White Paper

2007 Industry Forecast

BCD Travel Consulting is pleased to present our 2007 Industry Forecast. Our forecast draws on our extensive global knowledge of the corporate travel industry and world markets and offers our look ahead to next year to ensure our clients have the information to thrive in a constantly changing travel environment.

2007 Forecast by the Numbers

Worldwide Airfare Costs
Published airfares to rise 6 percent to 10 percent.
Corporate airfares to increase 7 percent to 11 percent.

Hotel Costs
Hotel daily rates to rise by 6 percent on average.

Meeting Costs
Average group room rates to increase 3 percent to 5 percent.
Food and beverage costs to rise 8 percent.

Car Rental Rates
Car rental rates to increase 5 percent to 7 percent.

Perspective on Global Markets

Over the past two years, BCD Travel Consulting has seen strong sustained growth in business travel in all markets. This growth, in turn, continues to drive industry prices higher. That being said, we expect this industry growth – and prices – to continue to climb steadily upward for the next two years. During the first six months of 2006, overall air passenger traffic grew by 6.8 percent (1.2 percent higher than the same period in 2005) and we expect this passenger growth rate to continue into 2007.

The only regions to see a slowing in growth include the Asia Pacific market -- where growth is below the levels seen in 2005 – and the Latin American market which actually reported a decrease in passenger traffic. We believe this decrease was directly linked to Varig Brasil's financial problems which reduced passenger traffic and capacity in the region. However, when Varig is taken out of the equation, the actual passenger growth in the Latin American market is strong at around 8 percent.

Worldwide economic growth is expected to continue expanding by almost 5 percent annually, which represents the fifth consecutive year of world economic growth. The pace has been set by China and India, followed by rapid growth in Latin America, the Middle East and Africa. The U.S. market remains strong and regions such as Japan and Western Europe (including France and Germany) are showing marked improvements over the sluggish growth seen in recent years.

Strong economic growth has sustained high oil prices in all regions. The oil price approached an all-time high in the first eight months of 2006. The International Air Transport Authority (IATA) recently stated that globally, airlines will be paying more than USD$110 billion for fuel this year. In the third quarter of 2006, oil prices dropped approximately 20 percent providing some relief for airlines in the last quarter of year.

Worldwide airline profitability remains low, with the United States market trailing behind other global regions in recovery. However, confidence among airline management teams remains high, as strong global economic conditions show signs of supporting strong air passenger traffic growth through 2007.

Worldwide Airline Profitability Snapshot

Source: IATA, June 2006

Air Travel Forecast:
Costs Continue to Rise

To offset historically high fuel costs, most major airlines have implemented fuel surcharges on long-haul flights. These surcharges range anywhere from USD$10 to USD$98 each way and continue to be implemented and increased across all regions.

Demand is currently outpacing supply in the market allowing airlines to consistently increase airfares. U.S. domestic airfares have risen 10 percent on some routes and for the first time reached pre-Sept. 11 levels. Intercontinental airfares have increased 8 percent to 10 percent over the same period in 2005, marking a significant upward trend in international travel.

After pulling back on corporate discount programs in the last two years, airlines have started to selectively improve corporate discounting terms as a reaction to increasing published airfare levels. This market shift may open up opportunities to renegotiate corporate pricing agreements for companies that are providing strong levels of support to their preferred carriers. As always, the ability to drive additional cost savings / avoidance will be directly tied to the level of market share premium that a company can provide to the airline.

BCD Travel Consulting expects a corporate airfare increase of 7 percent to 11 percent in 2007. Airfares remain below profit level as low-cost carriers continue to compete with the legacy carriers in all markets. In Europe alone, low-cost carriers captured 16.3 percent of the market. With 10 of the top 25 low-cost country pairs flown in the UK, this market represents 42 percent of all European low-cost movement.

Rising operating costs caused by jet fuel, airport fees, security costs, government and environmental taxes continue to affect low-cost and legacy carriers who increasingly apply cost-cutting measures. This trend, which started in the United States, is now being experienced in other global regions such as in the Asia Pacific market. While the mainline carriers remain profitable, we are seeing trends to cut operating costs, such as dropping unprofitable routes, reducing staff and offering fewer amenities.

We expect travelers will continue to experience long lines at airport security checkpoints, overbooked flights, high airfares and face increasing fuel surcharges across the system as airlines in all markets offset operating costs with all available revenue sources.

Rail Forecast:
Rail Offerings Increase in 2007

In 2007 we expect to see an increase of European rail offerings through traditional GDS channels, allowing travelers to comparison shop between rail and air for the most cost-effective mode of transportation. This advancement in booking technology will also facilitate single itinerary creation for interline agreements between rail and air carriers. Among other traveler conveniences, kiosk check-in for rail in 2007 will expedite travel by the use of a single ticket reference number for the trip. Increased productivity gains for traveler and travel arranger alike are expected with the introduction of rail booking through traditional channels.

Hotel Forecast:

Hotel Demand Outpacing Supply

Hotel supply around the world is lagging far behind demand. Occupancy rates in the first half of 2006 were reported to have been the highest in the past decade in some major business markets. Hotel rates are expected to continue to trend upward until new hotel capacity comes close to demand. BCD Travel Consulting expects the 2007 average daily room rate to increase by 6 percent on average. We do not anticipate relief until well into 2008 based on new construction projects and expected duration to completion.

In both the Asia Pacific and Middle Eastern regions, forecasts show that a total of 35,000 hotel rooms are needed to meet the projected travel growth demands. The current new hotel property pipeline in Asia is reported as the highest building activity in the history of lodging. China has 188 hotels in some phase of construction, representing 48 percent of the total of all development in Asia. There are currently 124 hotels (four- and five-star category) now under construction with 46 expected to open in the second half of 2006. Sustained travel levels have pushed average room rates higher and regional rates have increased by as much as 17 percent over the same period last year in primary business destinations in the Asian market.

China is predicted to become the No. 1 travel destination in the world by 2020 and is being pushed forward by one of the fastest growing economies. An investment surge has attracted major international lodging chains and prompted rapid growth of high-end properties. However, at the current growth rates in business travel, BCD Travel Consulting expects the new supply to be rapidly absorbed as rooms come online, keeping hotel costs high in this region.

Cairo, Doha and Dubai have seen daily rate increases ranging from 15 percent to as high as 33 percent. India follows China with the second largest new construction pipeline with 78 new hotel projects scheduled to start in the next 12 months. A major difference between hotels being built in the Middle Eastern market and those being built in the Chinese market is that 51 percent of the projects in the Middle East are one-star hotel properties, tied to economy and mid-market brands.

European hotel markets (with the exception of the Eastern Mediterranean region) are trending lower due to over capacity. While the occupancy rate has sustained an average increase of 2.5 percent, the average daily rate has only been increasing an average of 0.3 percent. Major cities like London and Frankfurt, however, will continue to see increases similar to the global numbers.

Hotel Negotiation Challenges

In addition to rising rates, there are many other challenges facing buyers in 2006 and moving into 2007. The new dynamic pricing model, room availability challenges, the rising cost of amenities and a new challenge posed by smoke-free environments has added complexity to the procurement process.

During the lodging industry slump, “bed wars” (i.e., sleep number versus feather bed) and hotel amenity packages were primary selling features. Competitive differences spread to linens/bedding packages, data (e-folio) and technology (electronic check-in, and kiosks) to increase traveler convenience. This concept has now expanded to the entire hotel brand, creating a new competitive “lifestyle brand.” Two major chains, Westin and Marriott announced 100 percent non-smoking brands in the United States and Canada. While the major focus on brand differentiators has been primarily in the U.S. market, BCD Travel Consulting expects this trend to move into other high demand markets such as China, India and Latin America in 2007.

For the travel buyer, the high room rate, low supply, electronic data offering and increased brand differentiators add new components and layers of complexity to the 2007 negotiating process. New questions arise in the process that may require a total review of a company’s hotel program and the initiation of traveler surveys to ensure that the actual savings and results will be realized through compliance to the negotiated program. For instance, while use of properties that provide electronic folio data may be a company requirement for financial reporting, will the traveler population comply by using a company-preferred hotel that is a 100 percent non-smoking property if 30 percent of the traveler population smokes?

For 2007, BCD Consulting recommends that travel buyers now consider all components available to the traveler and company alike in today's market. Some suggested procurement strategies might include:

- Alternative plans that include room allotments or blocks to secure the rooms needed in high-demand markets.
- Change in tier strategy based on traveler patterns
- Evaluation of chain (lifestyle brand, amenities, beds) strategy
- Review of true "cost of stay"

A focus on the total cost of stay evaluates the cost savings achieved by including amenities in the negotiated daily hotel rate. Negotiated discounts on full-service amenities, such as health clubs, parking, high-speed Internet, telephone services and meals and secured corporate-negotiated flat rates that include discounted costs for these selected amenities allow companies to achieve savings in an upturn market.

Total Cost of Stay (Daily Hotel Rate Comparison)

USD$96 rate		**USD$110 rate**
Excluded:		**Included:**
Internet access	(US$10)	Internet access
Breakfast	(US$10)	Breakfast
Parking	(US$7 - $10)	Parking
Airport shuttle	(US$10 - $12)	Airport shuttle
Total cost of stay: **US$136**		Total cost of stay: **US$110**

Source: BCD Travel 2006 Client Benchmark Survey

Car Rental Forecast:
Costs Continue to Climb

The car rental industry has experienced increased operating costs over the past year as a result of high fuel prices and rising local taxes. The average city and municipal taxes levied on car rentals have been reported as high as 26 percent and increasing at the 100 busiest U.S. airports. These taxes, slated for items such as sports venues, convention facility improvements, roadway and airport improvements as well as other state and local projects, continue to impact total car rental costs for business travelers.

BCD Travel Consulting has seen a year-over-year car rental rate increases of between 5 percent and 7 percent and we expect this rate increase to continue into 2007. The total cost of car rental will be compounded by uncontrollable costs such as the additional taxes coupled with high gasoline prices, (averaging USD$2.50 per gallon across the United States and as high as USD$6.48 per gallon in The Netherlands.)

In order to minimize the financial impact to car rental companies, these costs are passed on to consumers. In the U.S., additional fees, such as no-show charges of USD$50 are beginning to become a standard part of the car rental industry, much like the hotel industry's stricter no-show policies implemented four years ago. A trending of add-on charges, such as loss damage waiver (LDW), in the rental car rate will force buyers to increasingly review these charges for inclusion in the negotiated daily rental rate.

Nation	City	Price in USD Regular/Gallon
Netherlands	Amsterdam	$6.48
Norway	Oslo	$6.27
Italy	Milan	$5.96
Denmark	Copenhagen	$5.93
Belgium	Brussels	$5.91
Sweden	Stockholm	$5.80
United Kingdom	London	$5.79
Germany	Frankfurt	$5.57
France	Paris	$5.54
Portugal	Lisbon	$5.35
United States	Los Angeles	$2.97

Source: ARINC, May 2006

Meetings Forecast:
Meetings Budgets Increasing

The same external factors that are impacting business travel are also challenging corporate meeting planning processes and budgets. High passenger traffic, increasing airfares, lack of hotel room availability and historically high room rates continue to drive meeting costs and budgets higher.

Professional meeting planners report that hotel costs and lead times for the planning process have increased. However, supplier concessions for meetings and flexibility in attrition is expected to remain the same and even decrease in the coming year. BCD Travel Consulting forecasts that average group hotel rates will increase 3 percent to 5 percent in 2007. However, in popular meeting destinations, group room rate increases are expected to be even higher at 8 percent to 9 percent. Food and beverage costs are expected to increase by 8 percent in 2007 as hotels fully maximize the current market situation.

European meeting volume in 2007 is expected to slow compared to 2006, with a decrease in business from the Canadian and U.S.. markets. This trend will conversely increase growth in the Canadian meeting industry as more meetings are held in North America versus European markets.

The United States and Asia are expected to be the top destination markets for European outbound meetings in 2007, increasing the competition for the availability of lodging and meeting space in those markets.

If you have any questions regarding the information presented in BCD Travel's 2007 Industry Forecast, please contact BCD Travel Consulting at consulting@bcdtravel.com.

2007 Forecast In Summary:

Driven by strong business travel, company travel costs are expected to trend upward well into 2008.

Worldwide Airfare Costs

Worldwide, published airfares are predicted to rise 6 percent to 10 percent on average. Corporate airfares are estimated to increase 7 percent to 11 percent.

Hotel Costs

Hotel daily rates to rise by 6 percent on average. In some markets, however, we expect rates to rise as much as 10 percent to 14 percent.

- The Asia Pacific and India regions expect lodging daily rate increases from 14 percent to 17 percent as demand continues to outpace supply

- The same is true in the Latin American region where lodging daily rate increases are currently tracking at 13 percent to 16 percent.

- Europe, however, is experiencing minimal or negative daily rate changes. Increases of less than 1 percent are expected outside of the metropolitan areas as a result of over capacity in some major business markets.

Meeting Costs

BCD Travel Consulting forecasts that average group room rates will increase 3 percent to 5 percent in 2007. However, in popular meeting destinations, group room rates are expected to increase 8 percent to 9 percent. Food and beverage costs are expected to rise at a faster rate with a forecasted increase of 8 percent for 2007.

Car Rental Rates

BCD Travel Consulting predicts that car rental rates will increase 5 percent to 7 percent in 2007.

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