MARKET SNAP SHOT REPORT

THE IMPACT OF OMICRON

FEBRUARY 2022

INTRODUCTION

In our last market report in 2021, we examined the severe and immediate negative impact the Delta variant of COVID-19 was having on the travel industry.

For this first report of 2022, we once more find ourselves analyzing the effect of a new variant on both the hotel market and business travel's recovery.

Pre-omicron, market rates were trending upward about 10% month over month — a rise that began in January 2021 and was halted only by the Delta variant in August.

Now, market rates remain flat, and corporate booking volumes, which we would expect to see double from the month of December to the month of January during a typical year, are instead trending down from our forecast.

It's not all doom and gloom, though. With omicron proving to cause milder symptoms than previous variants, it could be the development that scientists have been hoping for to pull the world out of the pandemic.

Read on for more on how omicron has influenced corporate hotel bookings, how you should adapt your sourcing strategy and hotel program accordingly, and what you can expect for the remainder of 2022 and beyond.

Plus, as a follow-on to our previous warnings that last room availability (LRA) would become a bigger problem, we examine contract auditing trends over the past year. Spoiler: LRA is confirmed to be a big issue. And as a result, we've found that chainwide and dynamic discounts have a nasty habit of disappearing.

METHODOLOGY

The data outlined in this report is sourced from TRIPBAM's global hotel data covering the Americas, EMEA, and APAC. The analysis is based on data pulled January 20 from TRIPBAM's system and is based on a 12-month running average unless otherwise indicated in the text or charts that follow. The booking data is limited strictly to corporate bookings made by TRIPBAM customers and does not include leisure or group bookings.

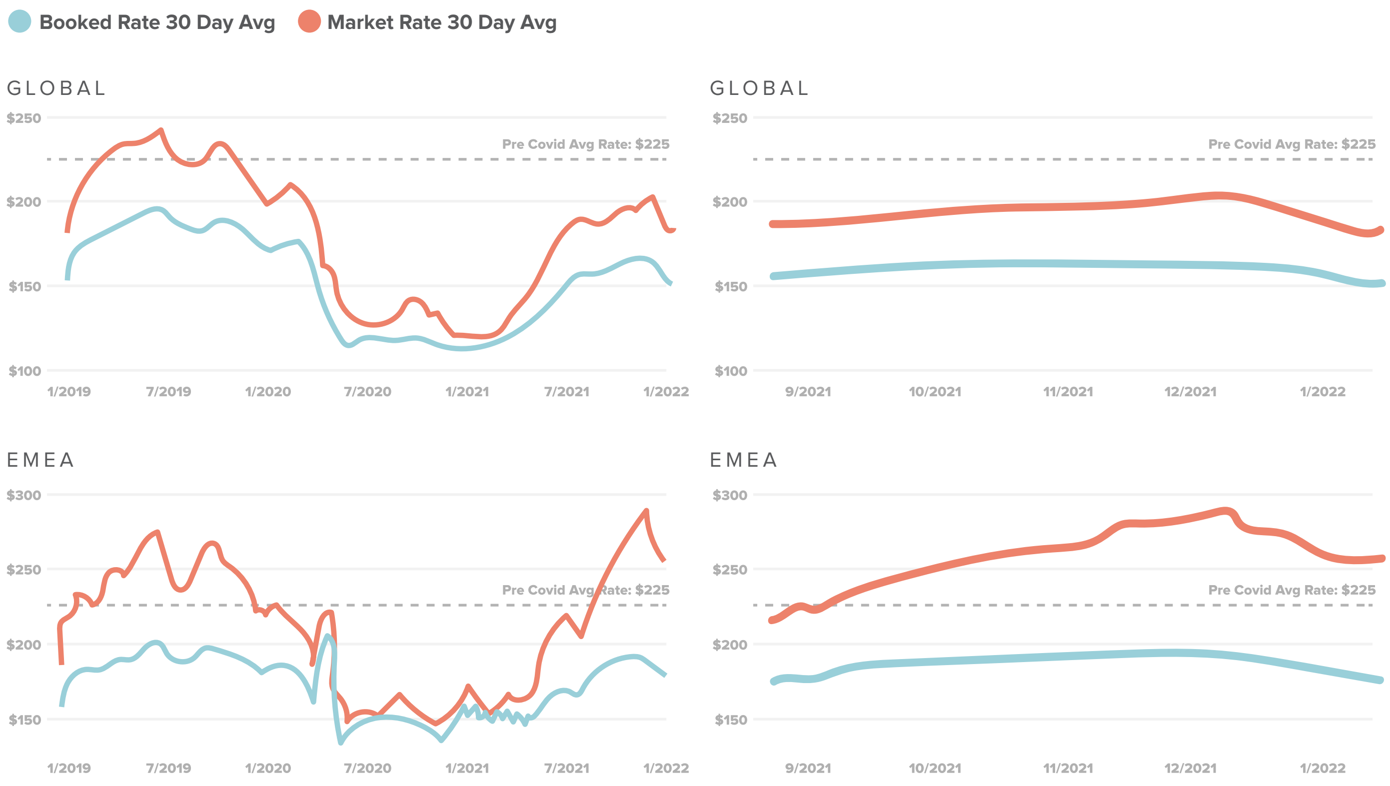
RATE & VOLUME SHIFTS

The biggest story of omicron's impact is its effect on booking volumes. In January, a month where we'd expect to see volumes double from December, we're seeing volumes remain flat. If you compare the 30-day running average of global booking volumes as of January 20 with the same period in 2019, new bookings are down 74%.

Pre-omicron, new booking volumes for the US were down 50% from 2019 but trending higher. Post-omicron, US volumes are down 70%. In EMEA, the numbers are weaker with post-omicron new booking levels down to 80% of 2019 levels from 65% pre-omicron.

Global market rates (the best available rate in the market, or BAR), too, are sliding further from 2019 levels. Pre-omicron they were down 13% on a like-for-like basis from 2019 and now they're down 19% to an average of $183.

In EMEA, despite the lower new booking volumes compared to the rest of the world, rates are much higher, up 12% from 2019 to an average of $256 (227 Euros).



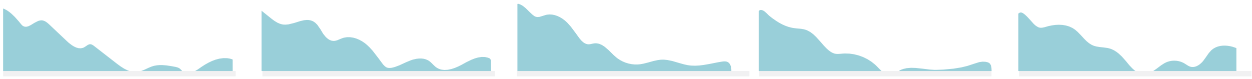
Across leisure markets like Miami, Fort Lauderdale and Las Vegas, a boom in demand has pushed market rates well above 2019 levels. Some of the larger dips in rate compared to 2019 levels have come in traditionally strong business travel and group markets, including San Francisco (-36%), New York City (-20%), Orlando (-17%), and Boston (-12%).

The instability caused by omicron has also increased rate volatility. TRIPBAM rate reshopping, which takes advantage of changes in rates post-booking, has been finding a lower rate for customers 20% of the time over the past 30 days (as of January 20). As the threat of omicron diminishes during the next several months, market rates should stabilize and volatility will decline somewhat but remain high through the remainder of 2022.

THE TRIPBAM BUSINESS TRAVEL INDEX

As part of TRIPBAM's continuous effort to stay on the pulse of hotel industry shifts for corporate clients, we've launched a new index that combines rate and volume into a single number to measure the health of the market.

The BT Index is based on the high point of 2019 for volume and rate using a 100-point scale. The global BT Index is currently at 21.36 (or 21.36% of the peak in 2019) and has been trending upward, indicating market health is improving and we're on the other side of omicron's impact. In future reports, we'll compare the index from quarter to quarter.



21.36 MARKET INDEX

22.18 NORAM

27.86 APAC

12.12 EMEA

22.94 LATAM

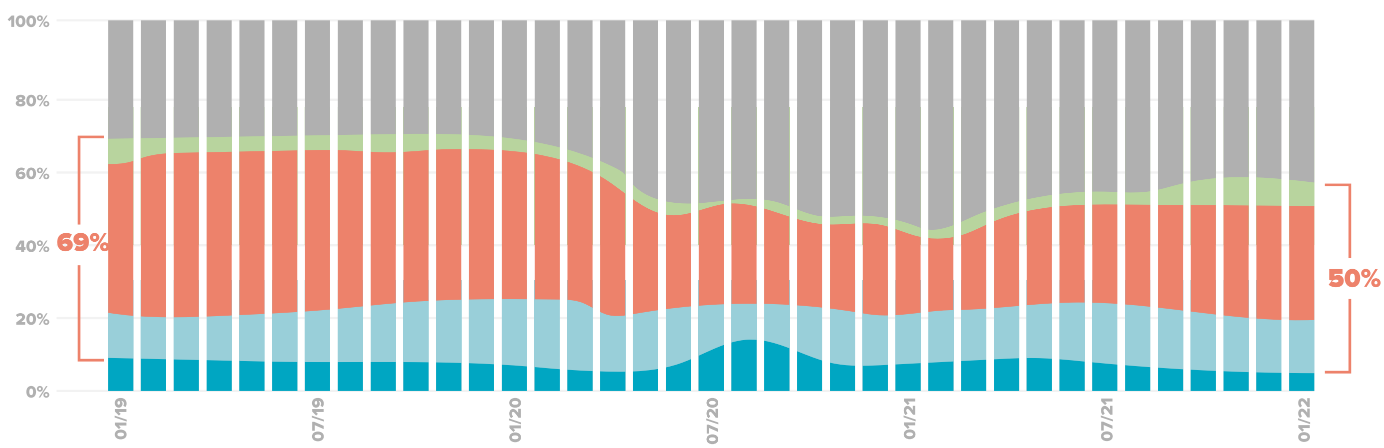
The regional indeces show a strong recovery for Asia Pacific. North America and Latin America are rebounding at similar rates to one another. Yet, the Europe, Middle East and Africa region is trailing behind. This is attributable to the lower booking volumes in EMEA compared to the rest of the world.

CHANGES BY RATE TYPE, STAR RATING & CHAINS

Corporate travelers are booking negotiated rates 50% of the time, a slight improvement from the 47% share in 2021. However, that's still down from 2019 when negotiated discounts were being used 69% of the time. We do expect this to change this year as business travel rebounds and more closely resembles pre-pandemic levels.

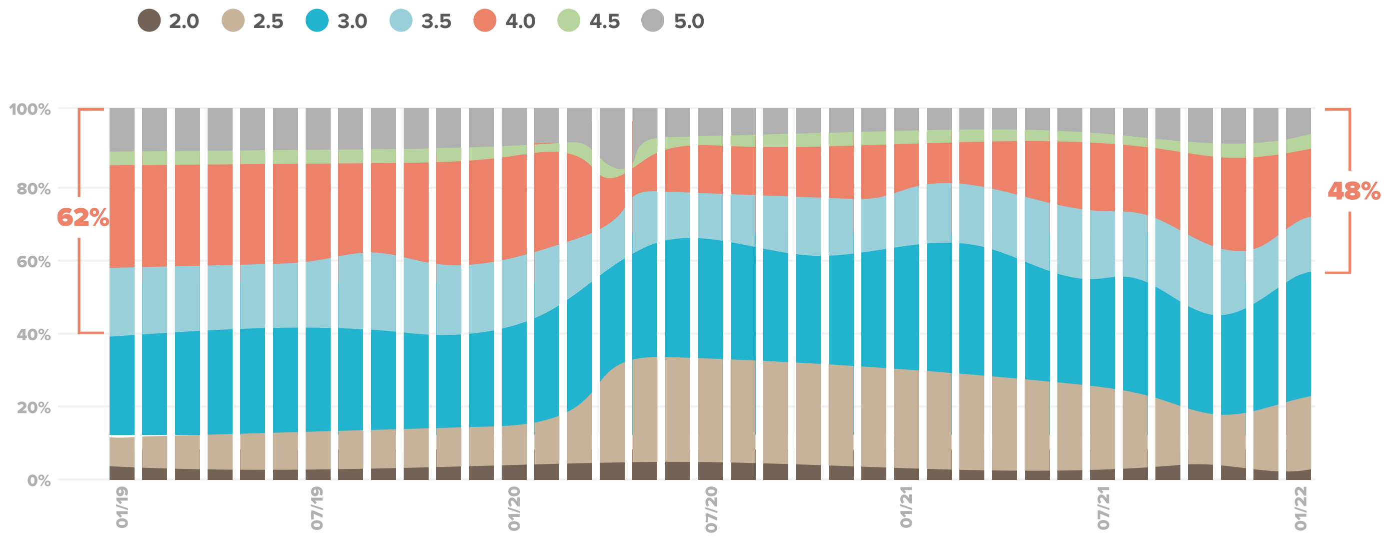
RATE TYPE ANALYSIS

Agency Chainwide Flat Property Dynamic Public



Looking at global bookings by star rating, business travelers do appear to be booking upscale or higher properties more frequently than they were in 2021, about 48% on average. This is another indicator that business travel is trending more toward its pre-pandemic normal — prior to now, most travelers hitting the road tended to be essential workers staying in extended stay or lower-star properties. However, that 48% share is still well below the 62% seen in 2019.

STAR RATING ANALYSIS



Along that same vein, analysis of the major chains around the globe show Marriott International returning to dominance in terms of business travel market share. Its volumes are recovering more quickly than its competitors and its average rate among corporate bookings is down only 4% from 2019 levels.

CONTRACT AUDITING REVEALS DISAPPEARING DISCOUNTS

A long-standing criticism of dynamic hotel discounts among buyers is that it's too difficult to ensure the negotiated discount is actually being applied by the hotel.

After all, if a buyer negotiates a static discounted rate and a traveler pays anything other than that static rate, it's easy to spot. With a dynamic discount off the best available rate (BAR), the BAR is constantly changing.

The impact of COVID-19, nevertheless, made it more attractive for buyers to negotiate dynamic discounts with hotels because the BAR was so often dropping below static rates. It's something TRIPBAM advised buyers to do to get better deals during the volatility of the past two years (we did add some safety measures to our guidance — rate caps, no blackout dates, 100% LRA, to name a few).

But an analysis of contract audits across TRIPBAM clients for 2021 reveals that the criticisms of dynamic discounts have merit. Even with last room availability (LRA), customers were only getting their dynamic discounts 62% of the time. Similarly, chainwide discounts were only being applied 61% of the time.

Static negotiated rates with LRA fared slightly better but were still only available 72% of the time. This points to the LRA problem we flagged with our last report, and it's an issue buyers will need to watch.

Across customers using TRIPBAM Contract Auditing in 2021

89% RATES LOADED	**85%** HOTEL COVERAGE	**69%** RATES DISCOUNTED	**73%** STATIC LRA
62% DYNAMIC LRA	**72%** CHAINWIDE PARTICIPATION	**61%** CHAINWIDE LRA	**81%** CANCEL POLICY CORRECT

Based upon booked rates at or below expected and adjusted for blackout dates and seasonality.

Contract auditing can catch rate availability problems in real time so that buyers can address the issue of disappearing discounts, either with the hotels or their travel management companies. But without fixing any of these errors we calculate a 16% loss on savings or 3% of overall spend.

FORECASTING FOR THIS YEAR & BEYOND

While omicron has impacted business travel volumes, we still expect to reach 70% of 2019 volumes by the third quarter of this year — a slight change from our previous prediction of 70% by the second quarter. We anticipate volumes will continue to rebound and hit a ceiling of 80% of 2019 levels by the end of 2023.

In the long-term, we foresee budget cuts, remote work and meeting technologies, and concerns about environmental impacts will suppress further growth in business travel.

Despite the reduced volumes, hotel rates are likely to reach 2019 levels by the second quarter of this year and are likely to surpass 2019 rates in the second half of the year, owing to a continued imbalance of supply growth and demand growth combined with increased hotel operating costs.

In the Americas, buyers have a strong opportunity during the first quarter to negotiate favorable discounts for 2023, but the window is closing.

RECOMMENDATIONS FOR BUYERS

As we enter an environment where rates are expected to increase and demand will outpace supply, it's important for buyers to adapt their programs accordingly.

Here's what we recommend:

1. **Stay flexible and vigilant.** Regularly review your company's hotel spend and consider continuous sourcing to capture savings throughout the year as your business needs — and market conditions — shift.

2. **Use rate caps and targets through your online booking tool.** As the market recovers, unexpected rate hikes and periods of high demand are still likely to occur. Make sure you set limits on which rates travelers can book through your company's online booking tool.

3 **Make sure you're checking dual-rate loads.** As highlighted in our last report, dual rate loads with a dynamic discount and a static negotiated rate that serves as a cap are having the opposite of the desired effect. Don't overlook instances where your rate cap is acting as a floor rate for your travelers.

4 **Don't be afraid to accept a dynamic discount.** Dynamic discounts are only an issue if the problems with them aren't caught soon enough — a well-audited program that uses dynamic discounts can save more in the current market.

5 **LRA will become a much bigger issue as rates increase.** Contract audits for 2021 revealed this was already a problem, but with rate hikes on the way expect LRA issues to cost you even more.

6 **Think outside the box for your sourcing strategy.** Some buyers are looking at the potential to leverage market share + volume in negotiations with suppliers — similar to airline fair market share. This could be an ideal option for companies coming out of the pandemic and one we'll examine more in future reports.

7 **Don't rollover rates from 2019.** You may have chosen to do it for 2021, but for 2022 you should secure new discounts as soon as possible to get favorable agreements.

For two years, our industry has been looking to the day when we can return to some kind of normal. Though omicron threw business travel for yet another loop, it also looks likely to be the variant that ends the pandemic.

What will business travel return to? For the hotel category, expect to see rising rates from increased hotel operating costs as well as supply and demand imbalances for the foreseeable future.

This new environment will demand new and more creative strategies. Buyers who continue to stick to the old ways of doing things could struggle to effectively secure savings for their company in the years ahead.