Europe
2020 Industry Forecast

from BCD Travel Research & Innovation

BCD travel

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Air

Current situation

Europe's air travel market would appear to be in good shape. Flights are full, and the region's economies are generally performing well. During the first six months of 2019, airline traffic increased by 6.1%, faster than in any other region.[1] By matching capacity to demand growth, airlines are keeping load factors high and stable and maintaining fares.

Nonetheless, some airlines have struggled. Wow Air, Primera and Flybmi are among the recent casualties. Some second-tier airlines are still at risk. And even some of the larger carriers have reported reduced earnings or losses, including Lufthansa Group and Air France-KLM.

The causes? Fuel prices have risen sharply, and labor expenses also are increasing as employees seek their share of profits in some of the better performing airlines. Airlines are offsetting some extra costs by raising fares, but not on routes where competition is intense. This has harmed carriers that have expanded too aggressively. Global political uncertainty is not helping either.

Together, these factors mean that return on capital employed—the key indicator tracked by shareholders—risks falling below 7.5%, the level considered healthy for the airline industry. Should this happen, the impact on investor sentiment could result in more airline failures in 2020.

The time may be right for further consolidation. Europe's three largest network airline groups—Air France-KLM, IAG and Lufthansa Group—together account for around 50% of the market. This is much lower than the 80% share held by American Airlines, Delta Air Lines and United Airlines in the U.S. A new round of consolidation would likely result in higher fares.

The case for dynamic performance management

Companies control their air spend through an annual request for proposal process, negotiating with airlines to secure the best possible discounts for the year ahead.

That approach is becoming increasingly outdated. More accurate, real-time data is enabling a shift toward dynamic performance management. It lets travel buyers adjust their air program to shifting market conditions and changes in their own travel patterns and policy. Automated alerts help buyers to identify and manage issues and opportunities as they arise. In this way, they'll know straight away about a sharp price rise on a particular route.

With dynamic performance management, it's possible to constantly track spend and understand any changes. If costs increase on a particular route, the travel buyer can immediately investigate whether the cause is a straight fare increase, a fuel surcharge or the airline's attempt to limit access to lower-fare bookings.

Then it's time for action: Demand a better discount if travelers are being pushed to higher fare classes. Persuade them to book earlier to secure lower fares. Even explore contracting with an alternative carrier. Dynamic performance management constantly reveals fresh opportunities to bring spend under control.

1 IATA, Air Passenger Monthly Analysis

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Current pricing is complex. Business fares are rising on long-haul routes, where network airlines make most of their profits. Even Middle Eastern carriers, once seen as a low-cost, one-stop option for flights to Africa and Asia, are increasing fares to repair their finances.

Negotiated deals are reducing long-haul prices for corporate clients, as long as they can deliver substantial business class bookings. On short-haul routes, discounts are small or nonexistent as strong low-cost carrier competition means fares and margins are already low.

Regional fares have increased by 4% to 5%, largely due to the stronger position Lufthansa has enjoyed on a number of routes since the collapse of Air Berlin. In some cases, fares have risen by double digits. However, fares are staying low where there is low-cost carrier competition. These airlines have traditionally avoided competing on one another's routes, but this is changing. Full-service airlines will find it difficult to maintain a presence in markets where more than one low-cost carrier operates, even if they deploy their own low-cost divisions, such as IAG's Vueling or Level.

Boeing's 737 Max crisis could push up airfares in Europe

Europe may be the market most exposed to the grounding of the Boeing 737 Max. The expansion plans of Norwegian and Turkish Airlines have been derailed, with a key part of their fleets grounded and future aircraft deliveries disrupted. Ryanair doesn't have any parked 737 Max aircraft, but its future is intrinsically linked to the model, as it has orders for 135 Max aircraft.

Airline	Legacy Boeing 737s	Parked Boeing 737 Max	737 Max on order
Air Italy	8	5	5
Icelandair	0	6	3
LOT Polish Airlines	11	5	7
Norwegian	78	15	88
Ryanair	429	0	135
Turkish Airlines	78	12	63

Ryanair was scheduled to take delivery of 58 of the aircraft by summer 2020. It's unclear when the first will now arrive. The impact has been dramatic. Ryanair blamed the problems with the Boeing 737 Max for reducing its summer 2020 growth rate from 7% to 3%. The airline also plans to close airport bases and cease routes starting in November.[2] In addition, Ryanair's fuel costs will be higher than expected as the Max is 10-15% more fuel efficient than older Boeing 737s in its fleet.

Lower margins will make it harder for Ryanair to keep fares low. And its withdrawal from some routes could enable competitors to increase their fares.

2 Travelmole, July 16, 2019

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Outlook for 2020

Geopolitical developments may weaken demand in 2020. The threats include Brexit, growing tensions with Iran and an escalation of the U.S.-China trade dispute into a globally damaging trade war.

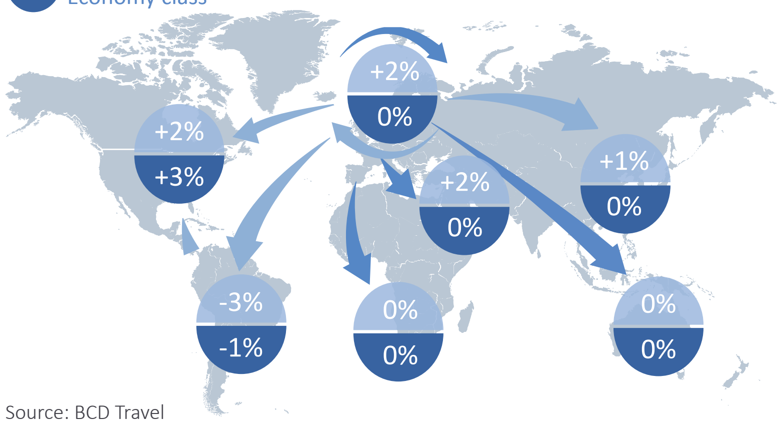
In the United Kingdom, Boris Johnson's succession as prime minister has increased the likelihood of the country departing the European Union with no political or trade agreement in place. Both the U.K. and EU seem anxious to avoid the worst-case scenario for travel: the disruption of flying rights. But a disorganized Brexit could cause an economic downturn that depresses travel demand. The U.K.'s Office for Budget Responsibility and the Bank of England both forecast the country would enter a recession in the event of a no-deal Brexit.

Airfare forecasts

Average ticket prices
% change YoY

	Intercontinental		Regional	
	Business	Economy	Business	Economy
Europe	1%	1%	2%	0%

Business class
Economy class



Source: BCD Travel

Transatlantic in focus

Flights between Europe and North America remain a key travel cost for companies on either side of the Atlantic. Large companies may have contracts with all three of the joint ventures that account for most capacity on transatlantic routes. While it would help to concentrate spend with just two groups, gaps in their networks and schedules (and traveler preference for certain airlines) make this hard to achieve.

This year a more aggressive pricing strategy has helped United Airlines and Lufthansa win corporate business and recover lost market share. However, Delta Air Lines/Air France-KLM has also made gains by simplifying its contracting process and replacing Alitalia with Virgin Atlantic in the joint venture. In 2020, it could be the turn of American Airlines/British Airways/Iberia to respond with more competitive offers.

Travelers have other options. So far, low-cost services between Europe and North America have attracted few corporate bookings. Corporate clients are more interested in the large joint ventures' new transatlantic services to secondary U.S. cities, such as Charleston, South Carolina, and Austin, Texas.

Low-cost carrier JetBlue, which plans to start flying from New York to London in 2021, could make more headway. As it's already popular with U.S. business travelers, it may be able to leverage this goodwill to secure corporate contracts for its transatlantic flights. But it faces several hurdles. It's not so well-known in Europe, and it's unclear how business travelers will respond to longer flights on the airline's narrow-bodied Airbus A321s. JetBlue also may struggle to match the same frequent schedules offered by the joint ventures that are so popular with corporate customers. Even so, JetBlue should make the U.S.-U.K. market more competitive, and buyers are likely to benefit.

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Whatever happens, uncertainty is bad for business. Companies are less inclined to invest, and that means they travel less, too. It's not clear how airlines would adapt to the economic turbulence ahead. At best they are likely to slow capacity growth in 2020. If bookings fall, fares will remain stable or even rise slightly should carriers trim capacity to align with demand. If airlines are slow to react, there could be some localized, short-term price wars, but large-scale fare decreases are unlikely. On balance, average fares should rise 1% on intercontinental routes next year and by 2% in business class on regional services. Competition from low-cost carriers should ensure regional economy fares stay flat.

Fares could rise faster in Russia. Demand has stabilized following a period of weakness when relations with Western countries deteriorated. Western airlines have been slow to restore services, so flights are full, and fares are rising.

Our air recommendations

- Encourage travelers to book earlier. With aircraft in Europe flying fuller, booking late will mean higher fares.
- Save money and time by adopting dynamic performance management for your air program.
- Use data that emerges from dynamic performance management to persuade travelers to book smarter. Use data visualization and customized predictive analytics to make the case for why they can drive savings if they change certain behaviors.

What to do about airline distribution

As more airlines roll out distribution channels enabled by IATA's New Distribution Capability (NDC), 2020 could be the year that adoption of the new standard really takes off. Travel managers, buyers and travelers need to be prepared.

- Follow the big changes and work out what they mean for you and your travelers. Far more seats could be booked via NDC by the end of 2020, potentially changing what you can and can't negotiate with airlines.
- Understand, in particular, how NDC will be adopted by booking tools. Above all, make sure your travelers can see and book the best possible fares, regardless of the distribution channels behind the technology they are using.
- Discuss with your booking tool provider the order in which it will display NDC and non-NDC fares.
- Watch out for airlines pushing personalized packages directly to your travelers. These packages will include additional services you may or may not want travelers to have (lounge access for example). Revise policy to clarify what's allowed.
- Review with your travel management company (and perhaps with its global distribution system partners) whether the fees it charges will be affected.
- Watch out for airlines removing their lowest fares from GDSs, as Lufthansa has done.
- Follow NDC developments at bcdtravel.com/ndc.

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Hotel

Current situation

Demand for hotel accommodation has remained strong in most European countries. High occupancy has persuaded developers to build more hotels, mainly under the management of four chains: Accor, Marriott, Hilton and IHG. London and Paris, two of Europe's most expensive cities, have been major hotspots for hotel openings, as have German cities Frankfurt and Düsseldorf; Warsaw, Poland; and Lisbon, Portugal.

Hotel chains are adding more budget, midscale and boutique/lifestyle properties. Business travelers have been shifting down from more expensive upscale properties. Not only do midscale hotels offer lower average daily rates (ADRs), but their quality also has improved significantly. Younger business travelers, in particular, prefer their relaxed ambience, especially in public areas.

This trend of downshifting is good news for travel buyers. It has lowered ADRs, even though hotels are full. Buyers also are benefiting from access to more hotel options. Travel management companies are working with aggregators to offer a wider range of properties—especially independent hotels—through corporate booking channels. As a result, travelers are more likely to stay inside the company program, which lowers costs, improves program data collection and makes it easier for companies to fulfill duty of care requirements to locate and assist travelers in need.

The evolution in booking and buying also makes negotiating corporate deals with hotels more challenging. Powerful revenue management systems now tell hoteliers how much they can earn from a room. As leisure demand is strong, hotels are less interested in reducing prices for corporate clients.

When they do make corporate deals, hotel chains expect companies to pledge more market share because they now offer brands meeting almost every accommodation need. But that same variety makes it hard for clients to meet suppliers' requirements because travelers have so many hotels to choose from.

Only companies that can deliver substantial volume to a hotel chain across its entire range of brands should expect discounts in the growing midrange and economy segments. Hoteliers believe these properties are already well priced for the quality they offer.

Accommodating bleisure travel

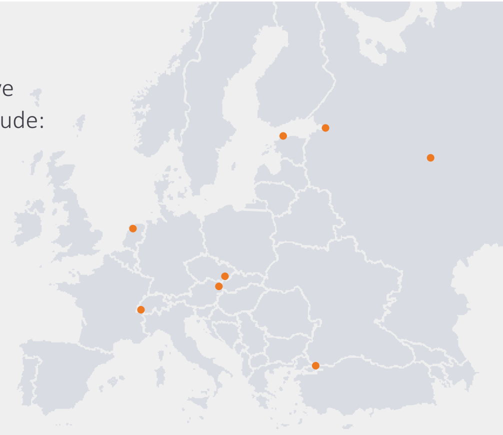
One factor driving the popularity of midscale properties is the increase in bleisure: extending a business trip for leisure purposes. Bleisure travel is especially popular among younger, child-free employees who are still relatively junior in their careers. They prefer hotels where the private room nights they pay for won't cost too much.

Companies should be more responsive to bleisure in their travel programs and policies. Accommodating this sought-after employee perk can drive down ADRs and improve duty of care. Travelers staying at one hotel for both the business and leisure elements of their trip are easier to track in an emergency.

Hotspot cities

European cities where rates have risen more than 5% in 2019 include:

- Amsterdam
- Geneva
- Istanbul
- Moscow
- Vienna
- St. Petersburg, Russia
- Bratislava, Slovakia
- Tallinn, Estonia



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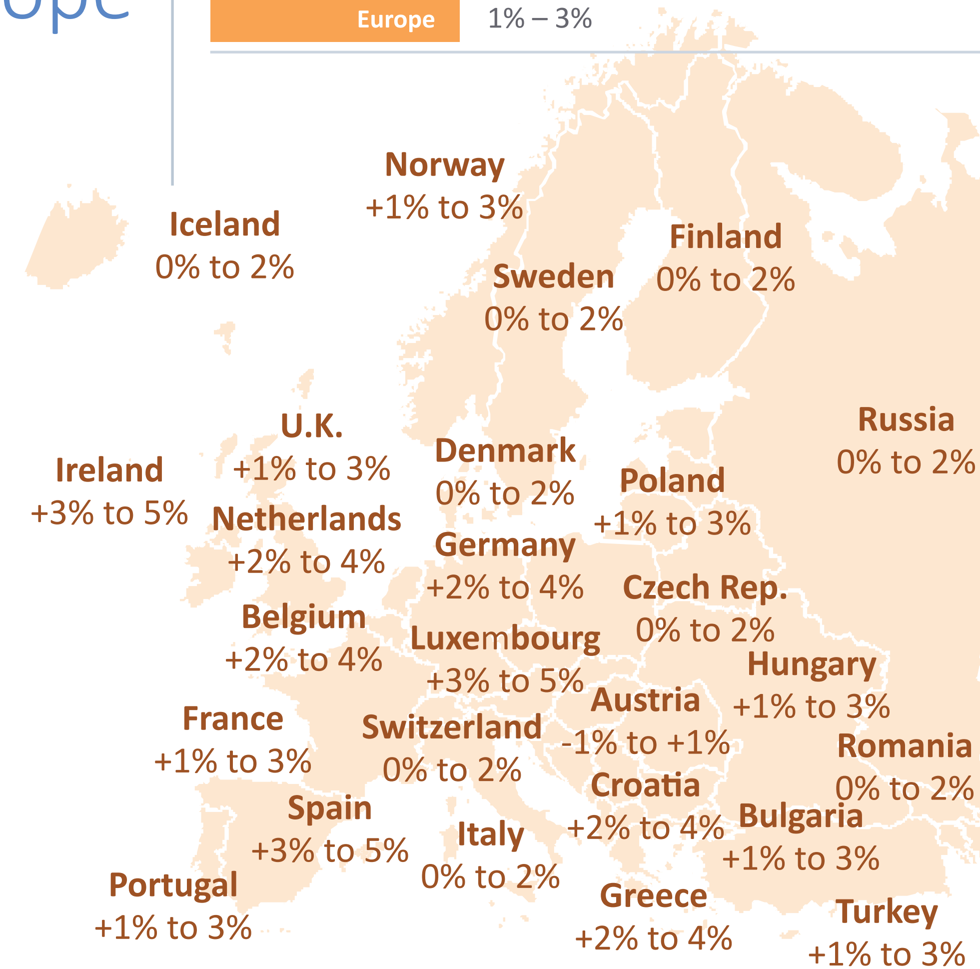
Hotel forecasts

Average daily rates % change YoY

Europe	1% – 3%



Source: BCD Travel

Outlook for 2020

The recent surge in hotel openings will continue into 2020. Demand should also stay strong, as long as European economies maintain their growth. However, geopolitical developments could depress demand across the region.

If Brexit or some other event does not disrupt the market, expect rates to rise by 1% to 3%, on average. Hotels in Spain, Ireland and Luxembourg will see the highest increases, with ADRs rising by 3% to 5%.

Among the region's largest business travel markets, Germany will see a 2% to 4% rate rise, while both France and the U.K. will have increases of between 1% and 3%. Rates will rise faster for Parisian hotels.

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Our hotel recommendations

- Ensure you have access to the most detailed booking data available. It will help determine when to go with negotiated rates for a city and when to rely instead on dynamic market rates.
- Adopt a hybrid strategy. Most programs are best suited to negotiated rates for cities where you consistently have heavy spend. Take advantage of dynamic pricing for all other locations.
- Monitor rate availability to ensure hotels are offering the negotiated deals they committed to. They will normally fix the problem if a corporate customer brings it to their attention.

Post-Brexit double trouble for U.K. hotels

London's strength as both a business and leisure destination helps it ride out most travel downturns. But even it could suffer a drop in demand if the U.K. leaves the EU as scheduled on Oct. 31, particularly if it does so without a deal.

Under normal circumstances, falling demand would persuade hotels to cut their rates. But U.K. hotels face a second Brexit-related problem. They rely heavily on labor from EU countries, which may be in short supply once the U.K. leaves. An employee shortage would push up hoteliers' costs. Hotels then would need to decide whether to raise rates to cover their higher costs or lower them to win back more business.

Avoid an accommodation own-goal during Euro 2020

Major sporting tournaments usually lead to high hotel rates and availability nightmares in the host country—or two countries if the event is shared. But next summer's Euro 2020 football tournament—running from June 12 to July 12—could disrupt business travel on an unprecedented scale.

Euro 2020 will be hosted across 12 countries. The affected cities are Amsterdam; Baku, Azerbaijan; Bilbao, Spain; Bucharest, Romania; Budapest, Hungary; Copenhagen, Denmark; Dublin; Glasgow; London; Munich; Rome; and St. Petersburg, Russia. London will see the most action, hosting the semifinals and final.

Expect rates to be high and availability tight for the 30 days of the tournament—and probably before and after it, too.

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Meetings

Current situation

Despite the many new meetings venues on offer across Europe, there is not enough supply. Demand is strongest among German and U.K. companies, with solid demand also apparent in Belgium, Denmark and Sweden.

Meeting venue availability is especially tight in key cities, and most notably in Berlin, Paris and London, as well as in the Spanish cities of Barcelona and Madrid.

Booking late makes matters worse. In primary markets, buyers who don't book well in advance must be willing to pay high rates or make compromises—or both. It helps to be flexible about days of the week; meeting space size and layout; and the number of breakout rooms. Even better: Choose another location. Secondary locations, including Seville and Valencia in Spain; Lyon, France; and Manchester and the London Home Counties in the U.K., are becoming more popular.

The strength of demand has supported a 3% to 5% rise in rates across most of the region, with even steeper increases in primary markets.

Budgeting is a problem, especially when companies stage related meetings in several countries. Venues want upfront deposits or guarantees, but companies struggle to agree on the allocation of costs across the countries and internal departments involved. Creating a virtual card to cover all event costs, including the deposit, will simplify payments and spend management.

Europe's meetings revolution

Europe is one of the world's most dynamic meetings markets. Companies are demanding more creative, experiential and memorable events. If hotels cannot provide them, companies are switching to venues that can—ranging from restaurants to movie studios to former industrial buildings.

Most businesses that are adding these new venues to their supply chain still maintain partnerships with hotels. Hotel chains are responding to this new competition by renovating existing meeting spaces, although it will take some time to upgrade their entire portfolios. They're prioritizing certain brands within the chain, refurbishing them first.

Hotels are also making greater use of their public spaces, such as lobbies, for smaller meetings. While it's not the norm in Europe for hotels to charge for using this space, they will earn revenue from the food and beverages served to meeting attendees.

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Outlook for 2020

Demand for meetings will remain robust in 2020 in Europe, where face-to-face contact drives business culture. The big hotel brands are all looking to increase meeting capacity, especially in Nordic countries where they are underrepresented. However, new supply will fail to keep pace with demand, resulting in a 3% to 4% rate rise, unless Brexit or another development causes an economic shock.

Higher rates will persuade buyers to look farther afield for quality venues at a lower cost. Lisbon is already selling very well for this reason. Destinations in Poland and other parts of Eastern Europe will become more popular in 2020, as will Istanbul, where security fears have receded.

Our meetings recommendations

- Negotiate better rates by contracting multiple events with the same venue or hotel chain. However, this will require longer lead times, which means getting all stakeholders onboard early.
- Make sure meeting organizers are checking smaller cities. The venue options can be very good.
- Allow more time to plan meetings so you can deliver a top-class production.

Meeting planners get the Brexit jitters

Demand for meetings in the U.K. is high, especially because the value of the pound has been low ever since a 2016 referendum set the stage for severing ties with the European Union. This has made meetings cheaper for bookers from outside the U.K., while going overseas has become more expensive for U.K. organizers. Uncertainty over Brexit is making meeting planners cautious, and many are delaying bookings. Even large meetings are being booked with only two- or three-months' notice.

Hotels worried about Brexit's impact on revenue have become less selective about bookings. Many now accept the first meeting proposal, even if it's for a one-day event. That may rule out accepting more lucrative extended meetings. As a result, booking the ideal venue for the ideal date is becoming even harder.

Supply is about to get a bit more plentiful in London, which is desperately short of larger meeting spaces right now. The Londoner Leicester Square is scheduled to open in 2020 with a 1,000-person ballroom.

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Ground transportation

Ride-hailing

Competition to Uber is emerging in a number of European countries. Bolt (formerly Taxify) believes its local operating model will win out over a global business like Uber in the long term.[3] Customers may also be looking for alternatives to the Uber model.[4] For example, Xoox, a new entrant in the London market, allows licensed taxi drivers and passengers to strike their own deal, taking decision-making control back from the algorithms that companies like Uber rely on. Some of these alternatives also appeal to travelers who care about their environmental impact: Rides can be chosen based on vehicle emissions.

Despite strong resistance from governments and local taxi firms, Uber continues to expand its European footprint. It recently launched in Hamburg, its sixth city in Germany. Uber faces competition in the country from Free Now, a taxi app backed by a €1 billion investment from Daimler AG and BMW.[5]

High-speed rail

High-speed rail services are reshaping travel options in some parts of Europe. For example, air services were discontinued on the Berlin-Nuremberg route after the start of high-speed rail services between the two German cities in November 2017.

Since its launch in April 2018, Eurostar's direct service from London to Dutch cities Rotterdam and Amsterdam has proved so popular with travelers that the rail company added a third daily service in June 2019.[6] The expansion brings Eurostar's seat capacity on the route to the equivalent of 12 flights per day. It now takes just over three hours to travel from London to Rotterdam by rail—and just under four hours to get to Amsterdam. More than 200 daily flights still take passengers from London to Amsterdam; three daily flights go to Rotterdam.

Direct rail services between London and Bordeaux, France, are now under consideration.[7] The new service would take under five hours, with models suggesting up to 20% of airline passengers would switch to rail.

Europe's most intensive high-speed rail development is happening in Spain. A Madrid-Granada service launched earlier this year. Other projects in the pipeline include a line from Madrid to the north coast and an upgrade of the Barcelona-Valencia line, which is currently only partially high-speed.

Spanish national rail operator RENFE has also bid to run services on France's high-speed network, which is opening up to competition from 2021.

A choice of high-speed rail service will inevitably lead to lower fares, which could boost demand.[8] The speed itself is a major selling point. European business travelers are reluctant to take rail trips much longer than three hours; high-speed trains shorten the journey.

Another driver: *Flygskam* (flight shaming), a trend with Swedish origins, is encouraging more travelers to shift from air to rail to reduce travel's environmental impact. Travelers in Sweden, influenced by teenage climate activist Greta Thunberg, already appear to be reducing flights. For example, air passenger numbers between Stockholm and Copenhagen fell 7% year over year in June 2019.

3 Techcrunch, Nov. 29, 2018
4 Techworld, April 30, 2019
5 Reuters, July 16, 2019
6 Breaking Travel News, Jan.4, 2019
7 Breaking Travel News, Oct. 16, 2018
8 CityLab, July 5, 2019

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Methodology

Assumptions

We have assumed, as working hypotheses, that:

- The price of oil (Brent crude) per barrel will average US$67 in 2020.
- World economic growth will be 2.7% in 2019, holding steady at 2.8% in 2020.

Approach to analysis

Our ongoing research and in-depth interviews with experts in corporate travel and meetings management form 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 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
- Oanda Currency Converter 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

The estimates and projections are based on data available through March and April 2019, respectively, for air and hotel transactions, and through July 2019 for macroeconomic and industry indicators.

Meet the team behind the Industry Forecast

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