across the region rising by 3% to 5%. But expect rates to fall in Brisbane and Perth, as new hotels planned during the resource boom open and create excess capacity in these cities.

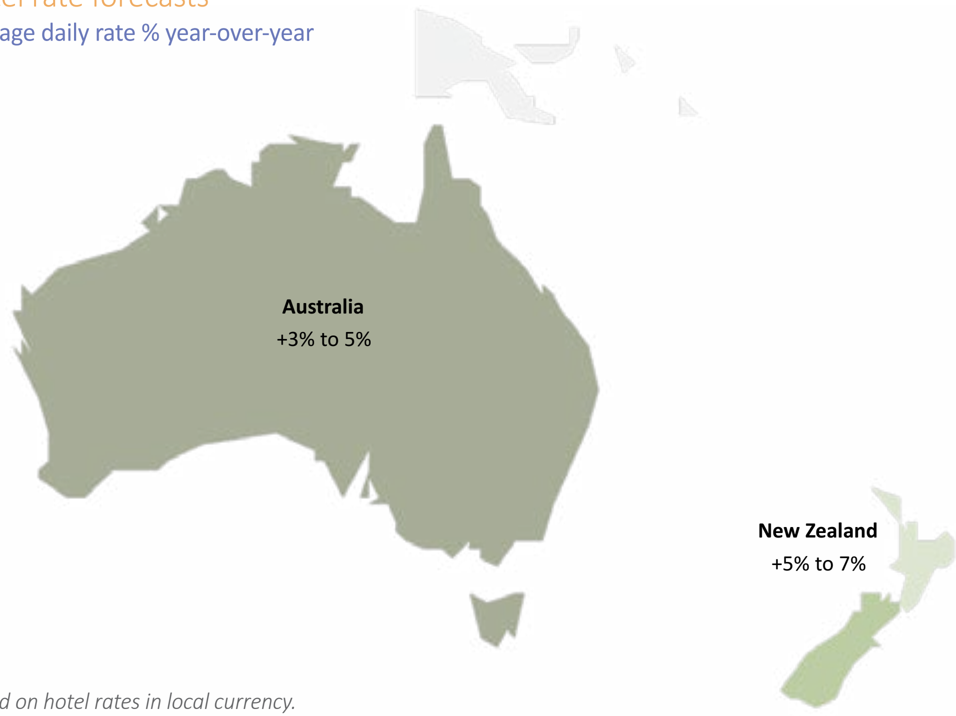
In Auckland, the re-opening of one of the city's larger hotels in 2017 and two new properties in 2018 will only act to soften the pace of rate increase.

Our recommendations

- Establish whether your TMC can find better rates across multiple sources, rather than relying on negotiated rates alone.
- Encourage travelers to book their room at the same time they book their flight. Tight supply increases the risk of non-availability or higher rates if bookings are left to the last minute.

Hotel rate forecasts

Average daily rate % year-over-year



Based on hotel rates in local currency.

Sydney and Auckland: Book early to ensure availability

Both Australia and New Zealand's largest cities lack enough hotels to meet demand. High prices aside, simply finding availability in Sydney or Auckland is a major headache. The problem is more pronounced in Auckland, because the arrival of a single cruise ship or the staging of a major concert can be enough to fill the city's hotels. Travel managers should encourage business travelers to book accommodation as soon as they know they are visiting either destination.

Car rental

Enterprise Rent-A-Car launched in both Australia and New Zealand last year, increasing competition in both countries. However, the car rental company must overcome its low brand recognition, which is making it tough to win clients it does not already have in other regions.

Generally, rental rate trends follow the hotel market, so prices are rising in Sydney, but are lower in Brisbane and Perth.

Ride-hailing

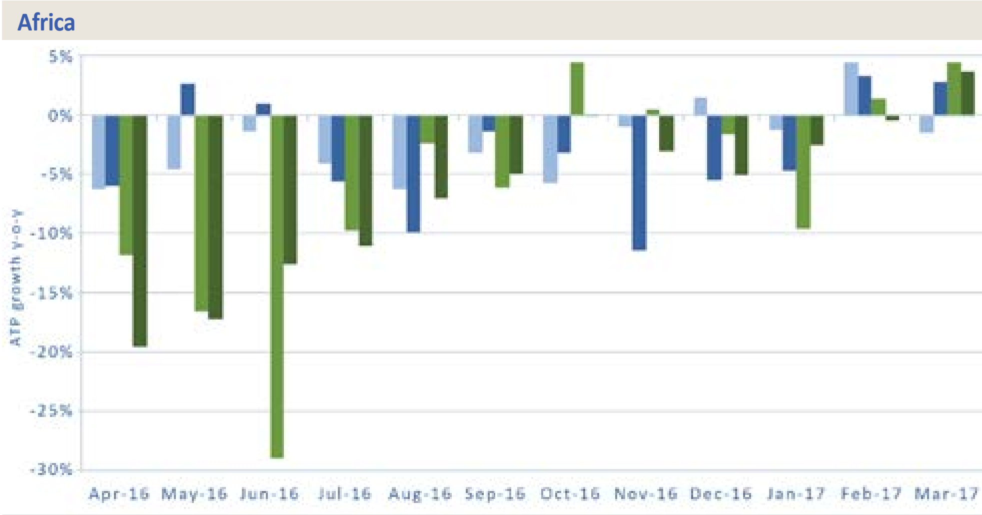
Uber is thriving in Australia, even though it faces regulatory challenges and its drivers are unable to offer the same convenient airport pickups as licensed taxis. Uber fares for airport journeys can be 40% lower than for taxis. But the company faces an increase in costs, if a group of its drivers are successful in changing their employment status.[70]

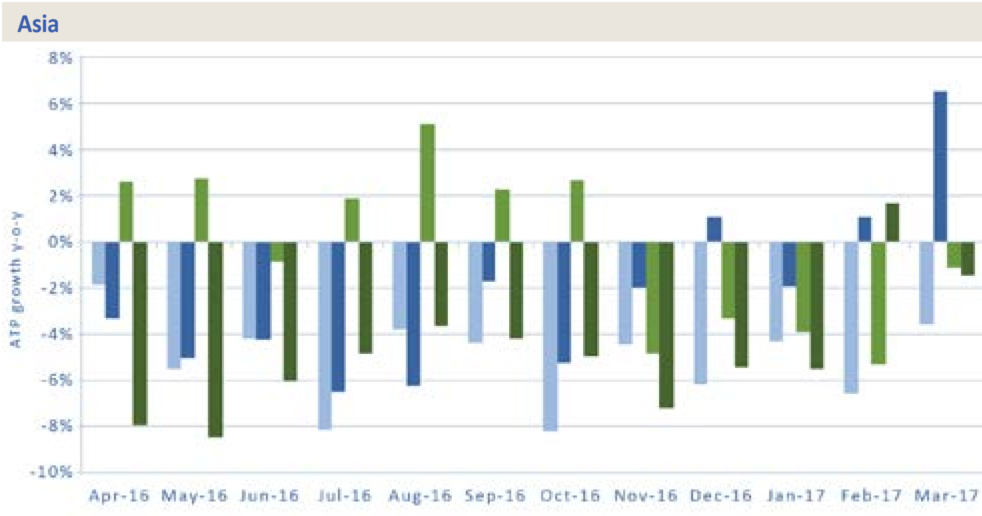
It also faces competition from local operator GoCatch, which has been attracting Uber drivers by charging a lower commission of 15% of the fare.[71]

70 Reuters, June 28, 2017
71 Business Insider Australia, January 18, 2017

Appendix

Regional ATP growth

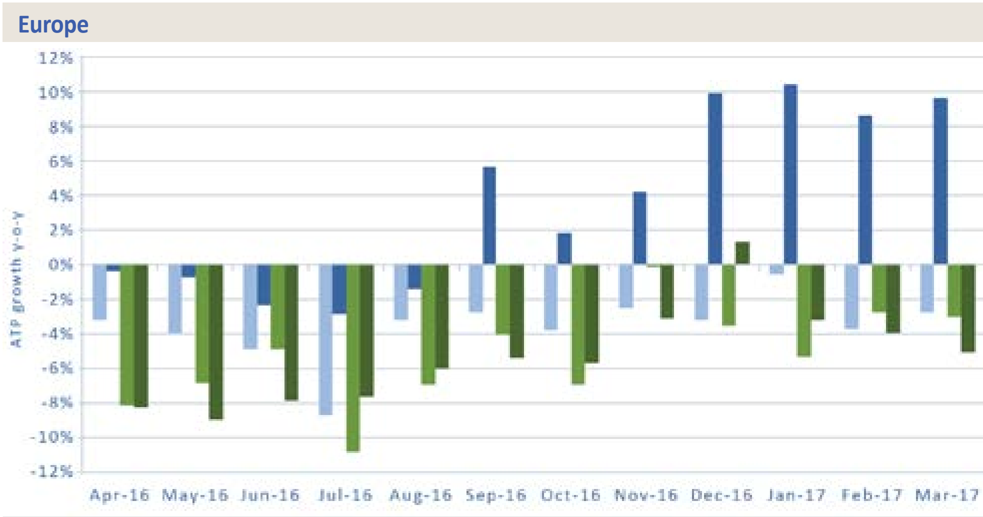


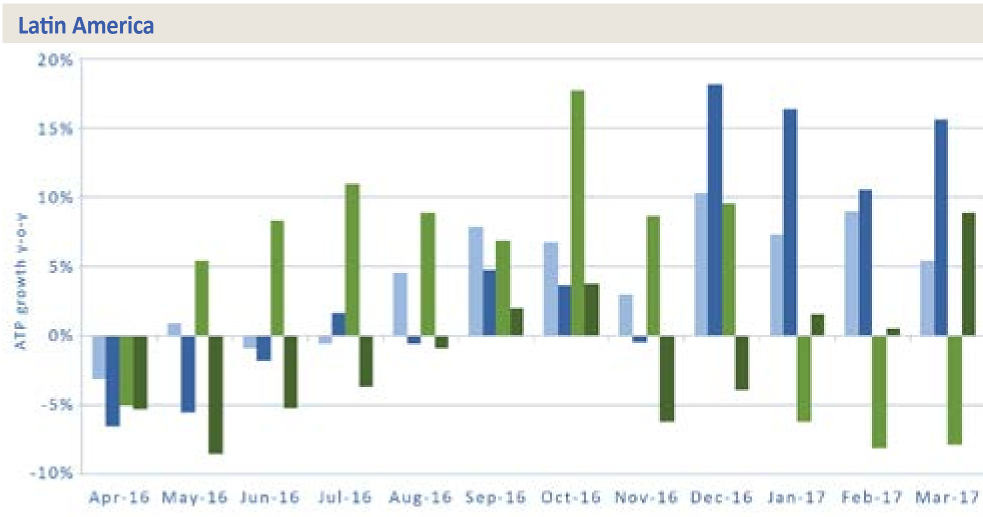


Source: Advito

Intercontinental business Intercontinental economy Regional business Regional economy

Regional ATP growth





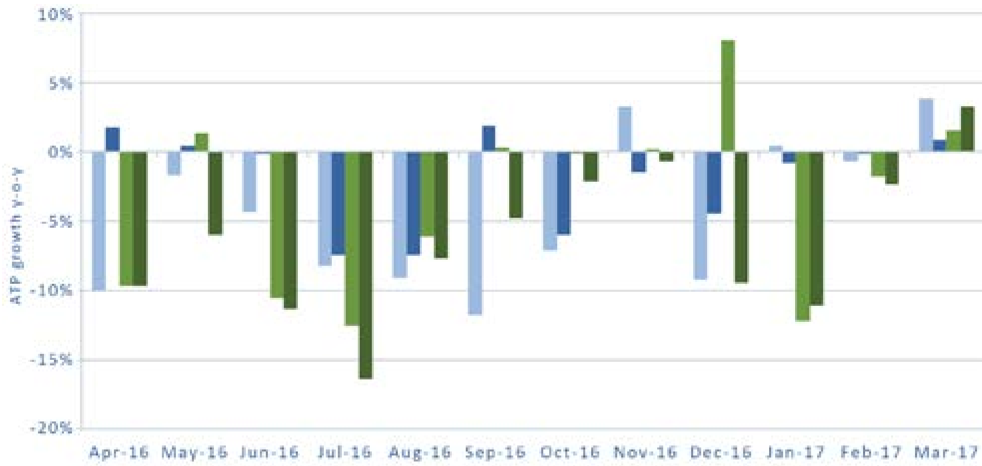
Source: Advito

Intercontinental business | Intercontinental economy | Regional business | Regional economy

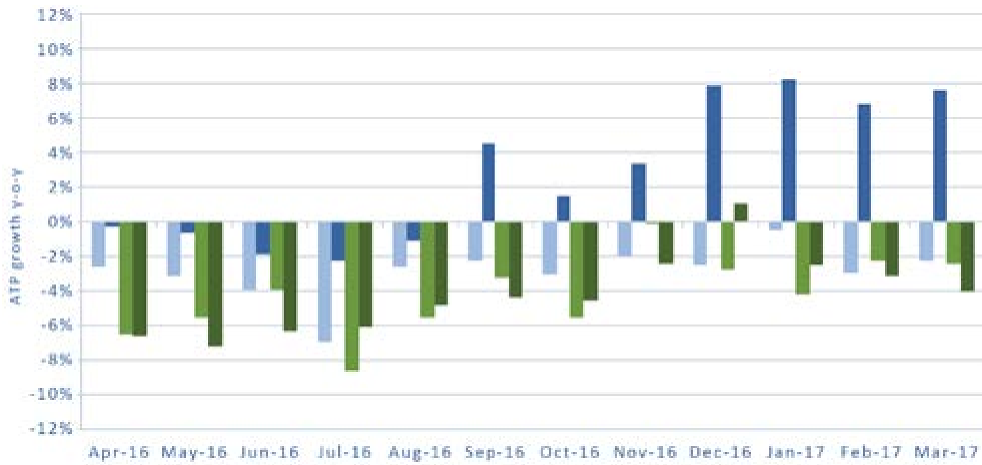
ADVITO

Regional ATP growth

Middle East



North America



Source: Advito

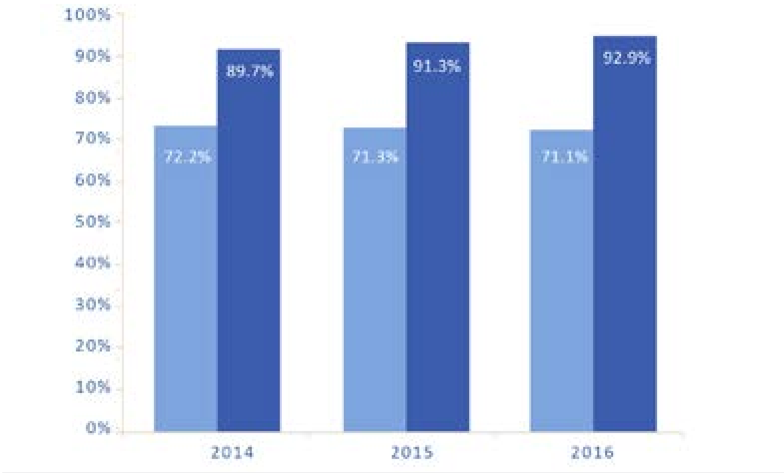
Intercontinental business · Intercontinental economy · Regional business · Regional economy

Regional ATP growth

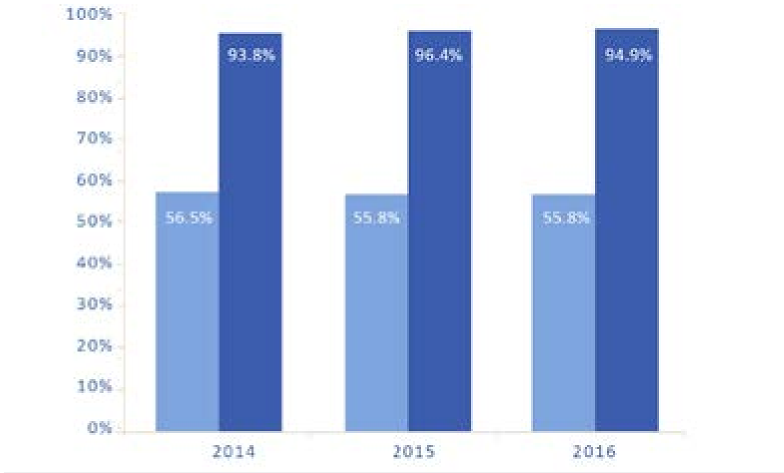
Source: Advito

Economy class ratio

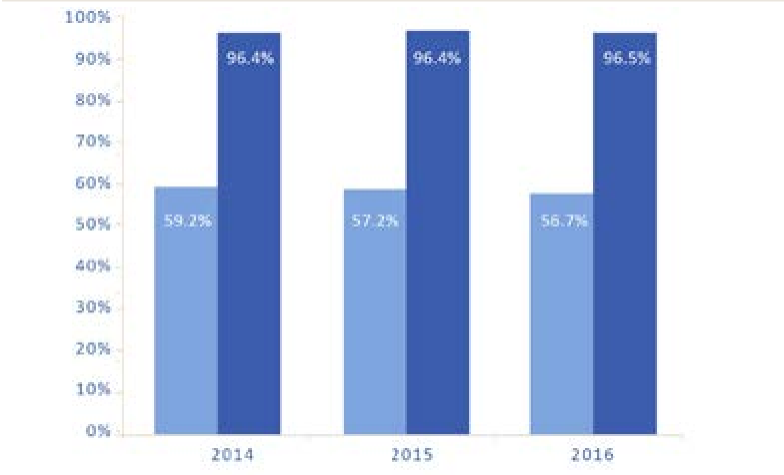
Africa



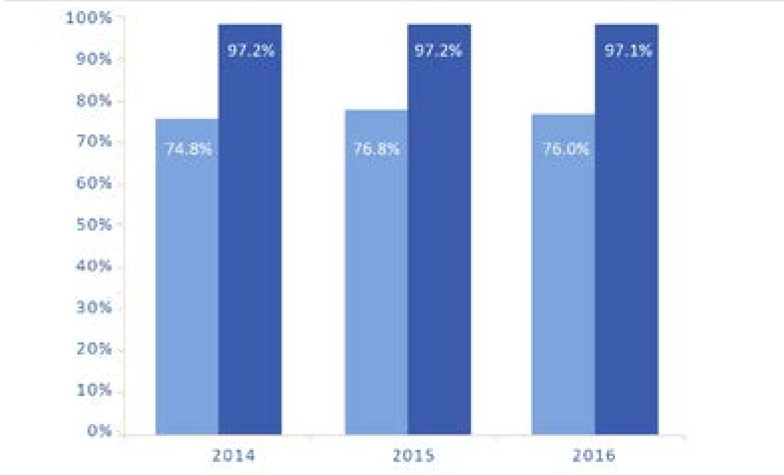
Asia



Europe



Latin America



Based on weighted average for January - June in each year

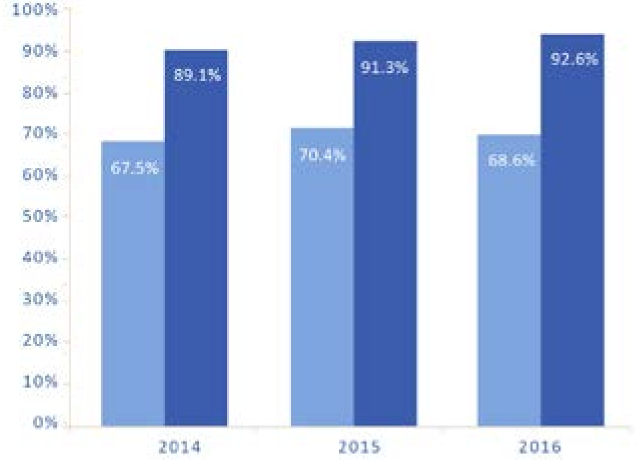
Source: Advito

Intercontinental   Regional

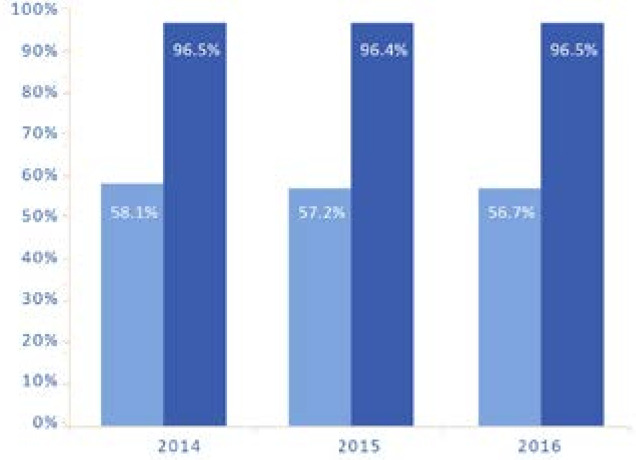
ADVITO

Economy class ratio

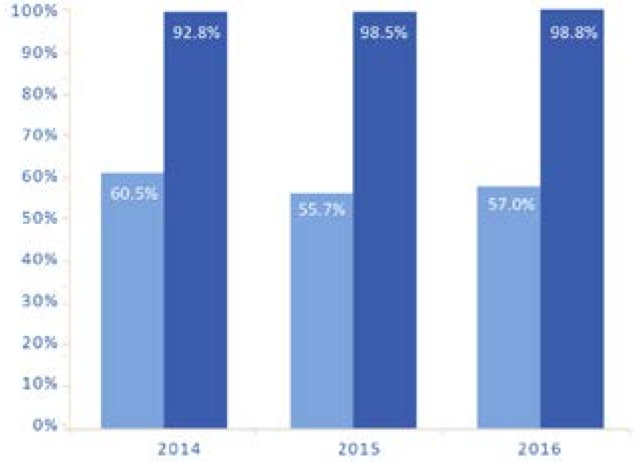
Middle East



North America



Southwest Pacific



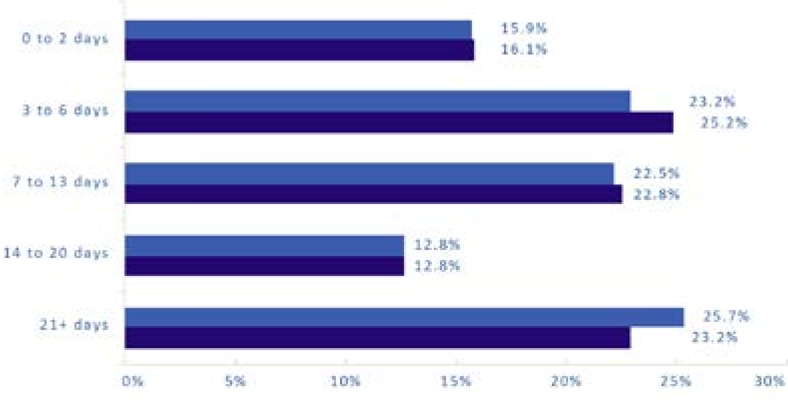
Based on weighted average for January - June in each year

Source: Advito

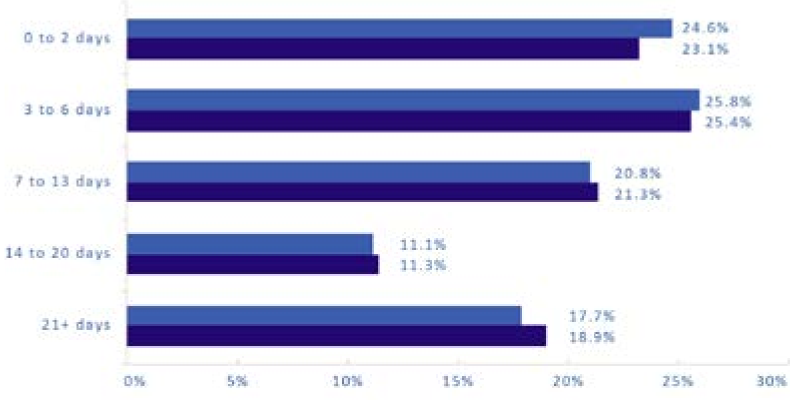
Intercontinental   Regional

Advance booking

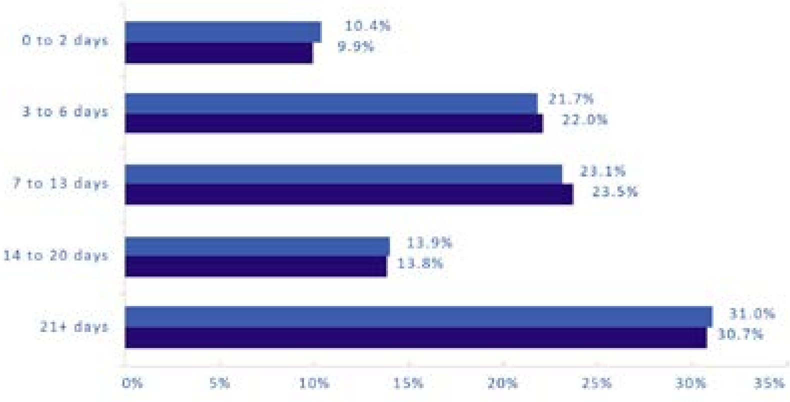
Africa



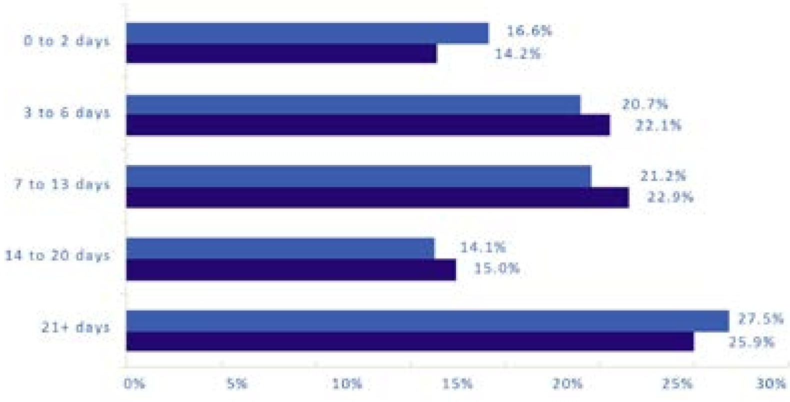
Asia



Europe



Latin America

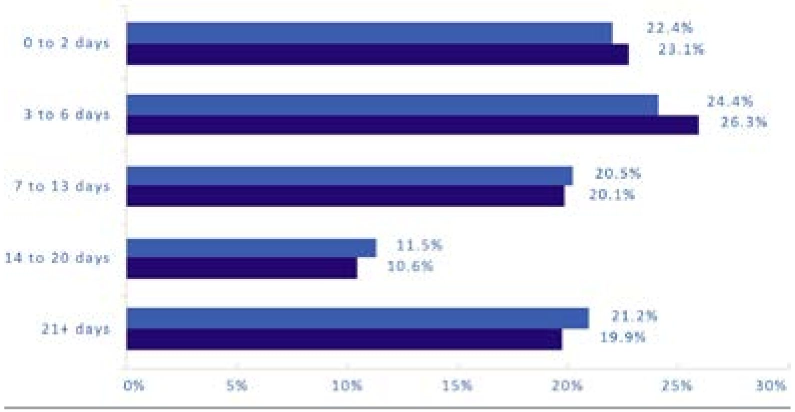


Source: Advito

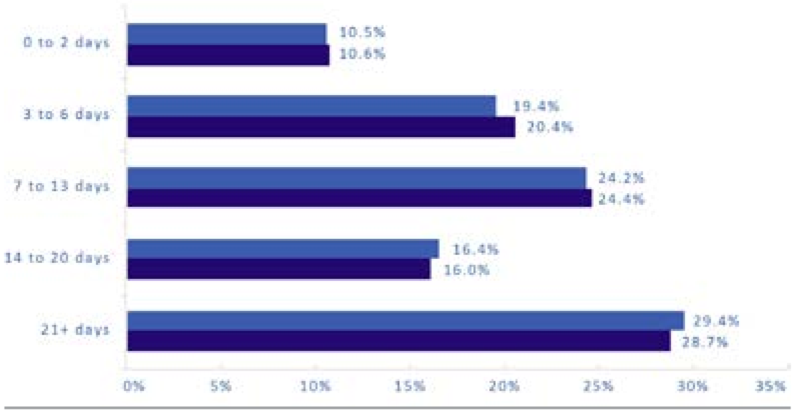
2016 2017

Advance booking

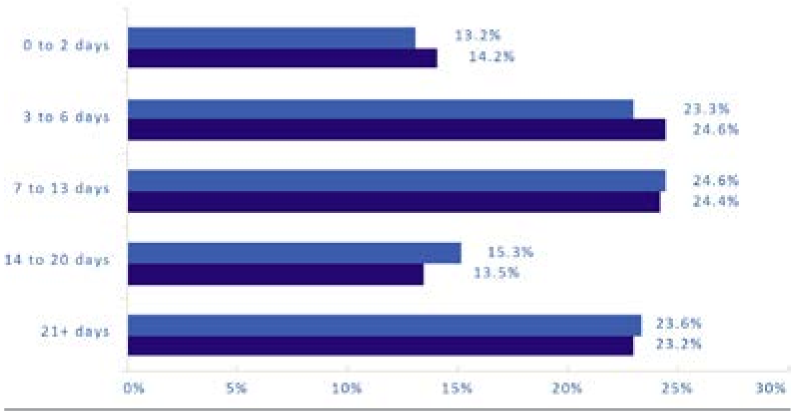
Middle East



North America



Southwest Pacific

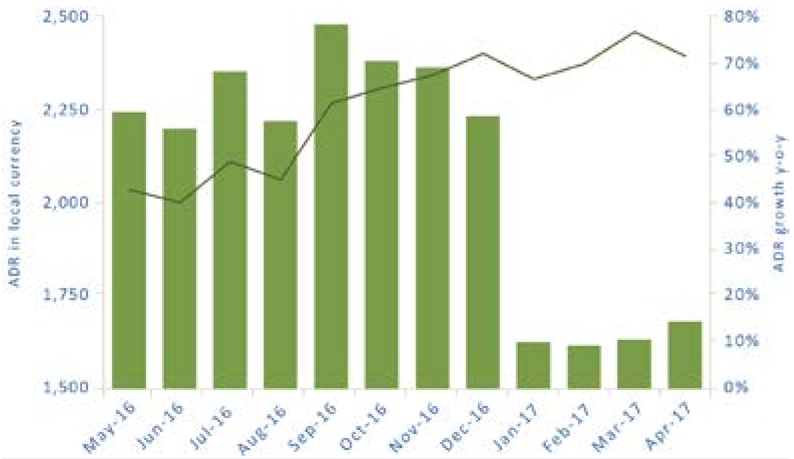


Source: Advito

2016 2017

Historical ADR by country

Argentina



Australia

Brazil

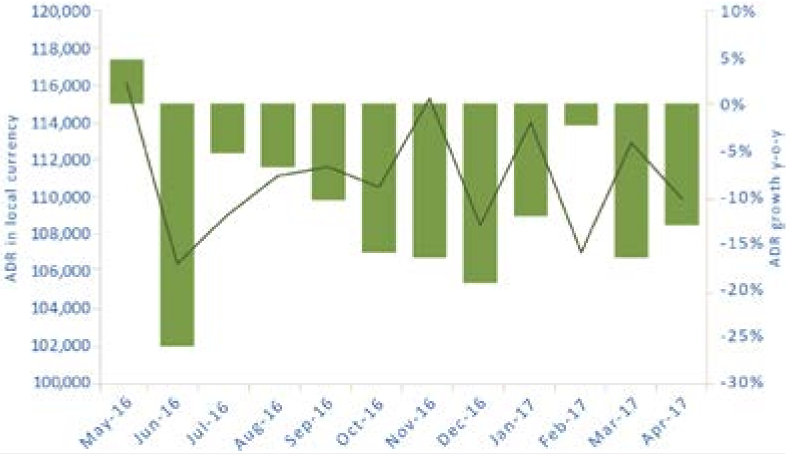
Canada

Source: Advito

ADR growth ADR

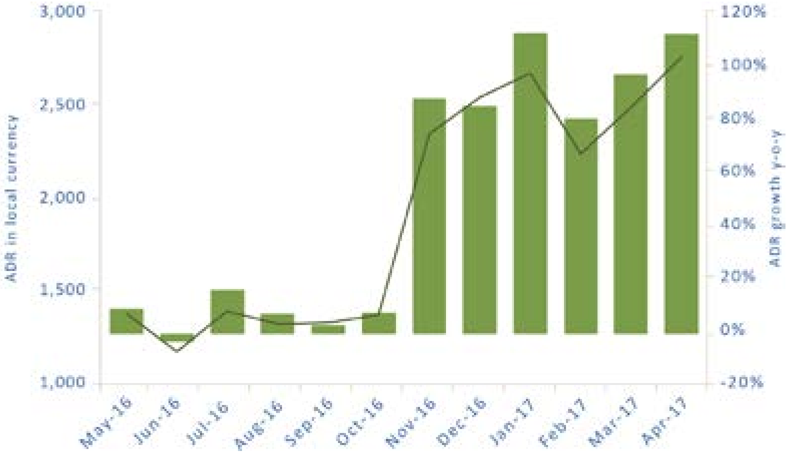
Historical ADR by country

Chile

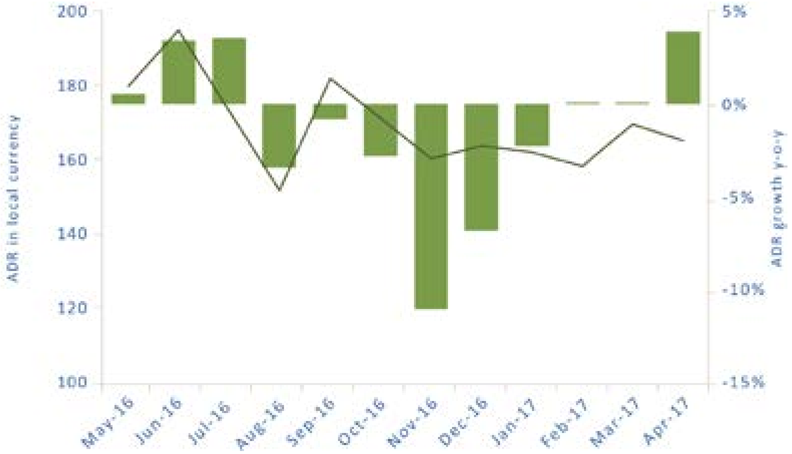


China

Egypt



France

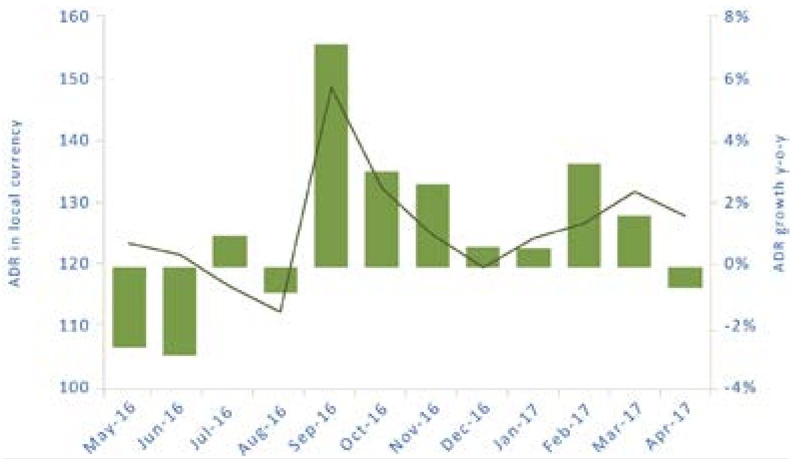


Source: Advito

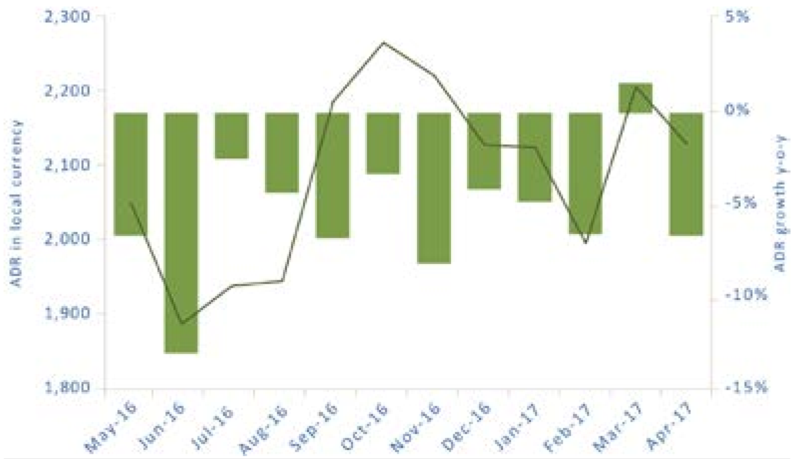
ADR growth — ADR

Historical ADR by country

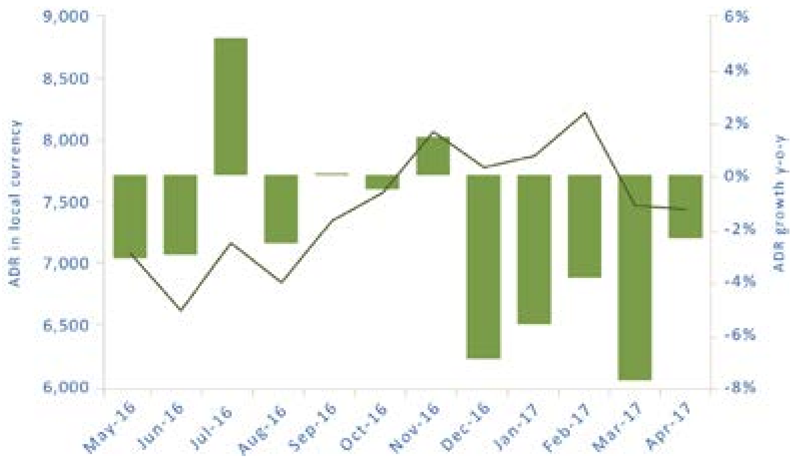
Germany



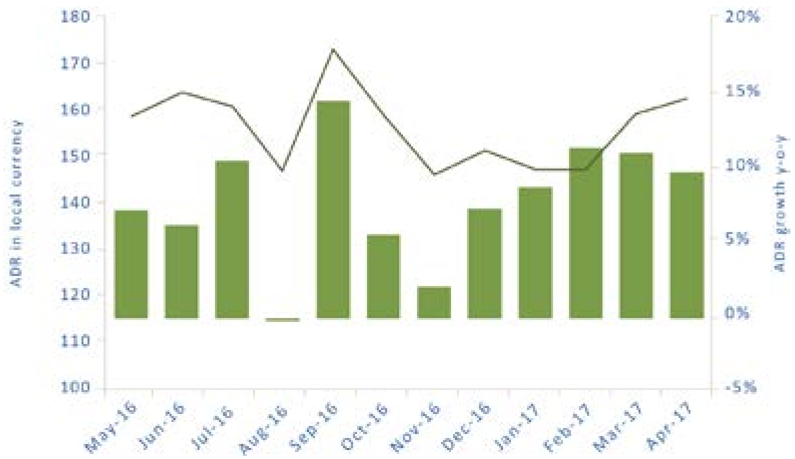
Hong Kong



India



Ireland



Source: Advito

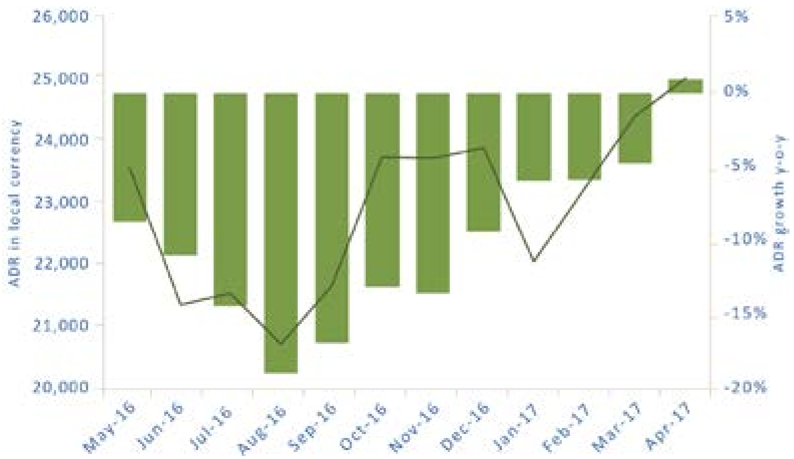
ADR growth ADR

Historical ADR by country

Israel

Italy

Japan



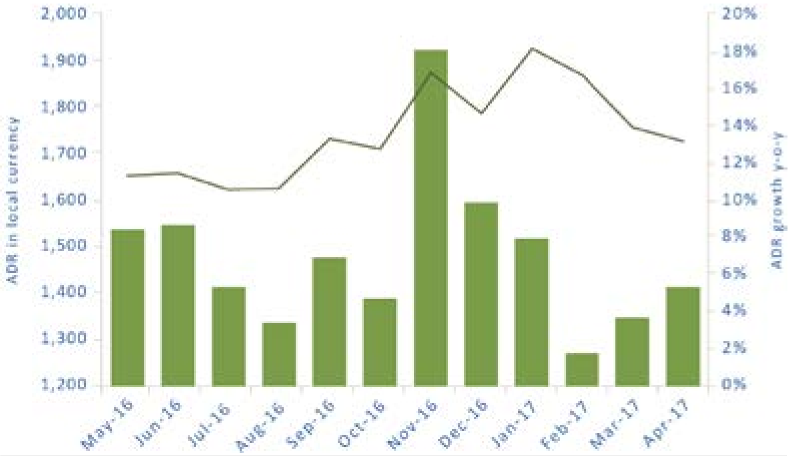
Malaysia

Source: Advito

ADR growth — ADR

Historical ADR by country

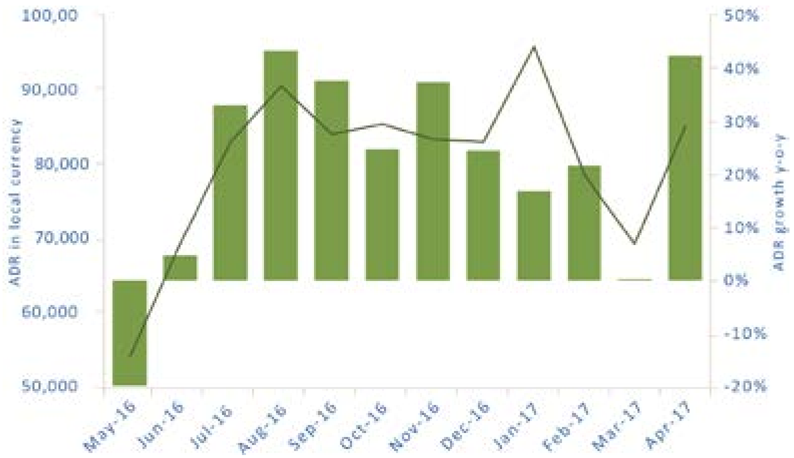
Mexico



Netherlands

New Zealand

Nigeria



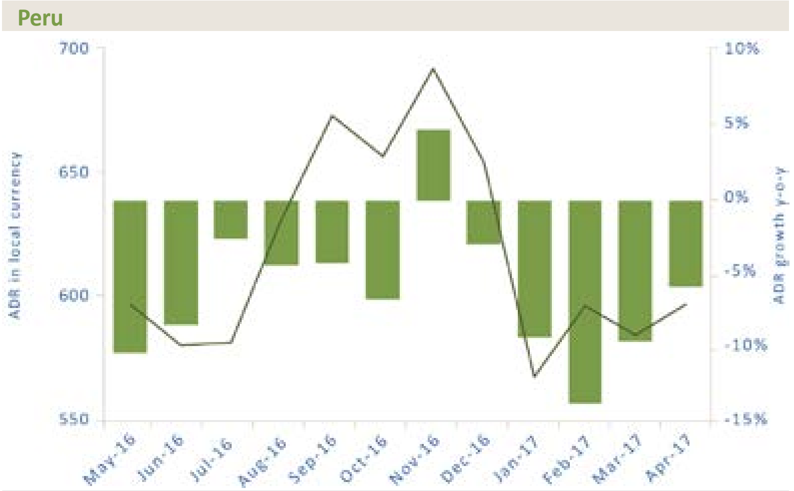
Source: Advito

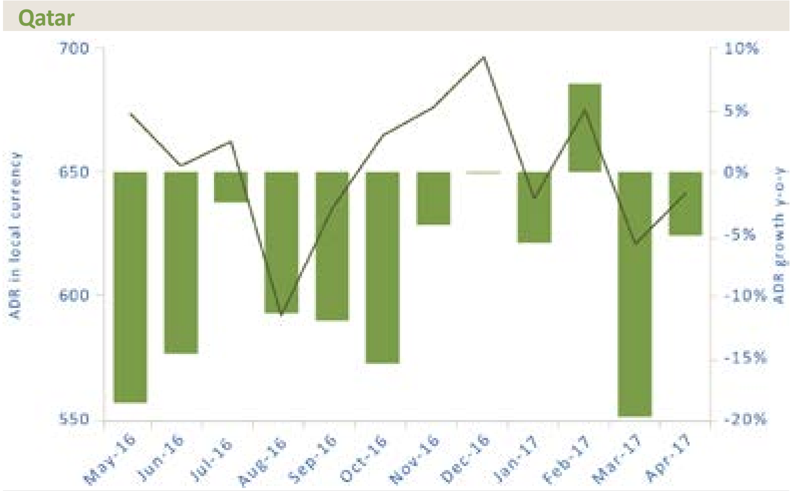
ADR growth   ADR

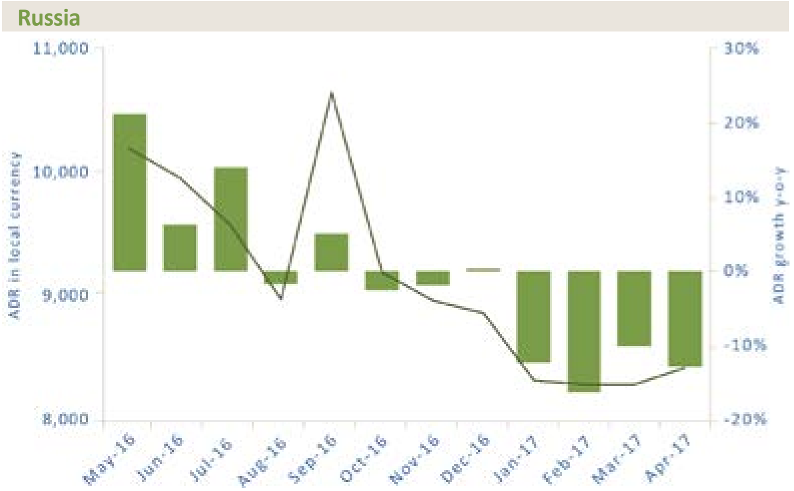
Appendix

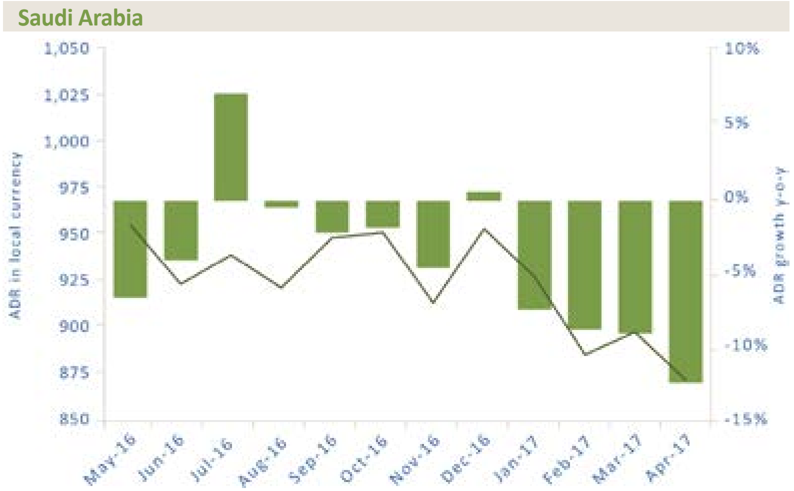
Hotel

Historical ADR by country









Source: Advito

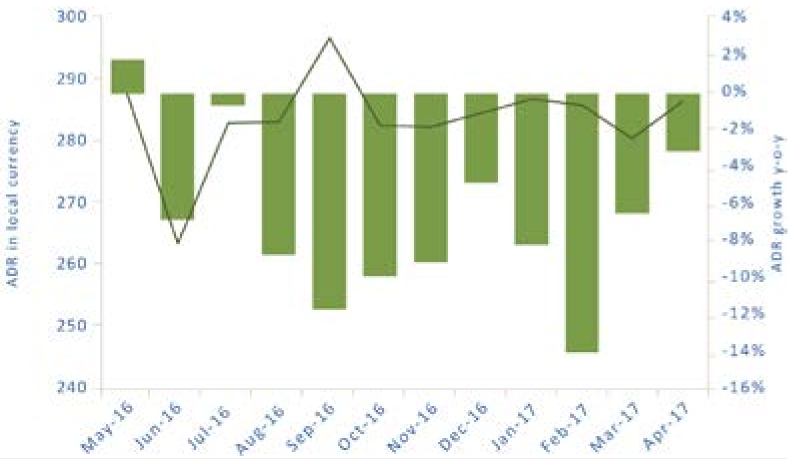
ADR growth   ADR

Appendix

Hotel

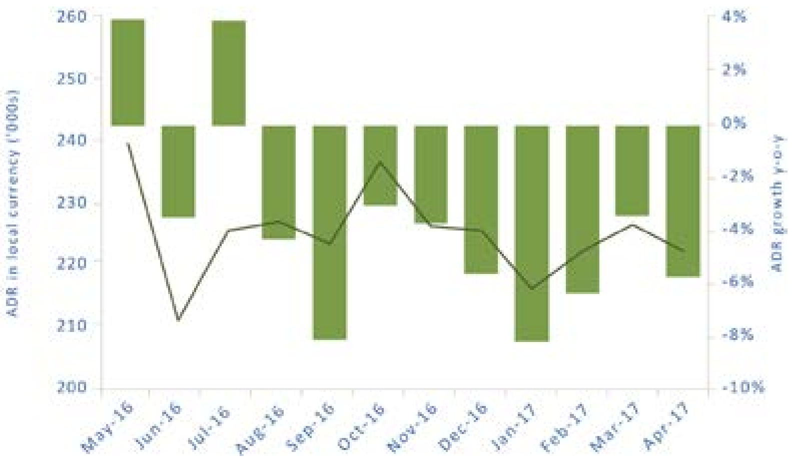
Historical ADR by country

Singapore

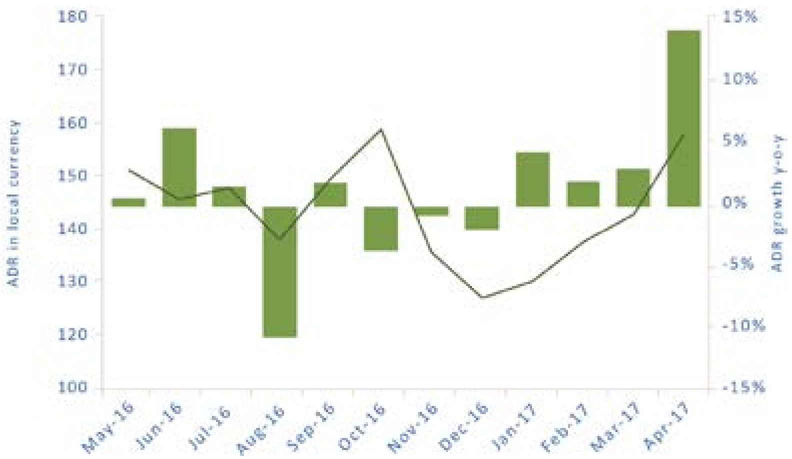


South Africa

South Korea



Spain

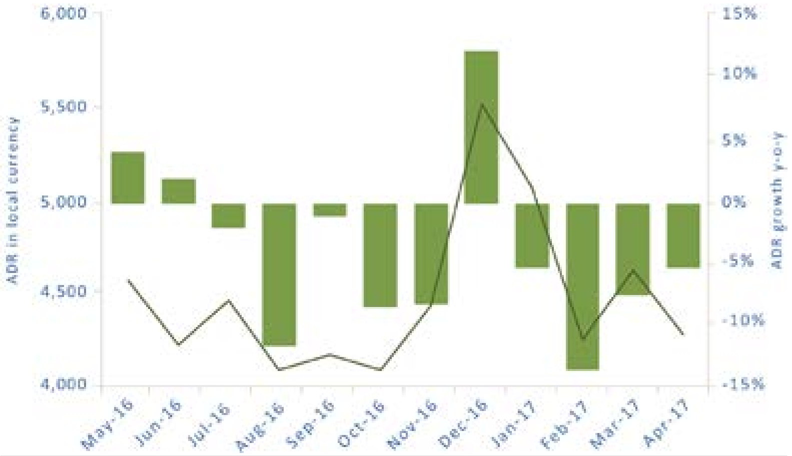


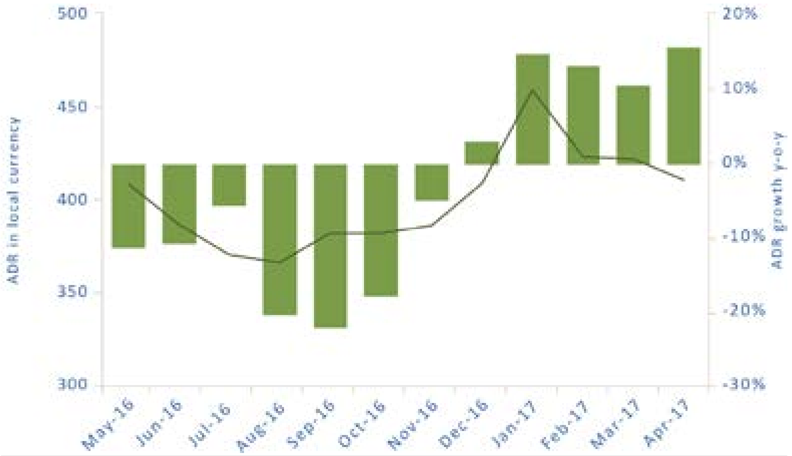
Source: Advito

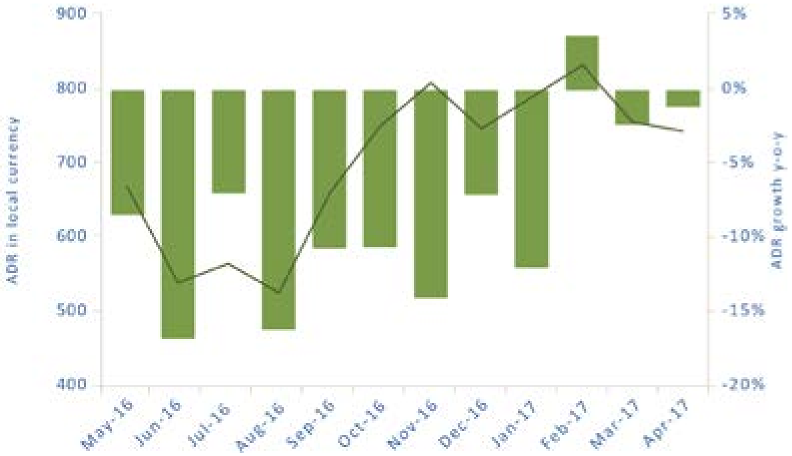
ADR growth — ADR

ADVITO

Historical ADR by country

Thailand


Turkey


Uniter Arab Emirates


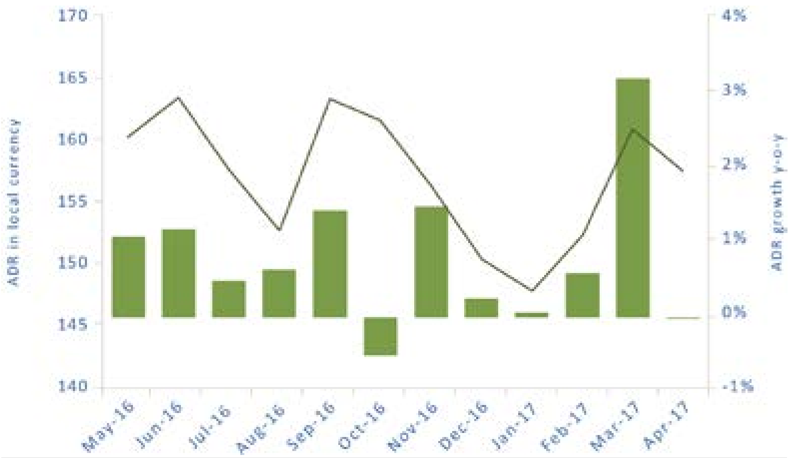
United Kingdom


Source: Advito

ADR growth
ADR

Historical ADR by country

United States



Vietnam

Source: Advito

ADR growth ADR

Historical ADR - key cities

United States

ADR US$		2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
Atlanta	ADR	167	163	165	161	170
	YoY	6.5%	5.2%	5.2%	1.7%	1.7%
Boston	ADR	224	315	329	290	219
	YoY	-1.9%	-1.3%	3.6%	-1.2%	-1.9%
Charlotte	ADR	166	166	162	170	173
	YoY	4.0%	2.8%	2.5%	3.8%	4.5%
Chicago	ADR	171	257	256	246	170
	YoY	-5.1%	-8.0%	2.8%	2.7%	-0.4%
Dallas	ADR	169	167	163	164	170
	YoY	3.5%	5.5%	4.5%	-0.7%	0.7%
Denver	ADR	164	182	191	174	170
	YoY	-1.1%	7.2%	7.9%	2.0%	3.7%
Houston	ADR	170	169	159	160	168
	YoY	-2.2%	-2.0%	-4.3%	-5.6%	-1.6%
Indianapolis	ADR	138	147	137	138	138
	YoY	3.6%	8.9%	3.4%	1.7%	0.4%
Las Vegas	ADR	178	148	148	158	180
	YoY	6.5%	-0.2%	10.6%	-2.3%	0.8%
Los Angeles	ADR	224	221	221	212	224
	YoY	7.0%	5.1%	3.5%	1.1%	-0.2%

ADR US$		2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
New Orleans	ADR	184	194	145	183	189
	YoY	-4.3%	4.5%	-2.6%	-2.1%	2.7%
New York	ADR	260	351	350	389	257
	YoY	-2.9%	-4.2%	1.6%	-0.1%	-1.4%
Philadelphia	ADR	167	203	209	190	169
	YoY	-2.9%	-3.6%	17.1%	0.7%	0.9%
Phoenix	ADR	186	137	117	146	184
	YoY	5.2%	6.1%	6.3%	3.3%	-1.0%
Portland	ADR	162	179	191	171	165
	YoY	3.3%	2.6%	0.9%	1.1%	1.9%
St Louis	ADR	137	148	146	141	140
	YoY	-1.6%	-1.0%	2.7%	0.6%	2.2%
San Diego	ADR	169	172	172	164	177
	YoY	2.4%	-0.5%	-1.4%	0.6%	4.9%
San Francisco	ADR	324	322	324	320	338
	YoY	6.7%	4.8%	-3.6%	2.3%	4.4%
Seattle	ADR	179	225	261	195	193
	YoY	2.5%	2.2%	2.5%	2.4%	8.1%
Washington	ADR	259	311	263	272	269
	YoY	-1.2%	-0.1%	2.9%	-0.4%	4.0%

Source: Advito

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Historical ADR - key cities

Europe

ADR US$		2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
Amsterdam	ADR	164	186	172	166	165
	YoY	8.3%	5.8%	2.2%	0.6%	0.6%
Barcelona	ADR	151	182	180	175	163
	YoY	4.4%	9.1%	-1.4%	3.8%	7.7%
Berlin	ADR	124	123	134	122	129
	YoY	4.1%	1.2%	6.6%	1.3%	3.8%
Brussels	ADR	160	152	140	157	159
	YoY	-1.1%	-9.8%	-9.5%	-3.6%	-0.4%
Copenhagen	ADR	1,206	1,504	1,567	1,379	1,266
	YoY	2.3%	6.7%	11.7%	8.3%	5.0%
Dublin	ADR	152	176	184	170	167
	YoY	11.5%	6.8%	11.5%	3.5%	9.9%
Dusseldorf	ADR	123	138	128	141	139
	YoY	-0.5%	10.5%	12.8%	9.7%	12.9%
Frankfurt	ADR	163	151	146	148	165
	YoY	-0.7%	-8.1%	-2.9%	-2.4%	1.3%
Hamburg	ADR	122	131	141	133	127
	YoY	3.4%	-0.3%	15.1%	6.6%	3.8%
London	ADR	196	205	225	231	222
	YoY	0.5%	0.4%	10.6%	13.0%	13.3%

ADR US$		2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
Madrid	ADR	146	147	141	143	144
	YoY	3.8%	1.6%	-3.3%	-11.3%	-1.5%
Milan	ADR	198	191	208	185	193
	YoY	-0.4%	-19.6%	-10.2%	-20.9%	-2.9%
Moscow	ADR	10,718	10,302	10,454	10,065	9,512
	YoY	9.1%	13.2%	8.1%	1.6%	-11.3%
Munich	ADR	141	162	167	156	145
	YoY	-4.6%	6.7%	5.1%	0.2%	2.9%
Paris	ADR	200	215	209	202	199
	YoY	-2.6%	-7.5%	-4.7%	-8.9%	-0.5%
Prague	ADR	2,900	3,458	3,602	3,271	2,844
	YoY	1.7%	-3.2%	1.2%	-7.5%	-1.9%
Rome	ADR	166	189	203	203	172
	YoY	-2.9%	-14.3%	-8.4%	3.0%	3.1%
Stockholm	ADR	1,457	1,634	1,642	1,581	1,507
	YoY	-6.2%	-1.8%	-5.9%	-5.0%	3.4%
Vienna	ADR	136	144	148	153	136
	YoY	-4.7%	-4.8%	-4.5%	5.7%	0.3%
Warsaw	ADR	455	527	488	507	484
	YoY	1.7%	2.3%	4.7%	3.4%	6.3%

Source: Advito

Historical ADR - key cities

Other cities in Asia, Latin America and North America

Asia		2016				2017
ADR US$		Q1	Q2	Q3	Q4	Q1
Bangkok	ADR	5,125	4,569	4,476	4,626	4,713
	YoY	1.8%	-0.1%	-6.4%	-6.2%	-8.0%
Beijing	ADR	946	940	947	982	987
	YoY	0.3%	6.1%	5.2%	5.4%	4.3%
Delhi	ADR	10,531	8,345	8,663	10,127	9,791
	YoY	3.2%	-4.8%	1.3%	-0.5%	-7.0%
Hong Kong	ADR	2,240	2,130	2,085	2,244	2,150
	YoY	-8.7%	-6.0%	-2.9%	-5.9%	-4.0%
Mumbai	ADR	10,049	8,707	8,370	9,749	9,572
	YoY	8.7%	4.5%	0.8%	3.8%	-4.7%
Seoul	ADR	248,052	236,745	234,593	239,168	233,263
	YoY	4.5%	-0.3%	-3.1%	-3.3%	-6.0%
Shanghai	ADR	1,147	1,132	1,132	1,175	1,151
	YoY	0.8%	0.3%	0.8%	0.6%	0.3%
Singapore	ADR	314	283	288	282	284
	YoY	4.7%	-0.1%	-5.0%	-8.7%	-9.5%
Sydney	ADR	341	275	277	306	311
	YoY	6.3%	6.1%	0.2%	-7.6%	-8.9%
Tokyo	ADR	28,526	26,341	24,397	26,970	26,916
	YoY	5.5%	-6.6%	-15.7%	-10.7%	-5.6%

Latin America & North America		2016				2017
ADR US$		Q1	Q2	Q3	Q4	Q1
Buenos Aire	ADR	2,305	2,188	2,318	2,541	2,542
	YoY	74.4%	58.6%	69.7%	70.2%	10.3%
Lima	ADR	659	598	623	666	588
	YoY	9.4%	-7.0%	-3.6%	-4.2%	-10.8%
Mexico City	ADR	2,852	2,687	2,689	2,920	3,003
	YoY	14.9%	9.0%	7.1%	10.0%	5.3%
Montreal	ADR	171	189	203	185	172
	YoY	9.9%	9.7%	15.7%	4.2%	0.3%
Rio de Janeiro	ADR	528	430	406	393	408
	YoY	1.6%	-10.8%	-12.5%	-25.3%	-22.8%
San Jose	ADR	75,181	71,965	73,775	69,847	80,477
	YoY	0.4%	16.2%	14.9%	6.1%	7.0%
Santiago	ADR	122,714	118,439	112,883	115,010	111,945
	YoY	-2.9%	-7.6%	-6.4%	-16.9%	-8.8%
Sao Paulo	ADR	526	464	412	431	442
	YoY	12.2%	-0.9%	-13.5%	-19.8%	-15.9%
Toronto	ADR	198	200	221	204	197
	YoY	14.2%	8.0%	13.7%	5.9%	-0.5%
Vancouver	ADR	206	236	255	204	201
	YoY	18.3%	2.5%	3.1%	4.3%	-2.5%

Source: Advito

Methodology

Assumptions

We have assumed, as working hypotheses, that:

- The price of oil (Brent crude) per barrel will average US$50 in 2018.
- World economic growth will be 2.7% in 2017, accelerating to 3.0% in 2018.

Approach to analysis

Our ongoing research and in-depth interviews with 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 analyze and forecast on dynamic baskets using actual air segments, room nights and car rental bookings for the period in question to reflect potential shifts in travel patterns and booking behavior. The level of aggregation for each measure is determined by the validity of the relevant pool of data.

We weight monthly averages by category transactions for each unit. Regional averages for hotels are calculated using total room nights to weight the forecasts for all countries in that region. Quarterly averages are weighted averages of the months in that 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.

Hotel market tier assignments follow our proprietary classification scheme. We designate luxury and upper upscale hotels as upper tier and all other hotels as lower tier. Air cabin classes are based on our master table of airline booking classes.

When applying economic growth in our regional forecasts, we use figures aggregated at market exchange rates rather than at Purchasing Power Parity (PPP). The PPP approach risks overstating the contribution of emerging markets.

Sources

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

- International Air Transport Association (IATA) for airline capacity and traffic
- Oxford Economics for historic and forecast macroeconomic data
- Tourism Economics for room nights by region
- International Monetary Fund (IMF) for macroeconomic projections
- Economist Intelligence Unit (EIU) for macroeconomic projections and oil prices
- Eurostat for historic macroeconomic indicators and projections
- OANDA for foreign currency exchange rates
- Official Airline Guide (OAG) for airline capacity
- U.S. Energy Information Administration (EIA) for historic and forecasted oil prices
- Flightglobal.com for airline industry news and analysis
- Smith Travel Research (STR) for hotel occupancy level

The estimates and projections are based on data available through March and April 2017 respectively for air and hotel transactions, and through July 2017 for macroeconomic and industry indicators.

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Further information

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About Advito

Advito is the travel industry's most progressive consultancy, enabling procurement leaders to modernize their approach to managing the travel and meetings spend category. Led by a unique team of multi-disciplinary experts and thought leaders, we work with both clients and suppliers to push the boundaries of traditional air and hotel sourcing and strategic meetings management for higher program returns. We provide advisory, procurement and outsourcing services in the area of corporate travel sourcing, expense and meetings management, along with RFP development and management; benchmarking and vendor management services. We minimize our clients' travel spend and maximize their travel program value in a data-rich, consumer empowered world. Headquartered in Chicago, Advito operates in key business markets around the world. For more information, visit **www.advito.com**.

About BCD Group

BCD Group is a market leader in the travel industry. The 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, Flugladen and Vayama), Park 'N Fly (off-airport parking) and joint ventures Parkmobile International (mobile parking applications) and AERTrade International (consolidating and fulfillment). BCD Group employs over 13,000 people and operates in 100+ countries with total sales of US$ 25.4 billion, including US$ 10 billion in partner sales. For more information, visit **www.bcdgroup.com**.