

2017



Industry  
Forecast

# 2017



## Industry Forecast

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## Air fares

The low oil prices, which airlines have enjoyed since the start of 2015, continue to give them the confidence to add or maintain capacity. Lower fuel costs mean airlines can be profitable, even with lower load factors. Extra capacity means fares won't rise in most cases, and they'll fall where competition is the most intense. And it will limit price increases in any markets where demand is strengthening.

We expect global business class fares to rise by just 1% in 2017, while economy fares will be flat. But these aggregated figures mask regional variations.

This is particularly true for regional business fares, where we expect a range from flat prices in Europe and Latin America to 3% increases in Asia and Southwest Pacific. There'll be less variability in intercontinental business fares, which will rise by 1% in North America, Europe and Africa, but will not change in other regions.

## Airfare forecasts

Average ticket prices % year-over-year

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

Economy fares will stay flat or fall in most markets, with the biggest decreases likely for intercontinental flights from Asia, Latin America and the Middle East, and for regional trips within Latin America. We only expect fare increases for intercontinental travel from Europe and for regional flights within Southwest Pacific.

## Hotel rates

Global hotel rates will increase by 1% to 3% in 2017, with the strongest inflation in three regions: In North America and Southwest Pacific rates will rise due to insufficient supply, while strong demand will drive up rates in the Middle East. Africa and Europe will see the weakest rate growth, reflecting softer demand in those regions.

## Economic outlook

After slowing a little in 2016, the world economy should regain some momentum in 2017. The outlook for advanced economies remains steady, as a stronger

U.S. performance offsets slower European growth. The consequences of the U.K.'s decision to leave the European Union – referred to as Brexit – will weigh down on Europe's outlook, but the risks of a full-blown economic crisis seem low. Emerging markets will make a bigger contribution to the global economy in 2017, particularly as Latin America returns to growth after two years of contraction.

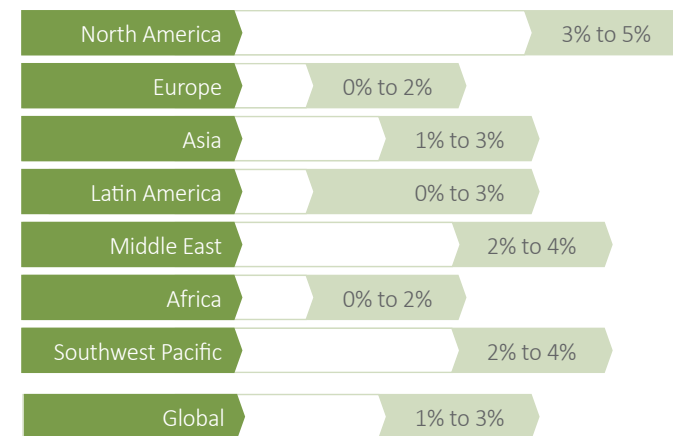
## Advanced economies

Weak global growth, a strong dollar, lower investment by the energy industry and the uncertainty of an election year are holding the U.S. economy back. We expect growth to slow to 2.0% in 2016. The pace of expansion should pick up a little, rising to 2.3% in 2017, mainly due to stronger business investment, as confidence returns after the presidential election.

It seems unlikely that Brexit will trigger a major economic shock for the Eurozone. The referendum result prompted Oxford Economics to cut its 2017

## Hotel rate forecasts

Average daily rates % year-over-year



Source: Advito

growth forecast for the Eurozone from 1.7% to 1.5%. Contrast this to the U.K., which saw its 2017 growth outlook downgraded from 2.3% to 1.1%.<sup>1</sup>

Putting Brexit-related issues to one side, the Eurozone continues its steady recuperation. As other parts of the economy, like investment, join consumer spending in driving growth, the Eurozone's recovery could soon become self-sustaining.

## Emerging markets

Emerging markets are set for a stronger economic performance in 2017. At 4.2%, growth will surpass the 3.5% forecast for 2016. This improvement is largely driven by Latin America, primarily due to Brazil, which is expected to emerge from a prolonged recession, but also because of stronger growth from Argentina and Colombia.

Asia remains the main source of emerging market activity. It will expand, on aggregate, by 5.6% in 2017. The Indian economy continues to expand at more than 7%, even as China's GDP growth rates slow down.

The U.S. interest rate increase in December 2015 exposed the financial vulnerability of many emerging economies. They must deal with lower commodity prices, weaker currencies, reduced investment inflows and growing debt. Fortunately, current economic conditions make further interest rate hikes less likely, providing some breathing space for these markets.

## Economic risks

While the global economy looks poised for stronger growth in 2017, the outlook is at risk from a number of developments:

- **Brexit-** The immediate effects of the Brexit vote are evident in a depreciation of the U.K. pound and equity price movements. But, the implications for business are less clear. While Brexit is expected to have a "negligible" economic impact on the rest of Europe, countries that have stronger trade and investment links with the U.K., like Ireland and the Netherlands, are more exposed.
- **EU exit contagion-** The Brexit vote encouraged separatist factions in other member states who

have called for similar referenda in the face of popular discontent. While unlikely, this creates uncertainty and fear of Brexit contagion which may affect investment decisions.

- **Italian banking crisis-** While it's easy to blame recent financial market volatility on the Brexit announcement, investors face a potentially more serious and immediate concern. Italy's banks, crippled by escalating bad debt, are on the brink of collapse.<sup>2</sup> An Italian banking crisis could easily plunge the Eurozone into another financial and economic downturn.

## Economic growth assumptions

Regional economic growth forecasts 2015-2017



- **China's debt burden-** Credit stimulus and a turnaround in the real estate sector helped halt the slowdown in China's economic growth, which will settle close to 6% in 2017. But, China now faces an unsustainable build-up of debt. Oxford Economics estimates efforts to reduce credit growth could knock a further one-point from economic growth. This would have a negative effect on China's neighbors, as well as on countries in other regions supplying it with commodities.

<sup>1</sup> Oxford Economics, July 2016

<sup>2</sup> The Economist, July 9, 2016, The Italian Job

## Oil prices

Brent crude oil spot prices slumped by 47% in 2015, averaging US\$50 per barrel (pb). But they ended the year even lower at US\$38 pb.

Prices have slowly recovered during 2016, mainly because of increasing disruption to supply; most notably the wildfires that hit Canadian production. Signs that growth in global oil demand will soon accelerate have also helped support rising prices. A run of five consecutive monthly increases pushed the price of a barrel of oil back to US\$48 by July- its highest level in nine months. But they have since slipped back below \$45. A build-up of stocks should prevent prices from rising too high in 2016, although economic and geopolitical events may create short periods of price volatility, as we saw after the Brexit vote.

The U.S. Energy Information Administration (EIA) believes average oil prices will fall by 16% to \$44 pb in 2016.<sup>3</sup> It expects them to rebound by 19% to US\$52 pb in 2017, returning them to 2015 levels. Major OPEC producers are likely to match Iran's increasing production, to maintain market share.<sup>4</sup> This increasing supply should help offset much of the upward pressure on prices from improving demand.

Organizations like the Economist Intelligence Unit and Oxford Economics largely agree with the EIA's outlook. Their forecasts for 2017 range between US\$50 and US\$52 pb. Our assumption is based on the lower end of this range, US\$50 pb.

### Oil price assumption

US\$  
50  
per barrel



## Oil prices

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.

## Travel risk and security

- The Terror Threat- Over the last 12 months, Europe has seen a succession of seemingly random acts of terrorism in cities like Brussels, Paris and Nice, and even smaller towns like Rouen. Usually committed by an individual or a small group, these incidents are difficult to predict and prevent. Travel managers must make difficult decisions about which incidents are serious enough to warrant action. With heightened media scrutiny of each incident, even minor incidents – some of which may not be related to terrorism- gain global coverage. This creates a risk of desensitization, which may delay an effective response to the next incident. Experts expect 2017 to follow the same pattern as 2016, which means everyone must remain hyper-vigilant.
- Industrial Action – Travelers across Europe continue to face disruption due to industrial action. Following air traffic control (ATC) disputes in France and Italy, Airlines for Europe, a group that promotes the interests of airlines, predicts “a record number of ATC strikes” for summer 2016.<sup>5</sup> Strikes at Air France, Alitalia and SAS have affected airline operations while British Airways, KLM and Lufthansa also face industrial relations issues.

- Health- Health is always a risk issue for travelers. The Zika virus has dominated the headlines this year, largely because of its association with the Olympic Games in Brazil, but it is likely to affect a relatively small proportion of the traveling public. Companies with a lot of travel to or from Latin America do need to take precautions. But, diseases like Ebola remain a big risk as business travel in emerging/high-risk markets continues to grow.
- Natural Disasters- Travelers, at times, must contend with the consequences of natural calamities. Many of these disasters have the power to significantly disrupt travel. Most are almost impossible to predict, but where possible, travelers and travel managers should plan for them.

With more travel to high-risk destinations, and more destinations falling into the high-risk category, travel managers will need to work even more closely with their internal security and risk management departments to fulfill their duty of care commitments to travelers. Along with acts of terror, industrial action, natural disasters and pandemics, companies must remember the day-to-day risks that travelers face. Female travelers face particular risks in some destinations. All travelers may be victims of petty crime, traffic accidents and medical emergencies. Travel risk management must meet those needs too.

3 U.S. Energy Information Administration, July 2016, Short Term Energy Outlook

4 U.S. Energy Information Administration, June 2016, Short Term Energy Outlook

5 Breaking Travel News, 26 July, A4E criticises Italian air traffic control strikes



### Alternative accommodations in the mainstream

The sharing economy offers new, innovative accommodation options for travelers. Companies like Airbnb are already well-established in the leisure segment and have set their sights on becoming a mainstream source of supply for business travel. Travel managers can now use tools like BCD Travel's DecisionSource® business intelligence and security solution to get a more comprehensive view of their travel programs and keep track of travelers staying in Airbnb accommodation. They can also capture and analyze spend data for Airbnb bookings to enable better, more confident program decisions. Even as demand for alternative accommodation grows, it will not be for every traveler or client. But, it is a great option when hotel rooms are sold out, or in markets where staying in a home is a safer option than hotels. In such situations, TMC integration means travelers can use alternative accommodation with confidence that they're remaining within the managed travel environment.

### Hotel direct booking

Hotels have ramped up their efforts to increase direct bookings. Chains like Hilton, IHG and Marriott offer a discounted rate for loyalty members who book direct. They want to divert bookings away from online travel agencies to reduce distribution costs and capture more data about customers. But using loyalty in this way may encourage some travelers to book outside their programs. And as TMCs may not always be able to identify travelers by their loyalty status, they may not be able to access preferential rates. Also, these special prices aren't always as good as they seem and have limited availability. Corporate negotiated rates can be lower, and often include additional amenities and benefits. Travel managers must work even harder to engage employees and keep them within the program, particularly as traveler safety & security increasingly trumps price in accommodation decisions.

### Spotlights

### AI in travel

Artificial intelligence (AI) has enabled a range of apps, bots and software, which make it easier to interact with travelers at every step of a trip. AI automates computer processes to work in the same way as the human brain. Natural language processing (NLP) helps computers understand human speech or typing, and AI then applies machine learning to provide a useful response. The travel industry is well positioned to embrace AI, as it has a wealth of information well suited to machine learning. The technology has shown its earliest potential working together with travel agents. Some startups have begun using AI to prompt agents with relevant choices during bookings. The wider travel industry is also adopting AI, with KLM passengers now able to use Facebook Messenger to confirm bookings, get boarding passes and flight status updates. Hilton, Starwood, InterContinental and Marriott hotels are trying out robots to better serve their guests. AI is still in its infancy, but it is in our immediate future. As it develops, it will help simplify complex travel decisions, shorten the buying process and deliver a more personalized offering.

### Key points

Business fares will rise, but economy fares will stay flat or fall slightly.

Hotels will push rates up by 3% to 5% and get tougher in corporate negotiations.

Surging demand will force up meetings rates again and limit availability.

Intense competition will keep corporate car rental rates flat for yet another year.

### Current situation

The key feature of this market is the strength of supply, which has outpaced demand growth. On U.S. domestic routes, the Big Three network carriers made modest capacity increases in the first five months of 2016: American Airlines 2.7%; Delta Air Lines 2.8%; and United Airlines only 0.9%. But Southwest Airlines expanded by 7.2%, while other low-cost carriers (LCCs) like Allegiant, JetBlue, Spirit and Virgin America expanded their operations by double-digit percentages. This added up to 4% capacity growth in a market where traffic grew at 3.6%.<sup>6</sup>

Demand growth has been soft because of a number of factors leading to uncertainty, most notably November's U.S. presidential election.

Excess capacity is pushing fares down on routes where airlines compete strongly. Carriers are awarding deep corporate discounts, although in return they insist clients meet deal targets and will withdraw from negotiations if they feel the client is over-committing on market share.

U.S. airlines can cope with generally weaker pricing – for now. Oil prices may be higher than a year ago, but fuel costs remain low enough to deliver profits. Airlines are also trying to maintain profitability by switching to larger, newer (and therefore more fuel-efficient) aircraft and offering welcome in-flight service improvements in an effort to lock in more corporate business. Delta and United Airlines have introduced an operations-related performance metric compensating corporate accounts if operational reliability falls below the level of either's two main competitors.

However, carriers are facing shareholder pressure to continue their strong financial performance even if market conditions get tougher. The Big Three have scaled back planned capacity growth for the rest of 2016 in a bid to maintain or grow average fares. And they can also generate extra revenue with more ancillary charges.

### Canada

Canadian business travelers have better flight choices than ever before, with more routes, more frequencies and bigger aircraft. Flights to the U.S. jumped 10% year-over-year in June 2016, while the number of available seats rose 20%. Air Canada has grown its intercontinental network dramatically, adding new transpacific and transatlantic routes including Toronto-Seoul, Vancouver-Delhi and Montreal-Lyon. Canada is also home to two fast-expanding LCCs offering long-haul flights. WestJet brings low-cost options to the transatlantic market with services from Calgary, Edmonton, St John's, Toronto, Vancouver and Winnipeg to London; while Air Canada's Rouge division has launched six transatlantic routes.

Competition has so far disappeared on fewer routes than feared when the major U.S. carriers consolidated around the Big Three in 2013. Competition has stayed healthy in key markets such as transcontinental routes and in the Northeast corridor. But for buyers whose spend is concentrated in markets dominated by one carrier, conditions will get even worse as airlines adjust their networks.

On intercontinental routes, there is too much capacity in virtually every market, with growth led mainly by non-U.S. carriers, especially on transatlantic services. Around 70% of this growth comes from new routes; the remainder comes from additional frequencies on existing routes. Gulf carriers have led the way. Emirates now operates 15 flights per day non-stop to a network of ten U.S. destinations. Etihad Airways offers six daily flights from Abu Dhabi. Qatar Airways now flies to ten U.S. cities from Doha.

6 IATA, Air Passenger Market Analysis, May 2016



## North America

### Air

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.

### Outlook 2017

Presidential elections always create uncertainty, but this November's election is uniquely unpredictable. If Donald Trump wins, businesses will likely put investment on hold as they await more detail on his policies. This will inevitably temporarily weaken business travel demand. Inbound travel could also be hit by this uncertainty around Trump's foreign policy. On the other hand, if Hillary Clinton wins, the period of uncertainty is expected to be much shorter, and the risks to demand lower.

Overall, upward and downward pricing pressures are likely to cancel each other out. Airlines are

### Big Three battle the LCCs

In our 2016 Industry Forecast, we warned that suppliers would get more creative with pricing. We saw an example of this in April 2016, when the Big Three changed their rules for multi-city tickets (itineraries that are not simple roundtrips), pushing up fares by several hundred percent in some cases.

The airlines acted to close loopholes where buying two separate tickets was sometimes cheaper than buying one connecting ticket. For example, a New Orleans-Dallas-Los Angeles fare might cost more than buying separate tickets for New Orleans-Dallas and Dallas-Los Angeles.

However, an unintended consequence was higher fares for other itineraries, like "open-jaw" journeys (where a traveler flies out to one city but returns from another). The Big Three responded by reining back some of their changes so that, for example, circle trips (City A to City B to City C and then back to City A) can be priced normally again.

### Fare rule changes

U.S. LCCs and ultra LCCs are expanding fast again. They are delaying retiring old aircraft, while easier access to credit is helping them finance new aircraft for replacement and expansion. Spirit Airlines, for example, has increased its capacity by 25% this year.

The Big Three are paying close attention to the threat posed by this rapid expansion and fighting back on two fronts. They are replacing aging regional jets with new, full-sized aircraft. They are also competing on price by introducing basic fares that strip out all benefits like seat assignment, free non-alcoholic beverages and itinerary changes. Delta has already done this, and American and United are set to follow.

### Alaska Air Group/Virgin America merger

Alaska Air Group's deal to buy Virgin America could create a stronger alternative, especially on competitive transcontinental routes. However, inserting Alaska/Virgin as a preferred supplier into existing corporate programs won't be straightforward. Smaller programs might have room for the combined carrier as a secondary supplier, but most large buyers already use two of the Big Three and risk over-committing themselves by adding Alaska/Virgin. There is even a chance some buyers might drop the combined airline because it will have become too big for them.

Alaska Air and Virgin America have very different business models, and they've attracted corporate travelers with different needs. The newly merged airline faces the challenge of satisfying and retaining business travelers from both carriers. Alaska Air has not ruled out keeping both brands.

JetBlue will feel the pressure from the merger and may respond by expanding, or seeking its own merger- possibly even with Alaska/Virgin.

## North America

### Air

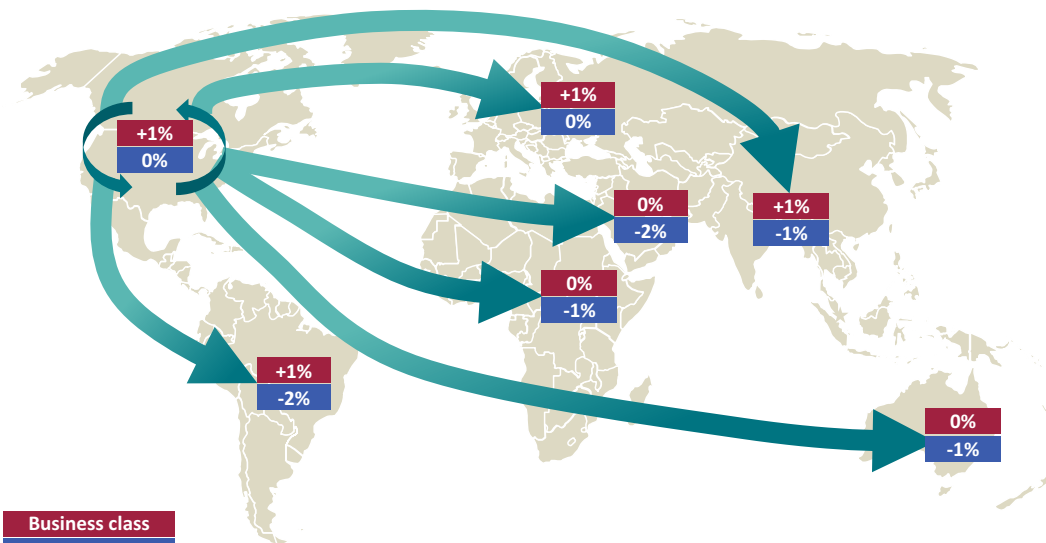
expected to test the market with fare hikes to see what customers will accept, and they'll become less generous with "waivers and favors." If oil prices start moving upwards again, as they did earlier in 2016, carriers should be able to withdraw aircraft much faster than in the past and fares could quickly rise. On balance, however, we expect no change to regional fares in economy, and only a 1% rise in business class, reflecting steady demand.

Foreign airlines continue to order new aircraft in large numbers, and choose to fly them to the U.S., because it remains the best-performing Western economy. As a result, over-supply, and therefore weak pricing, will continue: Intercontinental economy fares will fall 1%, but there'll be a small, 1% rise in business class. In some intercontinental markets, like Africa, the Middle East and Southwest Pacific, capacity growth will ensure that business fares do not rise at all.

### Our recommendations

- Know your air travel patterns in detail. Conditions vary so much route by route that understanding how your program fits with the Big Three's networks is essential.
- Leverage international spend to negotiate better domestic fares.
- Make sure you meet your airline deal commitments, and don't over-commit yourself.

### Airfare forecasts by destination average ticket prices % year-over-year



Business class  
Economy class

### Airlines market direct to travelers

Airlines have been slow to develop apps and other technology to market directly to their corporate clients' travelers. But that is changing fast. Expect a barrage of direct promotions, similar to those already launched by major hotel chains, in the coming months. Delta has already eased into this strategy through its mobile app and loyalty program. Going direct to travelers could pose a serious challenge to relations between airlines and their corporate clients whose dollars buy the tickets.

- Monitor airlines' direct marketing efforts closely.
- Encourage preferred carriers to offer your travelers the same or better benefits through your managed program that they offer travelers directly, e.g. elite status matches, free checked bags and early boarding.
- Promote corporate apps like BCD Travel's TripSource among your travelers in preference to individual supplier apps.
- Hold the line. Think carefully before allowing travelers to book with whom and how they like, because it could compromise your ability to negotiate preferential terms.
- Influence travelers to stay with the managed program by incentivizing compliance and through ongoing and engaging traveler communications campaigns.

## North America

### Hotel

#### Current situation

While it's a buyer's market for North America air travel, it's the opposite for hotels, with rates up around 5% to 6% in 2016. Although demand is steady, there's little new supply, outside of midscale brands like Hampton Inn and Courtyard.

Accommodation presents some additional challenges for buyers. Hotel chains are adopting much more effective airline-like active yield management strategies. Chains are not only pushing through higher rates, but also imposing new fees (such as resort fees) and tougher rules on changes and cancellations.

Another worry is supplier consolidation, highlighted by Marriott's acquisition of Starwood. Ownership of hotel properties is also consolidating, with fewer, larger property groups, often building portfolios that include competing brands. In some respects concentrated hotel ownership may help buyers. When chains drive through heavy rate rises, owners are pushing back strongly and quickly if it leads to a drop in bookings.

Rates have risen almost everywhere in North America. However, rate increases have slowed a little in the biggest cities (especially in New York thanks to some new limited-service hotels and the emergence of Airbnb as a competitive alternative), but accelerated in smaller cities. Some of the hottest rate spots are on the West Coast, including northern California, Portland and Seattle.

#### Outlook 2017

Uncertainty over the outcome of the presidential election could soften demand in the second half of 2016. But this will only reduce the scale of rate increases, not prevent them. The chains are aiming for steep rises, and will expect hotel owners to keep to the price guidelines they issue.

There is scope for plenty more consolidation, so expect more announcements, not only from rivals of Marriott like Hilton, but also from large Chinese investors. We'll most likely see more small deals like IHG's purchase of Kimpton in 2015.

## Texas

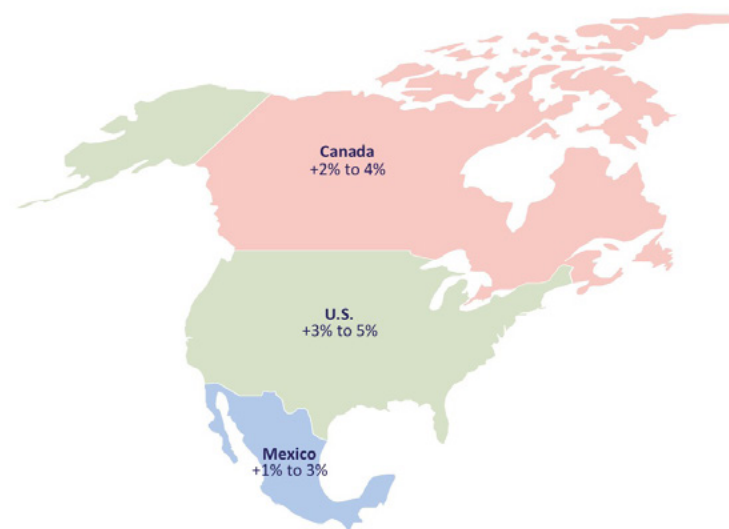
One of the few cities in the U.S. to experience a rate drop is the oil capital Houston – down 6.5% year-over-year in May 2016.<sup>7</sup> But the Dallas market is booming – its average daily rate shot up 12.9% as occupancy soared 5.3%.

Strong occupancy is also encouraging hotel chains to adopt a tougher stance in corporate negotiations. Central to their new yield management strategies is making fewer rooms available through online travel agencies (which demand commissions) or to the corporate market (which demands discounts). They are trying to exclude properties where the client books few room nights from negotiated agreements, even if it books many room nights in other properties. In some cases, hotels are even ignoring requests for proposal, preferring instead to pursue consumers through direct marketing.

Some buyers are responding to higher rates by trading down to lower-tier properties in their preferred programs, including shifting from full-service to limited-service properties.

#### Hotel rate forecasts

average daily rate % year-over-year



## North America

### Hotel

Assuming the U.S. economy does not deteriorate, expect hotel chains to further reduce the number of rooms they make available at a negotiated discount. They will instead push harder for corporate clients to switch to dynamic pricing. With negotiating options narrowing for corporate clients, we expect rates to rise in 2017 by 3% to 5% in the U.S., with smaller increases for hotels in Canada and Mexico.

#### Our recommendations

- Analyze your data to ensure you have the right balance between negotiated rates (for primary markets), fixed chain-wide discounts and dynamic pricing (for secondary markets).
- With hotels reducing the number of rooms they make available at discounted corporate rates, it is essential to negotiate early for 2017 in high-demand markets.
- Rates within individual hotels vary more than ever. Introduce a rate assurance program that actively monitors and re-books rooms when rates fall after the original reservation.
- Make sure your contract terms and conditions prevent hotels from imposing cancellation and change fees, which will become much more common in 2017.
- Keep on top of chains moving your preferred properties from one brand to another. It could lead to reduced services for the same price.
- 2017 is the year to include Airbnb-type alternative accommodations in your program and travel policy.
- Consider alternative properties, if a preferred hotel refuses to negotiate or grant last-room availability.

#### Impact of Marriott-Starwood merger

The merger will not affect pricing or corporate relationships before the end of 2016. The newly combined 5,500-property company will need until then to figure out what to do with its 40 brands and set its customer strategy.

Once fully up and running, the enlarged business will challenge buyers. They will lose negotiating leverage in some secondary cities where Marriott, already a powerful force pre-merger, will gain a monopoly or near-monopoly. Where Marriott does continue to offer discounts, they are likely to be lower than before. Marriott's frequent-guest scheme will also become even more attractive. Combined with the chain's determined direct marketing strategy, buyers could find it harder to prevent travelers from booking non-preferred Marriott properties.

#### Dynamic pricing

With dynamic pricing, a hotel gives a corporate client a fixed discount on the best available rate on the day. Dynamic rates usually work out more expensive than a negotiated fixed corporate rate. Chains are exploiting the seller's market to pressurize clients to switch to dynamic pricing at some or all of their properties. This will intensify in 2017. At the same time, chains are withdrawing last room availability from corporate rates, which means travelers can't always access the negotiated price anyway – whereas dynamic pricing always gives them access to a discount.

Dynamic pricing does have some advantages. It saves a lot of time on RFP negotiations and is still better than simply accepting the market rate. It can occasionally be better than the corporate rate too.

There is little doubt switching from corporate rates to dynamic pricing pushes up a client's average rate over time. Along with the difficulty of budgeting accurately, that is why some buyers are resisting. Other buyers take a more pragmatic approach. They allow more of their room nights to be governed by dynamic pricing, but take a hard line by insisting on negotiated corporate rates in cities where they have significant spend.

#### Serviced and extended-stay accommodation

Serviced apartments and extended-stay properties, both of which include kitchen facilities, are gaining renewed interest as a compromise between hotels and Airbnb-style private accommodation offerings. Extended-stay brands like Marriott's Residence Inn have upgraded their products dramatically over the past three years. Booking them can still be difficult, but it may be time to give this niche another look.

### Current situation

The U.S. has remained a very challenging market for meetings buyers in 2016, with demand significantly outstripping supply. Companies want to organize more meetings, but there is very limited expansion in meeting space, especially for larger groups. Most recent hotel construction in the U.S. has been in lower tier categories, which are aimed at transient business and leisure travelers. On average, hotels built over the past six years have 24% less meeting space than those built between 2000 and 2009.<sup>8</sup>

As a result, booking the desired city on the desired dates without paying a steep price is harder than ever. Buyers are responding to the problem in different ways. Some are staging more but smaller meetings, for which space is easier to find. Availability and high pricing are issues in the biggest cities, so buyers are looking at the next tier down – so much so that cities such as Denver and Nashville (see Spotlight) are now almost as popular as first tier destinations.

Buyers are giving internal clients a clear message that they need to be more flexible about when and where they stage their meetings, and to book earlier. As well as considering second-tier and even third-tier U.S. cities, buyers are also looking at Sunday-Tuesday meetings instead of Tuesday-

Thursday (which can save \$20-\$50 per room night in many cities), and also to less popular times of the year. However, even this tactic won't necessarily generate savings: Hotels in Florida and Arizona have extended the windows for their high-season rates making off-season bargains harder to find.

Strong demand and limited supply have inevitably pushed up rates – around 3% to 6% this year on average. However, given the mismatch, it could be worse. Hotels are still cautious after several bad years following the 2008 recession, so they are taking some of the heat off headline rates by increasing total price in other ways. They have raised food and beverage prices, and enforced service charges as well. Charges for meeting space are also on the increase, especially for smaller meetings and catering-only events like dinners. Even if buyers avoid charges for the main meeting room, they are likely to be charged for breakout rooms – which means “space hogs” need to think twice about blocking extra rooms “just in case.” Hotels are also charging clients if they go beyond agreed set-up and dismantle times. And they are simply saying “no” more often to business which is unlikely to deliver a good financial return.

### Outlook 2017

The presidential election could slow demand temporarily before prompting a spike in last-minute bookings immediately afterwards. Some of those customers will be disappointed by non-availability. Demand will grow strongly, and although there will be some improvement in supply in 2017, it won't prevent rates from going up.

### Our recommendations

- Be as flexible as possible in your choice of destination, time of year and time of week.
- Review your meetings history to ensure you do not ask for more space than you really need.
- Be realistic about what concessions you can negotiate with suppliers in a seller's market. Only push for what is truly important to you.
- Seek multi-year deals with suppliers to leverage a better discount.
- Bundle together as many meetings as you can with the same supplier – as long as it genuinely meets your internal needs too.
- Be prepared for hotels trying to re-negotiate existing master service agreements. Decide what you can give ground on and what you can't.

### Destination winners and losers

Cruises are proving increasingly popular for group trips. Peru, Australia (thanks to new flight connections to the U.S.) and French Polynesia are all hot incentive destinations.

However, bookings are down sharply for Istanbul (because of security concerns), and for the Caribbean, Costa Rica and Mexico (because of fears about the Zika virus). Some events in the Caribbean have been cancelled, as have incentive trips to the Rio Olympics.

### Music cities hit the right note for meeting buyers

Nashville is becoming one of the most in-demand destinations for meetings, and is drawing business away from larger, more expensive cities. A revitalized downtown and the 2013 opening of the 1.2 million square foot Music City Center have combined with its unique musical heritage to make it a strong draw for after-session entertainment. The 800-room Omni Nashville has been extremely popular since opening in 2013 and will be joined by a Westin in fall 2016 and a JW Marriott in 2017.

Not far behind is Austin, which has built on the prestige of its legendary South by Southwest Conference and Festivals to become a year-round conference destination. A 1,012-room JW Marriott opened in the Texan capital in 2015 and will be joined next year by a 1,068-room Fairmont with 106,000 square feet of meetings space.



### Car rental Current situation

Hertz and Avis pushed up leisure car rental rates in 2016. But, like every year since the financial crisis of 2008, their efforts to drive up corporate rates failed. Negotiated prices are in line with 2015, even though demand has increased slightly and capacity stayed tight.

The reason is continued fierce competition from Enterprise Holdings, owner of the Enterprise, National, and Alamo brands. It has shown no inclination to push up rates like its two main rivals. None of the majors wants to lose existing business, so they are tempting clients with deal extensions attractive enough to stop them from going back out to tender.

With corporate rates flat, rental companies are trying to grow revenue in other ways. See Our Recommendations for ways to deal with suppliers' efforts to add extra charges. If corporate clients resist these extras during negotiations, suppliers will often back down.

More corporate clients are taking on a secondary supplier because tight capacity means their primary supplier is not always able to deliver. Traditionally, well-managed clients have assigned 90% to 95% of their business to their primary supplier, but availability problems make it much harder to reach these levels. Relationships with primary suppliers are rarely harmed if the secondary supplier is confined to overspill bookings.

Multinational (mainly North America and Europe) agreements are on the increase, with all of the big three rental companies now present in both regions. However, buyers will almost certainly have to plug holes by signing additional regional and national suppliers outside North America. Local players often offer very good options in terms of locations and service.

### 2017 outlook

There is no reason to believe the long-running buyer's market will change next year, but watch out for rental companies dreaming up new ways to inflate the final bill.

### Ride-hailing

How and whether to engage with new-generation suppliers like Uber and Lyft remains a challenge for buyers even as these services have gained tremendous popularity with business travelers. In the U.S., ridesharing services accounted for 48.7% of ground transportation transactions (including car rental) processed by expense management company Certify in the second quarter of 2016, up from 8.1% in the same quarter in 2015. This is largely at the expense of taxis, whose share has slumped from 37.2% to 14.0%.<sup>9</sup>

However, buyers are still concerned about compliance and duty of care issues such as accident liability. Suppliers are also trying to address these concerns with business-friendly services. For example, Uber's management information now gives travel managers the ability to mark which rides were non-compliant.

There also remain regulatory question marks. Both Uber and Lyft closed operations in Austin rather than comply with rules forcing driver background checks. In other cities, lawsuits are pending to determine whether drivers should be classified as contractors or employees. This could hit the business models of Uber and Lyft severely.

For now, ride-hailing companies look unstoppable. Like taxis, black car firms have also taken a hit to their businesses. Companies like GroundLink are fighting back by making pricing more transparent and allowing rides to be booked with only 20 minutes' notice (previously two hours).<sup>10</sup> However, both Uber<sup>11</sup> and Lyft<sup>12</sup> are introducing pre-booked rides which could hit traditional suppliers even harder.

### Rail

The North American market has great potential for high-speed rail development, but progress has been held up by political and legal challenges.

A new line in California is the most advanced. The first section of high-speed track, from Fresno to Bakersfield, is due to open by 2019. It forms part of a line from San Francisco to Los Angeles, scheduled to open by 2029.

Other projects are in their early stages, including a high-speed rail connection from Minneapolis and St. Paul to Rochester, and a new service between Dallas/Fort Worth and Houston. It's likely to be at least six years before either project is complete.

### Our recommendations

- Negotiate out higher rates for larger vehicles if the booked category is unavailable.
- Warn drivers to record all pre-existing damage or scratches on the vehicle with the supplier before they drive off to ensure that there is no dispute later.
- Make sure suppliers' franchise locations are always included in the rental agreement. Negotiate out any black-out dates that you do not want in the agreement.
- Beware of suppliers adding city or state surcharges to agreements. Negotiate out any that particularly affect you.
- Beware of one-day rental surcharges. Traditionally these have only applied to Tuesdays and Wednesday rentals, but now suppliers are trying to apply them to all days of the week.

### Sixt

Keep an eye on German-owned Sixt, which is growing quickly in the U.S. market. Sixt is not yet big enough to challenge for major nationwide contracts, but it is definitely appearing more often in smaller bids, even though some of its locations are off-airport.

<sup>9</sup> Certify, Ride Hailing Continues to Rise, July 2016

<sup>10</sup> Business Travel News, GroundLink will launch short-notice booking in 20 more markets, July 19, 2016

<sup>11</sup> Uber.com/info/scheduled-rides

<sup>12</sup> Lyft, Introducing scheduled rides: Plan your trips in advance, May 23, 2016

Key  
points

Low-cost carrier expansion will keep regional fares from rising.

Intercontinental fares will rise by 1%.

Brexit adds some uncertainty to the outlook

Hotel rates will change by 0% to 2% because of little new supply.

### Current situation

Lower fares stimulated strong demand growth in the first quarter of 2016, largely on long-haul routes, and in particular, in the transatlantic market. However, demand has since lost its momentum and seems unlikely to regain it in the near term. The U.K.'s decision to leave the European Union (Brexit), a recent spate of terror attacks and instability in Turkey are likely to depress European travel demand.

Supply has increased faster than demand. Low fuel costs have encouraged expansion, by low-cost carriers (LCCs) on short-haul routes, and largely by the three Gulf carriers and Turkish Airlines on long-haul routes (we refer to them collectively as Middle East carriers). European airlines continue to lose share to their Middle Eastern rivals, which often operate larger aircraft, enabling them to carry more passengers at lower

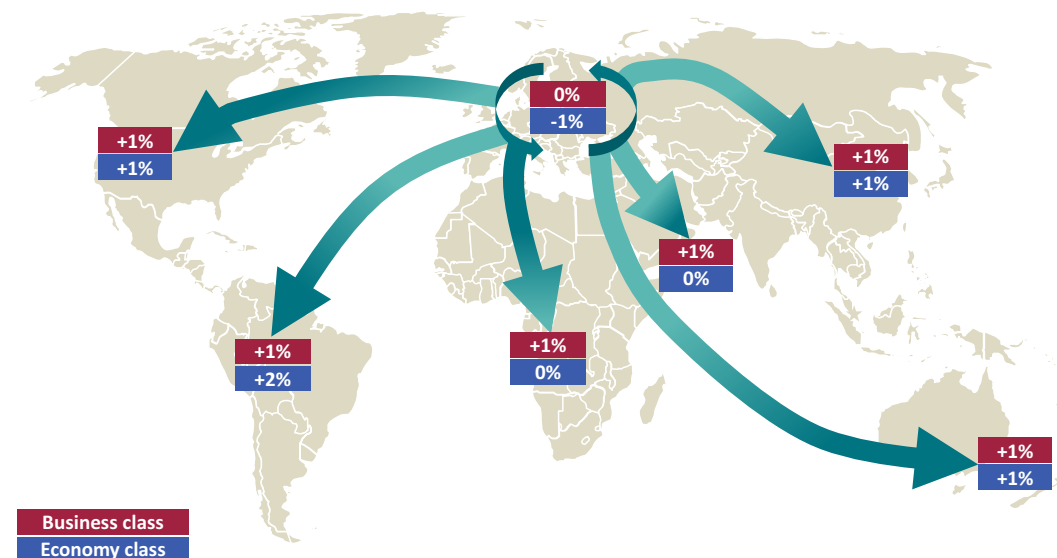
average fares. Lufthansa has responded by steadily reducing its Asia network, with its Frankfurt-Kuala Lumpur service being the most recent casualty.<sup>13</sup> But it aims to prop up its Asian operations through joint ventures with both Air China and Singapore Airlines.

Overcapacity has inevitably pushed fares down for both regional and intercontinental flights in 2016. LCCs in particular are keeping their lowest fare buckets open for longer. In the regional market, Air France-KLM, Lufthansa and IAG (owner of British Airways and Iberia) have responded by growing their own lower-cost offerings (Transavia, Eurowings and Vueling), and that too has contributed to lower fares.

The abundance of cheap published fares in the regional segment means the proportion of negotiated fares in European travel programs for short-haul trips is less than half the level seen in the U.S. – and it's dropping

### Airfare forecasts by destination

average ticket prices % year-over-year



<sup>13</sup> Business Traveller, December 17, 2015, Lufthansa axes Frankfurt-Kuala Lumpur service

<sup>14</sup> Lufthansa Group 2nd Interim Report January-June 2016

### Lufthansa Distribution Cost Charge

In September 2015, Lufthansa Group introduced a €16 surcharge for bookings made outside of its website and other direct channels. This Distribution Cost Charge (DCC) effectively increased the total price of all Lufthansa Group flights booked via global distribution systems (GDS). Although it makes little difference to the total price of a long-haul business class flight, it has increased direct travel costs, particularly for companies with high volumes. It's possible for some travelers to avoid the surcharge by booking seats on Lufthansa Group airlines through their joint-venture and codeshare partners. But travelers and companies find this a challenge, and some switch to other carriers instead.

Other airlines have yet to follow Lufthansa's lead. They're most likely to act, if they choose so to do, when their existing "full-content" GDS agreements expire. Claims from Lufthansa that its distribution strategy is "paying off," with DCC "accepted by the market" may encourage them. Some airlines may offer discounts for booking direct, rather than applying Lufthansa's approach of surcharging those who book through GDSs. Others might be deterred by recent comments from Lufthansa, conceding that its new distribution strategy has seen the group "giving up some bookings."

Long term, Lufthansa's move is bad news for corporate clients. TMCs have a contractual obligation to provide a lowest-fare comparison to customers. GDS content presents the most cost efficient way to compare prices. Should a Lufthansa Group airline's website offer the customer's corporate rate, TMCs must still shop and compare prices in the GDS. And even if they booked on a Lufthansa Group site to avoid the DCC, the customer would still face additional technical and manual processing costs for effective traveler tracking and full management of client programs.

fast. Airlines are only prepared to negotiate deals for “carve-out” markets, where a corporate client might have high levels of spend. Buyers are happy for their travelers to buy restricted or semi-flexible fares. They’re so low that program savings can be made, even if some of the tickets are not used. This dramatic shift towards adopting published fares means airline contracts are becoming shorter and simpler.

For intercontinental travel, buyers have benefited from aggressive corporate pricing strategies by Etihad Airways and Turkish Airlines in particular. Corporate clients’ relationships with their local carriers are weakening, though they remain important. European airlines recognize the need to offer good discounts to stay relevant, especially if they want to retain network-wide agreements.

### From low-cost to hybrid carrier

The transformation of airlines like easyJet from leisure-focused LCCs into hybrid airlines able to attract business travelers is almost complete. EasyJet now offers flexible fares, a small volume discount and even a loyalty program. LCCs are also increasingly operating from primary airports in the largest cities, as they already fly nearly all the viable routes between smaller cities.

The worry for LCCs is that cheap oil has contributed significantly to their ability to keep fares low while adding more frills. If oil prices rise significantly, LCCs may have to quickly scrap loss-making routes. They might also close lower fare classes earlier to push up their average fares without raising published prices.

### Outlook 2017

Assuming that there is no economic or political contagion across Europe from the U.K.’s decision to exit the European Union, and no further deterioration in safety and security, then the European market should enjoy some stability in 2017. There’s a chance of further consolidation among the region’s airlines. But as this would most likely only involve secondary national carriers, like SAS or LOT Polish Airlines, or some of Europe’s smaller LCCs, it’s unlikely to push up fares. In fact we’re forecasting a 1% fall in regional economy fares and no change to regional business fares in 2017.

A continuation of the modest recovery in demand will support a 1% rise in intercontinental fares. We expect business fares to rise at this pace on flights to all regions.

### Non-stop or connect?

The growth of LCCs and Middle Eastern airlines has created a paradox for European business travelers. While LCCs make it possible to fly non-stop between almost any two points in Europe, long-haul travelers have seen a decline in their non-stop options.

For trips to Asia and Africa they must increasingly connect via the Gulf or Istanbul. Additionally, Middle Eastern carriers offer connections to secondary destinations, which simply would not justify non-stop services from Europe.

It’s still possible for travelers to fly non-stop to long-haul destinations from smaller European airports. But for routes to Asia like Düsseldorf to Beijing and Tokyo they face paying higher fares in exchange for saving a considerable amount of time, in some cases as much as seven hours. In contrast, there’s less time to be saved flying non-stop from Europe to South Africa, and fares via the Middle East can be much cheaper. Flying non-stop is not always the most cost effective option.

### Our recommendations

- If you are one of the few corporations which still urge travelers not to book with LCCs, reconsider.
- Look at premium economy instead of business class for flights of 4-7 hours. More airlines are offering this product, which generates big savings.
- Allow travelers to book published fares on short-haul flights when they offer better value. This will simplify and shorten the air contract process. You may only need to negotiate every 2-3 years instead of annually.
- In between contract negotiations, dynamically manage your program, actively monitoring deals and making relevant adjustments to keep it on track.

### Low-cost and long-haul

European and Canadian LCCs are expanding in the transatlantic market. Operating routes like London-Oakland, Paris-New York (both Norwegian), Cologne-Boston (Eurowings) and London-Toronto (WestJet), they’re in markets that may make them interesting to some business travelers. Few are using them yet, but LCC expansion increases downward pricing pressure on full-service airlines. As they’ve done in the short-haul market, LCCs could also refine their long-haul schedules to improve their relevance to business travelers. Norwegian and Eurowings already offer a business cabin.

There is one possible downside for travel buyers. As the LCCs add to transatlantic competition, particularly on leisure routes, the legacy airlines that business travelers currently rely on, may withdraw from some secondary markets. And competition among LCCs could intensify further. As talk grows of JetBlue’s interest in flying to Europe, incumbent LCCs may work even harder to exploit and preserve their early entry in this market.



### Current situation

Few new upper-tier hotels have opened in Europe in 2016, but budget properties are on the increase. AccorHotels has expanded its Ibis brand, and smaller single-brand chains like Germany's Motel One are growing too. Reasonable prices and reliable standards make these chains corporate-friendly – and business travelers are increasingly prepared to use them, just as they accept flying with low-cost carriers. Independent hotels are also becoming easier to book and track as TMCs integrate content from non-GDS sources and offer it to clients.

Demand was healthy in the first half of 2016 thanks to a steadily improving economy, especially in the Eurozone. European companies were more willing to let employees travel, but tried to keep total spend from rising by downgrading policy slightly and introducing more lower-priced hotel options in their programs.

The picture looks less certain in the second half of the year, as economic and political uncertainty grows following the U.K.'s Brexit decision and a new wave of terror attacks across the continent. In France, the leisure market has suffered more than business travel. Occupancy is still far below normal levels in

Paris, and in Brussels. Istanbul continues to suffer too: Room nights are down 23% year-over-year.

Rates have climbed steadily in most European cities, with London, Amsterdam, Zurich, Geneva and Germany's largest cities the stronger performers. Even in destinations directly affected by terrorism, rates for corporate clients have not necessarily fallen. Parisian hotels preferred to offer rate promotions rather than reduce the corporate rates they had only just pushed back to pre-2008 recession levels. Average rates have dropped 16% in Istanbul, but the terror attacks and failed coup have led travel managers to re-house travelers in properties with the highest levels of security. As a result, demand for these "safe" hotels is high, and, if anything, their rates have gone up.

More generally, travel buyers are finding corporate hotel negotiations have become more difficult. The most popular hotels are not necessarily awarding bigger discounts in return for more business – yet they are reducing discounts if clients book fewer nights. Hotels are using better data to analyze total client spend, and they are becoming stricter about terms and conditions, such as last-room availability and cancellation policies. Buyers are responding

### Brexit

The U.K.'s decision to leave the European Union instantly added major uncertainty to the European outlook. As expected, the decision hit business and consumer confidence. The U.K. pound rapidly depreciated, and has settled 10% lower against the euro. That means an instant hike in overseas accommodation costs for U.K. travelers. But at the same time, the U.K. has become a cheaper and more attractive destination for foreign travelers. With more U.K. travelers staying at home, and hotels anticipating an influx of foreign guests, pressure is growing on average daily rates. We expect them to rise 2% to 4% in 2017.

### Germany

Frankfurt is expected to benefit directly from Brexit. Home to the European Central Bank and the German Federal Bank, it could see an influx of business travelers, should financial services companies decide to transfer staff from London. The city's hotels are already benefiting from vibrant demand, so the prospect of increasing corporate business will keep upward pressure on rates.

Hamburg is also set for higher rates. This city is an important business destination and is becoming increasingly popular with leisure tourists, putting more strain on capacity.



by looking for better ways to negotiate, such as switching to two-year deals, or changing the month that agreements begin; but hotels often resist such changes.

### Outlook 2017

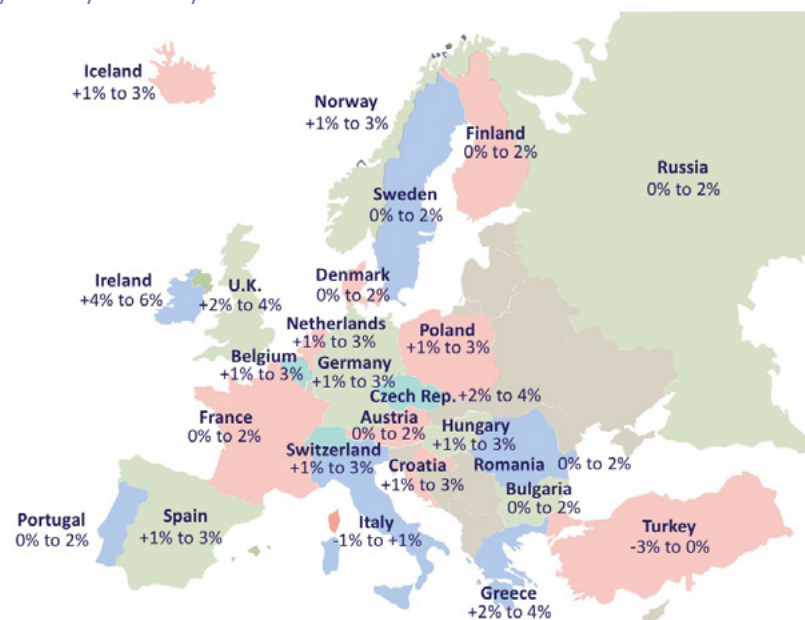
Increasing uncertainty about the implications of Brexit, potential political leadership changes and security issues will soften what might otherwise have been a strong seller's market in 2017. Even so, demand will stay ahead of low capacity growth, and that means rates will range from staying flat to a 2% increase on average.

### Our recommendations

- As concerns about security intensify in this region, it's vital to know where your travelers are at all times.
- Invite more hotels into your preferred supplier program in high-demand cities, especially the increasing range of good-quality midscale hotels.
- Review what you include in your negotiated rate. You may not need the same cost items for all destinations. For example, there may be no need to include breakfast in London, where many dining options are a short walk away. Find out, rather than assume, what your travelers really value.

### Hotel rate forecasts

average daily rate % year-over-year



### Current situation

Demand is growing. One development of particular note is a boom in “kick-off meetings,” like the meetings held at the beginning of a financial year or to inspire employees. Incentives are also experiencing a revival.

However, although the number of meetings is up, companies are being very careful about how much they spend. They are shortening travel times, which usually rules out trips beyond Europe, and rolling multiple meetings into a single event.

Supply is not keeping pace with demand. There has been little new capacity, and with many clients still booking at short notice, they are increasingly failing to find space where and when they want. This is especially true for larger events, for which Europe has few suitable venues.

Limited availability also means venues are pressing clients to confirm bookings quickly, because they're confident of selling the space. Clients able to confirm quickly are well-placed to negotiate better terms and conditions plus extras such as refreshments.

### Outlook 2017

Right up until the Brexit vote, the U.K. was leading European growth in demand for meetings, and forward bookings for 2017 and 2018 were strong. Following the vote to leave, some meetings

### Destination management companies

The growing popularity of using convention centers for daytime business sessions and offsite venues for evening entertainment is making bookers increasingly reliant on destination management companies (DMCs). Many businesses, and even individuals, trade as DMCs, and they often demand large deposits. Make sure your meeting and events planning agency or TMC has carried out due diligence to ensure the DMCs it uses are financially secure.

In spite of rising demand, rates have only risen around 2% across Europe in 2016. Instead, the main challenge for buyers is that hotels are reluctant to negotiate discounts. Hotels are more willing to discuss cancellation terms or offer benefits like free break-out rooms or food and beverages.

agencies have reported cancellations. Others believe there may be a short-term increase in business as clients bring staff together to reconsider their strategies post-Brexit. Because of the devaluation of the pound, U.K. companies may be more inclined to hold meetings in the U.K., rather than travel to Europe. At the same time, currency weakness will make the U.K. a more attractive option for European meeting planners.

The consequences of the Leave vote for meetings buyers will not be fully clear for some time. For example, it may, in future, be more difficult for U.K. companies to recover foreign VAT in other EU countries and vice versa. That would add to meetings costs.

Brexit aside, 2017 is likely to be similar to 2016, with rates rising steadily and buyers facing challenges negotiating discounts and finding availability. They will try to hold down costs by choosing destinations closer to home.

### Our recommendations

- Make sure you and your meetings suppliers have crisis management plans in place.
- Don't just focus on cost. You'll only satisfy meeting objectives if delegates have a good experience too.
- Monitor the implications of Brexit on how you plan your meetings program.

### Security

Terror incidents over the last year in Paris, Brussels, Istanbul, Munich and Nice have pushed security to the top of meeting planners' agendas. Many place it ahead of cost, accessibility and quality of venues in their selection process. The French and Belgian capitals are still popular for conferences, remaining in Cvent's list of Europe's top ten meeting destinations.<sup>15</sup> While event agencies report some decline in interest,<sup>16</sup> availability has become a critical problem in Paris again. Istanbul, which had been winning substantial business, has quickly lost its appeal because of security concerns.

Businesses now understand the need to develop crisis management plans for their meetings, covering issues such as escalation processes and communications. However, smaller companies lack the resources to develop these plans themselves and are seeking assistance from their TMCs or specialized risk management companies.

<sup>15</sup> Conference & Incentive Travel, May 17, 2016, London tops Cvent's list of Europe's best meeting destinations

<sup>16</sup> Conference & Incentive Travel, June 23, 2016, State of the Industry 2016

### Car rental

Enterprise Holdings continues its rapid expansion to establish itself across Europe. In 2012, its three brands (National, Enterprise and Alamo) operated in just three European countries: the U.K., Ireland and Germany. Today, it operates in 35.

### Ride-hailing

As they've done in North America, ride-hailing services are rapidly capturing market share from taxis in Europe. However, they have faced many more legal challenges, disrupting their European expansion. Uber has recently suspended service in Hungary<sup>17</sup> and its Uber Pop service is banned in Germany, France and Brussels. Taxi and chauffeur companies in the U.K. are fighting back with their own ride-hailing apps. Car makers and rental companies are getting involved too. Daimler-Benz will merge its MyTaxi booking app with Hailo to better compete with Uber. Europcar now operates car sharing in five European countries through mobility start-up UbeeGo. It's using the company to develop a multi-modal platform, so that UbeeGo customers can rent a car, order minicabs, book chauffeur services and rent cars by the hour with a single app.

### Rail

High-speed rail expansion continues in France, with new or improved lines from Paris to Strasbourg (and onwards to Frankfurt), Brittany and Bordeaux opening in the next two years. There are also five line extensions or links opening in Spain during 2016 and 2017. National rail operator Renfe aims to make its high-speed services more accessible to business travelers outside Spain after signing a deal with Amadeus for distribution through GDS and online channels.



17 Reuters, July 13, 2016, Uber to suspend operations in Hungary due to govt legislation

Key  
points

Competition will keep most fares in check, but demand will drive up regional business fares.

Hotel rates will rise by 1% to 3%, with much stronger increases in Japan.

Meetings rates will rise fastest in key gateway cities like Hong Kong, Shanghai, Singapore and Tokyo.

High-speed rail will continue winning market share from air in China.



### Current situation

Strong growth in supply continues, with airline capacity growing by 7.6% in the first five months of 2016.<sup>18</sup> Some markets have seen particularly strong rates of capacity growth over the last two years.<sup>19</sup>

Demand across Asia is decelerating, as the region's economic growth slows, most notably in China. However, Asia's fast-expanding middle classes have acquired an insatiable appetite for leisure travel, and this is driving a rapid increase in new direct routes, which are stimulating more demand.

Beneath these headlines, Asia is arguably more diverse than any other region, and each country has a very different story to tell. In China, economic growth has become increasingly domestically focused. This supports domestic business travel, but demand for international air travel has fallen. Much of the focus on domestic

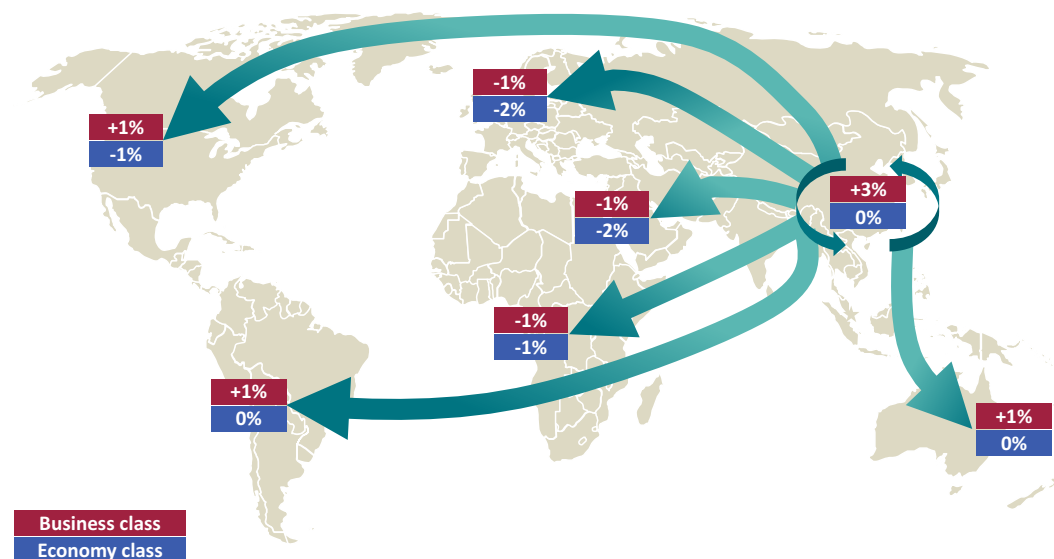
expansion has been outside primary cities like Beijing and Shanghai, as Chinese companies relocate inland to lower-cost Tier 2 cities like Chengdu and Chongqing. Business air travel growth is less likely from Tier 3 cities, as travelers can use high-speed rail services to connect to airports in Tier 2 cities with better flight networks.

With supply and demand in balance on domestic Chinese routes, fares are stable. In contrast, demand is falling behind supply on international routes, despite strong leisure sales. Across Asia, airlines must keep fares low simply to fill the seats they've added over the past two years, especially on long-haul routes. Heavy discounting through promotional fares has pushed prices down by as much as 10-12% in some cases.

India is replacing China as Asia's major economic success story, as it continues to grow at 7%+. This strong performance has led to a boom in air travel: Domestic

### Airfare forecasts by destination

average ticket prices % year-over-year



<sup>18</sup> IATA, Air Passenger Market Analysis, May 2016

<sup>19</sup> CAPA

<sup>20</sup> Directorate General of Civil Aviation, Government of India

### China-North America

The number of weekly seats from China to North America has soared by 38% over the past two years, and from an ever-growing list of Chinese airports. New transpacific routes launched (or scheduled for launch) between May and December 2016 include:

Air China: Shanghai-Montreal, Shanghai-San Jose

China Southern: Guangzhou-Toronto

Hainan Airlines: Beijing-Calgary

Xiamen Airlines: Xiamen-Los Angeles, Xiamen-Vancouver, Xiamen-Seattle

United Airlines: Xi'an-San Francisco, Hangzhou-San Francisco

Demand is not keeping pace, so return China-U.S. economy fares can be as low as US\$250, while business class fares have fallen from US\$4,000 to US\$2,500-3,000.



demand shot up 23% in the first five months of 2016.<sup>20</sup> Fares are staying low, thanks to LCCs which have nearly 60% share of the domestic market.

Japan's economic growth has stalled, but the weak yen has increased the number of foreign visitors flying to the country. LCCs like Skymark Airlines, Jetstar Japan, Peach and Vanilla Air are helping to push fares down on domestic and short-haul routes, but all have ownership ties to the country's established duopoly of JAL and ANA. Carriers without these affiliations, like Spring Airlines Japan and the planned AirAsia Japan, as well as expansion into Japan by foreign LCCs like Hong Kong Express and Jeju Air, may help push fares down further.

### Outlook 2017

Domestic demand in China will soften slightly as economic growth slows and companies consider alternatives to air, including high-speed rail and virtual conferencing. Chinese business travelers have been slow to embrace LCCs, but this will change in 2017. All these pressures mean fares for Chinese travelers should stay flat next year, on both domestic and international routes.

Fares are unlikely to climb in most other Asian countries, as supply will generally outpace total demand. But as business travel picks up, it will drive a 3% increase in regional business class fares in 2017.

## International expansion by India's airlines on the horizon

India is relaxing its 5/20 rule, which prevented airlines from launching international routes until they had operated for five years and had a fleet of at least 20 aircraft. It will now allow local carriers with at least 20 aircraft to fly international routes even if the five year operational requirement is not met. Recent entrants like AirAsia India and Vistara can now expand overseas much earlier, likely starting with destinations in the Middle East and Southeast Asia. Expect fares to fall when this happens.

Overall, intercontinental business fares will on average stay flat, as 1% increases to North America, Latin America and Southwest Pacific offset 1% decreases to other regions. Economy fares will remain unchanged for regional travel, and will typically fall by 1% to 2% on intercontinental flights.

### Our recommendations

- Give more of your business to fewer preferred suppliers to drive better discounts. Consolidation is still much less common in Asia than elsewhere.
- Use communication as well as policy to steer travelers towards alternatives to mainstream carriers, such as LCCs, virtual conferencing and high-speed rail.

Average weekly seats	2014	2 year growth %	2016
China-all regions	1,250,00	24%	1,550,000
China-North America	80,000	38%	110,000
China-SW Pacific	26,000	46%	38,000
India-all regions	560,000	14%	640,000
India-Middle East	250,000	32%	330,000
Japan-Australia	11,000	36%	15,000

Source: CAPA

### Current situation

China is experiencing a boom in lower-tier property openings, with domestic chains Huazhu Hotels Group, Jin Jiang Inn and Home Inn leading the way. Home Inn is already the world's ninth-largest hotel chain, with almost 3,000 properties open or in the pipeline. Most compare favorably with budget chains like Comfort Inn and Quality Inn in the U.S., especially outside Tier 1 cities. Jin Jiang claims to be the world's tenth-largest chain. A growing investment in AccorHotels suggested that Jin Jiang might look to expand the French company's economy and midscale brands in the Chinese market, enhancing its appeal to western travelers. However, this relationship looks to have soured, as Accor tries to thwart the Chinese company's attempts to increase its stake.<sup>21 22</sup> Lower-tier properties are very commonly used by business travelers, especially outside Tier 1 cities. Chinese companies normally give employees a price

cap on how much they can spend on accommodation, which often limits their choice.

Rates have risen only modestly in China this year because of rapid supply expansion, but they have gone up faster in Beijing and Shanghai owing to heavy demand.

Other parts of Asia are experiencing mixed fortunes. High domestic and foreign demand coupled with almost no new capacity has forced room rates up 14% so far this year in Japan. In India demand finally seems to be catching up with supply, with occupancy displaying a steady improvement.<sup>23</sup> This is helping to push up rates. In contrast, rates in Singapore have fallen by about 5% as 12 new hotels open during 2016.<sup>24</sup>

### Outlook 2017

Across Asia we expect hotel rates to rise by 1% to 3%. In China, rates will continue to climb in high-demand

Shanghai and in other Tier 1 cities, but will be much softer elsewhere. So on average rates in China will be essentially flat.

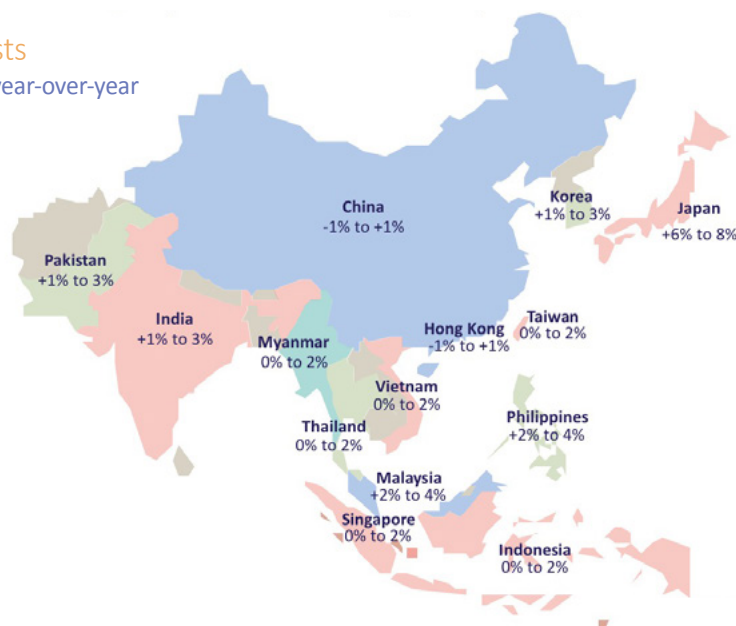
Demand in Singapore will quickly catch up with the new capacity added in 2016, so rates will stabilize. Once again, Japan will be the big worry for buyers, with insufficient supply helping to drive rates up by 6% to 8%. Malaysia and the Philippines will both see rate rises above the Asian average, increasing by 2% to 4%.

### Our recommendations

- Include Asian hotel brands in your programs as well as Western ones. You should include lower-tier brands too, as their quality is improving fast.

### Hotel rate forecasts

average daily rates % year-over-year



### Chinese hotel taxes

Beware of a new tax, which may see you overpay for hotel stays in China. In May 2016, the Chinese government introduced a 6% value added tax (VAT) on hotel stays. This replaces a 5% business tax, which hotels usually include as part of a 15% service charge. Travelers should therefore expect a 1% increase in their hotel bill. However, some hotels have simply added the new tax to the existing 15% charge. China has recently fined a number of hotel companies for using the tax reform to increase prices.<sup>25</sup>

21 Ejinsight, April 13, 2016, Jin Jiang eyes bigger influence in uneasy Accor Alliance  
 22 Reuters, June 5, 2016, Accor in talks with Chinese Group HNA to counter Jin Jiang  
 23 Deccan Chronicle, June 18, 2016, Hotel occupancy reaches 60% after four-year gap  
 24 Singapore Business Review, May 20, 2016, 12 new hotels opening their doors in 2016  
 25 Reuters, July 29, 2016

### Current situation

Asia is emerging as a dynamic, well-balanced meetings market. Demand is growing steadily, but so is supply. Even cities where space is normally hard to find, like Singapore and Shanghai, new properties with meeting facilities have opened over the past year. Demand for meetings is growing particularly fast in China, in spite of its slower economic growth, and is spreading beyond Beijing and Shanghai.

Asian meeting planners are becoming more adventurous in their destination choices. Thailand is becoming popular again following the end of civil unrest in the country. Vietnam is also surging in popularity. Both countries offer good availability, reasonable pricing and a broad selection of venues ranging from economy to luxury hotels.

Balanced supply and demand means there's only slight upward pressure on prices. Some buyers are keeping average rates under control by shifting their business from five-star hotels to a new generation of four- and 4.5-star properties. These hotels offer both quality and value, and are emerging especially strongly in India (in cities like Delhi and Bangalore) and resort destinations (Bali and Phuket). Five-star hotels are responding to the competition by keeping price increases to a minimum.

Meetings buyers are also turning their attention to these newer, lower-tier hotels because of an increased focus in Asia on cost transparency. Companies are feeling more pressure to show they are buying responsibly and trying to control meeting costs.

### Tokyo

In contrast to the rest of Asia, where supply and demand are more balanced, Tokyo is very much a supplier's market. Part of the problem is that many Japanese companies – especially in the pharmaceuticals sector – prefer to stage events at weekends, when hotels are very busy. Japanese customers are also fiercely loyal to Japanese hotel companies and rarely use Western brands for their meetings.

### Outlook 2017

The introduction of new supply will slow in 2017, while demand will continue to grow. But there has been so much capacity added in recent years that price increases will not be particularly steep. That said, availability will tighten once again and lead to sharper increases in high-demand cities like Hong Kong, Singapore, Shanghai and Tokyo. Average spend could also move up as customers consider budget increases and holding higher-quality meetings. But they will look at a wider range of destination options than their usual conservative choices, thanks to expanding airline networks and better flight frequencies.

### Incentives

Companies in Asia and Southwest Pacific prefer to travel overseas for their incentive trips. Popular outbound destinations include:

- **India:** Europe or Dubai
- **Singapore:** Europe
- **Australia:** Pacific islands such as Tahiti, Samoa, Fiji and the Cook Islands; and growing interest in the U.S. thanks to increased flights.

### Up and coming destinations

Myanmar is set for rapid growth after emerging from decades of political isolation. The capital Yangon already offers some good deals and quality product, with more venues set to open soon. At the moment it remains a niche choice, because infrastructure is still poor and obtaining visas can be challenging, but Myanmar is definitely one to watch for the future.

Other destinations offering something different and growing in popularity are:

- Thailand: Hua Hin, Chiang Mai and Koh Samui.
- Vietnam: hinterland and coastal destinations like Da Nang and Hoi An.
- Indonesia/Malaysia: Borneo
- Philippines: Cebu

### Our recommendations

- Book early. Lead times in Asia are even shorter than in the rest of the world, and late bookers are increasingly missing out.
- Be flexible. Be prepared to consider a wider list of destinations and 4-4.5-star hotels in preference to five-star properties.

Road safety issues, the wide availability and relatively low cost of chauffeurs, as well as cultural factors like perceived status of executives, contribute to the low popularity of car rental among corporate travelers.

Ride-hailing is growing in popularity in the region, but local companies dominate the market. Despite investing billions of dollars and averaging more than 150 million rides per month in China, Uber recently sold its operations to the market leader Didi Chuxing.<sup>27</sup>

In India, Ola is exploiting its local knowledge to fight a fierce battle for market share with Uber. It operates in 102 cities, compared to Uber's 27. Both companies are going all out to woo drivers with incentives and consumers with low fares. Grab, which operates in 30 cities across Singapore, Indonesia, Philippines, Malaysia, Thailand and Vietnam, is also proving to be stiff competition for Uber in Southeast Asia. Didi Chuxing and Softbank are among the key investors in both Ola and Grab.

China continues to expand its high-speed rail network. In May 2016, the government approved a new 362 kilometer (km) line linking Jiaozuo near Zhengzhou in Henan province with Tiyyuan, capital of neighboring Shanxi province. It should open in 2021 or 2022.<sup>28</sup>

High-speed rail continues to attract business travelers from the airlines.<sup>29</sup> Even Shanghai-Beijing is a popular rail route, in spite of the five-hour journey time, because lengthy airport transfers,

security queues and poor punctuality make flying a less attractive alternative. Weather disruption to flights, especially in southern China, means even more business people switch to rail during the June-August period. Prices lower than average fares, improved distribution and the ability to print and book tickets online add to rail's growing attraction.

Japan may have the world's oldest high-speed rail network, but it is still growing. A 230 km extension

from Nagano to Kanazawa opened in March 2015,<sup>30</sup> and this year a 150 km line connected the islands of Honshu and Hokkaido.<sup>31</sup>

High-speed lines are also expanding in Taiwan and South Korea, while the Malaysian and Singaporean governments have signed a memorandum of understanding to build a 330 km high-speed line from Kuala Lumpur-Singapore, scheduled to open in 2026.<sup>32</sup>



## The Rise of Didi Chuxing

With its buyout of Uber's business in China, Didi Chuxing claimed victory in a bitterly fought battle for dominance in China's ride-hailing market. As part of the deal, Didi will invest \$1 billion in Uber. It has also previously invested in Grab (Southeast Asia), Ola (India) and Lyft (U.S.). This makes Didi the only company to have stakes in all the major ride-hailing companies around the world.

While it was fighting Uber, Didi formed a so-called "anti-Uber" alliance with Grab, Ola and Lyft. The partnership was envisioned to allow seamless ridership across the four companies in the countries they operate in. So, a rider who used Lyft in the U.S. could use the same app to book Ola in India or Didi in China. With Didi's new stake in Uber, the future of the alliance has been called into question. Uber is expected to focus the resources

it had in China on gaining share in other Asian markets. However, Didi is reportedly looking to increase its investment in Grab.<sup>33</sup> So, despite the changes in the Asian ride-hailing landscape, the battle for supremacy looks set to continue.

<sup>27</sup> Business Travel News, August 2, 2016, Uber cedes Chinese market to local competitor Didi Chuxing

<sup>28</sup> International Railway Journal, May 30, 2016, China approves high-speed line to Shanxi

<sup>29</sup> China Travel News, May 18, 2016, New high-speed rail service fuels market share battle against airlines

<sup>30</sup> International Railway Journal, March 16, 2015, Services begin on Hokuriku Shinkansen

<sup>31</sup> International Railway Journal, March 29, 2016, Japan opens Hokkaido Shinkansen

<sup>32</sup> Railway Gazette, July 19, 2016, Kuala Lumpur-Singapore high speed line to open in 2026

<sup>33</sup> Wall Street Journal, August 4, 2016, Grab, an Uber rival in Southeast Asia, is set to raise \$1 billion

### Key points

There will be no change to business fares. However, expect a fall in economy fares.

Business travel is booming in Colombia and Mexico but suffering in Brazil and Venezuela.

A more stable business environment will help drive up hotel rates in an under-supplied market.

NOTE: Mexico is covered as part of North America



### Current situation

Demand, especially on regional routes, has plummeted because of major political and economic problems, particularly in Brazil and Venezuela. Argentina has also suffered, although it is starting to stabilize. Other markets where business travel demand has softened, though less dramatically, are Chile and Peru (both hit by the slump in global commodity prices), Ecuador and Central America. On the other hand, demand is up in Colombia, as its economy bucks the regional trend.

The region must also deal with the Zika virus, but there are few signs that it has had any impact on business travel demand.

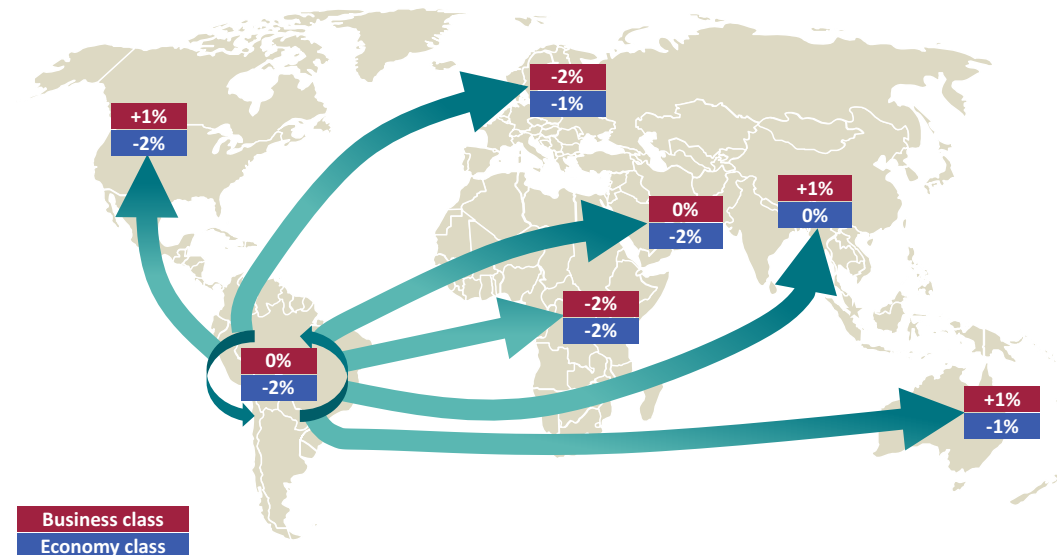
Until the recent severe economic problems, airlines had been growing fast in Latin America. Now they are belatedly cutting back services.

The region's economic downturn has come at a bad time for recently merged airline LATAM Airlines, which initially struggled to integrate its various subsidiaries in the region. But it has since made progress, with new branding presenting a unified proposition from the group's airlines. Difficult times also advance strategic partnerships aimed at putting airlines on more solid financial ground. LATAM's Oneworld partner Qatar Airways has bought a 10% stake in the airline. Regional rival, Avianca, which itself merged a few years ago with Grupo TACA, is also exploring its options. It's looking for a partner so it can offer clients global travel options.

Over-capacity has pushed fares down dramatically in dollar terms – by up to 50% in Brazil – but they remain expensive for customers, paying in local currency.

### Airfare forecasts by destination

average ticket prices % year-over-year



### Outlook 2017

It's difficult to imagine further deterioration in political and economic conditions in Latin America. The situation in Argentina has become more stable, and there are hopeful signs in Brazil, which is expected to exit recession in 2017. With the Rio Olympics and the U.S. presidential election out of the way, demand should start to recover. Even so, airlines will continue the capacity cuts they started in 2016, and will not reverse them until fares rise. But that's unlikely to happen in 2017. While we expect business fares to remain flat, these aggregated figures disguise variation by destination. Fares will fall by 2% to Europe and Africa, stay flat to the Middle East and rise by 1% to all other regions. We forecast flat economy fares to Asia, a 1% fall to Europe and the Southwest Pacific and a slightly steeper 2% fall for regional and other intercontinental flights.

### Our recommendations

- Negotiate your Latin American air program now while fares are low, locking them in with longer contract terms.

## Venezuela

Business travelers find it increasingly difficult to visit Venezuela by air. Falling demand and difficulties repatriating revenue from the country have prompted many airlines to cut back services. LATAM Airlines, Air Canada, Alitalia, GOL and Lufthansa are among the carriers withdrawing from the market. It is still possible to fly to Venezuela, but services are limited and travelers must use local airlines like Conviasa, Aserca and Avior.

## Cuba

The U.S. Department of Transportation has tentatively given eight U.S. airlines approval to launch non-stop flights from ten airports in the U.S. to Havana. Flights could begin as early as fall 2016. The decision comes one year after the U.S. and Cuba formally re-established diplomatic relations for the first time in half a century. The deal allows up to 20 daily flights to Havana. Most will operate from airports in Florida – largely Miami and Fort Lauderdale – but there will be daily services from Atlanta, Charlotte, Los Angeles and New York City.

Six U.S. carriers have also won approval to fly to nine other Cuban cities. At present, the U.S. Department of the Treasury prohibits citizens from traveling to Cuba as tourists. Business travelers can only visit Cuba if the reason for their trip is covered by 12 broad categories. These include official government business, journalism, research and only certain authorized export transactions.<sup>34</sup> Washington is coming under increasing pressure to ease all travel restrictions.

34 U.S. Department of the Treasury, July 25, 2016, FAQs related to Cuba

#### Current situation

In 2015, rates climbed faster in Latin America than any other region. Now the opposite is true. Average daily rates have collapsed by 15% in U.S. dollar terms, although they've risen in local currency because of weak exchange rates. Demand is down considerably too, except in Colombia.

In spite of current challenges, Latin America still needs more high-end properties to meet the region's underlying demand. Local chains still provide most of the supply. Recent new openings in countries like Peru, Chile, Mexico and Panama have been confined largely to midscale properties. International chains

#### Hotel rate forecasts

average daily rate % year-over-year



#### Rio de Janeiro

Concerns about the Brazilian economy, the Zika virus and the city's hosting of the Olympic Games have dampened hotel demand throughout 2016. Rates have therefore fallen to very low levels and hotels will continue to offer special promotions to attract more business, so it's a good time to negotiate deals in this market.

have long expressed an interest in the region and there are now signs that they're investing while costs are low due to favorable exchange rates.

Existing hotels, meanwhile, are upgrading their facilities, offering improved business centers and Wi-Fi.

#### Outlook 2017

As the economic situation stabilizes, foreign direct investment should return, and so demand should rebound in 2017. A chronic supply shortage means average rates are unlikely to fall and could climb by up to 3% in local currency across Latin America. We could see rate increases as high as 4% in Brazil and 5% in Argentina.

If global hotel chains do expand in Latin America, this could help travel buyers negotiate regional preferred supplier deals; something they find challenging today. At the same time, new distribution channels are making it easier to book independent hotels through managed travel programs, so that too promises more choice for travel buyers.

#### Our recommendations

- Reject requests by Brazilian hotels, especially those belonging to global chains, to negotiate in U.S. dollars instead of the Brazilian real. Buyers gain nothing by switching to dollars.
- Work with your TMC to ensure negotiated rates are loaded correctly, are accessible and are honored by hotels. Latin America has low levels of automation, so travel managers must often call the property to confirm the negotiated rate.

## Latin America

### Ground Transportation

Although car rental is not as popular among international business travelers as it is in regions like Europe and North America, Enterprise Holdings is expanding its footprint across Latin America as part of its global expansion. During 2016 it's opened new locations in Belize, Honduras, Tortola (British Virgin Islands), Trinidad & Tobago, the Turks & Caicos Islands and Uruguay. It's also entered the Ecuador market.

Limited uptake of car rental by business travelers, poor public transport options and widespread smartphone usage mean Latin America offers great potential for the development of ride-hailing services like Uber. In fact, the U.S. company reported a tripling in the number of car journeys using its app in Latin America (including Mexico) during the first four months of 2016.<sup>35</sup> It's seen significant growth in Brazil, as drivers try to supplement their income during the country's recession. And it's recently added Argentina as its ninth market in the region.

Uber is not the only ride-hailing company looking to secure a position in a market with such growth potential. Travelers have a choice of local and international companies to choose from. Uber faces growing competition from regional players like EasyTaxi and from local companies like Tappsi in Colombia, and 99Taxis in Brazil.<sup>36</sup> These smaller players are beginning to co-operate to offer the critical mass needed to challenge Uber.

The region's foray into high-speed rail has so far amounted to an ill-conceived plan by Chinese companies to develop a 300-mile network in Venezuela.<sup>37</sup> With the country's economic collapse, the project has effectively been abandoned. Elsewhere in the region, plans for a high-speed line linking Rio de Janeiro and Sao Paulo have made little progress.



<sup>35</sup> Bloomberg, May 31, 2016, Uber's fastest growing region set for new No.1, break-even

<sup>36</sup> Recode, April 4, 2016, Meet the companies trying to dominate the Latin American ride-hail industry

<sup>37</sup> Business Insider, May 14, 2016, South America's first high-speed train has become a symbol of economic collapse



Key  
points

While most fares will stay flat or fall, regional business fares will rise.

Strong demand will drive hotel rates up by 2% to 4%.

Iran will make a comeback as a business destination.



### Current situation

Relentless fleet expansion by Emirates, Qatar Airways and Etihad Airways means capacity continues to grow at very high rates – up 14.6% in the first five months of 2016, according to IATA.<sup>38</sup> Asia is one of the trio's fastest-growing destination regions, mainly because of additional frequencies on existing routes, but North America is also growing rapidly. U.S. carriers have failed to persuade regulators to stop Gulf carrier expansion and have responded by withdrawing their own services.

Demand in the Middle East is up 11.2%, although some key routes have been hit by the oil price slump. But growth in capacity has outstripped the strong demand. Declining load factors mean fares are falling too. And low-cost carriers like Flydubai and Air Arabia are adding to competition on regional routes.

### Outlook 2017

Capacity growth shows no sign of slowing in 2017. This will keep fares soft, though the downward pressure could be partly offset by any rise in fuel costs.

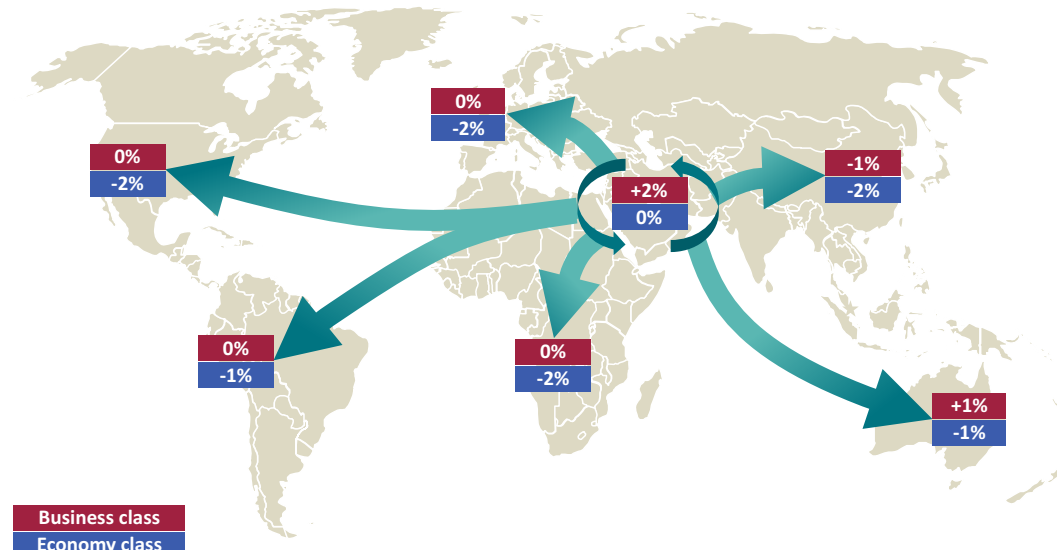
Business fares will only increase for trips within the Middle East and to destinations in the Southwest Pacific. We expect them to fall by 1% to Asia. For all other markets they'll stay flat. Intercontinental economy fares will fall 1-2%, but regional fares will not change.

### Our recommendations

- Negotiate targets on volume or market share, because falling fares mean you risk missing spend-based targets.
- Include all publicly offered discounted fares for spend-based targets
- Promote card payment for flights, as this more secure method is now widely accepted.

### Airfare forecasts by destination

average ticket prices % year-over-year



#### Iran

Business travel demand is growing following the easing of sanctions. This will continue as Western airlines resume services, increasing access to the Iranian market. British Airways is due to start flying five times weekly in September 2016 and Air France is on its way back to Tehran after eight years away. Limited capacity and heavy demand mean fares are high for now, but should fall as more airlines return to the market.

#### Dubai-U.K.

One example of the power of the Gulf carriers to pour capacity into a market is Emirates' expansion of services between Dubai and the U.K. Starting in October 2016, the airline alone will offer ten daily services from Dubai to London (six to Heathrow and four to Gatwick). It will use the Airbus A380 on all but one of these flights. That means Emirates could carry nearly 35,000 passengers per week each way between the two cities. In total, Emirates operates 126 flights weekly from the United Arab Emirates to the U.K., while five other competitors operate another 91 departures between them.

### Current situation

Hotels are opening across the region; not just in Dubai, Abu Dhabi and Qatar, but also in Saudi Arabia, Oman, Bahrain and Kuwait. Starwood is among the fastest-growing chains, while Carlson Rezidor, Hilton and Mövenpick have been active too. Most new hotels continue to be in the upscale to luxury categories.

Demand is matching this supply growth. Room occupancy typically ranges between 80% and 85% in popular destinations like Dubai and Abu Dhabi. And yet rates have fallen by double-digit percentages in both emirates, as hotels compete intensely to keep their occupancy high and boost earnings from ancillary products and services. In Saudi Arabia, however, room rates are climbing in Riyadh because of increasing visitors from within the region.

Airbnb is also beginning to attract business in the Middle East. During 2015, it increased its listings in the U.A.E. by 93%. In Dubai, listings surged to nearly 3,500 even as the tourism board introduced regulations to govern and encourage short-term rentals.<sup>39</sup>

### Outlook 2017

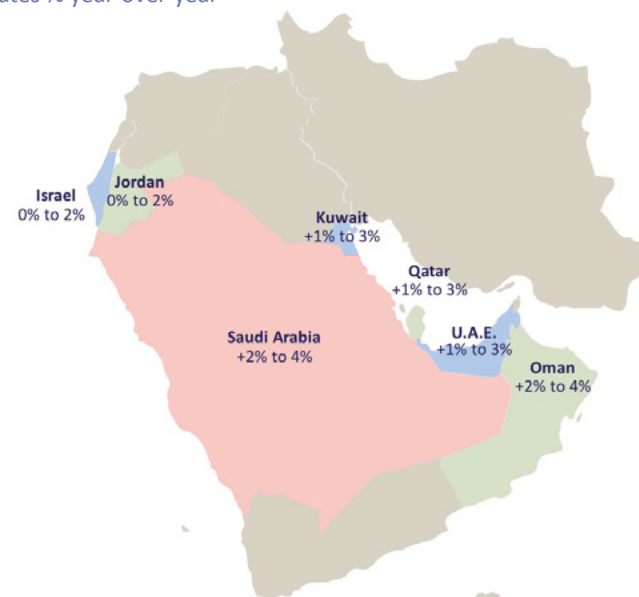
We expect demand to increase as long as travelers and travel buyers continue to feel confident about safety, and security in the Gulf States and the rest of the region continues to improve. This would support rate growth of 2% to 4% in 2017.

### Our recommendations

- It's vital you know where your travelers are at all times. Security is always an important consideration in this region.

### Hotel rate forecasts

average daily rates % year-over-year



<sup>39</sup> The National, May 18, 2016, Dubai Tourism links up with Airbnb as listings of holiday homes surge



The Middle East features in Enterprise Holdings' expansion into new markets. The company has opened 29 National and Alamo locations in the U.A.E., Qatar and Jordan, and two Enterprise locations in Saudi Arabia. It plans more openings in these countries, as well as expansion into other Gulf region countries.

Ride-hailing app Uber claims to have almost 400,000 riders across the Middle East and North Africa.<sup>40</sup> We expect the US\$3.5 billion investment by Saudi Arabia's sovereign wealth fund to boost Uber's presence in the region. It faces competition from local operator Careem, which has developed in major cities in the U.A.E., Saudi Arabia, Bahrain, Lebanon and Kuwait, and has tailored its services to the needs of the Middle Eastern market.<sup>41</sup>

Travelers in the Middle East will have to wait until 2018 to experience the region's first high-speed rail services. Once open, the 450 kilometer Mecca-Jeddah-Medina line is expected to eventually carry more than 50 million passengers per year.<sup>42</sup> Across the Gulf, Iranian Islamic Republic Railways is in the very early stages of planning a 400 kilometer Tehran-Qom-Isfahan line.<sup>43</sup>

<sup>40</sup> Buying Business Travel, June 2, 2016, Uber secures \$3.5bn Saudi Arabia funding

<sup>41</sup> Quora, December 25, 2015, How does Careem, Uber and RTA compare?

<sup>42</sup> International Railway Journal, July 7, 2016, Saudi HS line "on schedule" for 2017 opening

<sup>43</sup> International Railway Journal, February 10, 2016, FS and RAI sign Iranian high-speed agreement

Key  
points

Business airfares will rise, but there will be no change to economy fares in 2017.

Hotel rates will change up to a maximum of 2%.

Airbnb will gain market share from hotels, as it's seen as a safer alternative.

Security must be the number one focus for hotel buyers.



### Current situation

Africa's economic picture is mixed. Insecurity and political instability afflict the North, while growth has slowed in sub-Saharan oil-producing nations like Nigeria and Angola. However, solid growth continues in much of the rest of the continent, and that means travel demand in most countries is firmly on the rise - up 9.7% for African airlines in January-May 2016.<sup>44</sup> While demand from China, the region's largest investor, has weakened slightly, its slowdown has not hit Africa as hard as other parts of the world.

The continent's airlines are expanding their networks in response to the intensifying demand. They grew capacity by 9.1% in the first five months of 2016. Ethiopian Airlines, Africa's largest carrier by revenue, is expanding long-haul capacity, with new services to New York in June 2016 and Istanbul in November 2016. Carriers in Angola, Rwanda and

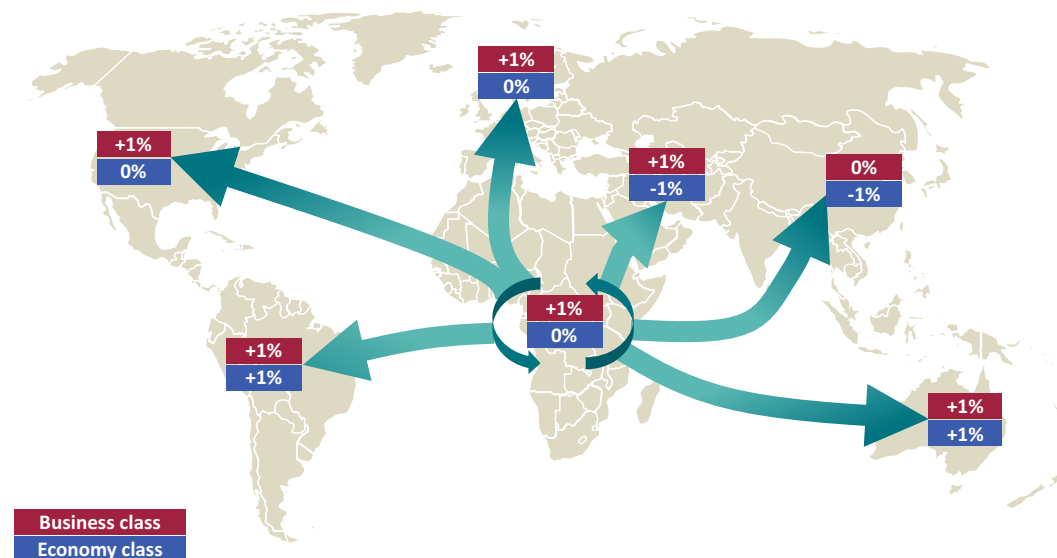
Mauritius (an emerging offshore financial center and leisure destination) are developing regional hubs. For example, Air Mauritius has ambitions to develop a transit hub in the Indian Ocean and has recently launched flights to Dar Es Salaam and Maputo.

However, the Gulf carriers and Turkish Airlines continue to grow in Africa with new routes and increased frequencies. Emirates, for example, added a third daily service to Cape Town in July. Should it invest in Royal Air Maroc, Qatar Airways would create a hub in one of the most stable countries in North Africa. Turkish Airlines is perhaps the most ambitious of all. It's grown its African network from 13 to 44 destinations since 2009, including secondary markets like Benin and Madagascar.

Flying within Africa remains expensive due to limited services and challenges such as high operating costs and over-regulation. The prospect of low regional

### Airfare forecasts by destination

average ticket prices % year-over-year



44 IATA, Air Passenger Market Analysis, May 2016



fares seems to have faded, as Tanzania's FastJet struggles to deliver its vision of a pan-African low-cost carrier. Intercontinental fares, on the other hand, have stabilized thanks to rising capacity and lower oil costs.

### Outlook 2017

In spite of some recent capacity growth, Africa's route network will remain small and fragmented, with limited schedules and connections. Fares will therefore stay high, especially for business class travel. However, continuing low oil prices mean they're unlikely to increase much. We expect economy fares to range between -1% to +1% for intercontinental routes, while regional fares will remain the same. Business class fares will increase by just 1% on flights to all regions except Asia, where they'll be flat.

### Our recommendations

- Get your TMC to provide detailed data about your travel program. It will strengthen your position when negotiating on high demand/low supply regional routes.

## Nigeria

Air travel to and from Nigeria has become more challenging. Airlines face a slump in demand following an oil price-led economic downturn. Currency controls imposed by the Nigerian government have made it difficult for airlines to repatriate revenues from the country. They're responding by cutting capacity. Iberia cancelled its flights to Nigeria in May 2016, and United Airlines axed Houston-Lagos at the end of June. Emirates is the latest airline to announce cuts, withdrawing one of its two daily flights to Lagos in July.

## South Africa

The South African aviation market is poised for consolidation, and this may lead to higher fares. The government is exploring a merger between South African Airways and regional partner SA Express, which could include LCC Mango too.<sup>45</sup> The budget airline has also attracted the interest of rival FlySafair. A deal could reduce competition in the low-cost sector.

<sup>45</sup> The Times South Africa, April 14, 2016, Mango could join SAA, SA Express in merger.

### Current situation

The supply of rooms designed to western standards is increasing as chains like Marriott expand their presence. It's growing organically and through its 2014 acquisition of South Africa's Protea chain. Merger partner Starwood is expanding too, with an African pipeline that includes new properties in countries like Ethiopia, Kenya, Senegal and Tanzania. Other global chains, including Carlson Rezidor and Hilton, are also investing in the region, increasing consumer choice.

Rates for foreign business travelers, especially from the U.S., are falling in South Africa as the rand continues to depreciate, but this is pushing up rates paid in local currency. With few good-quality hotels outside this market, rates are astronomically high for quality accommodation in cities such as Accra, Kigali, Luanda and key business centers in Nigeria.

High prices (along with security – see Spotlight) explain why travelers in Africa are turning to Airbnb as an alternative. Its growing popularity may cause policy leakage unless buyers integrate Airbnb into their managed travel programs. Accommodation in the region needs to be managed flexibly. In South Africa, for example, travelers often prefer to stay in traditional bed-and-breakfasts (B&Bs), which are not bookable via GDSs and do not accept credit cards. They often pay with vouchers instead. It makes little sense to prohibit use of these properties. Instead, travel managers must find ways for travelers to book them, and overcome any process inefficiencies that may occur as a result.

### Security

Seen as soft targets hosting western interests, luxury hotels where business travelers tend to stay or meet are at risk of being targeted by terrorist groups. After several attacks in the past year, companies familiar with the region are responding by moving travelers to alternative accommodations, like Airbnb. It has 44,000 properties in Africa and is regarded as a safer option than hotels, where foreigners tend to concentrate. Buyers are also negotiating deals with local hotels and extended-stay accommodation providers.

Guest safety is a priority when negotiating with global hotel chains in Africa. In many countries, hotels need security clearance following rigorous inspections by the corporate client, before commercial negotiations can begin.

### Outlook 2017

Many cities in sub-Saharan Africa will remain expensive for the business traveler because of the fundamental imbalance between supply and demand. However, global chains could drive down rates as they open more hotels in key cities.

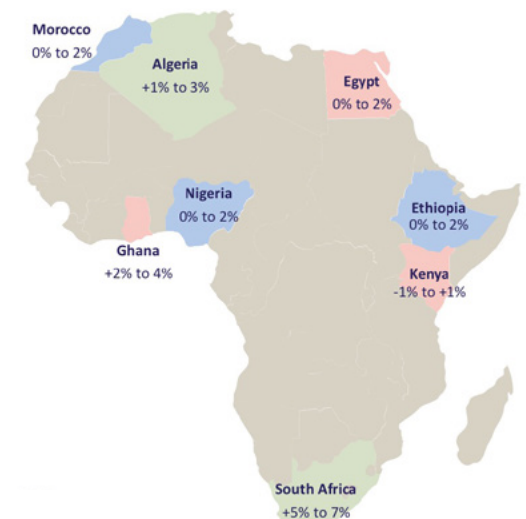
Across North Africa and in Nigeria, rate growth will be pinned back by security and economic problems respectively. This will limit the average change in rates across Africa to 2% or less in 2017.

### Our recommendations

- Assess security when choosing preferred suppliers.
- Consider the full range of options, including local hotels, B&Bs, alternative accommodations and extended-stay properties.
- Negotiate your group and transient spend together. African hotels are warming to this idea.

### Hotel rate forecasts

average daily rates % year-over-year



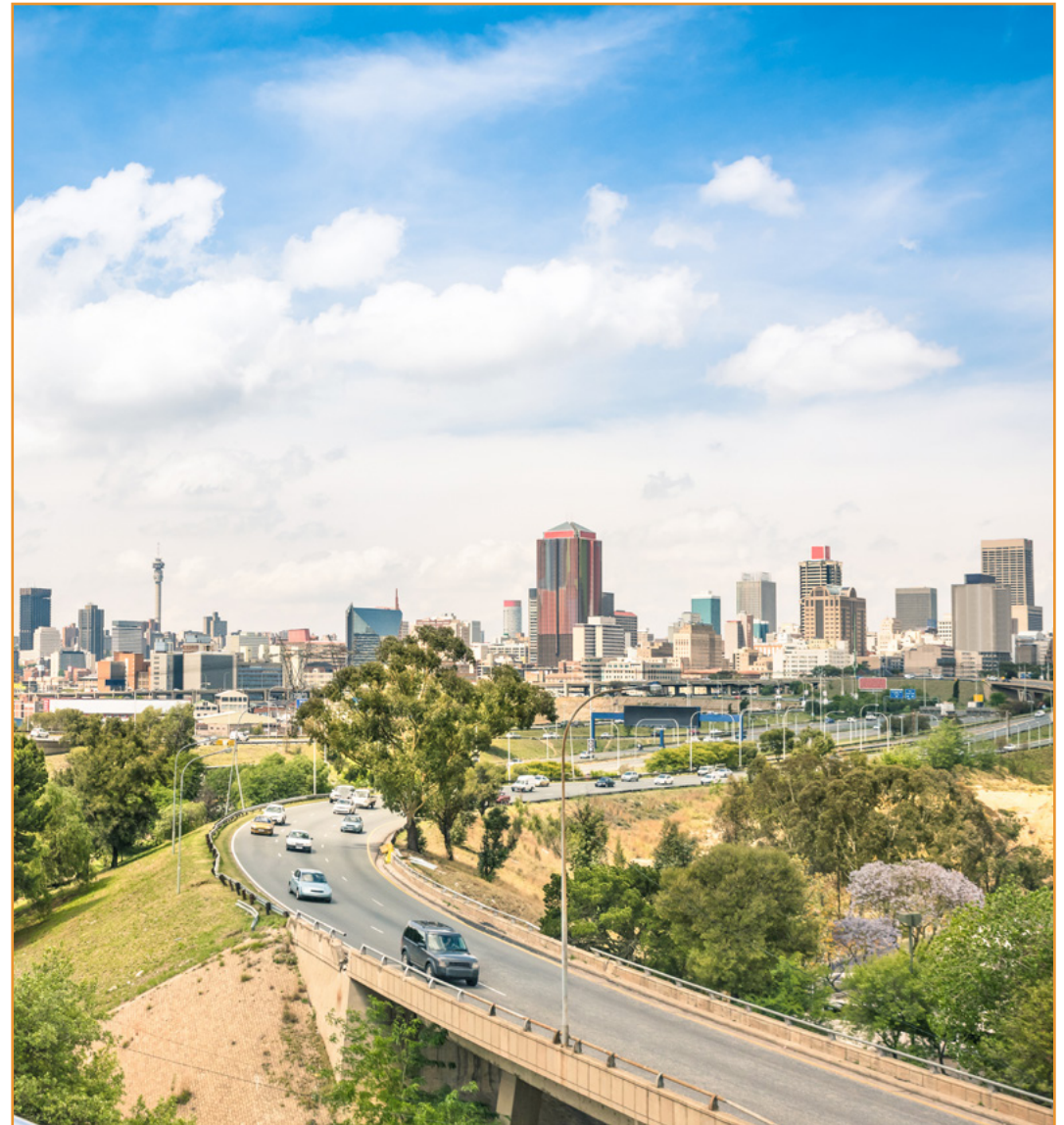
## Africa

### Ground Transportation

Traditional car rental is not popular outside of South Africa.

Uber is steadily expanding its ride-hailing service across Africa. In June 2016, Uganda joined Egypt, Kenya, Morocco, Nigeria and South Africa in the list of Uber markets.<sup>46</sup> It's faced similar protests in Africa to those that greeted it elsewhere in the world.<sup>47</sup> But ride hailing services should do well in a region with high levels of mobile phone use. Uber is not the only company to have recognized this potential. Taxify, Afro, Oga Taxi, Maramoja and Mondo Ride are among the local companies trying to ensure that Uber does not have an easy ride in Africa. They're trying to compete by offering drivers better compensation and enticing customers with a more local touch. Safaricom, Kenya's largest telecom company, which launched its Little Cab ride hailing app to compete with Uber, has already sparked a fare war in Kenya, with UberX rates cut by 35%.<sup>48</sup>

Business travelers also typically find rail services inadequate in Africa. South Africa's Gautrain, an 80 kilometer mass rapid transit system connecting Pretoria, Johannesburg and O.R. Tambo International airport is the only service of note. But this may be about to change with the opening of the continent's first long-distance high-speed service slated for 2018. Moroccan national railway ONCF aims to more than halve the journey time between Tangier and Casablanca to two hours and 10 minutes.



<sup>46</sup> Venturesafrica, June 2, 2016, Can Uber in Africa truly level the playing field?

<sup>47</sup> The Atlantic, March 28, 2016, Uber's troubled Kenyan expansion

<sup>48</sup> Techcrunch, August 1, 2016, In Kenya, Safaricom's Little Cab app goes head to head with Uber

### Key points

Solid demand and capacity discipline will push up regional fares.

Competition will ensure that intercontinental fares stay flat.

Hotel rates will climb by 2% to 4% in Australia and by 4% to 6% in New Zealand.

Car rental rates will increase by 1% to 2%.



### Current situation

The boom in Australia's mining and resources sector has ended. Expenditure on mineral and petroleum exploration continues its steep decline.<sup>49</sup> But the rest of Australia's economy is generally performing well, growing at around 3%. Its manufacturing and service sectors are in good shape. Companies in these industries have a greater focus on domestic travel, which is far more affordable, so domestic demand is holding up.

Despite the resilience of domestic demand, Australia's two main airlines, Qantas and Virgin Australia, have adopted a disciplined position on capacity. They have successfully shifted aircraft from Western Australia, the center of the mining industry, to southeastern cities where the service sector and leisure demand are thriving. As a result, flights are fuller and average tickets prices have risen slightly.

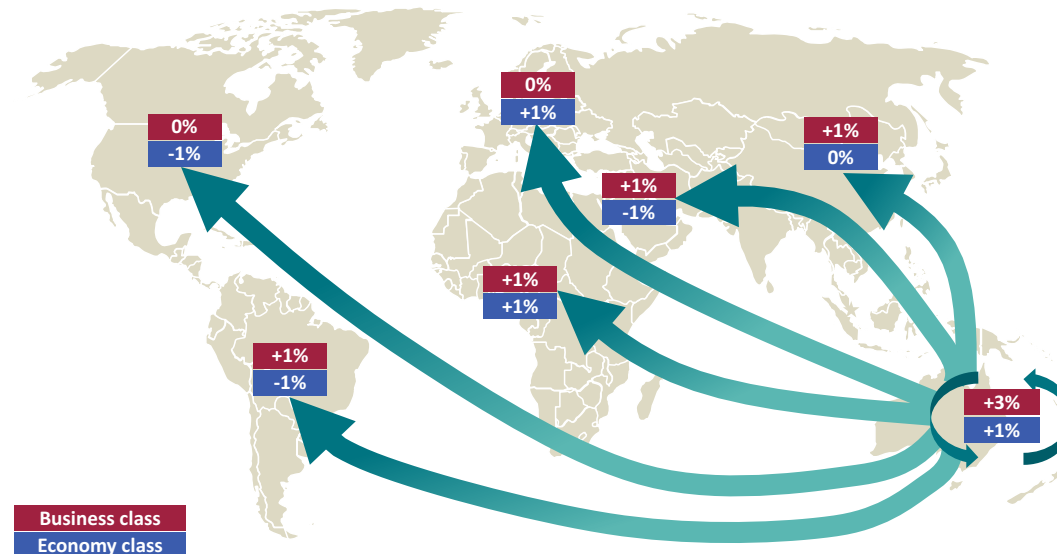
Intercontinental markets tell a different story, with supply poorly aligned with demand. Airlines ramped up international services to take advantage of Australia's mining boom, but failed to react to the end of the boom fast enough, and have been left with too much capacity in the market.

Unsurprisingly, there have been plenty of promotional fares for international passengers, including discounts of up to 30% and two-for-one offers. Often, these public fares are cheaper than negotiated corporate fares, so companies can make large savings if they are not worried about restrictions on cancellations

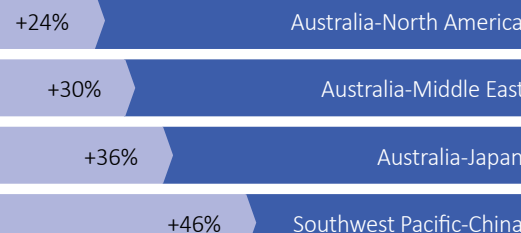
and amendments. Most intercontinental flights from the Southwest Pacific are at least seven hours long, so companies generally allow travelers to fly business class. Heavy discounts therefore make a huge difference to their travel costs.

### Airfare forecasts by destination

average ticket prices % year-over-year



Between 2014 and 2016, the number of weekly seats on international routes jumped from 430,000 to 480,000, with most added during 2015. Capacity increases over the two-year period included big hikes in some markets



Source: CAPA



#### Outlook 2017

There's little sign of airlines scaling back capacity on intercontinental routes, despite over-supply in Southwest Pacific. In fact, Chinese carriers are increasing their services, in response to strong leisure demand in China.

We expect intercontinental fares to stay flat, as the effects of over-capacity and a small rise in oil prices cancel each other out. Business class fares will not increase for flights to North America and Europe, but we forecast they'll rise by 1% to all other regions. There'll be more variation in intercontinental economy fares: They will rise by 1% to Africa and Europe, stay flat to Asia, and fall by 1% to all other regions.

On regional routes, continuing robust demand and stable capacity will help push fares up 3% in business class and 1% in economy.

#### Our recommendations

- As the strong buyer's market continues, it's a great time to negotiate international air agreements.
- Mandate travelers to use tactical public fares in your travel policy, unless there are justifiable business reasons for not buying non-flexible fares.
- Switch corporate agreements from revenue targets to market-share targets. Make sure both tactical published and negotiated fares count towards deal targets.

#### China-Australia

Chinese airlines are pressing ahead with a flurry of new routes in the second half of 2016 despite the capacity glut to Australia and New Zealand. Strikingly, many of the new services are from Tier 2 Chinese cities:

- Hainan Airlines: Shenzhen-Auckland, Changsha-Melbourne, Xi'an-Melbourne
- China Southern: Shenzhen-Melbourne
- China Eastern: Shanghai-Brisbane
- Xiamen Airlines: Xiamen-Melbourne
- Tianjin Airlines: Chongqing-Auckland

Travel managers in the Southwest Pacific are using the highly competitive prices offered by Chinese carriers to negotiate lower fares with other Asian airlines. This trend is likely to accelerate in 2017, especially as more new services are added.

Chinese companies are growing their market presence in other ways too. In May 2016, Hainan Airlines part-owner HNA Group announced plans to buy 13% of Virgin Australia; and in June 2016 Air New Zealand sold its 19.9% share in Virgin Australia to Nanshan Group, majority owner of Qingdao Airlines. This has encouraged the Australian airline to announce plans for daily Sydney-Beijing services in 2017.

#### Current situation

Supply remains tight, with Australia adding just 1.5% more new supply in 2016. Demand varies across the market. Perth depends heavily on the struggling resources sector, so guest numbers have fallen in 2016. Brisbane, which is popular with tourists, has been hit by the strength of the Australian dollar (A\$) – so far this year it's appreciated by 7.5% against the Chinese yuan and by 4% against the US dollar – although domestic leisure business continues to be strong. Sydney simply doesn't have enough hotel rooms, so occupancy rarely falls below 90%.

For foreign visitors, the biggest factor affecting price has been big movements in the A\$. Currency depreciation led to rates dropping 20% in US\$ terms in 2015. But in 2016 the A\$ appreciated, and this pushed hotel rates up 13% in US\$ terms.

#### Outlook 2017

Tight supply and strong demand will push hotel rates up 2% to 4% in Australia in 2017. But expect higher rate increases in Sydney.

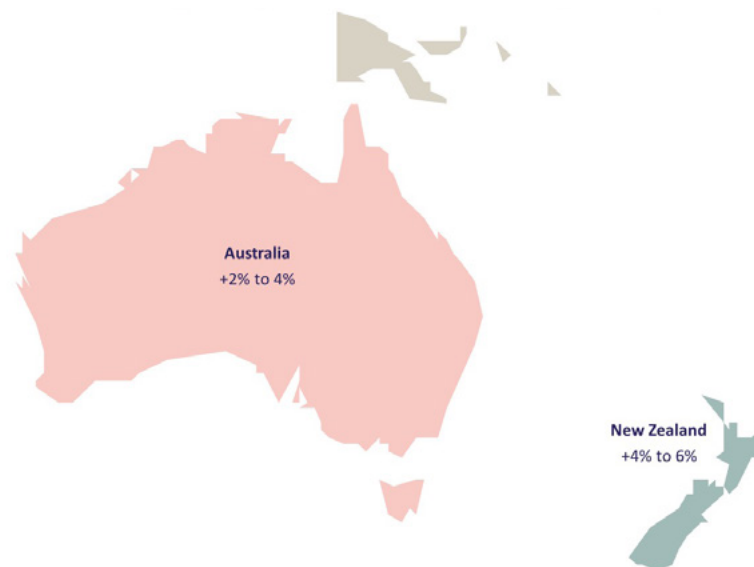
There has been even less new supply opening in New Zealand at a time when record levels of immigration are driving steady economic growth. We forecast a 4% to 6% rate rise in this market.

#### Our recommendations

- Use policy and communication to get travelers to book their hotel and flights at the same time. "Attachment rates" (linked air and hotel bookings) in the Southwest Pacific are far below markets like the U.S.
- Be ready to change your supplier mix if large-scale consolidation of major hotel brands starts to drive up rates.

#### Hotel rate forecasts

average daily rates % year-over-year



### Car rental

Dominant players Avis and Hertz invested in large fleets during the Australian mining boom. They responded very quickly once the market turned, selling some vehicles and moving others to areas of higher demand in the east of the country (Melbourne, Sydney and Brisbane account for around 70% of Australian car rentals). Suppliers handled the challenge so successfully that they managed to push rates up 2% to 3% in 2016. Rates will continue to rise in 2017, but at a more moderate pace of 1% to 2%.

Looking further ahead, the Southwest Pacific market could become more competitive as Enterprise Holdings continues to build its presence, after entering the Australian market in the last 12 months. It will take considerable investment if Enterprise is to be a serious player, but it already operates 18 locations across Australia.

Enterprise has also just opened its first location in New Zealand, launching at Queenstown Airport through partner Redspot Car Rentals.<sup>50</sup> It plans to expand to more airport locations across North and South New Zealand over the next year. As well as the global players, Enterprise must compete in this market with local operators, like Aerodrive Car Rental, which now operates out of three airport locations.

### Ride-hailing

The expansion of ride-hailing services like Uber in Australia has been held up by a lack of regulation for this relatively new business model. But that's now changing, with authorities in Canberra, South Australia and Australia's most populous state, New South Wales, legalizing the services.<sup>51</sup> Compensation for taxi drivers, funded in part by a short-term levy on Uber services, may minimize the risk of protests by traditional operators.

Home-grown hailing services will challenge Uber's market dominance. GoCatch launched its ride hailing platform in February 2016. It charges the same fare as a cab's meter reading, but its 5% credit card surcharge is lower than the 10% normal in Australia. It offers the usual ride hailing features, like tracking and advance bookings, as well as services for business users. Ingogo is a similar service, but is less widely available, operating only in Sydney, Melbourne and Brisbane.

Competition is bringing down prices, as the local players begin to challenge Uber's grip on the market. GoCatch intends its pricing to "always be cheaper than Uber," and in May it cut its off-peak fares in Sydney by 5%.<sup>52</sup> Unlike Uber, it does not use surge pricing, and charges its drivers lower commissions.

Uber is feeling the pressure: It's already cut UberX prices by 15% in Melbourne.

Competition will intensify, as taxi networks across Australia offer their own ride-hailing app, iHail.

50 Auto Rental News, July 19, 2016, Enterprise opens first location in New Zealand

51 Reuters, December 17, 2015, Australia's NSW rules Uber ride-sharing service legal

52 Sydney Morning Herald, May 5, 2016, GoCatch cuts prices in a bid to challenge Uber's grip on Sydney

Regional ATP 48

Economy class ratio 52

Advance booking 54

Historical ADR (key countries) 56

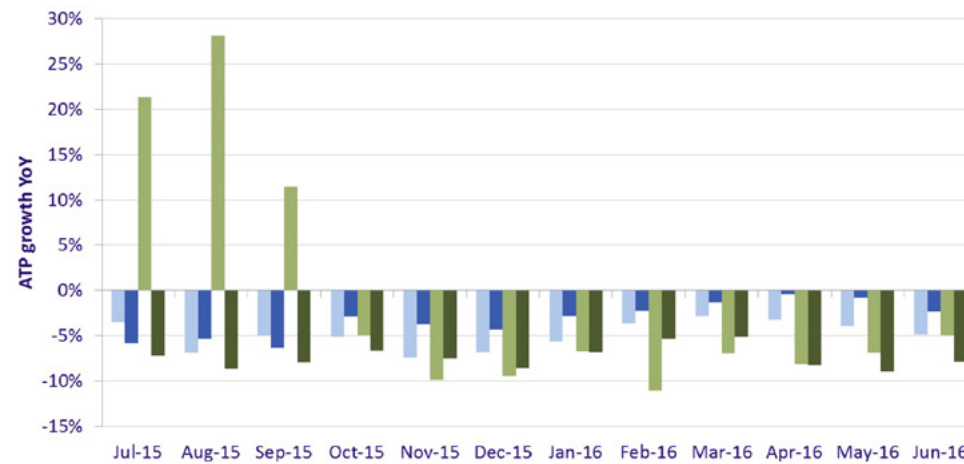
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Methodology 67

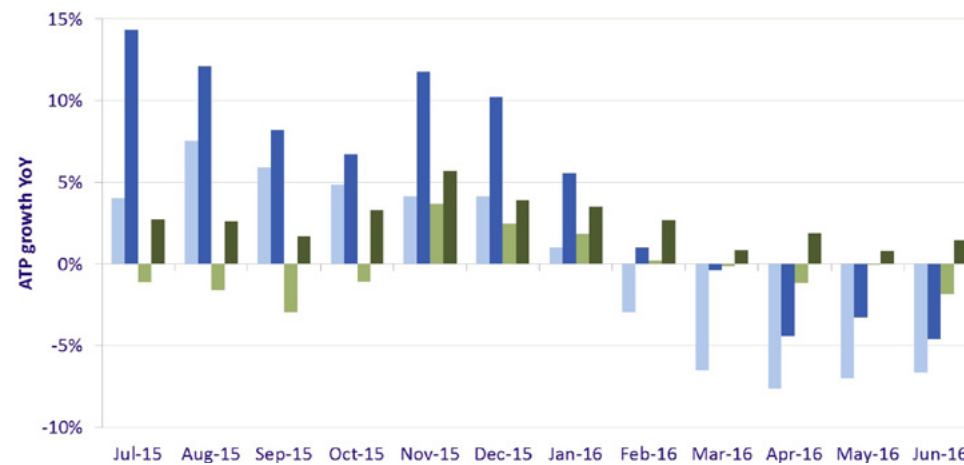
Further information 68

## Regional ATP

North America



Europe

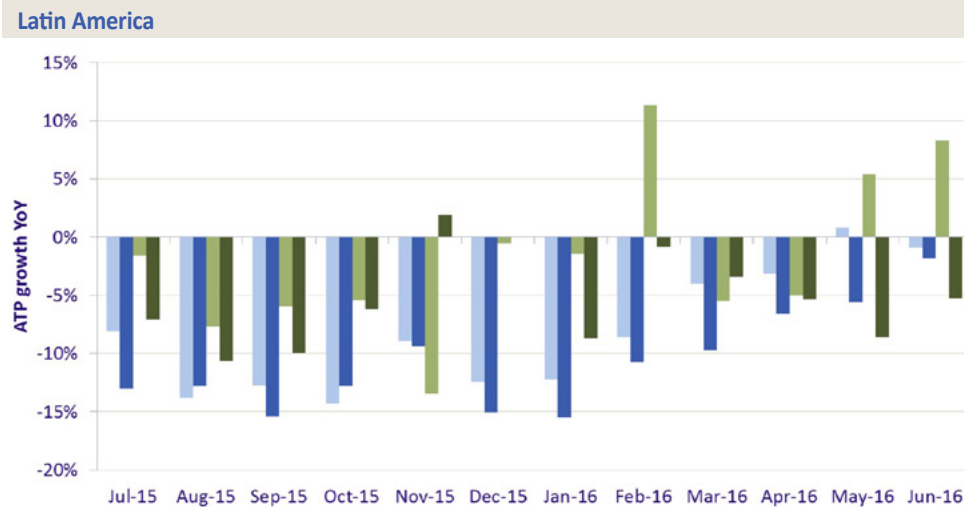
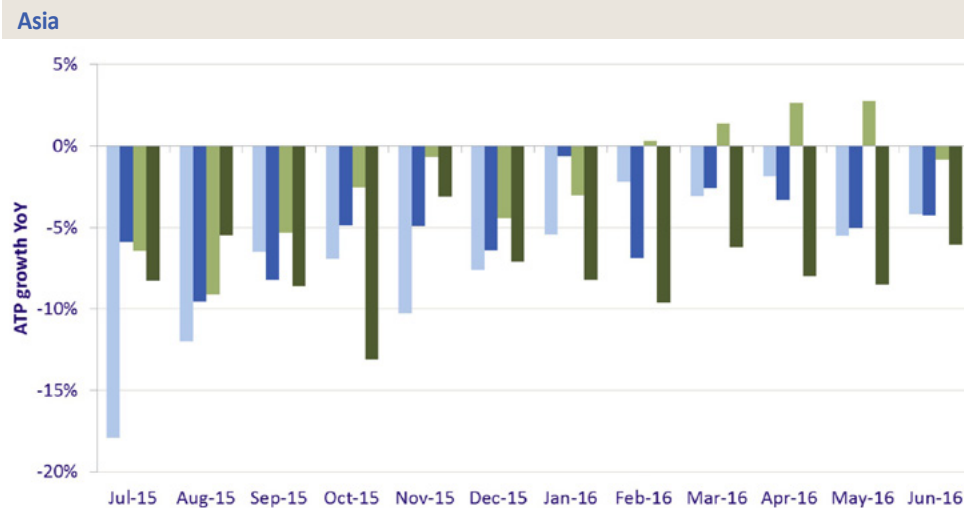


Intercontinental business Intercontinental economy Regional business Regional economy

Source: Advito



## Regional ATP

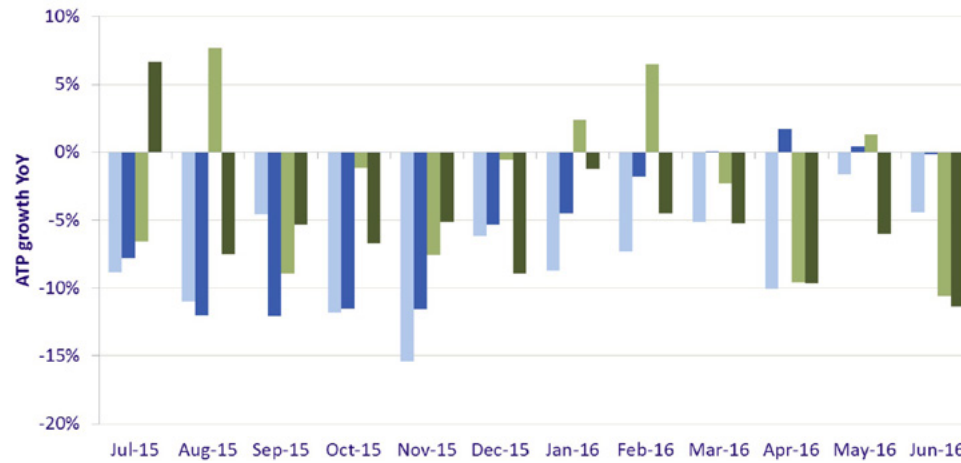


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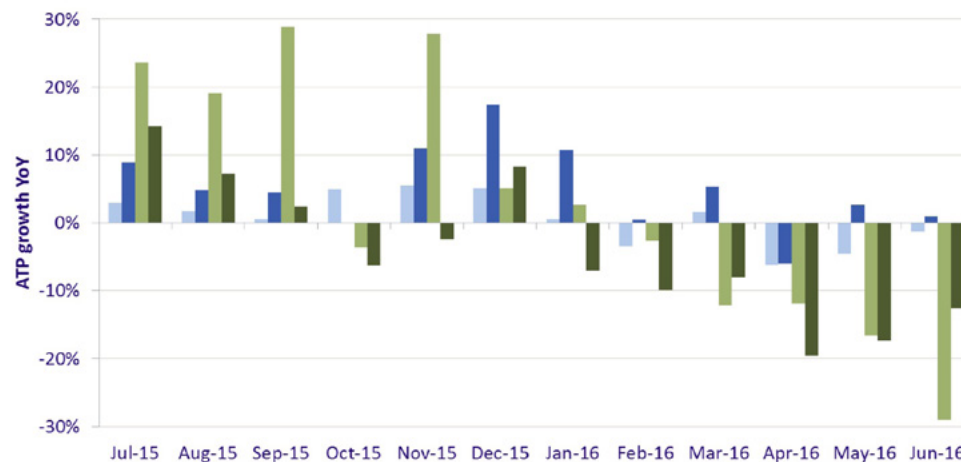
Intercontinental business Intercontinental economy Regional business Regional economy

## Regional ATP

Middle East



Africa

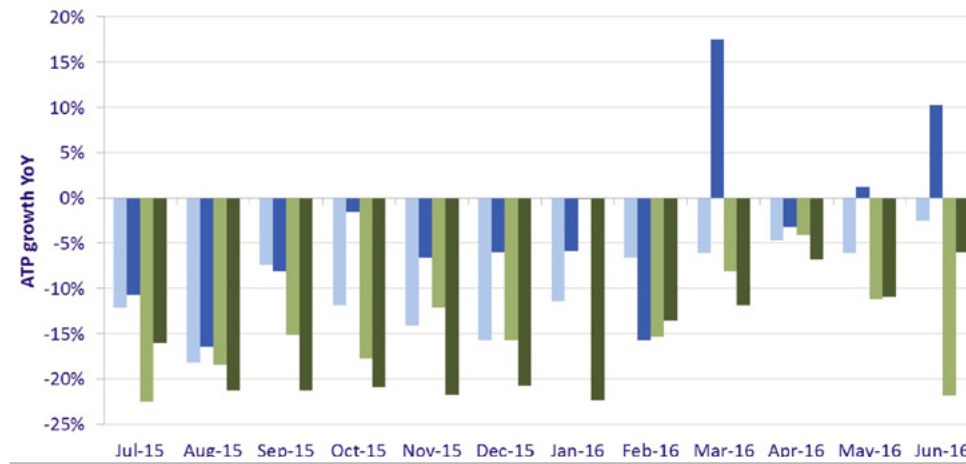


Intercontinental business Intercontinental economy Regional business Regional economy

Source: Advito

## Regional ATP

Southwest Pacific

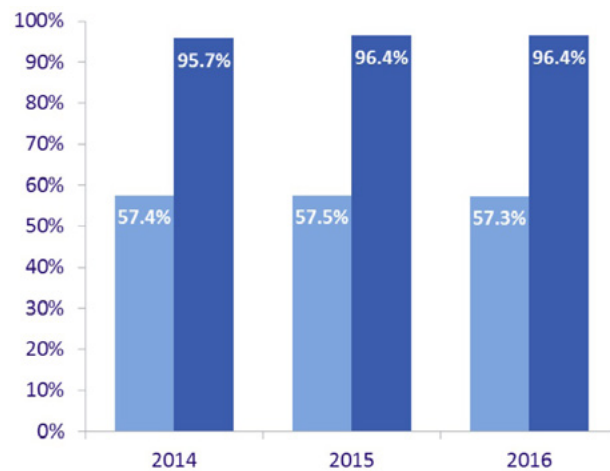


Source: Advito

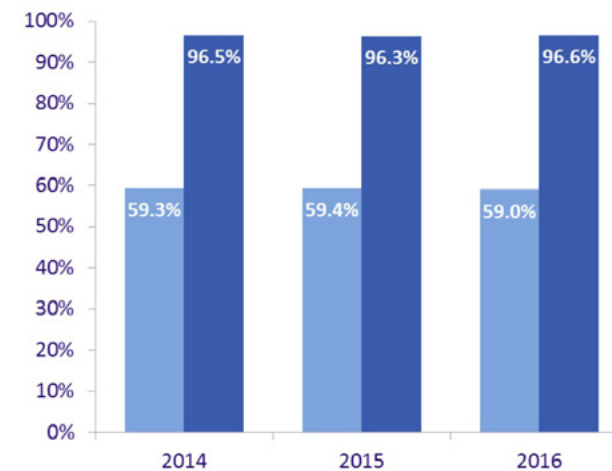
Intercontinental business Intercontinental economy Regional business Regional economy

## Economy class ratio

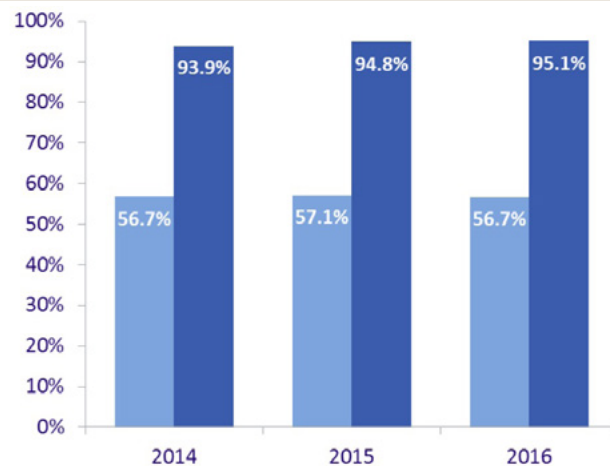
North America



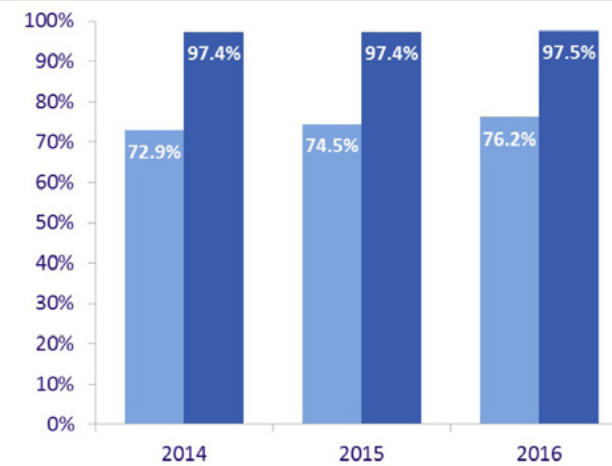
Europe



Asia



Latin America



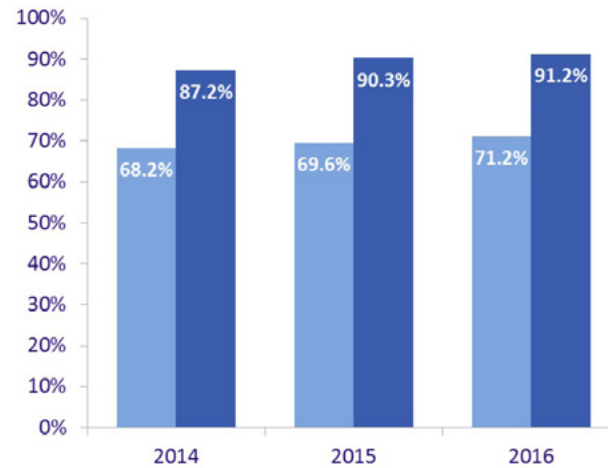
Based on weighted average for January - June in each year

Source: Advito

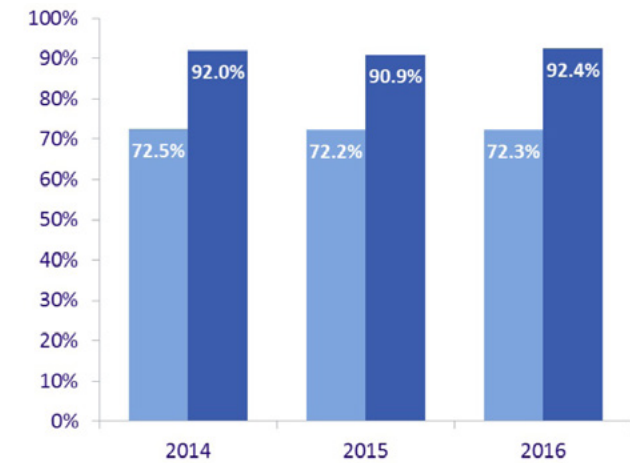
Intercontinental Regional

## Economy class ratio

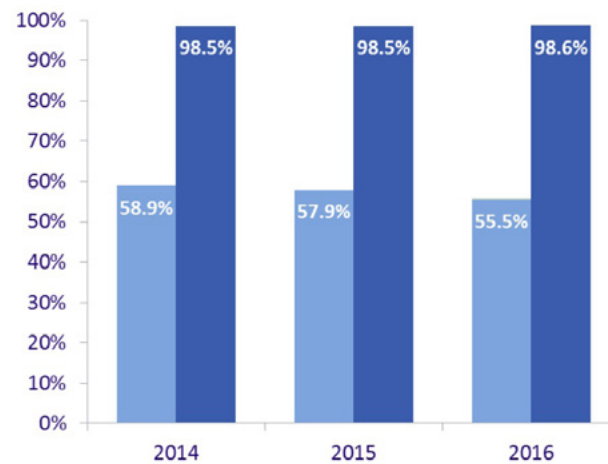
Middle East



Africa



Southwest Pacific



Intercontinental Regional

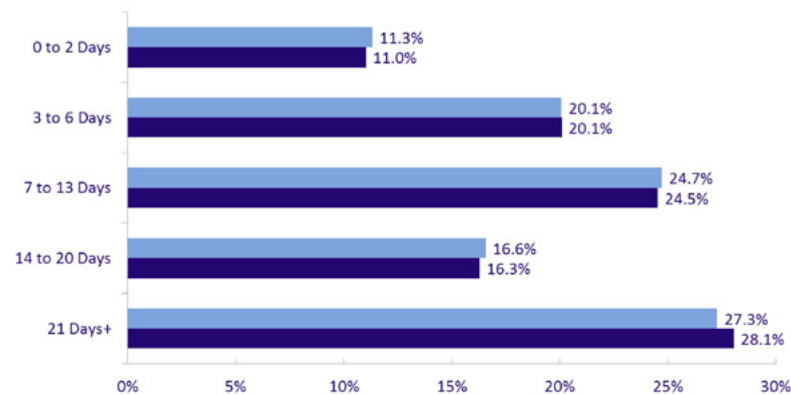
Based on weighted average for January - June in each year

Source: Advito

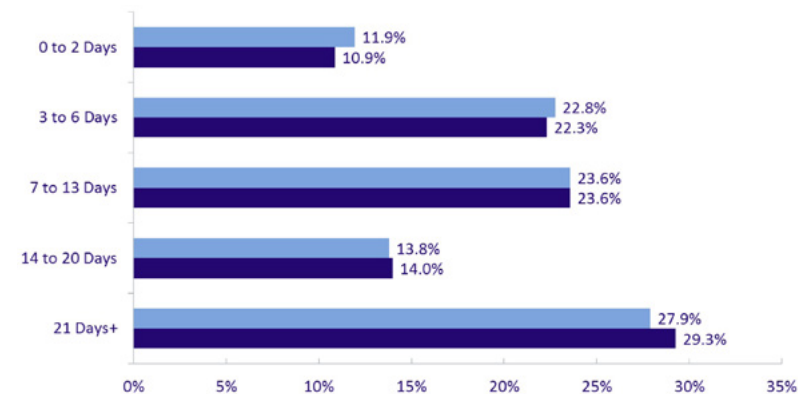


## Advance booking

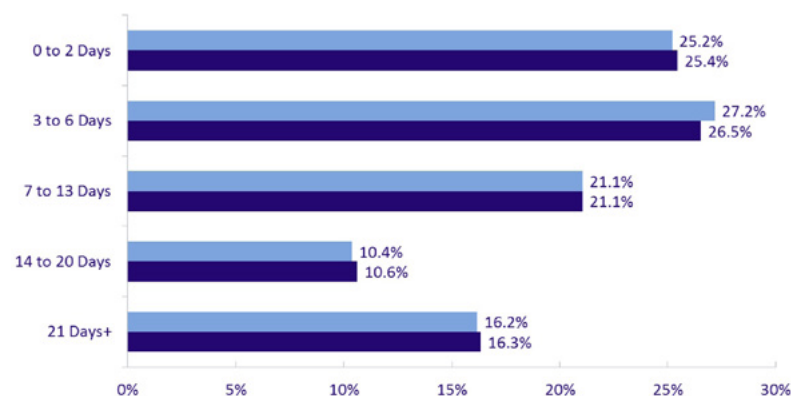
## North America



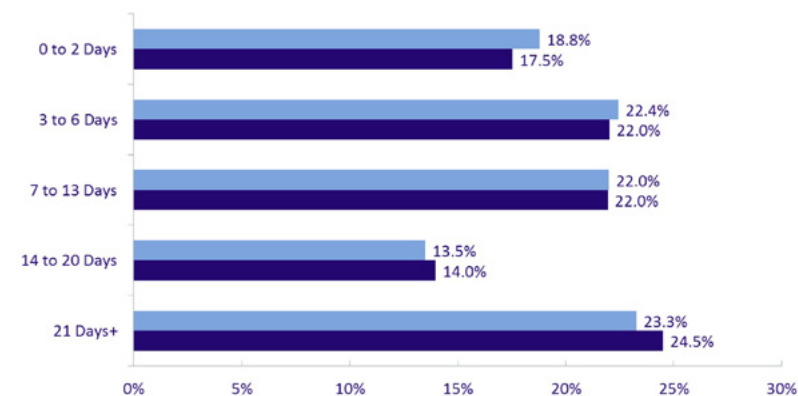
## Europe



## Asia



## Latin America

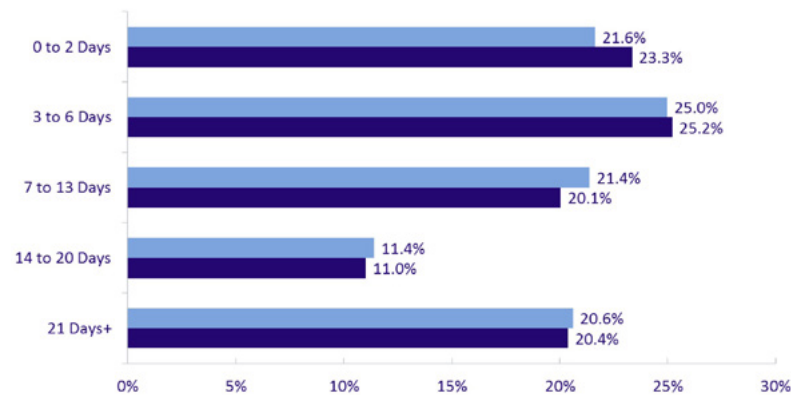


2015 2016

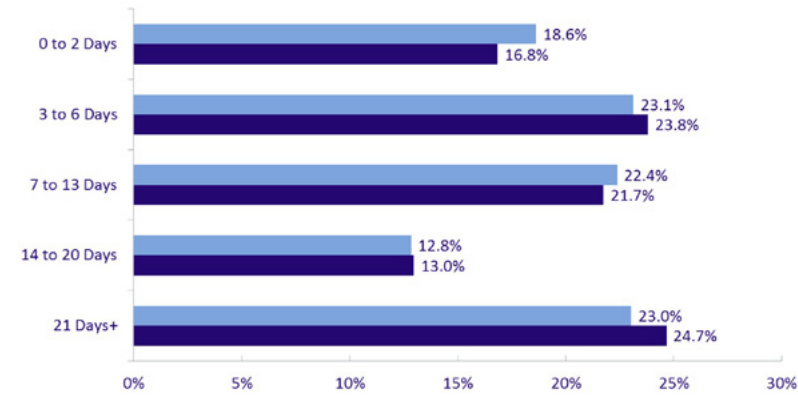
Source: Advito

## Advance booking

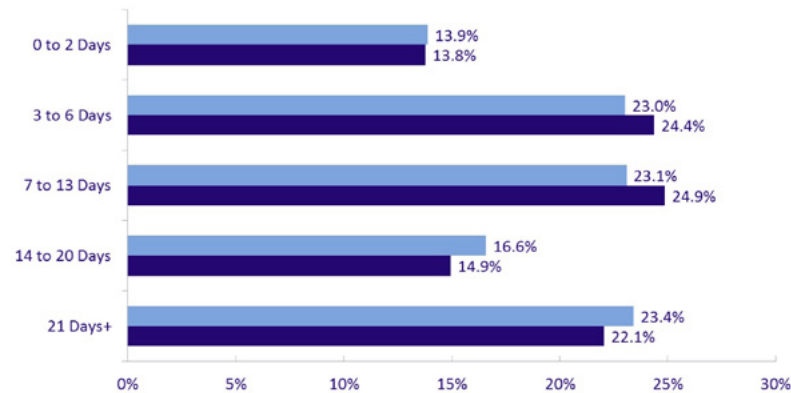
Middle East



Africa



Southwest Pacific

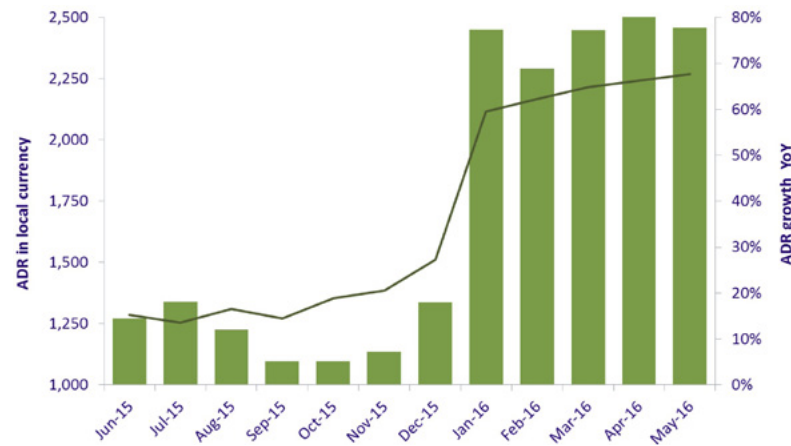


2015 2016

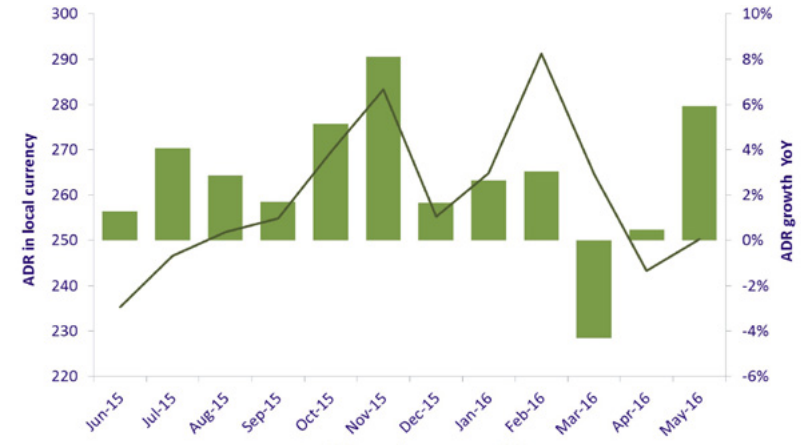
Source: Advito

## Historical ADR by country

Argentina



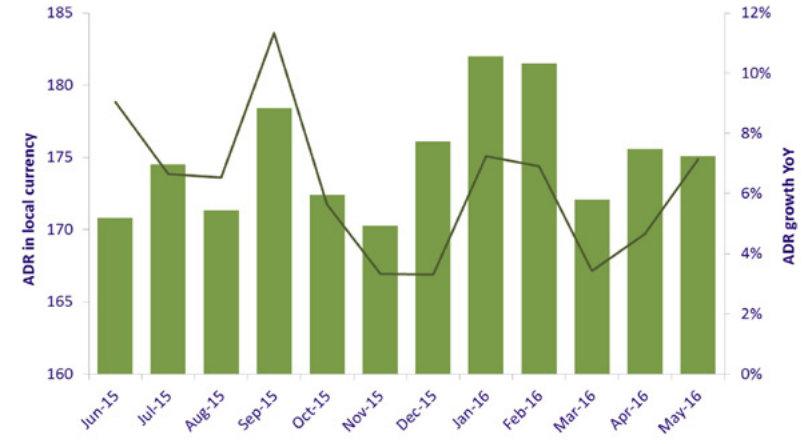
Australia



Brazil



Canada

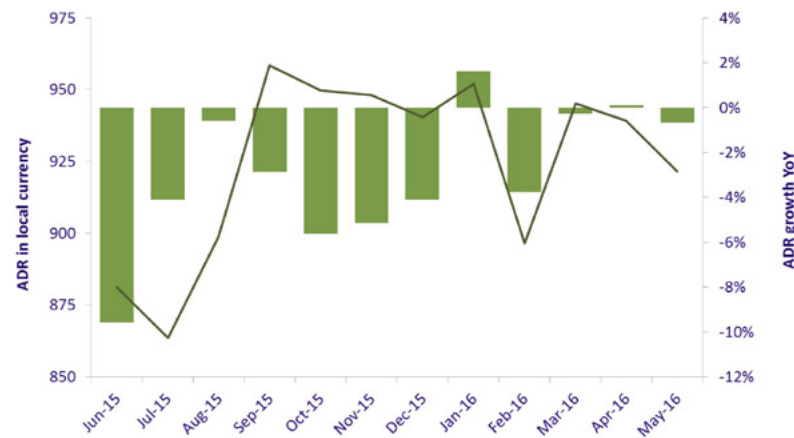


ADR growth ADR

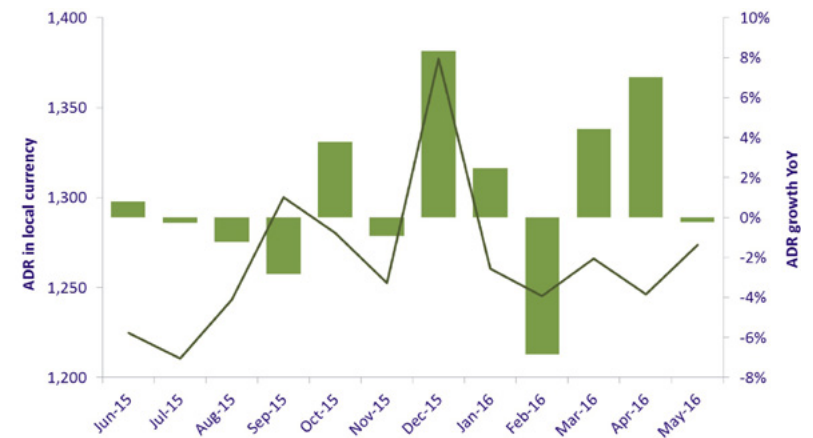
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## Historical ADR by country

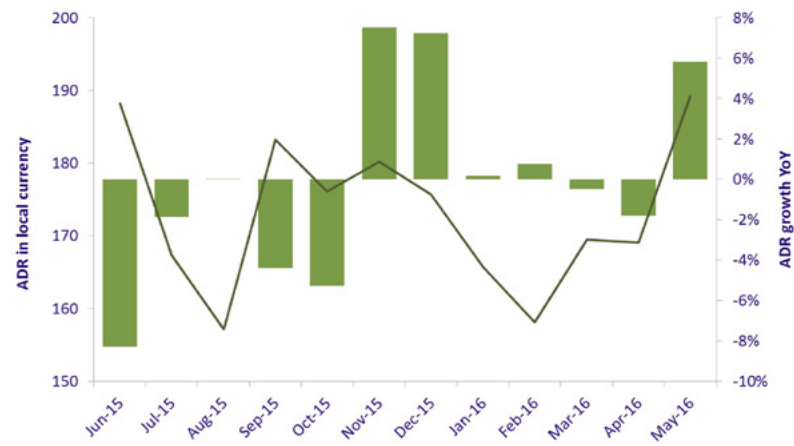
China



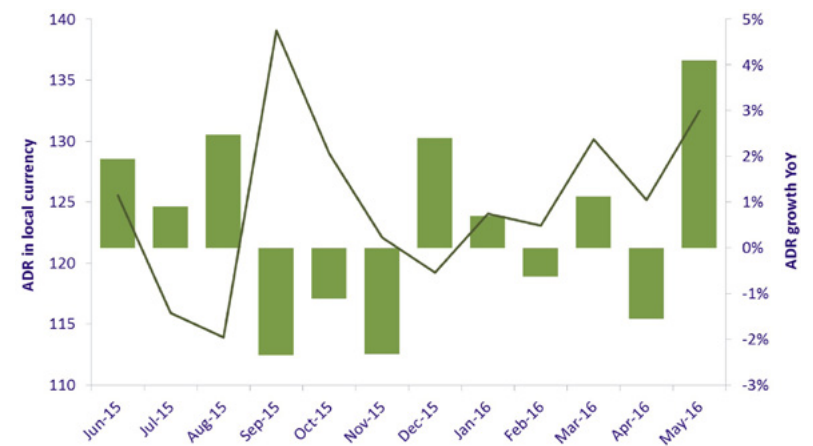
Egypt



France



Germany

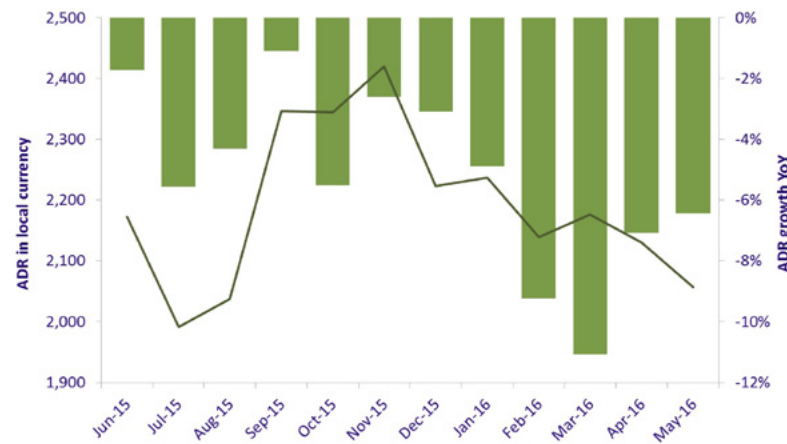


ADR growth ADR

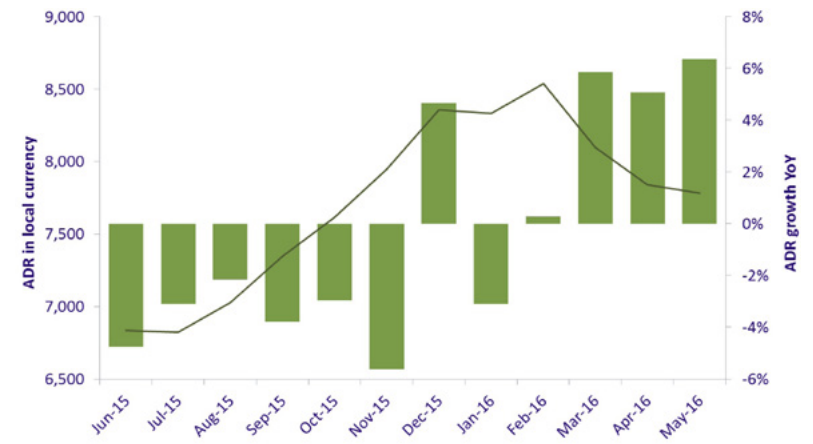
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## Historical ADR by country

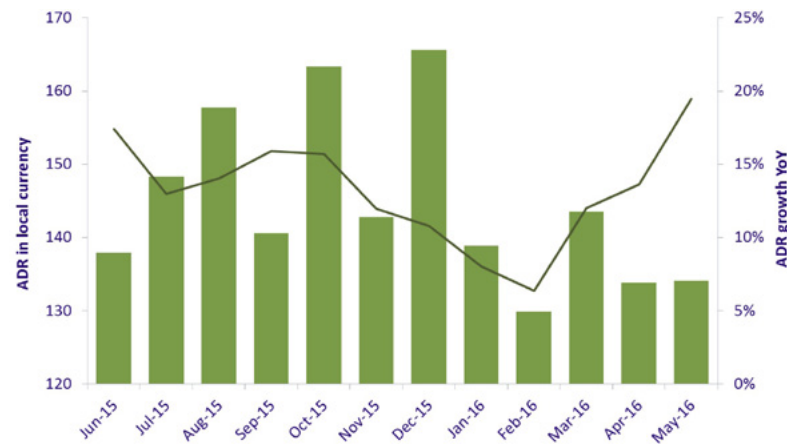
Hong Kong



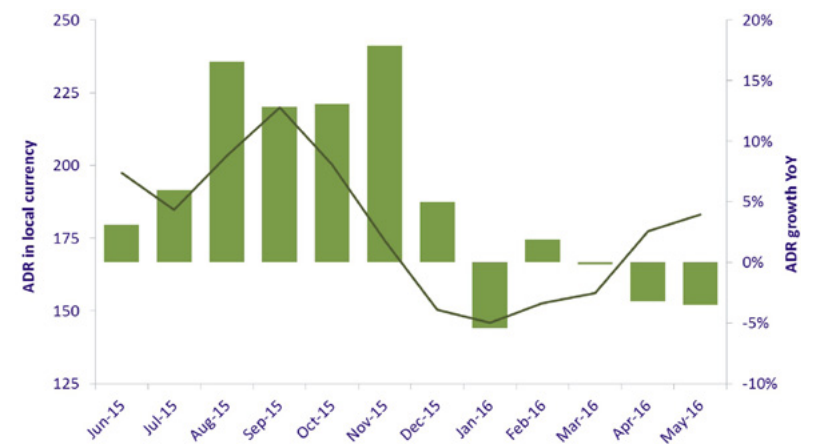
India



Ireland



Italy



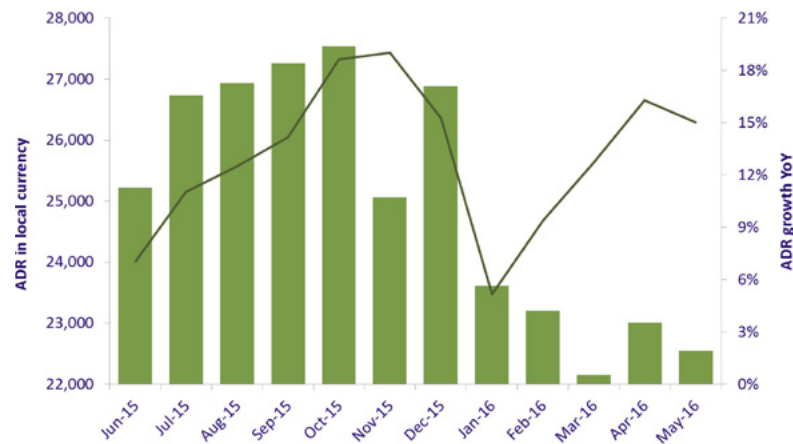
■ ADR growth — ADR

Source: Advito

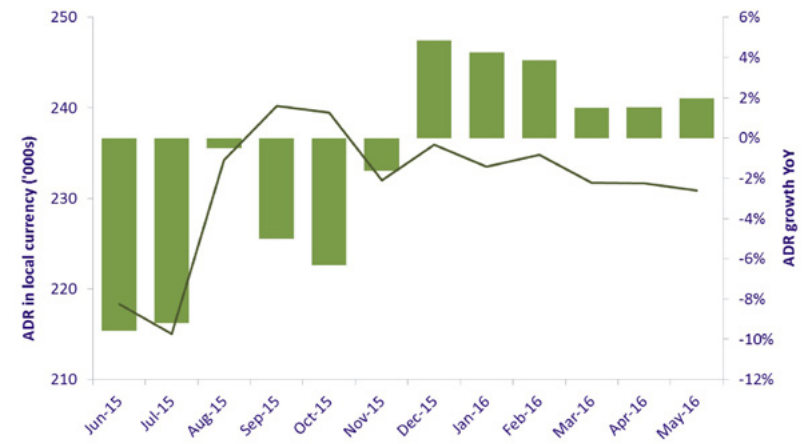


## Historical ADR by country

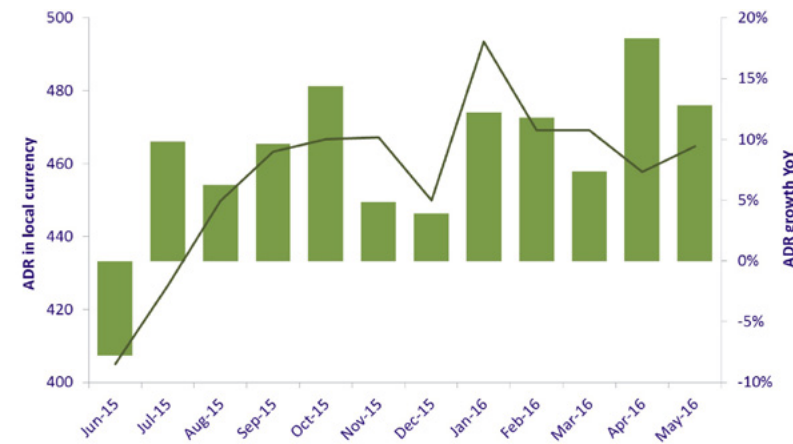
Japan



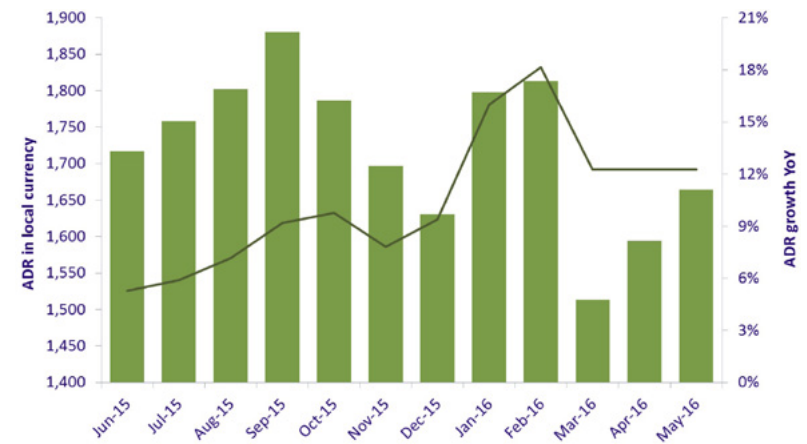
Korea



Malaysia



Mexico

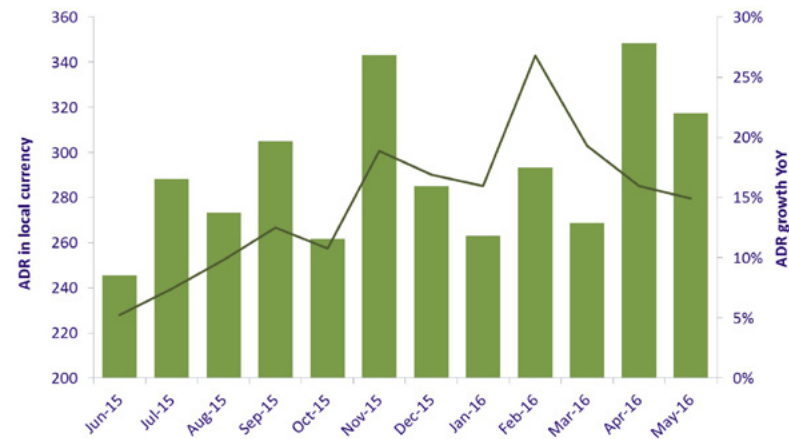


ADR growth ADR

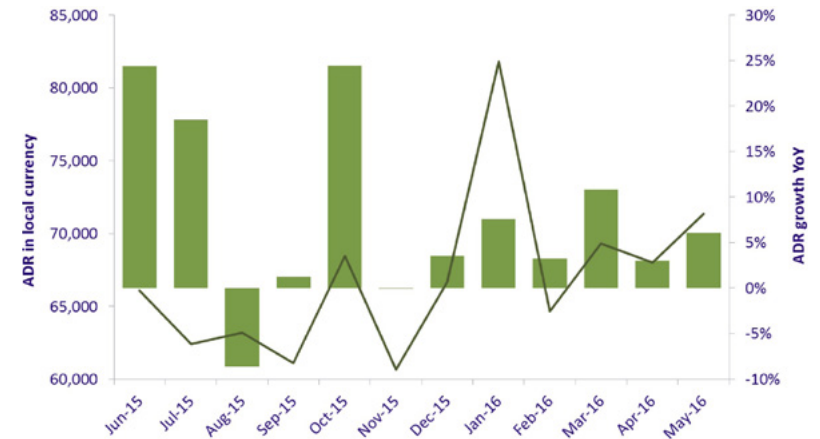
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## Historical ADR by country

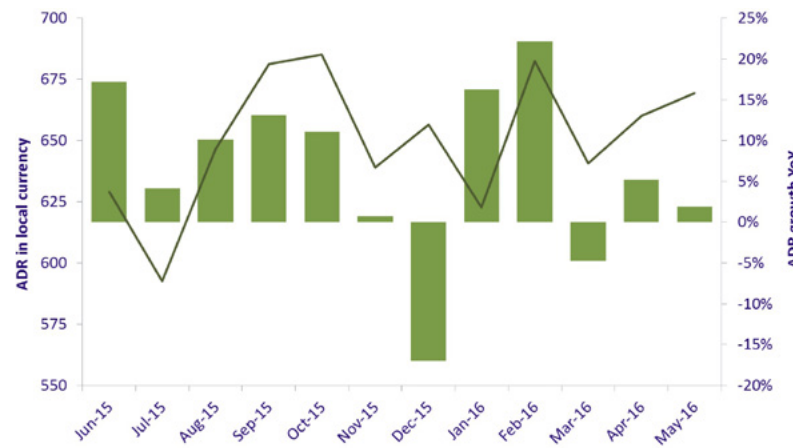
New Zealand



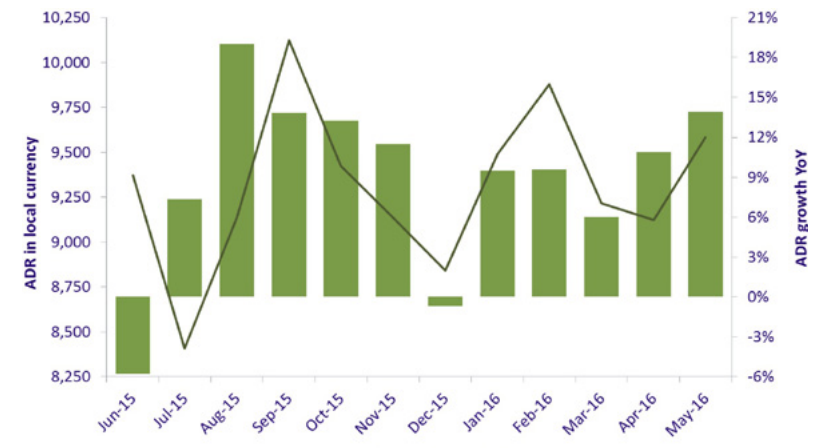
Nigeria



Peru



Russia

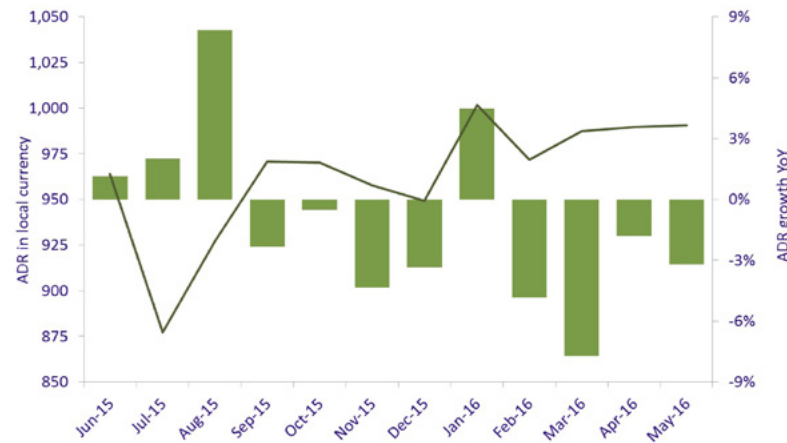


ADR growth ADR

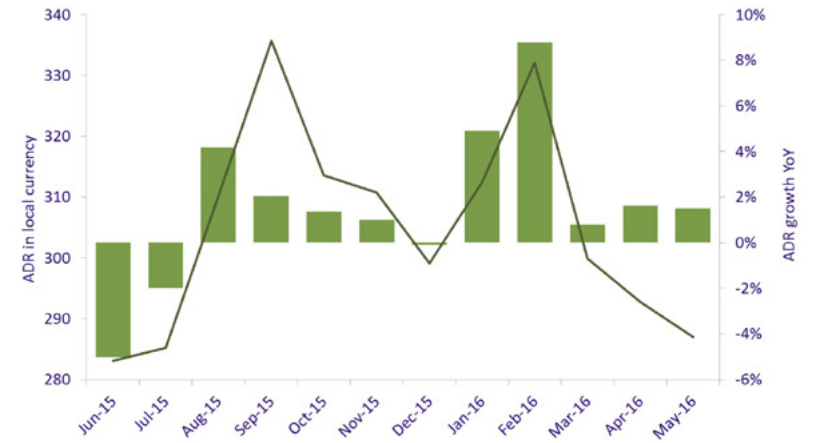
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## Historical ADR by country

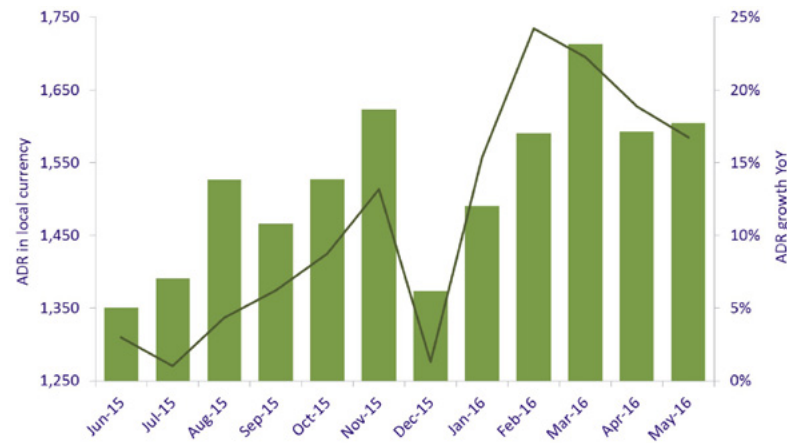
Saudi Arabia



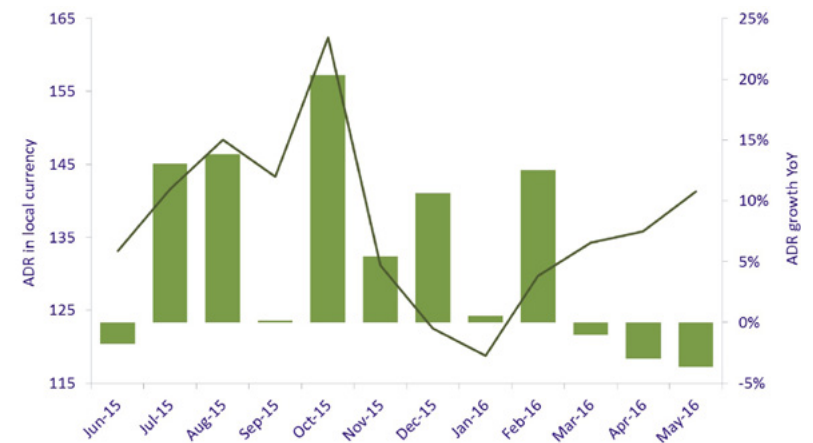
Singapore



South Africa



Spain

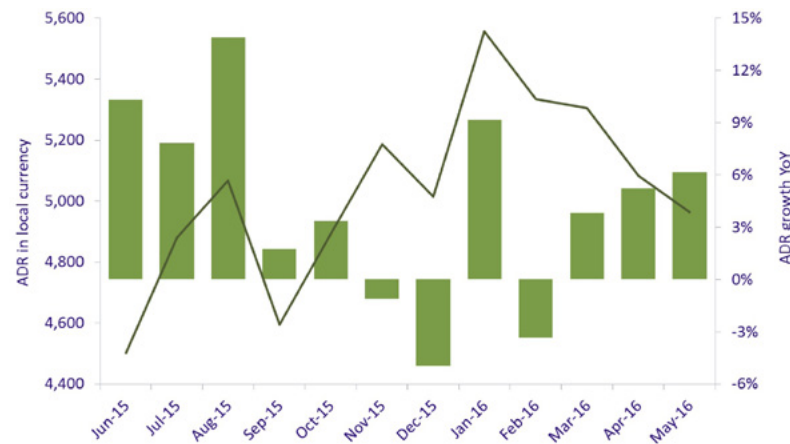


■ ADR growth — ADR

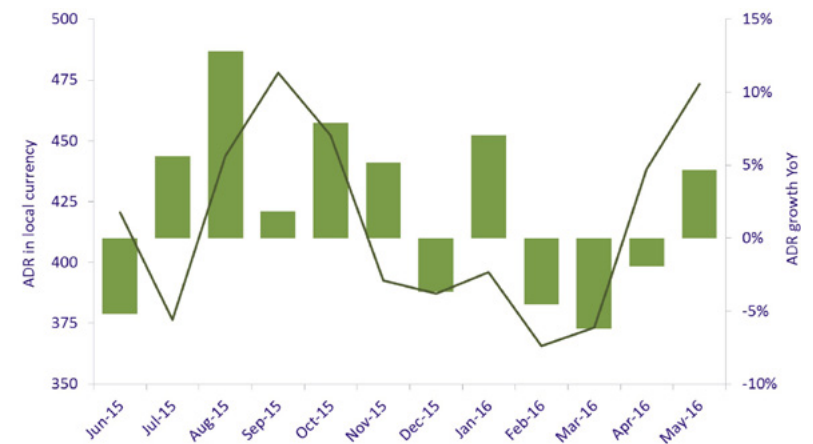
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## Historical ADR by country

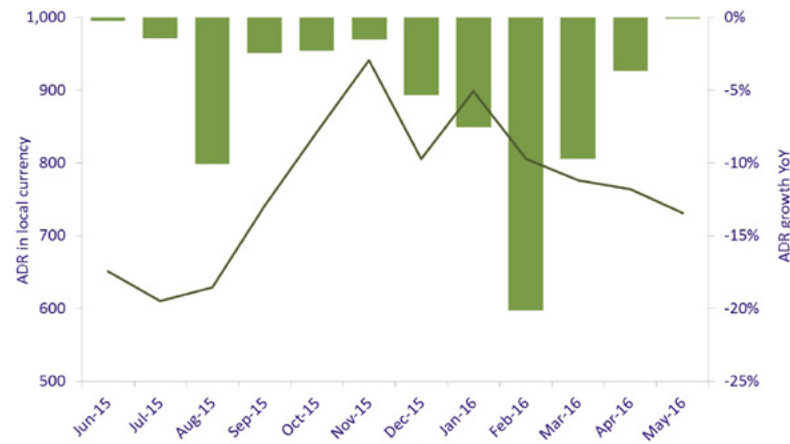
Thailand



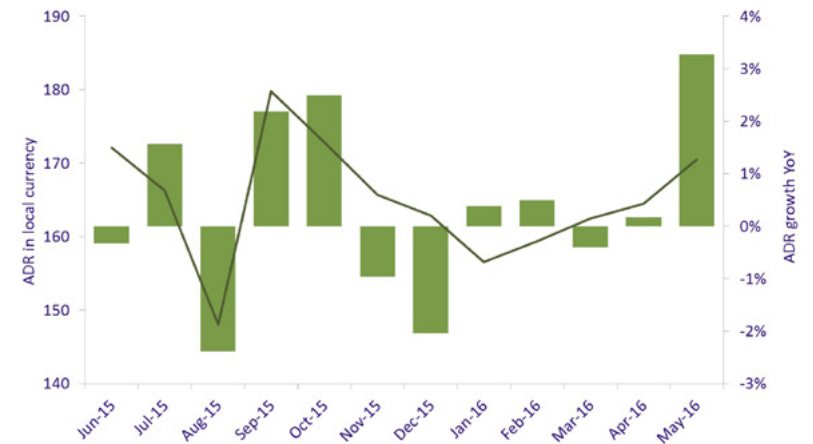
Turkey



United Arab Emirates



United Kingdom

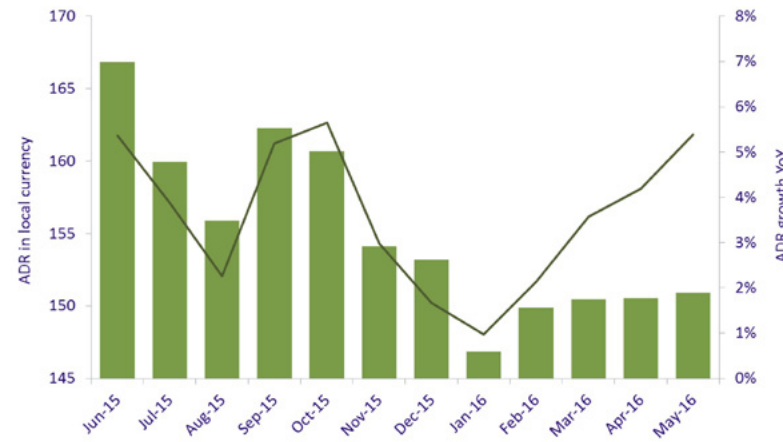


■ ADR growth — ADR

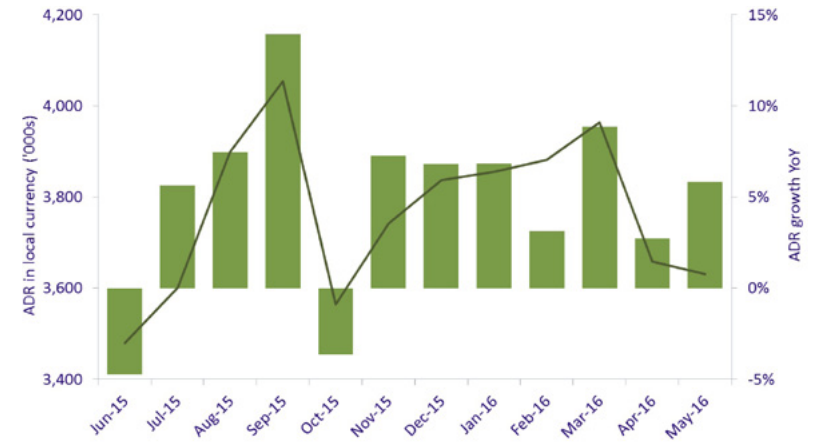
Source: Advito

## Historical ADR by country

United States



Vietnam



■ ADR growth — ADR

Source: Advito



## Historical ADR development - key cities

## United States

ADR US\$		2015				2016
		Q1	Q2	Q3	Q4	Q1
Atlanta	ADR YoY	157 6.2%	156 6.4%	157 6.3%	158 7.9%	168 7.1%
Boston	ADR YoY	228 7.1%	322 12.2%	318 5.3%	294 5.2%	206 -9.7%
Charlotte	ADR YoY	160 5.1%	162 8.1%	158 4.3%	163 6.0%	167 4.6%
Chicago	ADR YoY	180 4.5%	283 20.6%	250 0.5%	239 2.0%	163 -9.5%
Dallas	ADR YoY	164 8.2%	158 4.6%	156 4.9%	165 8.6%	169 3.2%
Denver	ADR YoY	166 7.9%	172 7.2%	177 6.6%	171 5.9%	165 -0.9%
Houston	ADR YoY	174 5.6%	175 4.2%	166 3.7%	170 -0.8%	169 -2.7%
Indianapolis	ADR YoY	133 3.4%	135 1.7%	133 -0.9%	136 6.9%	134 1.0%
Las Vegas	ADR YoY	167 3.4%	149 8.0%	134 0.1%	162 10.7%	189 12.9%
Los Angeles	ADR YoY	209 7.0%	209 2.1%	213 5.9%	210 2.9%	225 7.6%

ADR US\$		2015				2016
		Q1	Q2	Q3	Q4	Q1
New Orleans	ADR YoY	192 2.4%	185 10.8%	148 -2.8%	187 0.5%	173 -9.9%
New York	ADR YoY	268 -5.0%	370 3.0%	344 -4.4%	390 0.5%	240 -10.3%
Philadelphia	ADR YoY	172 2.8%	208 7.1%	178 -2.0%	189 0.4%	164 -4.5%
Phoenix	ADR YoY	176 12.8%	130 6.0%	110 -1.8%	141 3.4%	178 0.7%
Portland	ADR YoY	157 7.7%	173 12.6%	189 14.0%	169 7.6%	159 1.5%
St. Louis	ADR YoY	139 9.4%	149 6.3%	142 -0.1%	140 0.1%	135 -2.8%
San Diego	ADR YoY	165 6.3%	171 6.6%	175 7.2%	163 7.1%	167 1.1%
San Francisco	ADR YoY	303 6.7%	306 5.4%	336 5.4%	313 -1.4%	328 8.0%
Seattle	ADR YoY	174 4.0%	218 13.0%	255 12.6%	190 5.9%	174 -0.2%
Washington	ADR YoY	241 -2.0%	291 7.2%	233 -5.8%	250 0.1%	213 -11.8%

Source: Advito

## Historical ADR development - key cities

## Europe

ADR local currency		2015				2016
		Q1	Q2	Q3	Q4	Q1
Amsterdam	ADR YoY	152 1.3%	177 1.2%	167 2.7%	165 3.1%	158 4.0%
Barcelona	ADR YoY	145 -4.3%	170 -0.2%	182 12.2%	169 17.2%	154 6.6%
Berlin	ADR YoY	119 2.3%	122 3.8%	126 -4.2%	120 2.9%	122 2.7%
Brussels	ADR YoY	162 1.3%	167 0.5%	150 0.9%	163 0.8%	153 -5.4%
Copenhagen	ADR YoY	1,179 2.2%	1,416 5.2%	1,398 8.8%	1,273 4.0%	1,165 -1.1%
Dublin	ADR YoY	137 14.4%	166 21.3%	162 15.9%	164 23.8%	148 8.6%
Düsseldorf	ADR YoY	123 -2.9%	122 -8.8%	113 0.8%	129 1.5%	122 -1.4%
Frankfurt	ADR YoY	164 4.9%	164 7.3%	149 -4.6%	152 -3.1%	162 -1.6%
Hamburg	ADR YoY	118 2.0%	131 3.0%	121 -7.7%	125 1.2%	119 1.1%
London	ADR YoY	196 4.5%	205 1.7%	204 0.5%	206 0.4%	196 -0.3%

ADR local currency		2015				2016
		Q1	Q2	Q3	Q4	Q1
Madrid	ADR YoY	141 5.4%	147 5.8%	146 -1.8%	161 11.0%	141 -0.1%
Milan	ADR YoY	199 3.5%	235 14.8%	230 14.4%	234 29.4%	203 2.1%
Moscow	ADR YoY	9,821 6.6%	9,029 -4.8%	9,633 4.8%	9,903 3.5%	10,993 11.9%
Munich	ADR YoY	148 8.4%	154 -3.3%	158 -9.1%	155 -2.9%	140 -5.7%
Paris	ADR YoY	206 1.7%	232 -0.9%	218 -4.5%	221 1.7%	198 -3.8%
Prague	ADR YoY	2,851 1.7%	3,620 6.2%	3,533 9.2%	3,536 9.7%	2,791 -2.1%
Rome	ADR YoY	171 -5.4%	221 -1.6%	217 1.0%	197 4.9%	161 -6.2%
Stockholm	ADR YoY	1,554 2.1%	1,669 1.5%	1,723 6.7%	1,664 5.5%	1,461 -6.0%
Vienna	ADR YoY	142 7.4%	150 5.3%	154 6.9%	144 0.7%	134 -6.0%
Warsaw	ADR YoY	448 -2.0%	519 3.8%	465 0.4%	491 1.8%	445 -0.7%

Source: Advito

## Historical ADR development - key cities

## Other cities in Asia, North America and Latin America

Asia		2015				2016
ADR local currency		Q1	Q2	Q3	Q4	Q1
Bangkok	ADR YoY	5,035 9.3%	4,603 4.0%	4,684 3.4%	4,932 3.1%	5,191 3.1%
Beijing	ADR YoY	944 -9.2%	888 -11.5%	841 -14.2%	932 -8.0%	931 -1.3%
Delhi	ADR YoY	7,173 -17.0%	6,903 40.7%	5,580 7.1%	6,128 6.5%	7,520 4.8%
Hong Kong	ADR YoY	2,454 0.7%	2,261 -1.9%	2,121 -7.0%	2,385 -3.8%	2,246 -8.5%
Mumbai	ADR YoY	9,244 5.7%	8,345 3.3%	7,875 -0.8%	9,392 7.2%	10,430 12.8%
Seoul	ADR YoY	237464 -3.5%	238317 -5.6%	239478 -5.4%	247420 -2.5%	248451 4.6%
Shanghai	ADR YoY	1,138 -1.8%	1,135 -1.3%	1,064 -4.3%	1,168 -1.2%	1,132 -0.5%
Singapore	ADR YoY	299 -6.5%	283 -4.8%	296 -4.0%	309 1.1%	321 7.2%
Sydney	ADR YoY	323 9.6%	262 1.5%	274 1.9%	334 13.5%	356 10.0%
Tokyo	ADR YoY	27,037 9.3%	28,461 10.9%	28,674 16.8%	30,199 11.5%	28,126 4.0%

Canada & LatAm		2015				2016
ADR local currency		Q1	Q2	Q3	Q4	Q1
Buenos Aires	ADR YoY	1,321 1.3%	1,389 12.5%	1,336 4.6%	1,495 4.8%	2,284 72.9%
Lima	ADR YoY	603 8.1%	645 10.5%	640 7.8%	695 3.2%	663 10.1%
Mexico City	ADR YoY	2,398 17.9%	2,353 17.4%	2,347 18.7%	2,546 20.0%	2,805 17.0%
Montreal	ADR YoY	156 2.5%	171 0.2%	172 0.4%	178 8.1%	172 10.3%
Rio de Janeiro	ADR YoY	567 10.6%	521 3.9%	491 -1.5%	576 10.0%	586 3.4%
San Jose	ADR YoY	74,885 10.6%	61,544 -20.5%	62,122 -14.0%	65,873 -7.1%	76,027 1.5%
Santiago	ADR YoY	126397 -3.4%	124104 4.0%	115877 -0.9%	138354 9.9%	113822 -9.9%
São Paulo	ADR YoY	476 4.4%	478 3.6%	482 7.9%	551 21.6%	555 16.7%
Toronto	ADR YoY	173 0.2%	184 6.3%	193 6.4%	193 9.8%	202 16.7%
Vancouver	ADR YoY	174 7.1%	226 22.5%	246 23.2%	196 16.1%	201 15.5%

Source: Advito

## Assumptions

We have assumed, as working hypotheses, that:

- The price of oil per barrel (Brent crude) will average US\$50 in 2017.
- The global economy will expand by 2.3% in 2016. Growth will pick up pace in 2017, rising to 2.6% year-over-year.

## 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 pattern 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 category. Regional averages for hotels are calculated by weighting the forecast for all countries in that region by room nights for the 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 for air transactions using the daily average conversion rate on the date of travel.

Hotel 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.

## 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 regional room nights
- 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 levels

The estimates and predictions are based on data available through June 2016 for air, May 2016 for hotel transactional data and through July 2016 for macroeconomic and industry indicators.

## 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](http://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](http://www.bcdgroup.com).

