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MARKET SNAPSHOT REPORT

October 2023 Edition

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EXECUTIVE OVERVIEW

As we enter the last quarter of the year, supplier contracts are top of mind for buyers.

If you're negotiating your 2024 hotel contracts, you're encountering strong pushback from hotels looking to achieve high single-digit or double-digit increases in static negotiated rates. You're probably also having to fight for chainwide discounts.

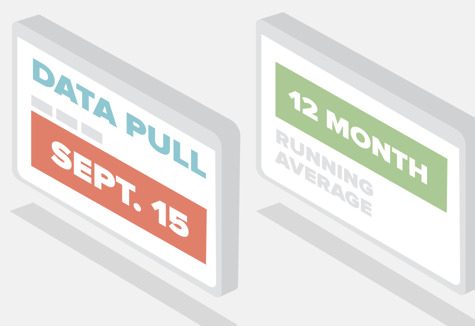
If you oversee air, you're trying to figure out how longtime supplier partners will value your business in 2024 and beyond, particularly as one of the major U.S. air carriers makes it clear business travel is no longer the profitable base it once thought it to be.

As with any look into the current market, there's what's actually happening—the things the data reveals—and what is said to be happening—the anecdotes from buyers and suppliers. In this October edition of TRIPBAM's Market Snapshot Report, we're going to examine both, delivering analysis on year-to-date 2023 data and what that data does and doesn't support in terms of current rhetoric. Plus, we'll share guidance on how you can adjust strategy now to make the most of 2024 and beyond.

Let's get started.

Methodology

The data outlined in this report is sourced from TRIPBAM's global hotel and air data covering the Americas, EMEA, and APAC. The analysis is based on data pulled Sept. 15 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.



TRENDING TOPICS

The Shifting Value of Air Contracts

The corporate travel industry continues to be disrupted by the actions of one of the major U.S. air carriers, American Airlines. AA leaders have been vocal about the airline's decision to move toward a direct strategy and away from agency and corporate relationships. Most recently, in September, a number of high-profile sales executives departed AA. This comes after layoffs of half of AA's sales force, a cut in agency commissions and a higher bar to secure corporate discounts, **as covered by The Beat**. It also led to speculation that other air carriers will follow suit — The Company Dime recently reported **United is pulling some travel management company commission programs**.

United recently announced corporate discounts will now be accessible to travelers via the airline's website and app. United's approach is both progressive and pragmatic to the approach of its peers. United has said it would feed direct booking data to risk providers and TMCs as well as add a level of policy control for travel managers. The carrier has yet to follow AA's lead in terms of channel differentiation but it would be the logical next step.

These developments beg the question: Is the end of the corporate air contract near?

Our take: Not likely, but how airlines and buyers measure the value of corporate deals is changing. That shift will result in smaller hard-dollar discounts over time.

Historically, airline and buyer negotiations have revolved around volume for discounts. Today, however, the value of an air contract is defined more by extended benefits beyond discounting. Think early boarding, preferred seat selection, priority support during disruptions, and frequent-flyer program status. This isn't solely a function of the shift in buyer-airline negotiations, but also represents a shift in focus toward traveler experience and satisfaction.

Year-to-date, both domestic economy and international business fares have seen a downward trend in savings against published market fares, according to TRIPBAM data. Domestic economy savings against published market fares went from 12% in the first quarter to 10% in the second quarter and 7% in the third quarter. International business fares are seeing similar trends, with savings going from 31% in the first quarter to 27% in the second quarter and 20% in the third quarter. [Jump to Page 8 for complete charts]

What's driving this? The likely culprit is a wave of post-COVID contract renegotiations. This year, airlines and corporates have had to level-set contracted discounts based on new post-pandemic steady-state volumes. Preserving hard-dollar savings will prove challenging for buyers as the value of corporate business remains under scrutiny. Check out our Advice for Buyers section on Page 9 for tips on adjusting strategy.

TRENDING TOPICS

2 The Economic Pressures Mounting for Hotels in 2024

It's been a seller's market for hotels in recent years.

The pandemic may have created unprecedented supply chain and staffing issues, but the surge of leisure demand empowered hoteliers to increase daily rates. Last year saw bullish negotiations between hotels and corporate travel buyers, with business travel's recovery lagging behind leisure.

For 2024 negotiations, hotels are still likely to demand rate increases and withhold discounts. Anecdotally, TRIPBAM clients have said they're having a harder time getting chainwide deals than in the past, though the data has yet to confirm that. However, new economic pressures are mounting for hotels that will shift the balance of power in favor of buyers.

Three threats will pressure hotel earnings in the quarters ahead: interest rates, softening leisure demand, and a possible recession.

Hotel companies refinanced mortgages at historically low-interest rates during the pandemic, which kept many from going under. However, a third of securitized loans will reset over the next 12 to 18 months and hotels will have to accept much more restrictive terms this time around. We've already seen large marquee properties being sent to receivership in markets like San Francisco. Hotels will want to increase prices to cover higher financing costs.

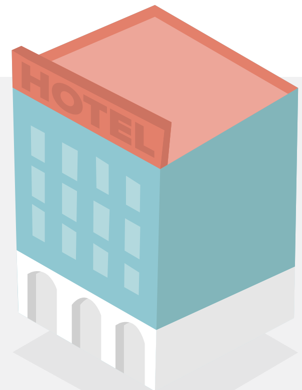
We pointed to the likely softening of leisure demand during our July Market Snapshot Report. While we haven't seen leisure drop off a cliff — and we wouldn't expect to — **a September update** from Fitch Ratings points to weakening leisure demand in the U.S. hotel sector in the face of high consumer interest rates.

Finally, we discussed in our March edition of this report the varying forecasts around a U.S. recession starting in 2023 or 2024. The speculation — and lack of consensus — continues among market watchers. In a September survey conducted by the National Association for Business Economics, two-thirds of economists placed the probability of recession in the next year at less than 50%, a more optimistic take than in previous surveys. Goldman Sachs in September also downgraded its recession likelihood to 15% for the next year. Still, even an economic slowdown rather than a recession would add pressure to hoteliers.

In the face of these headwinds, hotels will continue to demand rate increases from corporate accounts, at least for now. Buyers who adopt a continuous sourcing approach could see rates come down outside of the traditional sourcing period. Jump to the Advice for Buyers section on Page 9 for more tips on how to push back.

MARKET REVIEW

HOTEL



There's been much speculation about how much corporate travel has recovered to pre-pandemic levels.

One of the ways TRIPBAM tracks the recovery is through the TRIPBAM Business Travel Index (BTI). The TRIPBAM BTI considers several factors, including rates and volume, to measure the hotel industry's health using a scale of 0 to 100, with 100 set at 2019 levels.

As of the end of the third quarter, the TRIPBAM BTI was 93.4, driven mostly by rate. For comparison, the BTI this same time last year was 79, and at the midpoint of the second quarter it was 88.3. It shows a steady, ongoing recovery in business travel.

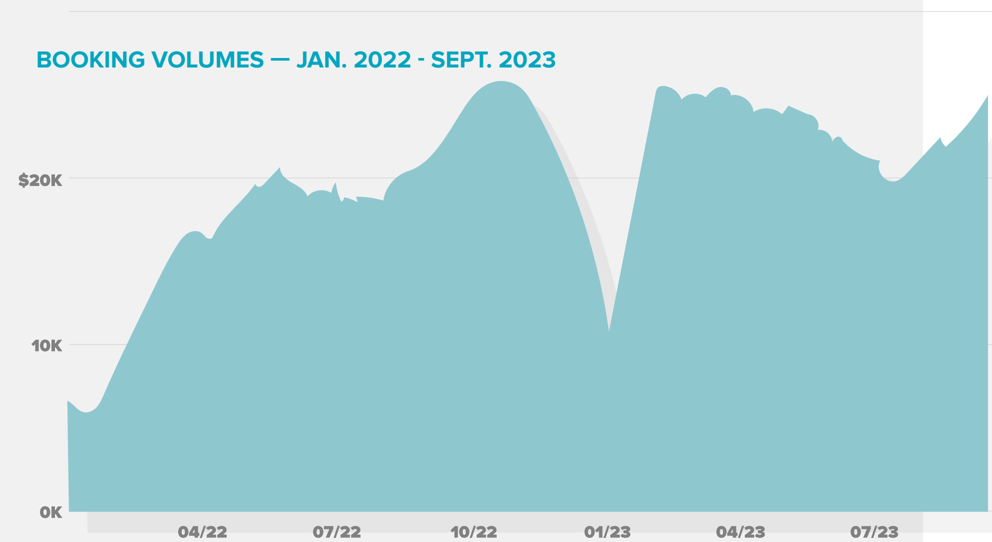
Volumes Get a Seasonal Boost, and Then Some

Fall tends to mark a decline in leisure travel and rise in business travel. As of the midpoint of September, corporate bookings were up 23% year over year. This is right in line with seasonal patterns, though higher than we'd expect given that corporate travel has stayed about 20% lower than 2019 levels.

One explanation for the bump could be that in mid-September 2022, there was still some recovering to do from the summer COVID surge that wound down in August. As of mid-October, corporate booking are up 8% over 2022 — still 19% below 2019 levels and closer to where we'd expect to be. If this year follows the same seasonal pattern as 2022, we expect volumes will decline between now and the end of year.

In the long-term, we maintain that business travel won't fully recover to 2019 levels, owing to the rise in remote work, sustainability initiatives, and economic pressures.. However, business travel is still growing. We're now seeing volumes pick up in traditional business markets where they hadn't previously, which suggests business transient travel is no longer just happening in "need to be there" markets.

BOOKING VOLUMES — JAN. 2022 - SEPT. 2023

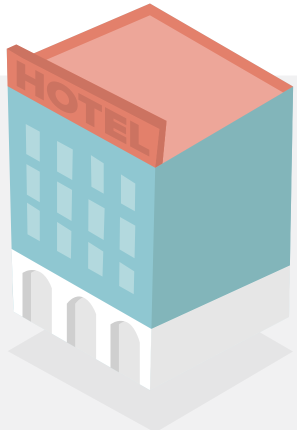


BOOKING VOLUMES BY TOP BUSINESS TRAVEL MARKETS — SEPT. 2022 - SEPT. 2023

City/State	Change in Nights
New York, NY	20%
Greater London	42%
Chicago, IL	19%
Atlanta. GA	16%
Austin, TX	11%
Boston, MA	30%
Houston, TX	2%
Singapore	-3%
San Francisco, CA	-0%
Washington, DC	7%
Dallas, TX	21%
San Diego, CA	0%
Total	**27%**

MARKET REVIEW

HOTEL



Rates Haven't Climbed as High as Hoteliers Expected

We're at the point in the year when most corporate hotel buyers are in the thick of sourcing next year's rates and discounts. As already referenced in the Trending Topics section of this report, hoteliers expect to significantly raise rates and offset increased costs hitting in 2024.

However, if this year's results are any indication, hoteliers won't actually realize the rate increases they're targeting.

Closing out the third quarter, room rates—both market rates and those that corporate travelers book—are up about 5% year over year. That's significantly less than the double-digit increases hoteliers levied during 2022 negotiations.

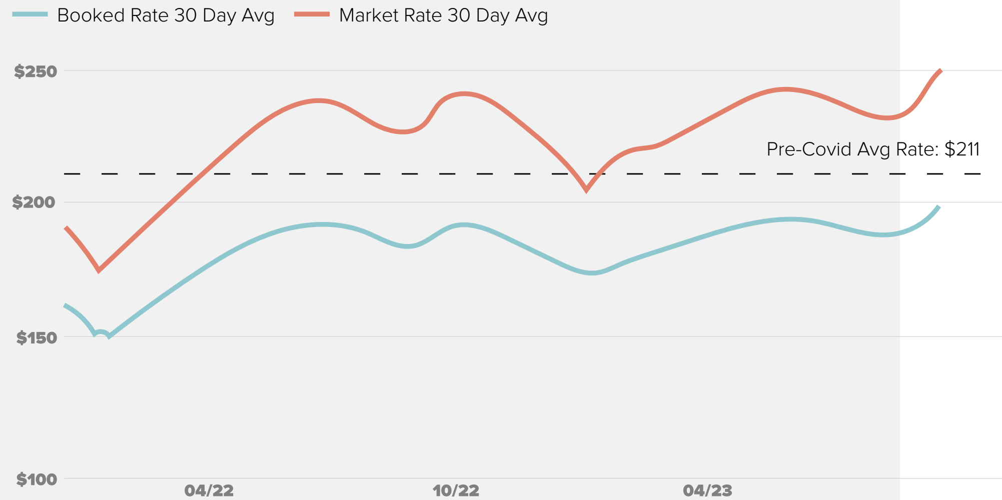
Buyers shouldn't hesitate to push back on additional increases, but you must have confidence in your volumes and your ability to shift share to realize better deals from hotels.

Negotiated Rate Usage Moving Closer to 2019

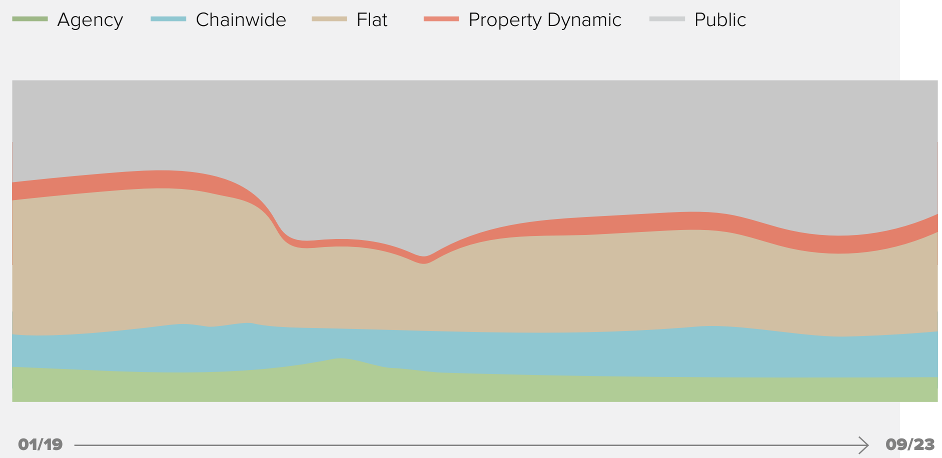
In the July edition of this report, we pointed out that the share of negotiated rates—static, dynamic, and chainwide—accounted for less than half of what was being booked by corporates.

As of the end of the third quarter, negotiated rate usage had started to increase, accounting for 51% of rates booked by corporate travelers. We're still a far way off the 60% share of negotiated rates booked pre-pandemic. Yet, if buyers successfully add negotiated rates back into their programs for 2024, we can expect further improvement.

CORPORATE BOOKED RATES VS. MARKET RATES — SEPT. 2022 - SEPT. 2023



CORPORATE BOOKED RATES VS. MARKET RATES — JUNE 2022 - JUNE 2023



MARKET REVIEW

AIR

Since American Airlines started removing content from GDS-EDIFACT channels in April, TRIPBAM has been monitoring AA's published NDC and GDS-EDIFACT fares to track the gaps.

TRIPBAM breaks fares down into two different types:

1. **Restricted fares**, which are nonrefundable and purchased more than seven days in advance.

2. **Unrestricted fares**, which are refundable and purchased less than seven days in advance.

We've started seeing a widening gap between restricted fares sold via GDS-EDIFACT and those sold via NDC. For now, the gap appears to be seasonal—we've pivoted away from the summer period of high-demand leisure travel, often booked direct, and into the autumn business season when AA relies more on bookings via GDS-EDIFACT.

At the same time, the gap for unrestricted fares is shrinking as we enter the traditional business travel season. GDS/EDIFACT published fares are decreasing.

We're only six months on from AA's decision, so any trends we see are based only on 2023 travel, which includes the high-demand summer travel season. The data we do have, however, suggests the gaps in fares between GDS-EDIFACT and NDC will ebb and flow based on seasonality and AA's need to balance leisure and managed business travel demand until TMCs and OBTs catch up to the need for NDC content.

Savings vs Published Market Fares

Year-to-date, domestic economy and international business fares have seen a downward trend in savings against published market fares. For further explanation of the market factors at play, see Page 4.

COMPARING AA FARE VARIANCE, GDS-EDIFACT VS NDC*
APRIL 2023 - SEPT. 2023

Domestic Economy (Restricted)

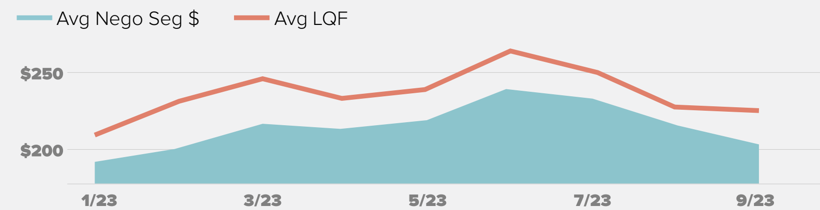
	Apr	May	Jun	Jul	Aug	Sep
GDS	$298	$294	$302	$290	$278	$273
NDC	$302	$310	$309	$309	$322	$351
Gap ($)	-$4	-$16	-$7	-$19	-$44	-$78
Gap (%)	-1%	-5%	-2%	-6%	-14%	-22%

**Note: These tables are based only on published fares. Actual savings between GDS-EDIFACT and NDC vary depending on the time of booking and fares available at the time of transaction.*

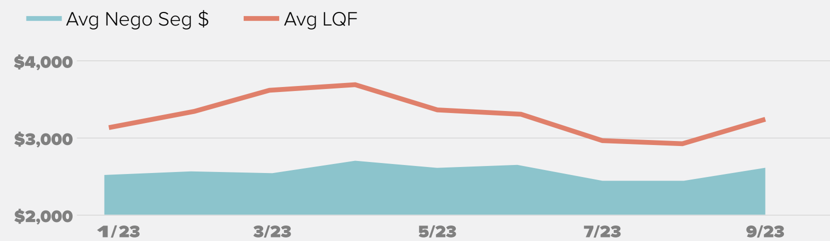
Domestic Economy (Unrestricted)

	Apr	May	Jun	Jul	Aug	Sep
GDS	$1231	$1129	$1127	$1094	$1064	$994
NDC	$654	$643	$640	$648	$667	$670
Gap ($)	$577	$486	$487	$446	$397	$324
Gap (%)	88%	76%	76%	69%	60%	48%

AVERAGE LQF VS AVERAGE NEGOTIATED FARES (DOMESTIC ECONOMY)



AVERAGE LQF V AVERAGE NEGOTIATED FARES (INTERNATIONAL BUSINESS)



ADVICE FOR BUYERS

1 **Shift share.** If you're an air buyer, get travelers booking with airlines still offering discounts to preserve hard-dollar savings. If you're a hotel buyer, demonstrate to suppliers that you can move volume to (or away from) properties if you don't get the discounts your company deserves. However, do this only if the fare or rate is lower than what a traveler booked.

2 **Push back where you can.** It's going to be a battle for hotel and air buyers to secure the deals they once could. Stand firm in your negotiations and in your most competitive markets and come armed with data to ensure you're getting adequate discounts.

3 **Look beyond hard-dollar discounts.** It's a tough climate for negotiations. If you can't get the monetary savings you're hoping for from suppliers, go after the extras that benefit travelers, such as loyalty program status, priority boarding, and early check-in.

4 **For hotel buyers, stay flexible with your program.** While you can't know for sure what's ahead economically, by staying on top of your program year-round can you spot mid-year opportunities and engage in continuous sourcing to improve deals. It also means using other levers, including targets or caps for travelers and geographic clusters to suggest better deals for travelers.

5 **Audit every booking.** During high demand periods, revenue and yield managers tend to favor higher-value leisure rates and fares. This practice can lead to millions of dollars in lost savings for buyers who aren't getting the deal they negotiated. The only way to ensure it doesn't happen is to automatically check every booking.

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