

2009 Industry Forecast

Uncertainty looms as buyers seek to leverage programs for greater value

2009 by the numbers

Worldwide airfares

Net airfares will increase on average by **6 percent** to **8 percent** over 2008. The total cost of air travel will also increase, due to continued unbundling of services and the resulting additional fees.

Hotel rates

Rates are forecast to rise by **4 percent** to **8 percent**, but this prediction is an average of some extremes. In cities where demand is slowing, rates will rise less. In the Middle East and Asia Pacific, Advito predicts the rates will rise at a rate double the average above.

Meeting costs

Increases are projected at similar levels to transient hotel rates of **4 percent** to **8 percent**. However, significant variation will exist in markets where demand is particularly high or low relative to the average global demand.

Rental car rates

Advito expects rental car rates to increase slightly by **3 percent** to **4 percent**, as rental car companies lift rates and add service fees, primarily in the U.S. In Europe rates are predicted to stay flat due to fierce competition. Car rental rate increases are forecast to be highest in the Asia-Pacific region.

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Overview

The 2009 Industry Forecast builds on Advito's thorough understanding of the business travel market and the influence of global and local factors to help guide your program in a year of uncertainty

The crisis in the financial sector and the impact of high oil prices (although these have moderated in recent weeks) cast a long shadow over the coming year. The U.S. and U.K. are experiencing economic slowdown and only gradual improvement is expected for 2009. Despite the turbulence, some countries, e.g. China and India, are experiencing significant economic growth; this growth is projected to continue, albeit at a slower rate.

Many corporations are focusing more closely on cost control and demand management. These actions include workforce reductions and cutbacks in discretionary spending. Against this background, corporations are more actively recognizing the true value of travel managers and buyers in controlling spend.

Advito offers the 2009 Industry Forecast at a volatile time. We have based our outlook on a scenario characterized by the following assumptions:

- › A slowing world economy;
- › Somewhat higher than predicted headline inflation rates;
- › A volatile but slowly recovering U.S. dollar;
- › A crude oil price fluctuating in the range of US\$110 to US\$130 per barrel; and
- › The absence of any major geopolitical incident or other adverse shock having a severe impact on corporate travel.

We will continue to monitor these parameters closely and revise the forecast as appropriate.

The 2009 Industry Forecast provides readers with essential input for planning travel budgets as the new calendar year and fiscal year for most companies are approaching. Additionally, the Forecast serves as a valuable reference to companies striving to source program components and manage travel costs and services in a volatile environment.

For additional analysis regarding the evolution of travel programs, the role of travel executives and overall qualitative background to this forecast, we invite you to read BCD Travel's 2008 *Insight on Corporate Travel*, powered by Advito, available for download at www.bcdtravel.com.

2009 will be a year of uncertainty – not only in relation to the economy

2009 will be a year of uncertainty. Enormous changes affected the financial markets in 2007 and 2008, leading to volatile stock markets and the failure of a number of companies in the financial and insurance sectors. This financial turbulence is spreading through the world economy, which faces a slowdown in global growth for the remainder of 2008 and 2009, especially in the advanced economies. From a figure of 5 percent

in 2007, the International Monetary Fund predicts global growth will moderate to 4.1 percent in 2008 and 3.9 percent in 2009 (see **Graph 1**).

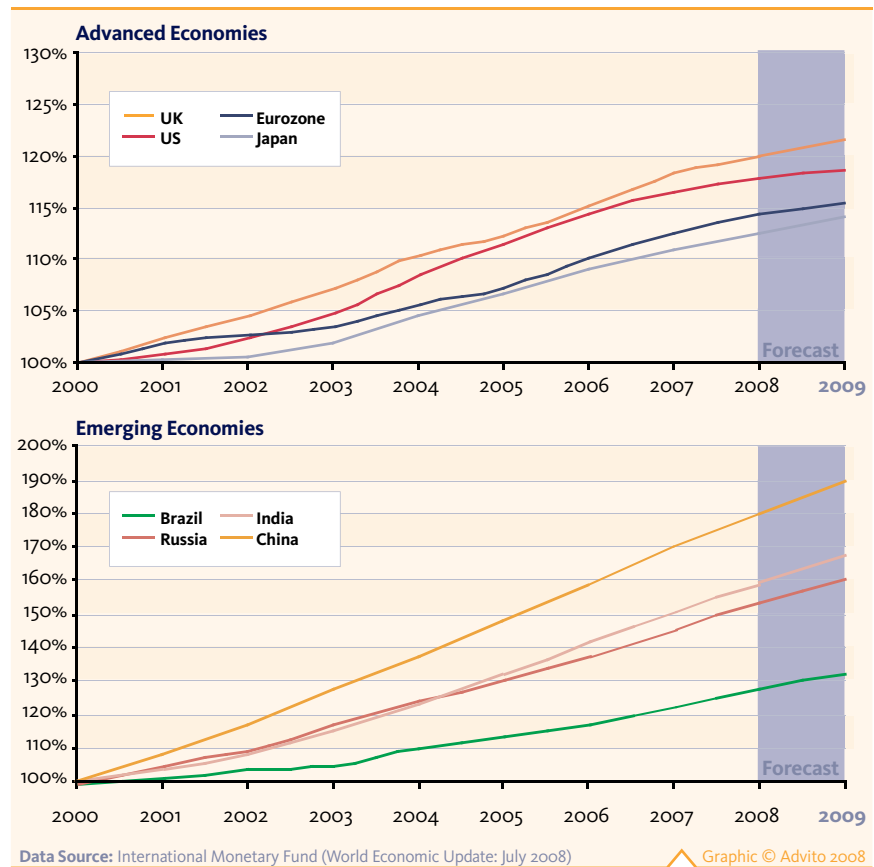
Drilling down to a regional level, economic slowdowns have hit the U.S. and U.K. economies; sources are mixed on whether a recession will occur in either market. The slowdowns have originated from the credit crunch, primarily in the mortgage sector, and the problems that have hit the financial sector. The outlook remains uncertain as the situation is being sustained by high inflation and volatile consumer and business confidence.

Other markets seemed to have escaped the crisis. However, the Eurozone also faces headwinds and growth in emerging markets such as China, India and Brazil is starting to moderate. It is worth noting that despite this moderation, the Chinese and Indian economies are still projected to grow at a rate in the range of 7.5 percent to 10 percent in 2009.

Higher commodity and food prices have brought increased inflation to most economies – particularly in the emerging markets (see **Graph 2**).

The impact of oil prices on inflation and the world economy in general cannot be underestimated. These prices reached unprecedented heights in 2008, causing pain for everyone from manufacturers and airlines to consumers and business travelers.

Graph 1 – ADVANCED AND EMERGING ECONOMIES GROWTH
(GDP GROWTH, 2000 = 100%)

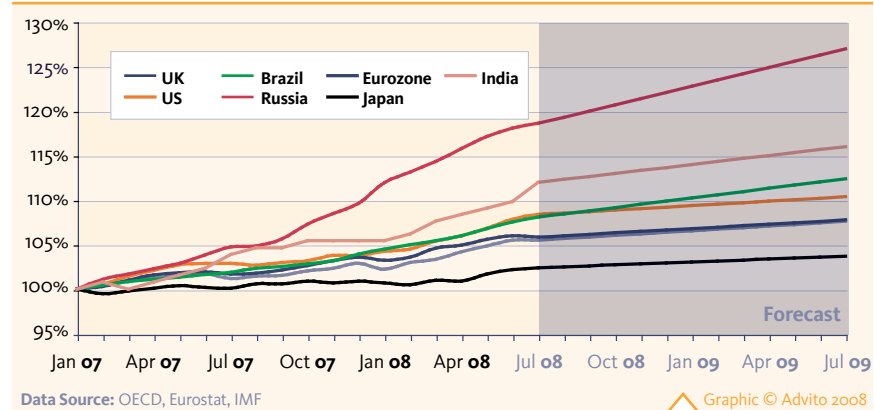


The price of oil has retreated somewhat in recent weeks, but remains volatile. Looking ahead, the price of oil is expected to fluctuate between US\$100 and US\$130 a barrel in 2009 (see **Graph 3**).

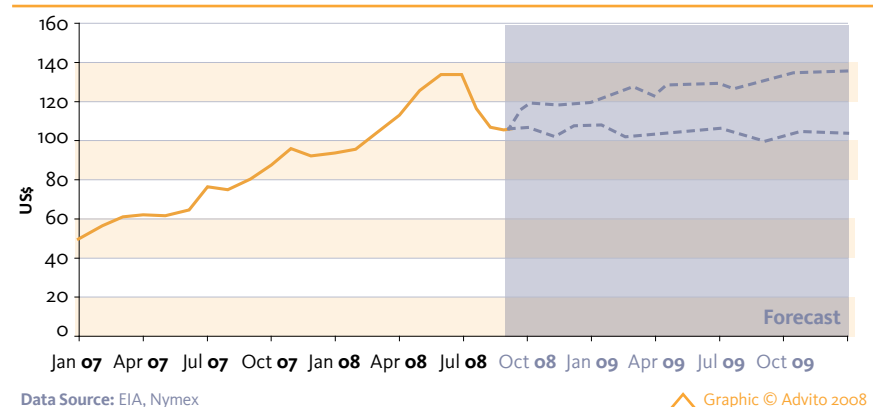
With so much turmoil in the financial markets, it is easy to overlook other external uncertainty factors for 2009. A continued fear of geopolitical unrest and terrorist incidents means that security should remain a priority for corporations. On top of that is the fear that natural incidents and health pandemics are on the increase.

But internal factors also require attention from the corporate travel buyer: Corporations are changing the way they work, thanks to an increasingly diverse workforce with a broad range of demands and expectations, particularly in relation to duty of care. These driving forces will require organizations to review their policies and processes, and make corporate social responsibility a key part of their business model. Advances in mobile technology – if deployed correctly – will allow for more effective communication within the workforce. Such capabilities should be seen as an opportunity, rather than as a threat, for managed travel programs.

Graph 2 – CONSUMER PRICE INDEX (JAN 2007 = 100%)



Graph 3 – CRUDE OIL PRICE PER BARREL



The currency exchange headache

The rising price of food and commodities is having a noticeable effect on travel and entertainment (T&E) budgets. With the cost of meals, taxis and the like increasing, expense claims have started to inch upwards. A view of the total cost of travel is therefore essential.

But currency movements, coupled with local inflationary effects, have given those in charge of travel budgets even bigger headaches. Not only do they have to bear price increases in local currency at destination, they must also factor in the movement of their own currency against that destination currency.

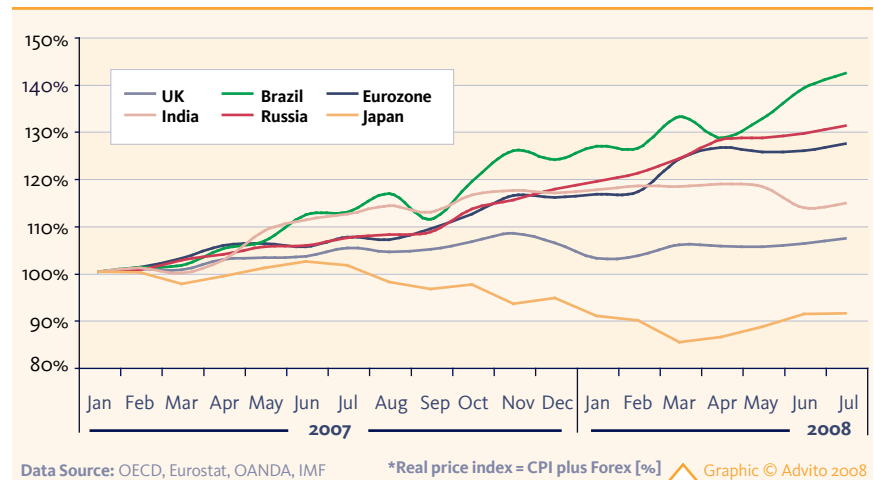
A weak U.S. dollar has meant that most key destinations for U.S. corporate travelers have seen significant increases in costs for the company, far beyond the local inflation (see **Graph 4**).

The weak USD combined with local inflation has meant real price increases for travelers from the U.S. to most key destinations

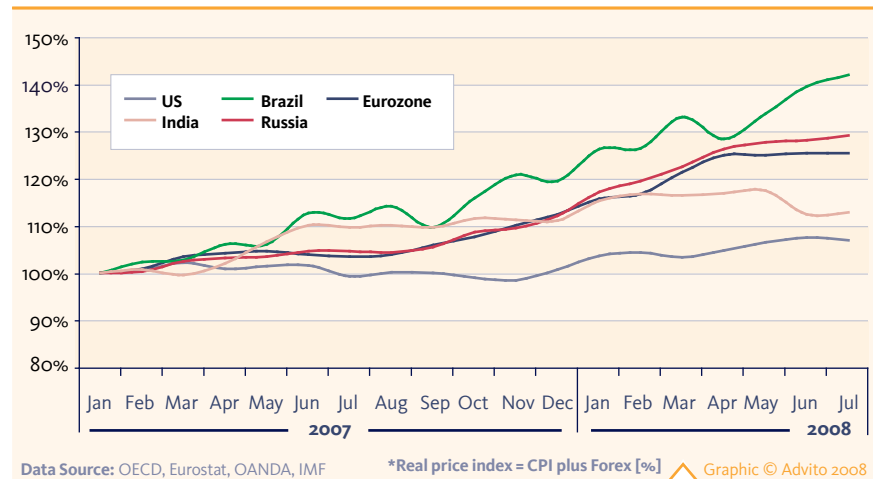
The impact has not only been felt in the U.S. Travelers from U.K.-based corporations have noticed a weakening of the pound, particularly in the Eurozone. Most recently, the pound has started to slide against the dollar, reversing the environment of recent years (see **Graph 5**).

Travelers paying in euros, meanwhile, have enjoyed better purchasing power while on the road (see **Graph 6**).

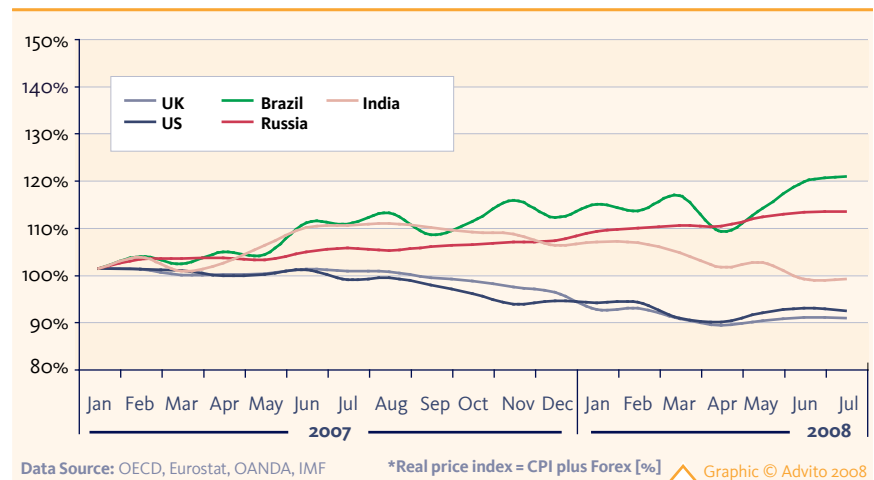
Graph 4 – USD REAL PRICE INDEX* (Jan 2007 = 100%)



Graph 5 – GBP Real Price Index* (Jan 2007 = 100%)



Graph 6 – EURO Real Price Index* (Jan 2007 = 100%)



The outlook for business travel in 2009:

2009 will be a challenging year for buyers of business travel, not least because the economic outlook is so uncertain

Much will also depend on the emotional reaction of the market players: Will hotel directors trust their yield management systems or drop prices when demand drops? By how much will companies really reduce their number of trips to cut costs?

The airlines' lurch back to unprofitability because of high oil prices and cuts in capacity is likely to lead to airfare increases.

Some relief – or, perhaps more accurately, rate increases restricted to just around the rate of inflation – will come from the hotel sector, where an increase in room supply from new hotel openings coupled with reduced demand will ease pressure in some markets. However, high-demand destinations will remain a challenge for budget-conscious buyers.

Corporations may cut back on meetings and events spend in light of the economic downturn; however, rate changes in this sector will closely mirror those of transient business.

Cost pressures on car rental suppliers are likely to be felt through a fall in service levels. Rates are expected to rise only slightly or even remain flat in some markets as a result of aggressive competition between the major players.



2009 Airline outlook: Increases in the total cost of air travel ahead

Fuel prices may have dropped from their mid-2008 record peaks but are still far higher than the long-term average. The high price of fuelling planes has led the International Air Transport Association (IATA) to predict global net losses for the airline industry of US\$5.2 billion in 2008 and US\$4.1 billion in 2009.

The rising price of oil has had a particularly strong effect on smaller low-cost carriers, some of which have been unable to survive. Low-cost carriers are also coping with funding problems because of the credit crunch.

Despite the challenges facing airlines, air passenger traffic is still forecast to grow in 2009, though at a slower rate than in previous years. IATA predicts that annual global air passenger growth will be just 2.8 percent in 2008, before edging slightly upwards to 2.9 percent in

2009. These overall figures hide a slight fall in predicted traffic in North America and a 7.9 percent increase in the Middle East (see **Map 1**).

Record-high fuel prices, overcapacity and reduced demand will eat away at airline profitability for 2008 and going forward

Airlines fight for lower costs and survival

Low-cost carrier failures, combined with the survivors' inability to find new funding to cope with these higher costs and to expand networks, have provided mainline carriers with the opportunity they needed to cut capacity and raise fares.

"In the past, mainline carriers argued that there was too much capacity

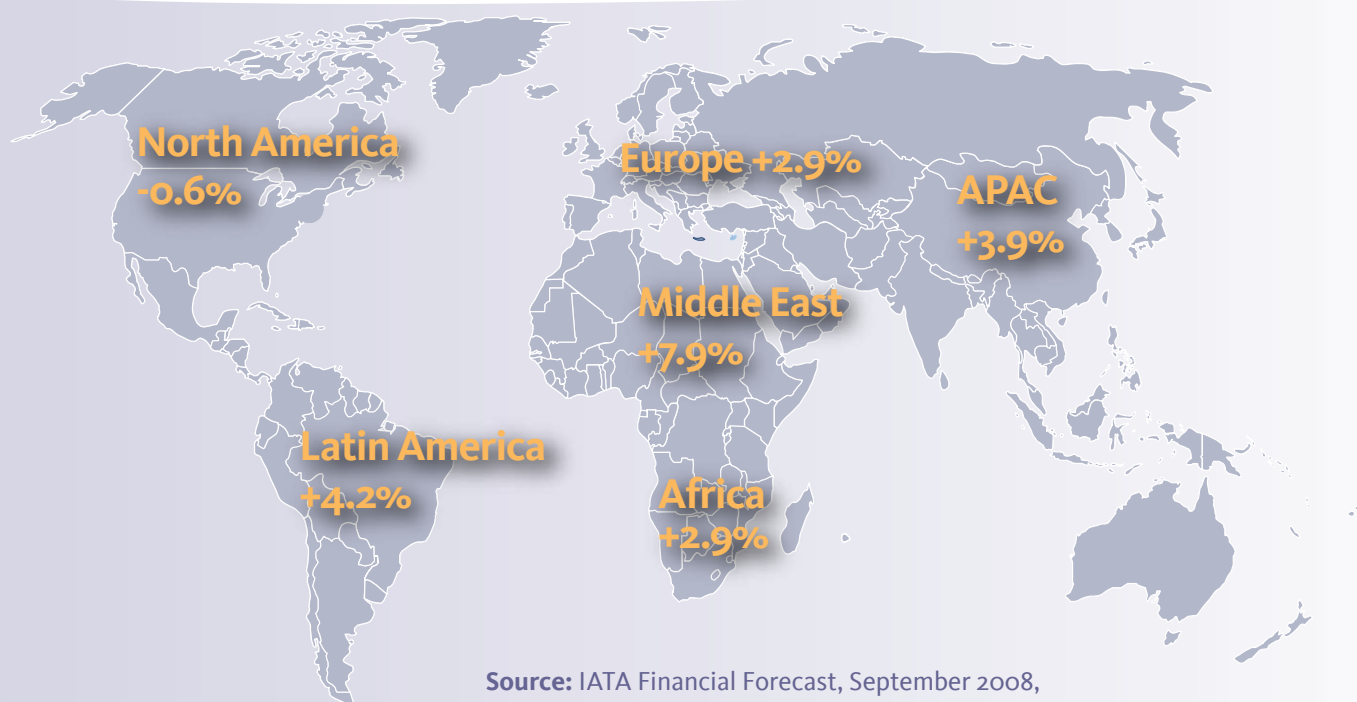
and that was the justification for lowering their fares," says Bob Brindley, vice president of Advito. "Yet if load factors are at 85 percent to 90 percent, it is hard to argue there is too much capacity. They were really arguing that prices were low."

In 2009, airlines will react to the challenging environment by further trying to reduce costs and exploring ways to add new revenues.

"Carriers are clearly in survival mode," says Brindley. "With the run-up in oil prices, they are trying to find any way they can to cut other expenses. This has led to capacity reductions and the unbundling of their products."

To survive in such a challenging market, airlines find themselves considering previously unthinkable strategies – such as merging with former rivals, as is the case with Delta and Northwest, and British Airways and Iberia.

Map 1 – Annual global passenger growth



Source: IATA Financial Forecast, September 2008, YOY Growth Comparisons for 2009

2008 saw carriers move further away from guaranteed rates to discounts, particularly in Europe. Whereas a few years ago, an airline might have guaranteed a fare of €540, they might now instead offer a discount of 20 percent off the economy-class fare or 15 percent off the business-class fare. Therefore, as published fares increase, corporate fares will also automatically rise.

The capacity question

In their drive to cut costs, airlines are starting to address the issue of overcapacity. The reduction is clearest in the U.S. domestic market, which will bear the brunt – around a third – of the planned capacity cuts worldwide. Some of this capacity reduction stems from the termination of service to some destinations and reduction in service to others (i.e., Las Vegas). OAG estimates that 275 destinations worldwide, including 32 in the U.S. and

116 in Asia Pacific, will be cut from the global carrier network.

Some U.S. domestic capacity is being redirected into international routes. U.S. airlines are expanding rapidly into Latin American markets, attracted by the robust performance of many of the region’s economies.

Capacity reduction is not confined to the United States. According to OAG, airlines around the world have cut the number of flights and seats by 7 percent for the final quarter of 2008. Air France, British Airways, Finnair and Virgin Atlantic have all indicated they will cut capacity over the winter flying season.

But airlines are clearly not removing capacity from their networks fast enough to cope with slowing demand in some markets. There is now a **clear downward trend in load factors**, a trend that has been worsening since the start of the year.

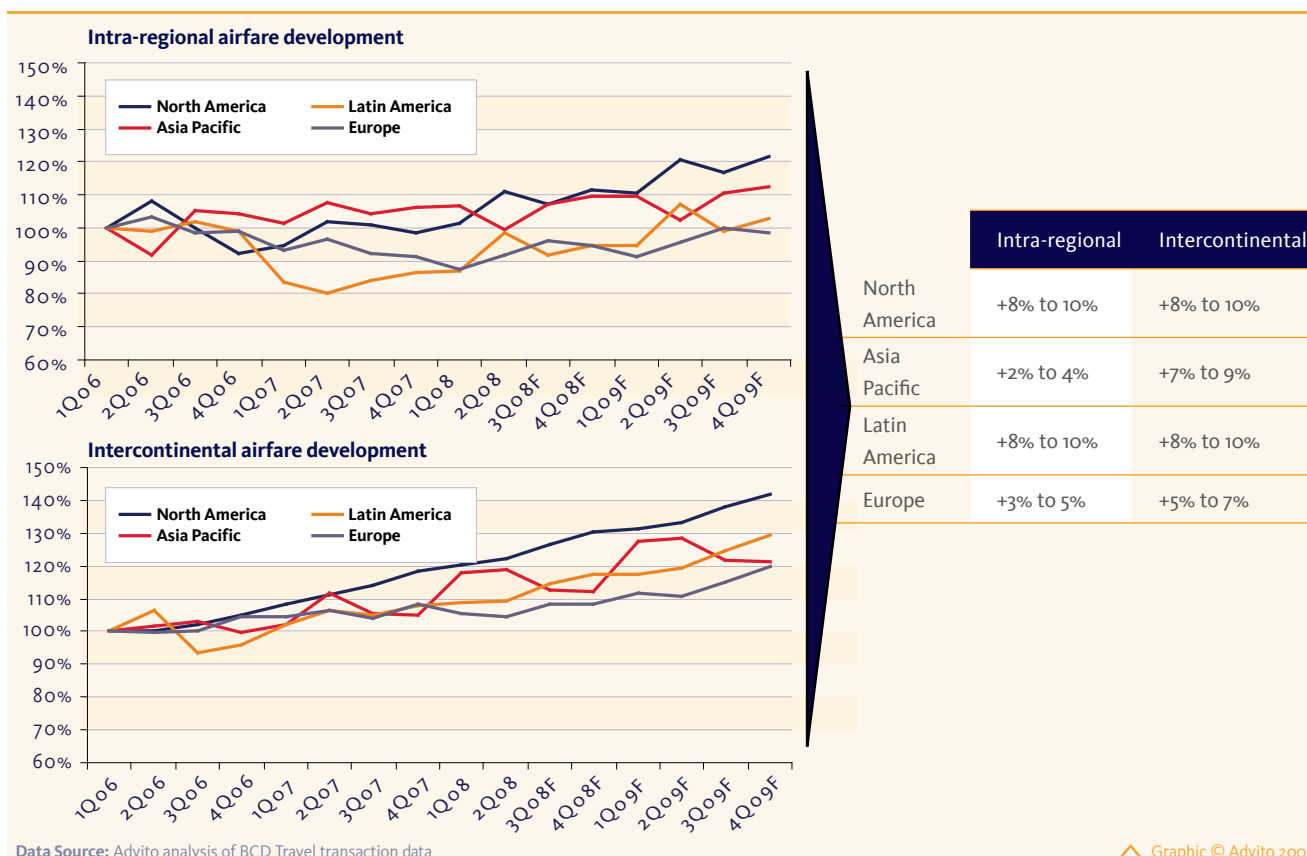
2009 airfares

In 2009, we predict **net airfares to increase against 2008 on average by 6 percent to 8 percent**. However, there is **wide variation among the forecasts for different regions** around the world.

Regional airfare forecast

- > **North America:** Intra-regional increases from 8 percent to 10 percent, intercontinental from 8 percent to 10 percent
- > **Asia Pacific:** Intra-regional increases from 2 percent to 4 percent, intercontinental from 7 percent to 9 percent
- > **Latin America:** Intra-regional increases from 8 percent to 10 percent, intercontinental from 8 percent to 10 percent
- > **Europe:** Intra-regional increases from 3 percent to 5 percent, intercontinental from 5 percent to 7 percent

Graph 7 – Forecast regional airfare increases



The significant capacity reductions addressed above mean that average airfares are going up for two reasons: increases in fares and fees; and reduced availability of lower fare types forcing the traveler to buy higher fares because the low fares are sold out.

But airlines are now starting to reach the limit of the fare increases they can impose, says Advito's Bob Brindley: "As carriers continue to push through increases in fuel surcharges and base fares, more and more corporations will be forced to tighten their budgets. If corporate business starts to dry up, there will be pressure to relax some of those price increases."

The impact of Open Skies

Corporate travel buyers were hoping that the entry into force of the historic Open Skies agreement between the United States and the European Union at the end of March 2008 would lead to greater choice and lower fares.

At the same time, however, three all-business carriers – MAXjet, Eos Airlines and Silverjet – went under,

taking capacity out of the London-New York market. After the failure of Eos, which flew from London Stansted to New York JFK, American Airlines ended its own recently launched services between the two airports.

London Heathrow has slowly started to open up, although high slot prices – some have reportedly changed hands at tens of millions of dollars – have been a barrier to new entrants. Close airline alliance ties have provided a solution for some carriers. Air France/KLM have transferred slots used for short-haul flights to SkyTeam alliance partner Delta for intercontinental service.

Increased competition has enabled transatlantic business-class discounts to remain at high levels, although some of the benefits of this Open Skies-enabled competition have been diluted by high oil prices.

Future alliances

One major unknown for the coming year will be the closer ties between the airline alliances. SkyTeam will start to leverage its transatlantic joint venture to coordinate schedules, sales and marketing. The relationship will

become tighter still when the merger of Delta and Northwest is completed.

Of greater importance, particularly on key London-U.S. routes, is the proposed joint business agreement between American Airlines, British Airways and Iberia, whose application for anti-trust immunity is currently under review by the U.S. Department of Transportation.

Rising fares between Germany and Switzerland following the takeover of Swiss by Lufthansa show the impact that such mergers may have. Mergers also lead to an increase in monopoly routes; this would be the case with Atlanta-Amsterdam and Atlanta-Paris following a Delta-Northwest-Air France-KLM link-up.

As a result of tighter alliances, corporations will see more requests from airlines to drop coverage of other carriers in order to maintain discounts with their primary carriers. Where a corporation may have had deals with four carriers, those deals may need to be restricted to three.

Take the case of a company with 15 percent of its air volume on routes where carrier A has a monopoly and



15 percent on routes monopolized by carrier B. Merged carrier A/B is sure to come back and ask the buyer for higher market share on non-monopoly routes to guarantee the discount on the 30 percent monopoly route business.

Managing compliance in an environment with fewer choices for travelers will be increasingly problematic if load factors return to higher levels; such a development could then lead to restricted availability of seats on which corporate discounts apply.

Another potential side effect is the review of corporate policy on non-stop flights. If the corporate discount on a particular non-stop route is now only 5 percent or 10 percent because of decreased competition, companies may start to consider suggesting travelers connect through other hubs in order to get substantially higher discounts.

Unbundled fares

In addition to increasing published fares, airlines have turned to ancillary fees to generate additional revenues.

See the chart to the right (**Example 1**) for what a typical U.S. domestic fare might now look like.

In this example, the extra fees account for 40 percent of the total fare. Many of the additional fees, such as charges for second and even first items of hold baggage, have adhered in the U.S. domestic market. Some analysts predict their rollout across other regions soon.

As mentioned, the price of fuel has fallen from 2008 highs, but fuel surcharges show few signs of following in its wake. Airlines may be reluctant to scale fuel surcharges back too quickly due to the volatility of the oil market.

Green taxes have already appeared in the Netherlands and the United Kingdom. Australia is expected to follow suit. Whether there is an appetite for further green taxes as economies soften remains to be seen.

Overall, **we estimate that additional fees will drive up the total cost of air travel by up to 3 percent to 5 percent in 2009.**

Airline strategy for 2009

With carriers reducing capacity and raising fares, buyers will need to work hard to find savings opportunities in the air sector.

- > **Support of preferred carriers will become increasingly important.** Buyers who can shift share in a market with softening demand to preferred carriers may be well rewarded.
- > **Where practical, try to keep negotiations with individual alliance airlines separate.** If everything is bundled together in an alliance, it will always be hard to break a piece off.
- > **Guaranteed fares can provide incremental corporate discount savings and help avoid market inflation of fares.** However, airlines are becoming more reluctant to guarantee fares in an environment with rapidly rising oil costs.
- > **By expanding the global reach of the airline program, corporate travel buyers can bring more of their air travel under the umbrella of their managed program.** This will lead to new discounts on travel that was previously purchased at published rates.
- > **Monitor current air program performance.** Airline sales staff may be required to hit strict targets and if a program is failing, the deal may be pulled. Check the performance of programs regularly to ensure targets are reached and that negotiated rates have been loaded and are being used. The ability to act fast to seize available opportunities can generate significant incremental savings, even in the current challenging environment.

Example 1 – A typical U.S. domestic fare with ancillary fees

Average U.S. Domestic Airfare	\$465
Additional Trip Charges	
Airline fuel surcharge (\$40 per round trip)	\$40
Change fees (1 @ \$150)	\$150
Curbside check in (2 @ \$3)	\$6
Checked baggage (1st bag \$15/per flight, 2nd bag \$50/per flight)	\$30
Preferred seat request (\$30 per flight)	\$60
Snack (\$7/seg) / Beverages (\$2/per flight)	\$18
Pillow/Blanket (per flight)	\$7
Total cost of air travel	\$776

Source: Advito research 2008

2009 Hotel outlook: Softening demand will strengthen buyers' negotiating power

Hotel rates have risen sharply since 2004 as demand has outstripped supply. Hotel costs have become the fastest rising segment of companies' business travel expenditure.

Mary Ellen George, general manager of Advito, says: "Hotels have enjoyed significant pricing power due to extremely high demand, over the last three years. However, softening demand means they may be seeing a change in market conditions."

A healthy revenue stream has allowed hotel chains to invest in both upgrades and new properties, particularly in primary business destinations. Some of that capacity is now coming online just as the market is beginning to soften, leading to **a better negotiation situation for corporations this season**. The bulk of that capacity is set to enter the market in 2010, particularly in China and India, where hotels have rapidly scaled up their development pipelines.

Despite the pendulum shift, savings require a broader approach than just the negotiation of room rates

However, rate cuts are unlikely, in part because of the sophisticated revenue management systems put in place in recent years. "The changing environment does not necessarily mean rates will go down but it will put the brake on the increases we have seen of late," George warns.

Because hotels are trying to keep current revenue levels by further increasing prices to cover rising credit and energy costs, despite the easier negotiating environment, **Advito forecasts an average rise in hotel room rates of 4 percent to 8 percent globally for 2009**.

The hotel picture around the world

In the U.S. domestic market, the faltering economy will result in a strong impact on occupancy. But healthy international markets – particularly in the Middle East, Latin America and Asia Pacific – and a weak dollar mean that overall demand will remain steady. Advito predicts rate increases in North America to average between zero percent and 3 percent, with some high-demand markets rising more (see **Map 2**).

Hotel rates in India and China, markets which have overheated in the past two or three years, will continue to rise but less strongly, as a steady stream of new properties opens up in the coming year. Beijing will see lower rate increases thanks to the Olympics-related jump in capacity. On average, hotel rates in Asia Pacific will rise by 10 percent to 20 percent, although in some secondary destinations the increases will be considerably smaller (or, perhaps, nonexistent).

For Europe, Advito forecasts an average rise in hotel room rates in line with the global average of 4 percent to 8 percent, with larger increases in some high demand cities. The Middle East continues to boom, and hotel rates in this region are set to jump by double-digit percentages (ranging from 15 percent to 25 percent) once more – not only in the oil rich Gulf. Russia, where oil and gas business is also thriving, will see similar rate increases.

Latin America shows a complex picture with rate increases of 10 percent to 15 percent in many markets; some secondary Brazilian cities, for example, are experiencing significant rate growth owing to accelerating demand and limited room stock. However, increases in the principal cities of Mexico and Brazil will be low, if they appear at all.

In the U.S., high-demand cities like Houston will see rises of 4 percent to 6 percent. Rates in a handful of smaller locations where demand is significantly outpacing supply and pushing up rates (e.g., Palo Alto in California's Silicon Valley) will also rise by a similar amount.

Buyers should remember that specific events can change these situations dramatically. A significant drop in business travel due to a security incident or local economic shock would greatly impact hotels' ability to sustain rising rate increases.

Hotel negotiation trends in 2009

Despite the shift to more of a buyer's market than in recent years, buyers need to adopt a broad approach to negotiations.

"The first thing I would recommend is considering broadening your solicitation list to include more hotels in each city, while evaluating the potential of consolidating your final selection to fewer hotels," says Bob Brindley. "Both of these strategies will provide negotiating leverage. In the past couple of years, if you needed a large number of rooms, some hotels looked on it as a negative, because they had so many different types of customers competing for their supply. That may have necessitated adding preferred hotels to make sure an adequate number of rooms were available for your travelers. Now, if there are two hotels across the street from each other, they may be less sure they will both fill all their rooms, so you can get a much better price if you consolidate your business to just one of them."

Is that really the last room?

A few years ago, the trend was for most buyers to look for hotels that guaranteed Last Room Availability (LRA). As the spread between LRA

and non-LRA rates has widened, some buyers have moved away from the concept.

Some hotels have also begun to change their definition of what LRA means.

Many hotels now limit LRA to a specific room type. This will limit or place an “inventory control” on the number of rooms offered at the special negotiated rate.

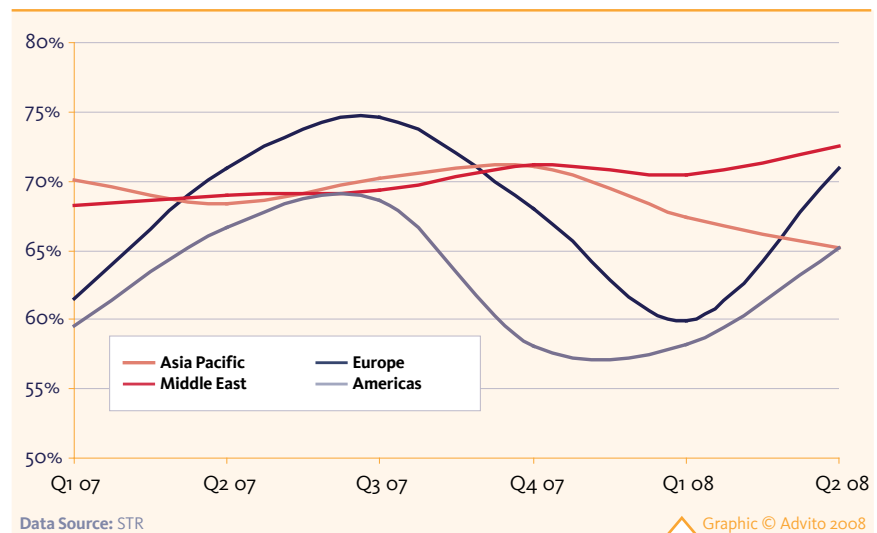
Buyers should be vigilant about dynamic pricing too. If demand continues to weaken in some key markets, hotels may start offering publically available Best Available Rates (BAR) at levels below corporate negotiated rates. Buyers need to ensure their contract specifies that travelers will be offered the corporate preferred rate *and* BAR at time of booking.

In the past some have seen dynamic pricing as the ultimate goal in the hotel sector, just as in the air sector. However, says Brindley, dynamic

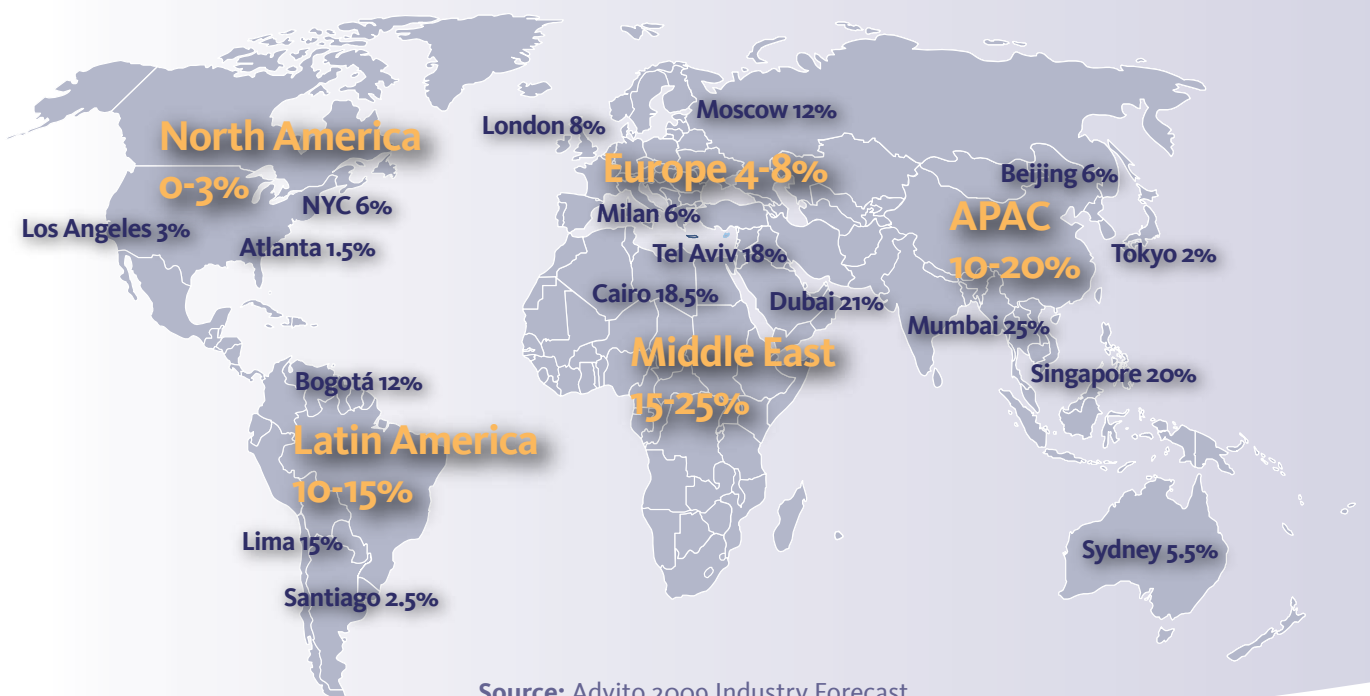
pricing is “still a buyer-education process for hotels, and we recommend that it be limited to key markets. For buyers, it makes better sense to have a combination. Using the LRA in addition to negotiating a percentage off the BAR could lead to better

pricing environment for corporations.” Corporations may be concerned that a focus on dynamic pricing could see the end of LRA deals, but that seems unlikely with softening hotel demand forecast.

Graph 8 – Occupancy rates



Map 2 – Forecast regional hotel rate increases



Source: Advito 2009 Industry Forecast.
Note: All predictions in local currency.

Hotel strategies for 2009

With hotel rates still trending higher, buyers must focus on a wide range of strategies to keep a lid on overall hotel spend.

- **Focus on the total cost of stay – Are breakfast, Internet access and parking included in the negotiated rate? Only by evaluating hotels on a like-for-like basis can the full picture be seen.**
- **Focus on key markets – Many companies find that coverage of the majority of room nights through a program is often sufficient, especially if savings are the main driver.**
- **Analyze tier strategy – For short stays, lower-tier hotels with more limited service may be sufficient.**
- **Ensure negotiated rates are loaded – Follow up on rate loading and auditing to ensure that agents are able to book the negotiated rates. Only 60 percent to 65 percent of all negotiated rates are initially loaded accurately. An audit is critical to make sure no money is left on the table.**
- **Pre-plan trips – Availability will remain at a premium in key markets, and preplanning will allow for more choices/availability. With demand-based pricing, rates may be lower further out from the date of stay.**
- **Promote compliance – Hotels are carefully evaluating contracts and RFPs and will be more likely to offer special negotiated/discounted rates to those who are able to show compliance to an established travel/lodging policy.**
- **Shift traveler stay patterns – Focusing on Sunday or Monday arrivals and Saturday departures may result in savings. Length-of-stay and day-of-week restrictions will be more prevalent in key markets. In the 2008 sourcing season, some hotels were already imposing a minimum length of stay requirement on negotiated rate offers.**



2009 Meetings outlook: A mirror of the increases of the transient side

For 2009, we predict that **although corporate meeting budgets and the number of meetings will not increase, the cost of holding those meetings will** – requiring meeting planners to “do more with less.”

Despite the softening economy, competition for good meeting space will still be strong and the seller’s market in the meetings space will continue. In particular, meeting accommodation costs will mirror the increases in transient rates.

Certain elements of meetings and events will rise more sharply, because of local inflation. George Odom, senior director of Global Business Development for Advito says: “The costs for food and beverage suppliers and other groups who support hotels are going up, and these increases will be passed to consumers.”

Lead times are becoming shorter and that sometimes has an impact on leverage

Although corporations have more negotiating power than they did in recent years, it is still not a buyer’s market in the meetings sector.

Negotiating power is also being sapped by lead times. “Lead times are becoming shorter and that sometimes has an impact on leverage. A planner may be constrained to have a meeting in a particular destination and that will stay their hand,” says Odom.

The coming of age of technology in the meetings space will begin to have an impact, particularly as more buyers will be focused on the cost reduction that this promises. Odom adds: “As procurement becomes more involved in the meetings sector, it has forced what was traditionally a service-oriented

group to document their spend and that drives the technology.”

Additional considerations for meeting planners and purchasers abound. This winter’s reduction in air capacity in markets worldwide, particularly in secondary cities in the United States, means that planners will now have to start considering air lift into certain markets. In winter and spring, weather-related incidents may close down some airports, causing problems for getting people home after a meeting. A greater risk of political unrest around the globe

and heightened terrorist activity means that safety and security requirements are becoming more important in the meeting industry. This means that planners must have a security plan in place.

More corporations are also putting meeting sustainability items in their corporate objectives as part of a wider drive to incorporate CSR principles into their business operations.

Meetings strategies for 2009

With a greater focus on cost in 2009, meeting planners will have to show more clearly the value of meetings and events to the business. Better data collection will become a requirement as budgets become tighter and corporations continue to examine all activities in regards to the return on investment.

- > **Planners should also consider broadening out their sourcing to a wider range of venues outside their existing preferred suppliers. Deals do still exist, and may help increase negotiation leverage.**
- > **Hotels are remaining resolute in their efforts to protect “revPAR” (revenue per available room) and are focused on yield management. However, hotels may be prepared to offer deals on audiovisual, meetings space rental or on food and beverage as long as they feel comfortable with the room rate.**
- > **With competition still high for prime destinations, meetings planners should consider corporate meetings in cheaper destinations, although taking this winter’s airline capacity reductions into consideration.**

2009 Ground transportation outlook:

A mixed bag depending on category and region

Car rental

Softening demand for car rental led to a very competitive marketplace in 2008, particularly in the United States, as the three big rental companies tried to hold onto market share. In the main, corporations were able to keep their existing pricing or roll over their program with only modest rate increases.

The current economic conditions mean that demand for car rental is softening, despite a slight shift from air travel to car rental for some trips. However, **we predict average rental car rates to increase by 3 percent to 4 percent in 2009**, with the highest rate increases in the Asia-Pacific region. Base rates will only increase by 1 percent to 3 percent, but additional government taxes and fees that corporations cannot avoid will push the increase higher.

The business market is getting tougher as buyers become more savvy

In the U.S., one of the developments to watch in 2009 is the impact of Enterprise's purchase of National and how this private company will compete in the market place against publicly listed competitors Avis, Budget and Hertz.

In Europe, the second largest car rental market after the U.S., rates will remain flat due to fierce competition between the major suppliers.

The impact of rising costs for car rental suppliers

Fierce competition, rising fuel prices and a lack of capital in the industry have led suppliers to look closely at their business models. Airport rents are increasing, making suppliers look at off-airport locations. There is also a trend toward more self-service, through online check-in and e-ticketing.

Supplier focus on cost has also seen the share of bookings made through global distribution systems decline significantly in favor of integrated direct links between car suppliers and key clients and partners. Around 25 percent of all bookings now go through the Internet and car rental companies are now providing more travel management companies with extranet tools.

Continuing cost increases may also lead to further consolidation in the industry, probably between smaller and regional suppliers.

Buying trends in car rental

The increasing role of procurement in travel means that buyers will start to focus more on the total cost of trip, putting service fees and upgrades under the microscope. Bill Knepper, senior director for Advito, says: "Many companies have never looked at ground transportation as an area where they can save money, but this is definitely changing."

With the high cost of fuel, buyers will look more closely than ever at the upgrades their travelers are taking. Are they upgrading to a sports utility vehicle (SUV) that does 12 miles per gallon or getting a full-size car which gets over 30 miles per gallon?

Looking ahead, suppliers will start to include total cost of trip calculators on their websites, allowing travelers to compare the cost of a rental car to the use of a personal car. This choice will become an increasingly important issue as private cars become relatively more expensive to run and as companies begin to factor in the duty of care implications of travelers using their own vehicles.

Advito sees growing interest from both buyers and suppliers in long-term agreements. Knepper says: "Previously, only the big corporations could get multi-year deals but we see more deals

being struck now with a wider range of customers. Buyers want to lock in a good rate, and suppliers want to protect their volumes."

In this environment, large corporations will still be in a better buying position than smaller firms, who may lack sufficient leverage. Large clients of medium-sized regional suppliers will be in a particularly good position to negotiate for the upcoming year. Smaller organizations, faced with a drop in volume because of the economic downturn, will be less well placed.

Rail forecast for 2009

The lack of competition in rail travel in most markets and a generally high degree of regulation means that rail prices remain a local issue. **Rail fare increases will therefore vary widely from market to market.** Even within markets, there is wide variation between fare changes. In Germany, for example, local fares increased by 1.5 percent last year, compared with 6 percent increases on high-speed Inter-City Express (ICE) trains.

However, on the European stage regulatory restrictions will soon start to be dismantled, making this regional market an easier place to negotiate for buyers.

Mary Ellen George says airlines in Europe have already felt the competition from high-speed rail: "Look at London-Paris, Brussels-Paris and Cologne-Frankfurt, where there are far fewer flights now than there were just a couple of years ago. While airlines and rail companies have been in competition over the last few years, buyers have steadily adopted a means of transportation that allows them to remain more productive."

The future for rail in Europe

European rail travel is expected to grow substantially, as a result of reduced rail travel times, growing

Ground transportation strategies for 2009

Transparency is vital. Buyers need to know and understand spend in each category of ground transportation.

environmental concerns about air travel and rising air fares.

The outlook for the next decade includes closer integration between existing high-speed operators. The Railteam alliance, comprising all of Europe's existing high-speed operators, has already begun coordinating schedules and plans a single reservation system in 2009.

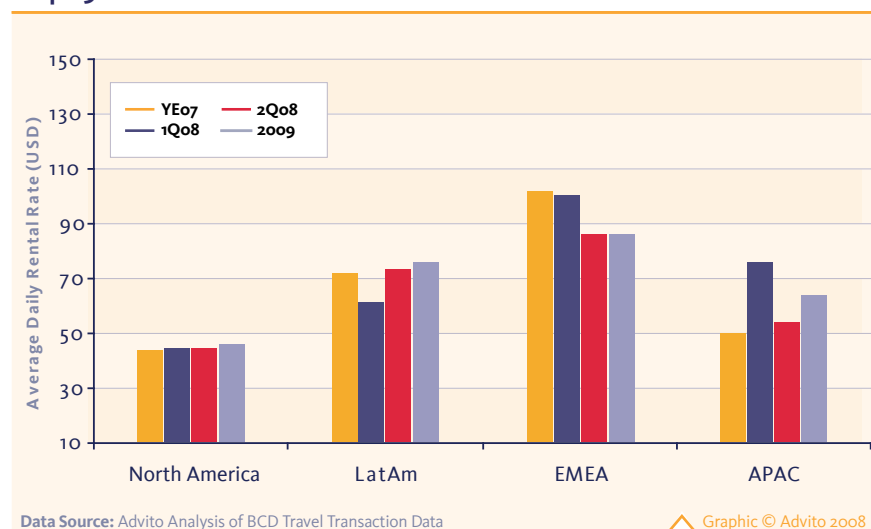
The 2010 liberalization of high-speed rail in Europe – when existing operators will be faced with possible competition for the first time – may have considerable impact on the broader transportation market. Air France has made clear that it sees feeder traffic to its long-haul routes as vital and has been in discussion with rail operators about launching its own rail services to ensure this traffic is not eaten away further.

The European high-speed rail network is set to triple in size by 2015. The Railjet development will dramatically cut journey times from Munich and Zurich to Vienna. Spain will also become more tightly integrated into the network with the opening of high-speed track through southwest France to Bilbao and more new fast lines within Spain.

In the U.S., the outlook for rail is somewhat less rosy. Amtrak continued its growth in 2007, with an increase in number of passengers of 6.3 percent year-over-year. From a corporate travel perspective, the growth in services in the Northeast Corridor is particularly interesting: According to Amtrak's 2007 annual report, its share of the air/rail travel market rose to 56 percent for the New York-Washington route and 41 percent for the New York-Boston route. Throughout the rest of country, however, demand for rail traffic is hampered by a deteriorating rail infrastructure due to lack of investment. It will be a challenge to maintain existing capacity in this increasingly stressed environment.

- **Consolidate programs where relevant and where the savings outweigh the costs of consolidation and change.**
- **Manage performance and retain negotiation leverage by reducing the number of suppliers to a level that does not compromise availability and local flexibility.**
- **Buyers contracting executive car services, particularly in the New York and London markets, should be in a better bargaining position. This is because of the expected significant decline in demand from one of their key clientele: the financial institutions. At the same time however, these buyers need be even more vigilant regarding the financial sustainability of their ground transportation partners.**

Graph 9 – Car rental rates



Practical steps for a successful 2009 travel program

Today's strategic sourcing environment is driving a change in the pattern of the supplier mix and the number of suppliers in the preferred program.

The need for demonstrated performance levels by corporate buyers invites a fresh look at the number of negotiated agreements the company is able to effectively support. Negotiate well with the right mix of suppliers, and travel program costs and performance are predictable. However, it is evident through data review that too many suppliers, spread across multiple markets, increase the likelihood that the buyer will be unable to fulfill performance expectations and will thus lose negotiated discounts and targeted savings levels.

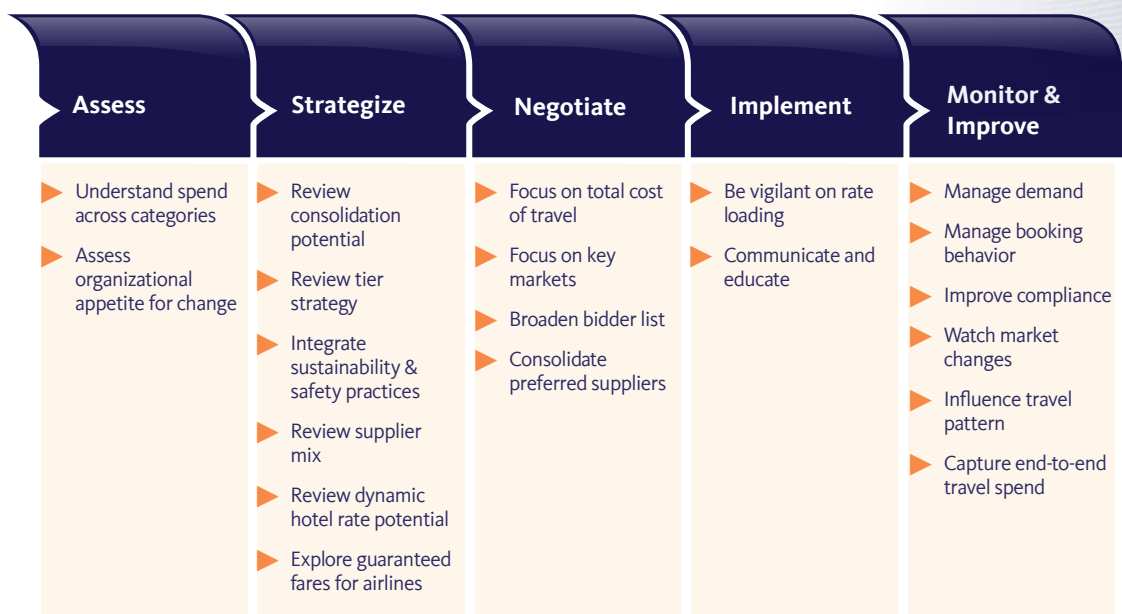
With market price inflation, buyers need to reconsider the definition of savings. It is unrealistic to expect improved negotiations and program design to lead automatically to year-over-year reductions in average airfares. Any pursuit of "savings" (i.e., tangible year-over-year rate/fare reductions) and "cost avoidance" (lower increases than the market average) requires fact-based analysis of travel spend and a good understanding of what the corporation offers the suppliers in return (e.g., higher market share, pre-paid room nights).

With this in mind, how can you best tackle the challenges of 2009 in your travel program?



Practical steps for a successful strategic sourcing process in 2009

- **Prepare well**
 Understand how much you are spending across all categories and gain a deep insight into your existing travel patterns. You should also assess what appetite there is for change in your organization.
- **Define a strategy**
 Strategy definition that includes based on realistic assessment of leverage points and potential policy changes – will the corporate budget cap allow you to change the language of the travel policy or even the service categories? This may be a year to consider new ideas, such as hotel down-tiering, dynamic hotel pricing and guaranteed fares from airlines.
- **Negotiate shrewdly**
 With suppliers embracing unbundling to drive their revenues, buyers need to focus more than ever on the total cost of travel. A tough negotiating stance in your key markets will also serve you well. 2009 is the year to broaden the list of suppliers bidding for your business but at the same time, concentrating your efforts on fewer preferred suppliers.
- **Pay attention to detail**
 A successful program is not just about establishing the correct strategy for your organization. Programs that truly work go beyond negotiation to the implementation. Attention to detail is vital.
- **Monitor and improve**
 With an uncertain 2009 in prospect, monitoring your program on a regular basis is more crucial than ever. Managing demand and booking behavior will become as important as tracking changes in the business travel marketplace. Implement techniques and tools that will improve compliance to your program and embrace end-to-end management of the entire trip.



About Advito

Advito provides travel-management advisory, procurement and outsourcing services that guide clients through a complex travel environment. Advito's focus on consulting delivers proven value, unbiased counsel and a customized approach for every client and every engagement, together with industry expertise and access to data to drive quantifiable decision-making. Advito is headquartered in Dallas and London, and operates in key business markets around the world. Advito is an independent operating unit of BCD Travel, the world's third-largest travel management company, owned by BCD Holdings N.V. For more information, visit www.advito.com.

About BCD Travel

As a leading provider of global corporate travel management, BCD Travel simplifies and streamlines the business of travel. This benefits our client's organization on every level: from the bottom-line to the business traveler. BCD Travel operates in more than 90 countries on six continents, with US\$14 billion in total sales and a combined worldwide workforce in excess of 13,000. BCD Travel is a BCD Holdings N.V. company. For more information, visit www.bcdtravel.com.

About BCD Holdings N.V.

BCD Holdings N.V., a Dutch family-owned company founded in 1975 by John Fentener van Vlissingen, is a market leader in the travel industry. The BCD Holdings companies are: BCD Travel (global corporate travel management), Park 'N Fly (off-airport parking), TRX (travel transaction processing and data integration services) and Airtrade (leisure travel). The company employs approximately 15,000 people and operates in more than 90 countries with total sales, including franchising, of US\$15 billion. For more information, visit www.bcd-nv.com.

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