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CHRIS DAVIS
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Business Travel Supplier Profits Don't Tell The Whole Corporate Travel Story

IF YOU'RE A U.S. airline executive or a hotelier, these are heady times. In the not-too-distant past, primary players in the U.S. airline industry were belittled as bankrupt, unworkable relics beset by excessive competition, perpetually soaring fuel costs, questionable management and unsolvable labor cost issues. They were seen as unable to take the steps necessary to right themselves. Instead, today's largest U.S. airlines, though not free of troubles, have posted a years-long streak of collective profit, fueled by major consolidation, capacity squeezes and the proliferation of ancillary fees.

U.S. hotel chains, too, are sitting pretty: Rates are up, occupancy is up, revenue is up, and supply is not up all that much. The result is a solid industrywide revenue and profit picture, and a seemingly iron-clad seller's market that defies conventional wisdom about the inevitably cyclical ebb-and-flow of the segment.

But the current gilded age of U.S. airlines and hotels isn't really being spurred by rapacious corporate demand for their services; rather, it's in large part due to deliberate efforts to curb their availability. Those airlines during the past few years have slowed the growth of their domestic capacity, and last year's merger of American Airlines and US Airways—following prior mergers between Delta Air Lines and Northwest Airlines, between Continental Airlines and United Airlines, and between Southwest Airlines and AirTran Airways—helped streamline the players competing for travelers' dollars. And hotel chains, too, in recent years have slowed new construction, especially in higher tiers, and don't plan to dramatically reverse that trend in at least the next year or two.

Those strategies have helped make for

profitable suppliers and crowded planes and properties, but they also at least partially veil the ability to fully assess the true state of corporate travel demand. To wit, suppliers in the corporate travel segment arguably most dependent on sheer demand to remain viable—corporate travel management companies—aren't quite seeing the unanimously good times of their airline and hotel brethren.

In fact, about one-third of those agencies that authorized Airlines Reporting Corp. to share with *BTN* their air ticket transaction and sales data showed a decline in processed transactions in 2013 from 2012. Though the total dollar amount of sales on 2013 air transactions for all the agencies included in this year's survey increased year over year, the actual number of ARC transactions processed declined on the whole, however slightly.

It goes to show that when assessing the state of the corporate travel market, supplier performance, while valuable, is a metric that requires close scrutiny.

In further detail, including sector-specific reports and charts, the 2014 Business Travel Survey explores these and other trends impacting buyers, travel management companies, airlines, global distribution system providers, hotel companies, car rental firms and corporate payment system providers.

As always, *BTN* appreciates the executive leaders and owners of the 29 TMCs who authorized ARC to release data. *BTN* also thanks ARC for furnishing that data in order to help create consistency in tracking and comparing TMC data. ↗

Ups And Downs Among Corporate TMCs

BY DAVID JONAS

MANY CORPORATE TRAVEL management companies during 2013 expanded through organic growth and/or acquisitions. As macroeconomic trends improved, albeit unevenly across sectors and geographies, so did corporate travel demand, though upward movement wasn't robust. According to a January survey released by the American Society of Travel Agents (completed by 449 respondents), corporate travel agencies as a group last year reported increased client activity, higher revenue and greater profits than in 2012.

Yet, 2013 was a mixed bag for TMCs. Nearly a third of those agencies participating this year in *BTN's* annual Business Travel Survey processed fewer transactions via ARC than they did in 2012. For the universe of all ARC agencies, year-over-year ticket transactions were down 0.3 percent during 2013 (though the dollar amount on those tickets was up 1.9 percent). At some agencies, U.S. government travel cutbacks were the primary culprit.

U.S. Travel Agency Activity

With Year-Over-Year Changes

Total Sales	Full-Year 2013		First Quarter 2014	
	\$86.2 billion	+1.9%	\$24.0 billion	+4.6%
Domestic U.S. fare sales	\$36.7 billion	+0.8%	\$10.0 billion	+4.8%
International fare sales	\$32.6 billion	+1.0%	\$9.0 billion	+2.6%
Airline fees	\$6.7 billion	+9.9%	\$2.0 billion	+9.4%
Taxes and non-airline fees	\$8.7 billion	+2.6%	\$2.6 billion	+5.5%
Total Transactions	143 million	-0.3%	39.5 million	+2.6%
Domestic U.S.	100.9 million	-1.2%	27.5 million	+2.0%
International	41.7 million	+2.0%	12.0 million	+3.8%
By agency segment				
Mega agencies	28.5 million	0%	7.8 million	+1.7%
Online agencies	48.4 million	-4.9%	12.6 million	-2.4%
Other agencies	49.7 million	+2.9%	14.7 million	+7.6%

Notes: All figures include refunds and exchanges except transactions by agency type. "Megs" include American Express, BCD Travel, Carlson Wagonlit Travel, Expedia's Egencia, Hogg Robinson Group and Omega World Travel. "Online" includes various online travel agencies, including Orbitz for Business and Travelocity Business (owned by BCD Travel). "Other" includes all other travel agencies whose data is processed by ARC.

Source: ARC

Though government travel spending isn't likely to rebound significantly in the short term, 2014 is off to a decent start for corporate travel. The number of U.S. travel agency air transactions settled through ARC increased 2.3 percent year-to-date through April versus the same period in 2013, and the total sales from those transactions were up 6 percent. Among corporate TMCs owned by publicly traded companies, financial performance and sales data improved in the first quarter of 2014.

"We are up year over year and seeing growth in all regions, but maybe not quite up to the level we anticipated when we set our budgets last year," according to John Snyder, recently promoted to CEO of BCD Travel, which is neither publicly traded nor a participant in this year's *BTN* survey. "Region by region, the Americas is actually pretty solid."

TMCs' Ups...

During 2013, most TMCs participating in the ARC-verified program of sharing

transaction and sales data with *BTN* experienced another year of growth. For some, that came from both organic expansion—new clients and greater activity among existing clients—and acquisitions.

Travel management company Frosch, for example, for 2013 posted a 17 percent jump in ARC transactions and a 21 percent increase in sales, resulting from "a mix of acquisition and organic growth across our business units," according to president and CEO Bryan Leibman. He noted a late 2012 purchase of a majority interest in Globalpoint Travel Solutions, and some smaller agency additions during 2013.

But at Fox World Travel, which showed a 48 percent jump in ARC transactions, there were no acquisitions or big accounting changes. "It's all new business and existing account growth," according to business travel division vice president Lori Meress.

At Travel and Transport, when combining ARC and non-ARC transactions, the total jumped 18 percent. Claiming one of its best years for new sales, new clients in 2013 contributed most of that growth, with the remaining growth coming from existing clients, according to officials.

Gant Travel Management saw its total transaction count soar nearly 28 percent last year. President Patrick Linnihan said a "majority" of that jump was driven by organic growth.

Also showing double-digit percentage transaction growth in 2013, Adelman Travel benefited from "record new corporate account sales in 2012," many of which were not implemented until 2013, according to president and COO Steve Cline, who noted "today's trend of elongated contract phases." Adelman in late 2012 also acquired Springfield, Mo.-based Great Southern Travel.

Travel Leaders Group also had one of the highest ARC transaction growth rates among participating agencies, up 23 percent year over year. Part of that relates to how numbers were calculated: In 2013 the figures include company brands Protravel,

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2014 BUSINESS TRAVEL SURVEY

Company	2013 ARC Air Transactions	2013 Non-ARC Air Transactions	2013 Total Air Transactions	Total Air Transactions Vs. 2012	2013 ARC Air Sales (\$)	2013 Non-ARC Air Sales (\$)	Total 2013 Air Sales	Total 2013 Air Sales Vs. 2012	GDSs Used With % Of 2013 Worldwide Transactions	Affiliations
A & I Travel Management Inc. <i>Memphis, Tenn.</i>	50,724	8,438	59,162	5.1%	29,075,300	3,142,940	32,218,240	3.2%	Travelport 100%	BCD Travel, CBTG, Hickory
AAA Corporate Travel Services <i>Cincinnati, Ohio</i>	164,912	25,113	190,025	8.2%	93,534,755	8,597,248	102,132,003	7.0%	Travelport 100%	AAA, BCD Travel, Virtuoso
Adelman Travel Group <i>Milwaukee, Wis.</i>	418,454	78,000	496,454	14.9%	252,407,963	39,300,000	291,707,963	11.1%	Sabre 90%, Travelport 10%	Radius, Virtuoso
Altour ⁽¹⁾ <i>New York, N.Y.</i>	751,501	103,790	855,291	6.2%	551,806,381	39,949,019	591,755,400	8.2%	ND	ABC, CBTG, American Express Representative Network, Thor
Balboa Travel Management <i>San Diego, Calif.</i>	112,722	45,467	158,189	7.7%	107,339,971	15,216,252	122,556,223	12.2%	Amadeus 50%, Sabre 50%	BCD Travel, CBTG, Virtuoso
Best Travel & Tours <i>Chicago, Ill.</i>	173,105	22,887	195,992	5.3%	101,974,897	7,731,305	109,706,202	6.6%	Travelport 100%	Radius, Virtuoso
Child Travel Services (dba Child Albany Travel), <i>Colchester, Vt.</i>	39,535	6,345	45,880	-2.6%	21,439,472	2,220,139	23,659,611	-3.8%	Travelport 100%	BCD Travel, Travel Leaders
Christopherson Andavo Travel <i>Salt Lake City, Utah</i>	281,840	62,820	344,660	2.9%	169,279,942	21,470,136	190,750,078	-0.7%	Travelport 92%, Sabre 8%	BCD Travel, Virtuoso
Conference & Travel Services (dba Travel Leaders) <i>Fort Wayne, Ind.</i>	36,596	6,994	43,590	-1.2%	20,541,141	4,013,800	24,554,941	-3.5%	Travelport 100%	Travel Leaders
The Corniche Group <i>West Hollywood, Calif.</i>	16,757	1,456	18,213	2.3%	20,207,915	931,931	21,139,846	6.8%	Sabre 100%	Signature
Covington International Travel <i>Richmond, Va.</i>	54,217	7,868	62,085	3.2%	35,482,773	2,867,503	38,350,276	0.1%	Travelport 93%, Sabre 7%	BCD Travel, CBTG, Virtuoso
Executive Travel Inc. <i>Lincoln, Neb.</i>	64,095	21,634	85,729	7.0%	30,055,529	8,927,458	38,982,987	9.7%	Travelport 90%, Sabre 10%	BCD Travel, Virtuoso
FC USA ⁽²⁾ <i>Ramsey, N.J.</i>	563,018	ND	563,018 (2)	2.7% ⁽²⁾	390,780,921	ND	390,780,921 ⁽²⁾	7.1% ⁽²⁾	Sabre 81%, Travelport 19%	FCm Travel Solutions
Fox World Travel <i>Oshkosh, Wis.</i>	262,774	39,505	302,279	42.9%	137,500,616	12,691,488	150,192,104	43.3%	Travelport 100%	BCD Travel
Frosch ⁽³⁾ <i>Houston, Texas</i>	857,591	15,500	873,091	16.6%	696,754,835	27,000,000	723,754,835	20.5%	Sabre 80%, Travelport 19%, Amadeus 1%	GSM Travel Management, Signature
Gant Travel <i>Bloomington, Ind.</i>	123,676	35,260	158,936	27.8%	83,812,019	11,465,950	95,277,969	23.6%	Travelport 100%	Ensemble, Travel Leaders
Hess Corporate Travel <i>Bountiful, Utah</i>	86,136	16,100	102,236	-1.8%	53,503,182	6,508,531	60,011,713	8.1%	Travelport 100%	American Express Representative Network



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Kintetsu <i>Gardena, Calif.</i>	59,004	4,472	63,476	-11.9%	50,113,015	1,605,000	51,718,015	-11.8%	Travelport 100%	ABC, Thor, Travelsavers
National Travel Service <i>Charleston, W. Va.</i>	79,798	11,230	91,028	-17.2%	38,203,836	3,782,068	41,985,904	-19.3%	Amadeus 99%, Sabre 1%	American Express Representative Network
Omega World Travel <i>Fairfax, Va.</i>	402,237	764,516	1,166,753	-5.6%	263,964,030	237,000,000	500,964,030	-8.0%	Sabre 75%, Travelport 20%, Amadeus 5%	GlobalStar
Ovation Travel Group <i>New York, N.Y.</i>	581,381	80,930	662,311	4.0%	531,189,382	36,420,000	567,609,382	4.2%	Sabre 98%, Travelport 2%	BCD, Virtuoso
Teplis Travel <i>Atlanta, Ga.</i>	63,859	22,274	86,133	14.1%	49,254,048	6,992,227	56,246,275	9.2%	Travelport 75%, Sabre 25%	ABC, Travelsavers
Travel and Transport ⁽⁴⁾ <i>Omaha, Neb.</i>	1,299,715	1,075,307	2,375,022	17.9%	833,405,601	596,458,360	1,429,863,961	17.2%	Sabre 55%, Travelport 45%	CBTG, Radius, Virtuoso
Travel Leaders Group ⁽⁵⁾ <i>Plymouth, Minn.</i>	2,146,313	285,384	2,431,697	21.4%	1,664,046,622	147,430,893	1,811,477,515	19.0%	Sabre 84%, Travelport 14%, Amadeus 2%	Radius, Travel Leaders
Travel-On Ltd. <i>Beltsville, Md.</i>	65,656	14,217	79,873	-0.3%	44,962,628	5,112,745	50,075,373	-2.4%	Travelport 100%	Travel Leaders
UStavel <i>Anchorage, Alaska</i>	245,848	72,991	318,839	-3.9%	125,257,409	17,542,537	142,799,946	-1.2%	Sabre 100%	BCD Travel, Signature
Valerie Wilson Travel <i>New York, N.Y.</i>	86,983	12,300	99,283	-1.3%	99,961,726	9,000,100	108,961,826	0.4%	Sabre 87%, Travelport 13%	ABC, CCRA, Virtuoso
World Travel Inc. <i>Douglasville, Pa.</i>	777,471	180,934	958,405	5.4%	505,637,895	61,449,567	567,087,462	6.9%	Travelport 82%, Sabre 18%	Radius, Virtuoso
World Travel Service <i>Knoxville, Tenn.</i>	305,979	69,292	375,271	13.4%	168,804,213	22,958,315	191,762,528	15.2%	Travelport 100%	BCD Travel

Notes: "ND" = not disclosed. Travelport accounts for the Apollo, Galileo and Worldspan global distribution systems.

(1) Includes Wing Mate Corp. and Travel Master

(2) Includes FCm Travel Solutions (Boston) and Corporate Traveler (Los Angeles); totals and year-over-year change percentages exclude non-ARC sales and transactions

(3) Includes FT Travel

(4) Includes Ultramar Travel Management

(5) Includes Travel Leaders Corporate, Tzell Travel Group and Protravel for 2013, and Tzell Travel Group and Protravel for 2012

Travel Agency Survey Methodology

Business Travel News again this year asked travel management company chief executives and owners to authorize U.S. bank settlement plan Airlines Reporting Corp. to release for publication their agency's 2012 and 2013 ARC air ticket transaction and sales data. Participants include those agencies that book via ARC at least half of their business travel sales.

ARC data for each agency encompasses wholly owned home offices and legal entities, including all branch offices and satellite ticket printers.

ARC provided ARC air transaction and sales data and the percentage of total net sales booked for domestic-only versus international itineraries. ARC defines net air sales as the total airfare amount minus any commission. All information is based on ticketed passenger data for tickets processed during the 2012 and 2013 calendar years via ARC-accredited agency locations in the United States, Puerto Rico and the U.S. Virgin Islands. Information does not correlate to flown data, and refunds and exchanges are not included. All other data are self-reported. Non-ARC sales and transactions may include ticket purchases on airlines that do not participate in ARC, or through direct airline websites, airline bulk-buy programs or consolidators.

Agencies that declined to participate include publicly held American Express, HRG and Egencia (owned by Expedia); and privately held BCDTravel, Carlson Wagonlit and several others.

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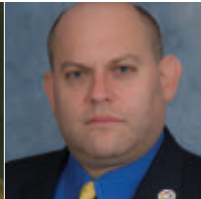
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Tzell and Travel Leaders Corporate, while the latter was excluded from 2012 figures. Another part relates to acquisitions: The company in 2013 purchased Nexion Canada, The Leaders Group Travel and Williamsburg Travel, which brought a combined \$88 million in annual ARC sales, according to Travel Leaders Group. A third part was “pretty substantial organic growth year over year,” according to an official.

Balboa Travel Management achieved growth of 8 percent and 12 percent, respectively, for total transactions and total sales. “Our core business was up significantly, specifically within international markets,” said president and CEO Denise Jackson.

Christopherson Business Travel straddled the growth line in 2013, with combined ARC and non-ARC transactions up about 3 percent year over year but combined sales down marginally. CEO Mike Cameron attributed those results to lower average ticket prices likely resulting from his agency’s changing business mix. CBT in late 2013 announced it acquired Birmingham, Ala.-based All Seasons Travel, which helped it stay on track to achieve a five-year goal of doubling sales by next year to \$500 million.

... And Downs

Among agencies where transaction volumes declined, several are government contractors. At Omega World Travel, for example, exposure to government travel cutbacks dragged down ARC transaction volume by nearly 17 percent, following declines of 9.5 percent and 12 percent in the two previous years. “Some of those [federal] agencies cut their travel tremendously,” said Omega executive vice president Goran Gligorovic. “When we split government and corporate, corporate is actually up year over year and is doing well.”

National Travel Service and USTravel are survey participants that also serve the U.S. government. Like Omega, National’s ARC transaction volume slipped in 2013, down 16 percent from 2012. USTravel’s reduction in ARC transactions was more modest, just more than 2 percent.

Not a survey participant, Carlson Wagonlit Travel through its CWTsato division is heavily exposed to government travel weakness. Overall, CWT in 2013 claimed to manage 60.3 million transactions, down 2.3 percent from a year earlier. But excluding military and government business, CWT said its transactions last year inched up 0.4 percent globally and 0.9 percent in

North America. Overall sales volume fell 2.7 percent to \$26.9 billion.

Other Nonparticipants

Along with CWT, American Express is among the world’s largest TMCs. The second half of 2014 likely will see significant change as the company’s Global Business Travel operation is poised to create a 50/50 joint venture with a group of investors that pledged \$900 million. Amex Global Business Travel president and CEO Bill Glenn said the priorities for the JV include investment in technology, improved information management and international expansion that could include acquisitions.

In terms of recent performance, American Express now has reported three consecutive quarters of growing global corporate travel sales following a long downward trend. That metric ended 2013 at about \$18.9 billion, and inched up 1 percent year-over-year during the 2014 first quarter to \$4.7 billion.

Expedia’s Egencia, meanwhile, in 2013 handled \$4.5 billion in gross bookings, up 26 percent year over year. For the first quarter of 2014, Egencia’s revenue for the first time reached \$100 million after a 13 percent increase, and gross bookings volume increased 17 percent to \$1.3 billion.

At U.K.-based Hogg Robinson Group, client transactions during the four months through January 2014 increased 6 percent versus the prior-year period, while client spending experienced a 1 percent increase, according to HRG’s interim management statement. The company’s revenue fell 2 percent, but at constant currency essentially was unchanged. HRG reported ongoing recovery in North America and the United Kingdom, but weakness elsewhere.

Neither publicly traded nor a *BTN* survey participant this year, Mahwah, N.J.-based Direct Travel has been among the busier U.S.-based TMCs. Recent acquisitions included Travel Destinations Management, a business travel management firm based in the Baltimore area that claims business “totaling more than \$100 million,” and Nashville-area Caldwell Travel. Direct Travel’s stated goal is to create a \$1.5 billion TMC. [➤](#)

Leading Corporate TMCs

Among Participating Companies, ARC Transactions Only

Company	2013 ARC Air Transactions	Year-Over-Year Change
Travel Leaders Group	2,146,313	23.1%
Travel and Transport	1,299,715	6.3%
Frosch	857,591	16.7%
World Travel Inc.	777,471	4.2%
Altour	751,501	6.6%
Ovation Travel Group	581,381	3.9%
FCm Travel Solutions	563,018	2.7%
Adelman Travel Group	418,454	13.3%
Omega World Travel	402,237	-16.8%
World Travel Service	305,979	11.7%

Notes: Participating companies are those that authorized ARC to verify and provide to *Business Travel News* their 2013 and 2012 ARC transactions and sales volume statistics. Transaction totals and therefore year-over-year comparisons are impacted by acquisitions, including Adelman’s purchase of Chambers Discoveries (which according to Adelman accounted for \$1.2 million in 2013 ARC dollar volume) and Travel Leaders’ acquisitions of Nexion Canada, The Leaders Group Travel and Williamsburg Travel (which together contributed \$88 million in 2013 volume, according to Travel Leaders).

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GDS Booking Volumes Still Rising

BY DAVID JONAS

FOR ALL THE TALK of their ultimate demise, global distribution systems process growing volumes of travel transactions. They slowly are starting to accommodate sales of airline ancillary items and have been securing more content from low-cost carriers. Each of the three primary players continues to provide an array of services to travel management companies, corporate buyers and travelers, and their parent companies are pushing IT services to airlines, hotel companies and others.

Amadeus is the most profitable of the three and has been posting the highest revenue growth rates. By its measure of booking volume, it's setting the pace, and by its measure of travel agency air booking market share, it's the largest and growing (up to 39.9 percent in the first quarter). On the IT side, it recently secured a huge contract to supply Southwest Airlines with a domestic reservations system.

More than 100 airlines already use the Amadeus Altea platform and, once implemented, Southwest will be the largest.

Sabre in April conducted an initial public offering after seven years of fully private ownership. Aside from Travelocity—for which a new business model is being implemented—revenue is increasing in the two core business lines.

Within Sabre Travel Network, first-quarter direct billable bookings increased 4.4 percent year over year, and Sabre claimed its “booking share” improved marginally to 35.4 percent. CFO Rick Simonson said the company expects Travel Network booking growth between 2.5 percent and 3 percent for full-year 2014.

Like Amadeus, Sabre is optimistic about its IT services. CEO Tom Klein said Airline and Hospitality Solutions is “on its way to over \$1 billion in annual revenue in the next few years.” Though Sabre lost the Southwest business to Amadeus, it se-

cured a reservations system contract with the newly combined American Airlines.

Though it continues to work closely with Delta, **Travelport's** IT activity is much more modest. CEO Gordon Wilson during a May conference call said that “we’re not trying to compete with where Amadeus and Sabre are in providing full passenger services systems to airlines on a multi-host basis,” but added that Travelport still is investing in such “add-on” software as departure control, shopping and faring systems. Meanwhile, Travelport now calls its distribution business line Travel Commerce Platform, within which the number of segments processed during the first quarter increased 2 percent year over year after a 1 percent increase during 2013. Its market share, though, appears to lag Amadeus and Sabre. Travelport has been growing “beyond air” activities, including those related to hospitality and payment. 

COMPANY	REVENUE In US\$ millions with year-over-year changes			EBITDA In US\$ millions		OVERALL PROFIT / LOSS In US\$ millions		BOOKING VOLUME In millions, with year-over-year changes		
		Full-Year 2013	Q1 2014	Full-year 2013	Q1 2014	Full-Year 2013	Q1 2014		Full-Year 2013	Q1 2014
Amadeus ¹	Distribution	\$3,191 (+5%)	\$897 (+7%)	\$1,636	\$483	\$775	\$246	Travel agency air bookings	443.4 (+7%)	125.5 (+5%)
	IT Solutions	\$1,082 (+11%)	\$297 (+18%)							
	Total	\$4,273 (+7%)	\$1,193 (+9%)							
Sabre	Travel Network	\$1,821 (+1%)	\$492 (+4%)	\$791 ²	\$184 ²	(-\$100)	(-\$3)	Direct billable air bookings	314 (-4%)	89 (+5%)
	Airline and Hospitality Solutions	\$712 (+19%)	\$177 (+9%)							
	Travelocity	\$586 (-11%)	\$94 (-34%)							
	Total	\$3,119 (+2%)	\$757 (0%)							
Travelport (Apollo, Galileo, Worldspan)	Travel Commerce Platform	\$1,924 (+6%)	\$542 (+5%)	\$517 ²	\$151 ²	(-\$189)	(-\$27)	Segments	350 (+1%)	97 (+2%)
	Technology Services	\$152 (-10%)	\$30 (-1%)							
	Total	\$2,076 (+5%)	\$572 (+4%)							

(1) Figures converted to U.S. dollars from euros based on exchange rates for the last day of each reporting period

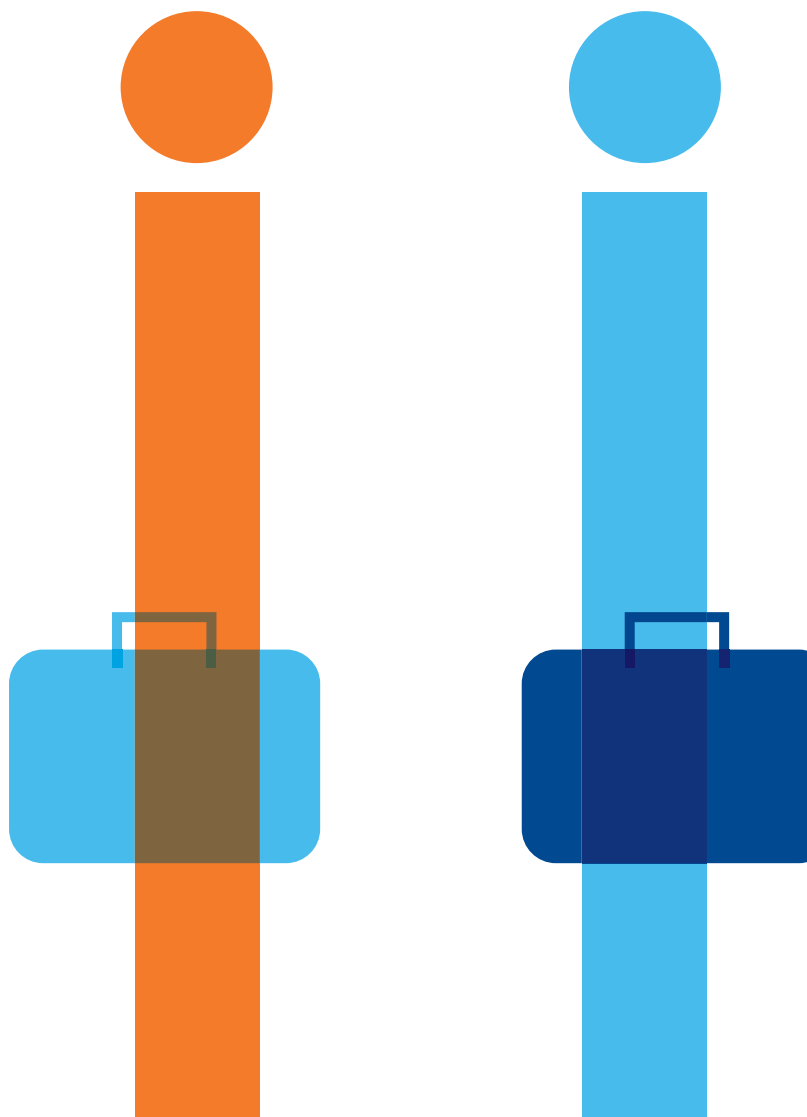
(2) Sabre and Travelport report adjusted EBITDA

Source: Company reports

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U.S. Airlines Flying High With Profits

BY JAY BOEHMER

ANOTHER YEAR, another aggregate profit among the largest U.S. airlines. Implausible a decade ago, major passenger carriers in the United States last year as a group locked in their fourth consecutive year of profitability. Aided by capacity controls, a solid corporate demand environment, ongoing revenue diversification and supplier consolidation, the U.S. airline industry is in the midst of not only its longest profit run since the turn of the century, but also an ongoing reinvention.

Even if volatile fuel prices, fierce competition, exogenous factors—including weather—and uncertain macroeconomic trends create headwinds for the sector, all signs point to yet another solidly profitable year in 2014.

Industrywide, 2013 was just that: According to the U.S. Bureau of Transportation Statistics, the 10 largest U.S. airlines, as measured by passenger volume, reported a net profit of \$11.7 billion for the full year, the group's largest annual profit in the current multiyear run in the black.

Among the six largest major U.S. airlines, only American Airlines last year posted a net loss. Yet, the airline's \$1.2 billion in red ink for that period belies its underlying health—the ink would have been black if not for special items related to its exit from bankruptcy and merger with US Airways. Indeed, the new AA posted a combined \$480 million net income for the first quarter of this year, the largest among its peers.

Compared with the passenger airline industry in the rest of the world, the U.S. commercial aviation sector has emerged as the financial leader. Sure, the greatest passenger and demand growth can be found in the Far East, but where solid financial positioning and sustained profits are concerned, U.S. airlines have the fundamentals in place to deliver.

The International Air Transport Association in March pushed down by \$1 billion to \$18.7 billion its 2014 profit forecast for airlines worldwide, but North American airlines, anchored by those in the United States, are primed to contribute

the largest share, with an estimated \$8.6 billion in 2014 net income.

That said, there are notes of caution: the U.S. airline sector remains debt-laden, lacks the creditworthiness of healthier companies and has not achieved profit margins “on par with or better than the Standard & Poor's 500 average,” according to Airlines For America, a trade group that counts as members several large carriers.

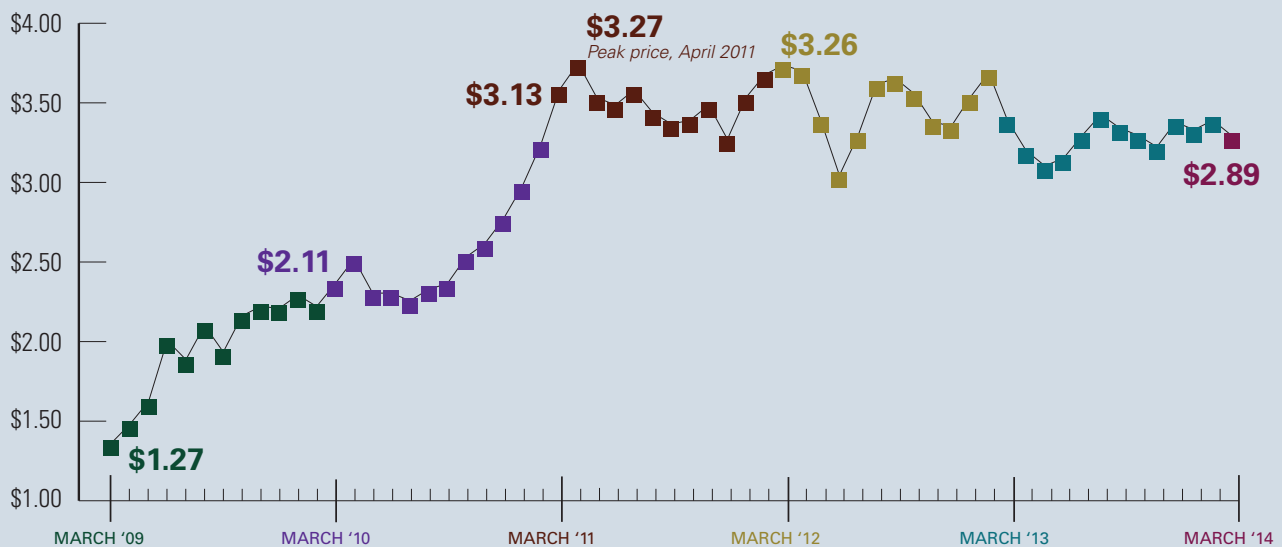
While its members paid down \$8 billion in debt last year, they still entered 2014 owing \$72 billion.

While Southwest Airlines remains the only airline that Standard & Poor's considers “investment grade,” Wolfe Research analyst Hunter Key noted that Delta Air Lines and Alaska Airlines are poised to join the club, especially as they pay down debt and continue their profit streaks.

Demand: Slow But Steady

The number of passengers in 2013 flying on U.S.-based airlines for domestic and international trips last year rose by a modest 1 percent from 2012 levels, according

Average Monthly Per-Gallon Jet Fuel Cost



*U.S. Gulf Coast kerosene-type jet fuel spot price, US\$ per gallon
Source: U.S. Energy Information Administration

to BTS data. That growth rate matches the prior year-over-year trend, as passenger demand slowly but surely continues to rise from its mid-2009 nadir.

Though modestly, passenger counts this year continue to grow. “Notwithstanding the weather, we saw more passengers fly year over year in the first quarter of 2014,” said Airlines For America chief economist John Heimlich, sanguine on the demand picture for the remainder of the year.

While Southwest and United Airlines reported modest quarterly declines in year-over-year passenger volume, other majors saw a boost ranging from nearly 5 percent for Alaska and 2.5 percent for Delta to 0.4 percent for JetBlue Airways.

“The outlook for demand across the industry is bright and robust both in corporate and leisure,” American Airlines president Scott Kirby said in April.

His competitors have echoed the sentiment. Following earnings calls from major airlines in late April, Wolfe Research’s Keay wrote in a research note that “every carrier spoke positively about the demand environment, both leisure and business.”

The Corporate Tail Wags The Airline

Of course, not all demand is created equal, and major U.S. airlines have placed laser focus on what is perhaps the most lucrative of travel segments: the corporate market. Marked by close-in booking patterns and higher premium-class use, the segment as a whole long has produced higher-than-average yields to airlines.

Cognizant of the outsized contribution from the segment, airlines, especially American, Delta and United, have chased the business with vigor. In fact, last year’s merger between American Airlines and US Airways was in part predicated on winning more corporate share.

“The corporate traveler is essential for the success of most airlines,” according to Les Baker, vice president of Sabre-owned Prism, whose software measures corporate client market share for airlines. “On average, 12 percent of an airline’s travelers fly on a contracted business fare. A 2013 Prism study analyzing airline financial reports revealed that corporate contracts

Majors Grow 2013 Passenger Revenue

	2013 Passenger Revenue (in US\$ billions) ⁽¹⁾	Year-Over-Year Change	Net Income /(Loss) in US\$ millions	
			Full-Year 2013	Q1 2014
Alaska	\$4.3	6.0%	\$508	\$94
American⁽²⁾	\$35.5	4.7%	(-\$1,233)	\$480
Delta	\$32.9	4.0%	\$10,540 ⁽³⁾	\$213
JetBlue	\$5.0	9.3%	\$47	\$4
Southwest	\$16.7	3.9%	\$754	\$152
United	\$33.1	1.7%	\$571	(-\$609)

(1) Includes regional operations where applicable.

(2) American’s results are consolidated to also include data from US Airways, which American acquired on Dec. 9, 2013, creating the American Airlines Group. AAG’s net loss includes \$2.2 billion in net charges related to its bankruptcy reorganization and additional special charges related to the US Airways acquisition.

(3) Includes an \$8 billion “non-cash gain associated with the reversal of the company’s tax valuation allowance.”

Note: Parentheses indicate losses.

Source: Company reports

contribute twice an airline’s average profit,” he wrote in a recent Sabre publication.

Last year was a solid one for corporate revenue growth, according to airlines, and, based on first-quarter data, the segment continues to increase revenues to airlines at rates higher than the average passenger.

AA’s Kirby for the first quarter reported “mid-single-digit” year-over-year percentage revenue growth among corporate clients, Delta reported 6 percent corporate revenue growth, and, lagging competitors, United reported such growth of 2 percent.

Even so, gains at Delta and United surpassed changes in overall passenger revenue, with Delta’s total passenger revenue up 5 percent and United’s consolidated passenger revenue down 2.3 percent.

Despite the increasing revenue contribution, corporate domestic fare growth this year has been modest, up about 1 percent year over year in the first quarter, according to Prime Numbers Technology fare data on air segments booked primarily by corporate travel management companies. International fares booked by corporate agencies, meanwhile, declined 1 percent during the period.

Still, it’s been no secret that airlines have modified their pricing models with an ever-growing array of ancillary fees and services, lessening their reliance on base fares to drive revenue.

BTS reported that total operating revenue among 26 U.S.-based passenger airlines last year hit \$199.7 billion, with \$120.6 billion, or 60 percent, derived from fares. While the remaining 40 percent included revenue from “associated businesses” like aircraft maintenance and the sale of frequent-flyer miles to credit card companies, it also included baggage fees and change fees, which come directly from passengers. Illustrative of U.S. airlines’ ongoing revenue diversification since 1990, (the first year BTS reported the metric) carriers that year realized 88 percent of their revenue from base fares.

Bye, Bye Supply

While many forces that airlines face remain out of their control—demand largely is driven by broader economic factors, and fuel expenses ebb and flow as the market bears—airlines have been diligent in managing their business with one lever they can pull: supply.

With a keen focus on prudent capacity deployment, this year will bring about modest growth in overall supply to match the modest growth in overall demand.

Among 11 airlines (mostly the largest U.S.-based airlines, with Canada’s WestJet and Panama’s Copa Holdings included), a recent Wolfe Research analyst

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note reported that consolidated capacity, as measured by available seat miles, rose 2.3 percent in 2013, with an additional 2.4 percent rise estimated for this year.

Yet, growth is quite uneven. For example, the “Big Three”—American, Delta and United—in aggregate added 0.6 percent in capacity last year from 2012 levels. Even Southwest, once a consistently reliable supply grower, has moderated expansion, with capacity up 1.7 percent in 2013, and estimated to be down by less than 1 percent in 2014.

Instead, the industry’s growers are its smaller operators. Among majors, Alaska and JetBlue led in capacity additions last year, with available seat miles up 7.1 percent and 6.9 percent, respectively, from 2012 levels. Niche carriers—which some have labeled “ultra-low-cost” airlines—contributed the sharpest percentage increases in new U.S. supply: Spirit Airlines, for example, grew 2013 capacity 22 percent from 2012 levels and is estimated to further grow available seat miles this year 18 percent, according to Wolfe Research.

The test of so-called “capacity discipline” is not based solely on whether airlines grow or shrink, but how adequately they match supply to demand. In a summer travel forecast issued in May 2014, Airlines For America’s Heimlich said pas-

senger volumes on U.S. airlines should rise 1.5 percent from last summer, “on par” with 2007 levels but still 3 percent below the 2008 peak.

“To accommodate the increased air travel demand, airlines are adding seats to the schedule, both domestic and international, but will keep average load factors comparable to last summer’s range of 85 to 87 percent,” he said.

Fuel Tops Costs, Others Lurk

For the 10 largest U.S. airlines, as measured by passengers, fuel last year represented 28 percent of the aggregate cost structure, according to BTS. It’s an inescapable cost of doing business—and a volatile one at that.

For the first quarter this year, pain at the pump eased. Among Airlines For America members, first-quarter operating expenses rose 0.5 percent year over year, but actually experienced a “4.3 percent drop in our largest expense, fuel,” said Heimlich.

Even so, to combat price volatility, some airlines continue to hedge a portion of their fuel consumption. That trend appears to be waning, especially as US Airways management—on principle, long against hedging—now is in charge of the merged American and plans to discontinue hedge programs there.

Meanwhile, Delta in 2012 took the unusual step of buying an oil refinery, and Delta president Ed Bastian noted that move has helped raise jet fuel production in the United States and ease pricing for the industry, even if the business line itself has yet to turn profitable.

While fuel remains a volatile line item, Heimlich pointed to growth in other expense categories. For the first quarter, “wages and benefits, airport landing fees and terminal rents, and aircraft ownership costs all saw significant increases” from the prior-year period among Airlines For America members, he noted.

Last year, labor expenses represented 25 percent of airline costs, according to BTS. “The industry has to confront its next labor cycle towards the end of the decade, without consolidation likely to prove an economic panacea as it recently did,” JPMorgan analysts wrote this month.

Consolidation Nation

Announcing plans to merge with AA in February 2013, then-CEO of US Airways Doug Parker called the tie-up “the last major piece needed to fully rationalize the industry, enabling airlines to be intensely competitive but also sustainably profitable.” Indeed, many have called the deal—sealed in December after a challenge by the U.S. Department of Justice—the “last merger.”

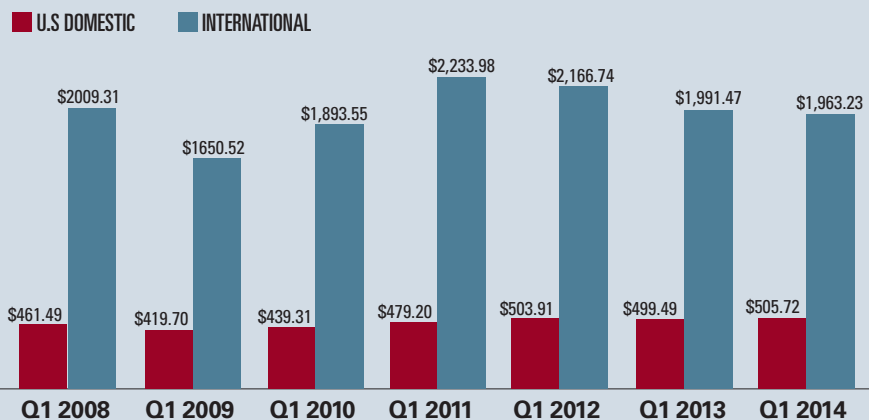
The deal follows other moves that concentrated the industry, including mergers between Delta and Northwest, United and Continental, and Southwest and AirTran.

Following consolidation, JPMorgan analyst Jamie Baker last year noted that the four largest U.S. airline companies control 88 percent of the domestic market, up from 60 percent in 2005.

The impact of the AA-US Airways deal will continue to be felt for years, and many anticipate capacity cutbacks and fare growth. “The airlines have really only benefited from merger announcements rather than merger synergies,” wrote Cowen and Co. airline analyst Helane Becker in a research note earlier this year. “We expect United and American to continue rationalizing capacity, helping with the pricing environment.”

U.S. Domestic Fares Up, International Down In Q1

First-Quarter Average Corporate Ticket Costs



Source: Prime Numbers Technology fare data on millions of air segments booked primarily by corporate travel management companies

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Rental Car Companies Grow Revenue On Volume Strength, Diversification

BY JAY BOEHMER

AVIS BUDGET GROUP, Enterprise Holdings and Hertz Global Holdings—the three major U.S.-based rental car holding companies—each increased year-over-year revenues during their most recent fiscal years, as the industry benefited from solid demand, supplier consolidation and increasingly diversified business lines.

Combined, total revenues among the three players for their most recent respective fiscal years rose 10 percent year over year to \$35.1 billion, based on their reported revenue metrics.

The largest of those companies, privately held Enterprise Holdings, which includes its Enterprise Fleet Management affiliate, reported \$16.4 billion in revenue for the year ending July 31, 2013, up 6.5 percent, or \$1 billion, from its prior fiscal year.

Meanwhile, Avis Budget Group reported \$7.9 billion in revenue for the 12 months ending Dec. 31, up 8 percent from the prior year, while Hertz Global Holdings' revenue rose 20 percent to



\$10.8 billion from \$9 billion in 2012. Hertz's outsized gains were driven in part by the November 2012 acquisition of Dollar Thrifty.

While Enterprise does not disclose profit or loss figures, publicly held Hertz and Avis Budget finished 2013 with net income of \$346.2 million and \$256 million, respectively. Hertz's profit rose 45 percent for its year ending Dec. 31, 2013,

while Avis Budget's fell 12 percent from the prior year.

Demand Stronger Than Pricing

Revenue growth in the rental segment largely has resulted from growing transaction volumes, as pricing growth has remained sluggish.

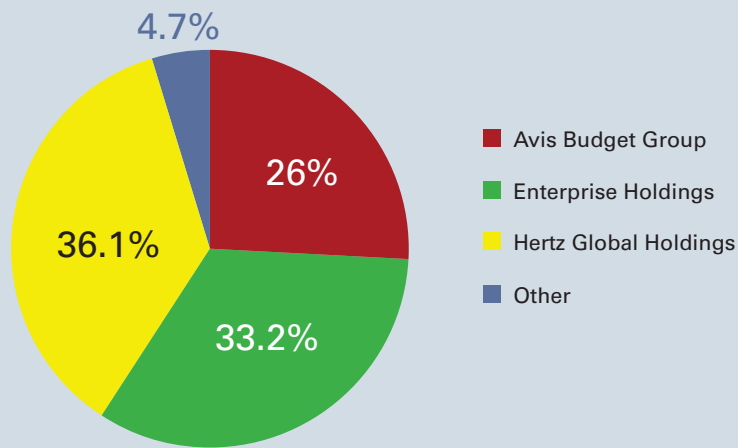
Rental car demand last year, as measured by transaction days, rose for Avis Budget and Hertz. While year-over-year volume comparisons at Hertz were skewed by the acquisition of Dollar Thrifty, transaction days rose 26 percent in 2013 from the prior year. Meanwhile, Avis Budget rental days rose 4 percent from 2012 levels.

Increasing volume has proven to be an easier task for rental car firms than raising rates, especially when it comes to the commercial sector. Even so, pricing on the whole among rental car companies last year experienced some gains.

While Hertz reported that its average fourth-quarter U.S. rental rate per day fell 1.4 percent year over year to \$44.91, average daily rate for the full year rose 1.4 percent to \$47.

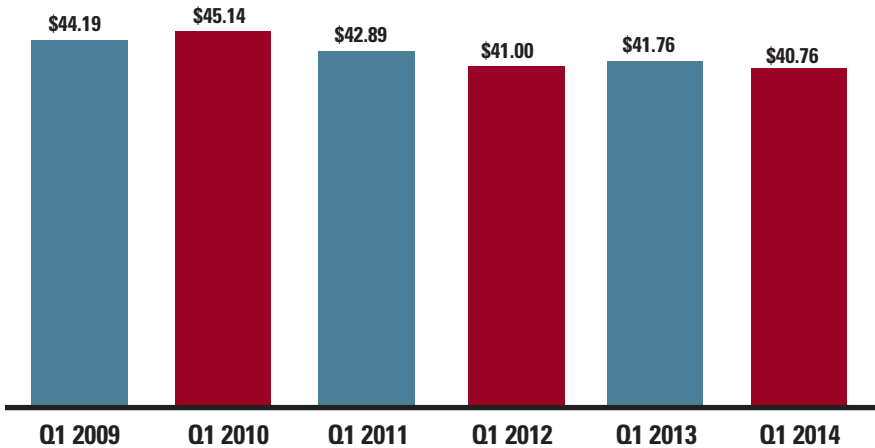
Meanwhile, driven by growth in leisure rates, Avis Budget CEO Ronald Nelson earlier this year touted 2013 as the

Hertz Leads U.S. On-Airport Market Share



Source: Abrams Consulting Group analysis of total rental revenue for all company-owned brands at the largest 50 U.S. airports, as measured by rental revenue for full-year 2013

First-Quarter Car Rental Cost Per Day Slips



Source: Prime Numbers Technology data on domestic rental car transactions booked primarily by U.S.-based travel management companies

“first full-year increase in our pricing in North America since 2009.”

Operators in the sector have found less success in raising pricing levels among commercial clients, although signs of improvement are beginning to show.

Avis Budget has been particularly active in its efforts to extract higher pricing from large commercial accounts, and the company has expressed a willingness to walk away from business that does not drive profitability.

For the first time in years, the company reported a rise “in our realized commercial pricing” for the first quarter of this year, up 2 percent from the prior-year period.

That gain came “through rate increases to our existing book of business or through our initiative to shift our mix to more profitable customers and channels,” Nelson told investors in May 2014. The realized rate gain came in part from efforts to grow in the small-business sector, a client base that generally pays higher rates than large clients. Small-business revenue during the first three months of 2014 rose 8 percent year over year, Nelson said. At press time, Hertz had yet to disclose first-quarter pricing trends.

Following Avis Budget’s pronouncement on commercial gains, MKM Partners rental car analyst Christopher Agnew indicated he was “cautious on

commercial rates,” as the “reasons for commercial strength” at Avis Budget in the first quarter “may not last all year.” Commercial travelers, he noted, stopped “opting for lower leisure rates instead of commercial rates” during the quarter. Even so, citing management, Agnew in May noted that 65 percent of Avis Budget commercial accounts had renewed “at flat or increased rates,” and, as the company works through commercial accounts with “longer-dated renewals, fewer large accounts are being repriced lower.”

Indeed, Avis Budget management noted that it is expecting a 1 percent gain in commercial pricing for full-year 2014 from 2013 levels.

Diversifying The Business

The three major rental companies have to some degree lessened their revenue reliance from their core strongholds, as each has entered new rental segments, launched new business lines and expanded geographically.

“This industry, which was pretty benign and conservative from a growth standpoint, has really picked up its game in expanding the reach of the brands,” said Abrams Consulting Group president Neil Abrams. “What they’ve learned is you can’t be good at one thing. You’ve got to serve diverse markets, with product and service offerings that differentiate themselves.”

The diversification trend has been in the works for some time, but as it continues, the large firms increasingly engage in a game of “you come into our turf, we’re going to go into yours,” said Abrams.

For example: Long a leader in the off-airport segment in the United States, Enterprise has made significant headway into the on-airport space.

“Enterprise really had been known, going back 10 years, as being an off-airport operator with a strong focus on the insurance replacement business,” said Abrams. “They now have really reached out, and cover all bases from on-airport and off-airport to corporate and leisure.”

Abrams noted that Enterprise during the past seven years “almost doubled its market share” by rental revenue at the top 50 U.S. airports, as measured by Abrams Consulting. “That’s just the Enterprise brand, not including National and Alamo,” he said. “At the same time, Hertz and Avis have been making inroads in the off-airport space.”

Furthermore, each of the three largest operators has become multibrand holding companies that tackle specific market segments with different brands. Both of Avis Budget Group’s core brands target different segments, as does its Payless brand. Hertz also stepped into the multibrand approach when it acquired the more economy-minded Dollar and Thrifty as a supplement to its namesake premium brand. The company last year expanded into select U.S. markets its Firefly brand, which has a stronger presence in Europe. Hertz calls Firefly its “deep value brand for price-conscious leisure travelers.”

Additionally, each of the major companies has expanded into the car-sharing business, and each has made a series of acquisitions in the space, including Avis Budget’s purchase last year of Zipcar.

While its competitors build up the portfolios within their companies, Hertz this year announced plans to spin off its equipment rental business as a separate company, the Hertz Equipment Rental Corp. The company expects the separation of the businesses to close by early next year. 🔄

Payment Firms Turn Page On Tame 2013

BY JoANN DeLUNA

THE CORPORATE PAYMENT sector's 2013 growth in the United States was lackluster, but issuers and card networks feel more optimistic about 2014. The Global Business Travel Association estimated total 2013 business travel activity grew 0.2 percent to 456 million person-trips compared with 2012, while spending grew 4.6 percent to \$274 billion. Factors affecting business travel spending levels included a slow economic recovery and the U.S. federal government shutdown and austerity measures.

"If we look at the economies in North America, while they are recovering, it's more slow and steady rather than something more dramatic as everyone was hoping for," said BMO vice president of North American corporate card products, treasury and payment solutions Steve Pedersen.

Banks, including BMO and Citibank, distinguished between public- and private-sector performance, with the public sector experiencing the worst of the effects as federal and some state governments continue to focus on cost containment and efficiency. The uncertainty of the U.S. federal government's sequestration spending cuts in particular hindered

consumer and corporate confidence and thereby business travel spend, payment officials said.

"We're one of the largest providers [for the U.S. government's payment program], and that portion of the book faced challenges," said Citibank managing director and global head of commercial cards Manish Kohli. "But for the corporate portfolio—despite the weather—we did absolutely well."

Kohli said he's seen request-for-proposals activity during the past 12 months increase by "a factor of 100 percent" as companies look to transform and improve their existing travel programs. Compared with previous years, when some companies were consumed with other internal business priorities, firms now are taking the time to reexamine their programs and sometimes change legacy providers, Kohli explained.

"They're showing a real keenness to improve, and not just as a pricing exercise," Kohli added. "Companies are looking at card programs as avenues to drive more value in terms of process controls and centralization, [meaning] companies are now looking to run their card programs globally and with standard processes, rather than have them run country-by-

country with different providers."

UATP in 2014 is set to have its "best year ever," according to vice president of marketing and communications Wendy Ward, and is on target to report more than \$14 billion in charge volume this year, up from more than \$13 billion in 2013. "People are coming out of their shells from the recession, and business travel is essential to maintaining client base and creating new [clients]," Ward said when asked to what UATP attributed the growth. "Events have also made a comeback and are probably fostering a good number of business travelers as well."

Likewise, Bank of America Merrill Lynch's charge volumes in 2013 were up "pretty significantly" due to new clients' card-use mandates and some existing clients' application of card products for "expanded uses," including meetings, according to BoAML head of global card and comprehensive payables for global transaction services Kevin Phalen.

The bank is not a major player in the public sector. "Our business is probably less affected by some of those [sequestration issues] than other issuers, so I'd say our knockdown effect from that has been relatively low," Phalen said. "Even though the weather presented intermittent is-

Payment System Issuers

Card Issuer	Charge Volume of US-Based Corporate T&E Accounts (in US\$ billions)		Global T&E accounts		Commercial Account Volume (in billions)		Payment Networks Commercial Products Processed			
	2013	2012	2013	2012	2013	2012	American Express	MasterCard	Visa	UATP
AirPlus	ND	ND	41,900	40,000	€11.8	€11.4		X		X
American Express	\$166 ⁽¹⁾	\$159 ⁽¹⁾	ND	ND	ND	ND	X			
Bank of America	\$5.1	\$4.2	5,000	4,000	\$37	\$33		X	X	
U.S. Bank	\$5.6	\$5.8	2,567	2,567	\$49.5	\$49.7		X	X	

1 Figures represent charge volume from all U.S. American Express cards, not just T&E

Note: BMO, Citibank and JPMorgan Chase did not submit data by press time

Source: Company reports

sues, we're seeing—in the travel space alone—probably 30 percent growth year over year.”

BoAML's investment technology upgrades seems to be paying off, Phalen said, as some bank clients during the past 18 months opted to use T&E commercial, procurement and one-cards for higher-value payments. The card products provide “good data and reconciliation,” he added. “Because of the investments we made in technology, it gives [clients] better control and security, and as a result they're willing to utilize cards for higher-value purchases.”

Data, Fraud And Security

Toward the end of 2013, a handful of high-profile data breaches—most prominently at U.S. retail giant Target—revealed vulnerabilities in the payment space.

While the incidents primarily affected the consumer sector, several hotels were compromised, and hence T&E corporate cards likely were affected, industry experts in May told *Business Travel News*. The incidents raised questions around the security of the payment sector, including its methods for storing and protecting client data.

“The evolution of big data has meant that there's a new potential repository of information for fraudsters to tap into,” said BMO's Pedersen. “The Target incident taught us that we have to be even more diligent on how to protect information.”

While chip-and-PIN or EuroPay MasterCard Visa Technology (EMV) would not have protected cardholders from the online or “card-not-present” transactions featured in the recent incidents, issuers and networks said that after the breaches

they've had more inquiries from clients about the embedded microchip authenticating solution, which is to become standard by October 2015. The fraud incidents also have encouraged banks to meet or advance their transition, as well as look for alternative fraud-prevention solutions for CNP transactions.

BoAML in April announced that all newly issued U.S. corporate T&E cards will have chip-and-PIN technology. BMO beginning in 2015 also will begin issuing chip-enabled corporate cards for renewed and replacement cards. Citibank already issues all new customers chip cards.

Card networks American Express, MasterCard and Visa in October joined forces to propose a global standard for online shopping meant to enhance security by using a digital “token,” instead of

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personal account information entered by users to process a transaction. The organizations are working with other industry bodies, including banking and payment associations, The Clearing House, the PCI Security Standards Council and EMVCo to further the initiative.

Virtual Cards

Another tool said to reduce fraud is a one-time-use virtual card. Travel managers can set virtual cards with exact charge amounts for particular vendors during a specified timeframe. Virtual cards can prove particularly useful for infrequent travelers—allowing firms to forego issuing a corporate card with hundreds of dollars in liability—and they also can make reconciliation easier, as all essential information, such as employee identification, vendor and spending amount, is transferred digitally.

While one-time use virtual cards have existed since 2006, companies around the world in recent years more widely have adopted them. BoAML provides the tool in 26 countries and has experienced “double-digit growth in North America and around the globe,” according to Phalen. As firms try to use card products in “non-conventional ways,” Citibank’s Kohli said in the past year he’s also noticed “more momentum” in the virtual cards and electronic payments space.

AirPlus, American Express, CSI and JPMorgan Chase also provide virtual card solutions. MasterCard has provided single-use account numbers through its inControl suite since its 2009 acquisition of Ireland-based payment company Orbiscom, and last October began piloting its own virtual card technology. Visa in October 2013 signed with Conferma to provide Visa’s European issuing banks the technology to dispense virtual card numbers. UATP can offer a single-use 16-digit virtual card through a partnership with eNett.

U.S. Bank provides virtual cards for lodging spend through a 2012 partner-

ship with Conferma and Sabre, and soon will begin a project for air bookings, U.S. Bank Travel Payment Solutions vice president Mary Miklethun said. “The adoption [of virtual payment] in the market is indicative that [it is] growing and will continue to be an important trend both in terms of how corporate buyers manage their travel spend and also how different suppliers within the travel industry conduct payments between themselves,” she said.

Mobile Advances

Issuers and networks have continued to enhance or develop mobile and online

Issuers and payment networks said they have been working to educate regulators on the value commercial cards bring in hopes of reversing the European Union’s decision to include commercial cards from its proposed cap on interchange fees.

platforms, as clients have showed more interest in the products. U.S. Bank in the past 12 months has focused on its mobile offering and plans to launch this year a mobile application for corporate card clients that will be similar to personal online banking, while maintaining “robust security” to protect client data, Miklethun said.

“[Corporate cardholders] will be able to manage their accounts the same way they manage personal accounts today, to see transaction history and sign up for alerts,” Miklethun explained. “We’ve built out a robust roadmap to go over and above to deliver receipt capture, expense caps and the like.”

MasterCard last year launched mobile wallet functionality called MasterPass, as well as a mobile application called Smart Data that allows Android, BlackBerry and iOS mobile device users to capture receipts by taking photos with their smartphones.

The firm in February 2014 also acquired mobile wallet and on-device software and services provider C-SAM, which MasterCard group head of global T&E products and solutions Richard Crum said would help the payment network develop apps tailored for the T&E space.

Pedersen admitted BMO is “a little behind” the curve on the mobile front. However, the bank has developed a “major initiative” and is making “significant investments” to enhance its online and mobile presence, he said. “Our corporate payments capabilities on the mobile side will also be enhanced.”

EU Regulations

In a surprise move, the European Union in March 2014 reversed a decision to include commercial cards from the European Union’s proposed cap on interchange fees. The proposal affects four-party systems, including MasterCard and Visa, in which payment involves banks as well as the merchant and customer. The cap would reduce to 0.3 percent from 1.5 percent the typical interchange fee on MasterCard and Visa commercial credit cards.

“We feel strongly that the regulation should not include commercial cards for a number of reasons, not the least of which is the corporate and supplier have negotiated prices and have chosen to transact with commercial cards because they see value in this payment form,” said Visa senior vice president of global commercial solutions Tad Fordyce.

In response, issuers and payment networks said they have been monitoring the situation and working to educate regulators on the value commercial cards bring to the sector in hopes of reversing the decision. They’ve also been preparing backup plans if the legislation goes forward as-is.

“There’s still a lot of uncertainty on whether that will remain on the books, and even if it does, it’s still another two to two-and-a-half years before it will be implemented,” said Miklethun. “If it does take affect, it will impact pricing strategies in that region.”

Bucking History, Hotel Seller's Market Shows Few Signs Of Ending

BY MICHAEL B. BAKER

THE VAST MAJORITY of publicly reported hotel brands in 2013 increased their average daily rates and appear poised to continue increasing prices during the next few years, perhaps resulting in the longest hotel seller's market many buyers have seen in their careers.

In the United States, hotel occupancy

likely will set a growth consistency record this year, according to PKF Hospitality Research. Should average hotel occupancy increase this year—and all signs point toward that—it will mark the first time U.S. occupancy has grown for five consecutive years.

Hoteliers often cite the cyclical nature of the hotel industry. Typically, hotels first

pick up occupancy and then rate, then a glut of new supply knocks both down, and the cycle begins again. This cycle has been a bit different, however. Hotels in North America currently are in what usually would be “late-cycle market dynamics,” with hotel revenue growth coming mostly through rising rates, not occupancy, Starwood Hotels & Resorts president and CEO Frits van Paasschen said in April during the company's first-quarter earnings call.

“Despite this, we're still several years away from seeing any real increase in supply in most markets,” he said. “At the upper end, new supply is especially scarce, so as long as the U.S. continues even modest economic growth, it seems likely that high occupancy and rising rates are here to stay for a while.”

In other words, corporate travel buyers should expect hotels to push for rate increases not only this year but for the next several years.

“By the time you actually start adding any real inventory, you are talking late into 2015, 2016 or 2017,” Choice Hotels International president and CEO Stephen Joyce said in April during his company's first-quarter earnings call. “Not only do we feel really good about 2014, but we're really excited about what we see for the next several years.”

If last year was any indication, hotel negotiations this year will be a market-by-market challenge. Buyers on average kept year-over-year percentage rate increases for 2014 in the low single digits in the United States but high-demand business markets, including San Francisco and Houston, had much higher increases.

U.S. hotel construction has picked up in the last year. As of April, almost 3,200 hotel projects totaling more than 380,000 rooms were in some stage of development in the United States, a 16 percent increase compared with a year prior, according to

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Hotel Company Financial Data

Hotel Company	2013 Net Income (US\$ millions)	Q1 2014 Net Income (US\$ millions)	Year-Over-Year Q1 Change
Accor	\$191.3	NA	NA
China Lodging Group	\$46.2	(-\$2.1)	NA*
Choice Hotels International	\$112.6	\$19.0	22.2%
Extended Stay America	\$82.7	\$16.1	15.8%
Hilton Worldwide	\$460.0	\$124.0	226.3%
Home Inns	\$32.1	\$12.2	NA*
Hyatt Hotels Corp.	\$207.0	\$56.0	600.0%
InterContinental Hotels Group	\$420.0	NA	NA
La Quinta Inns & Suites	\$44.5	\$7.7	134.1%
Mandarin Oriental Hotel Group	\$96.8	NA	NA
Marriott International	\$626.0	\$172.0	26.5%
Meliá Hotels International	(-\$97.9)	NA	NA
Millennium & Copthorne	\$251.9	\$26.5	-21.4%
Morgans Hotel Group	(-\$44.1)	(-\$24.1)	NA*
Orient-Express Hotels	(-\$31.5)	(-\$20.7)	NA*
NH Hoteles	(-\$54.8)	(-\$53.1)	NA*
Peninsula	\$220.8	NA	NA
Red Lion	(-\$14.0)	(-\$3.5)	NA*
Shangri-La Hotels & Resorts	\$441.1	NA	NA
Starwood Hotels & Resorts	\$635.0	\$137.0	-35.7%
Steigenberger Hotel Group	\$27.1	NA	NA
Taj Hotels, Resorts and Palaces+	(-\$78.7)	NA	NA
Wyndham Worldwide	\$432.0	\$90.0	233.3%

*Company reported a loss in the first quarter of 2013

+Fiscal year running from April 2012 through March 2013

Notes: Parentheses indicate losses. NA = not available.

Source: Company reports

CONTINUED FROM PAGE 25

STR. The number of rooms under construction in April, totaling more than 100,000, was up nearly 43 percent year over year.

More than two-thirds of rooms under construction in the United States are in either the upscale tier—which includes such select-service brands as Hilton Garden Inn and Courtyard by Marriott—and the upper midprice tier, according to STR senior vice president Bobby Bowers. About 8,600 of the rooms under construction were in upper upscale chains, “a distant third among the STR chain scale segments but up over 24 percent versus the same time last year,” Bowers added.

A Fitch Ratings report issued this month noted that U.S. hotel supply growth was “accelerating yet manageable,” with projected year-over-year supply growth this year of 1.1 percent, well below the long-term average rate of 1.9 percent.

Much of the U.S. hotel development activity has been concentrated in New York. During Marriott International’s first-quarter earnings call in April, presi-

dent and CEO Arne Sorenson noted that revenue per available room growth in the city was a bit soft, but there were other factors to consider besides supply growth. The city was hit with a brutal winter this year, and hotels still face tough comparisons against the prior year, when they had significant extended-stay business related to the aftermath of Hurricane Sandy.

New York hotel occupancies still run about 80 percent on average, and adding new supply—particularly midprice and limited-service hotels—is “good for the city of New York,” Sorenson said. “To add limited-service hotels and some better affordability for those customers who would like to come to New York is a very good thing.”

Global Outlook

Corporate buyers are facing a mixture of challenges and opportunity outside of the United States.

Corporate rates in Europe negotiated for 2014 on average were about flat compared with the prior year, according

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U.S. Markets With Most Hotel Rooms Under Construction

Market	Rooms
New York	13,595
Washington	3,352
Houston	3,116
Los Angeles	2,740
Miami	2,290
Denver	1,981
Orlando	1,925
Seattle	1,889
Dallas	1,785
Chicago	1,591

Source: STR Global

European Countries With Most Rooms Under Construction

Country	Rooms
United Kingdom	11,087
Russia	9,140
Turkey	6,962
Germany	6,804
Poland	2,484
France	2,445
Italy	2,392
Netherlands	2,140

Source: STR Global

Central/South American Markets With Most Rooms Under Construction

Country	Rooms
Brazil	12,937
Colombia	2,805
Panama	1,919
Argentina	1,719
Chile	985
Costa Rica	899

Source: STR Global

Total Pipelines By Region

Region	Hotels in Pipeline	Rooms in Pipeline
United States	3,127	381,503
Asia/Pacific	2,312	513,443
Europe	925	149,866
Middle East/Africa	573	137,193
Central/South America	390	63,780
Caribbean/Mexico	162	26,647

Source: STR, STR Global

Asia/Pacific Countries With Largest Projected Supply Growth

Country	Rooms in Pipeline	Projected Supply Growth
Bangladesh	4,170	261.1%
Mongolia	975	77.4%
Myanmar	4,109	67.5%
Sri Lanka	5,204	51.0%
Bhutan	78	46.7%
Indonesia	53,100	35.7%
Philippines	13,078	30.7%

Source: STR Global

Note: All pipeline data as of March 31, 2014

Hotel Companies

Hotel Company	Headquarters	Brands	Properties	Rooms	2013 ADR	YOY Change	2013 Occupancy	YOY Change	2013 RevPAR	YOY Change
Accor ⁽¹⁾	Paris	Total	3,576	461,719						
		<i>Luxury, Upscale and Midprice</i>	Adagio	39	4,703	\$134.90	4.3%	67.5%	1.6 pp	\$90.86
	Mercurie		758	95,571						
	Mgallery		68	6,917						
	Novotel		402	76,383						
	Pullman		82	23,376						
	San Marque Hotellerie		47	7,094						
	Sofitel		113	28,216						
	Suite Novotel		30	3,736						
	<i>Economy</i>	Adagio Access	51	5,145	\$75.71	4.8%	70.1%	0.8 pp	\$53.69	6.2%
		Formule 1	10	947						
		Hotel F1	238	17,906						
		Ibis	999	124,022						
Ibis Budget		506	46,547							
Ibis Styles		233	21,156							
AmericInn	Minneapolis	AmericInn	200	11,865	NA	NA	NA	NA	NA	4.2%
Best Western International	Phoenix, Ariz.	Total	4,063	314,984	NA — Privately held					
		Best Western	2,911	207,021						
		Best Western Plus	1,005	90,361						
		Best Western Premier	147	17,602						
Capella Hotels and Resorts	Atlanta	Capella	6	534	NA — Privately held					
Carlson Rezidor Hotel Group ⁽²⁾	Minneapolis	Total	1,079	168,961	\$148.40	5.7%	68.2%	2.8 pp	\$101.18	10.2%
		Country Inns & Suites	474	38,166	NA					
		Missoni	2	305	NA					
		Park Inn	128	24,578	\$96.78	5.5%	65.9%	4.4 pp	\$63.74	13.0%
		Park Plaza	46	9,153	NA					
		Radisson	155	31,863	NA					
		Radisson Blu	274	64,896	\$164.64	6.0%	69.1%	2.2 pp	\$113.71	9.4%
China Lodging Group	Shanghai	Total	1,425	152,879	\$29.44	4.5%	90.7%	-3.7 pp	\$26.66	0.2%
		Joya	1							
		JI Hotel	68							
		Hanting Hotel	1226							
		Hi Inn	83							
		Manxin	1							
		Starway Hotel	46							
Choice Hotels International (continued on p. 28)	Silver Spring, Md.	Total ⁽³⁾	6,340	506,058	\$74.76	1.6%	56.3%	0.8 pp	\$42.08	3.0%
		Ascend Collection	123	12,196	\$120.97	6.7%	64.3%	-0.1 pp	\$77.82	6.7%
		Cambria Suites	18	2,119	NA					
		Clarion	321	44,888	\$75.20	0.3%	50.9%	1.5 pp	\$38.30	3.4%
		Comfort Inn	1,824	141,220	\$83.21	2.0%	59.9%	0.5 pp	\$49.87	3.0%

2014 BUSINESS TRAVEL SURVEY

Hotel Company	Headquarters	Brands	Properties	Rooms	2013 ADR	YOY Change	2013 Occupancy	YOY Change	2013 RevPAR	YOY Change
Choice Hotels International <i>(continued from p. 27)</i>	Silver Spring, Md.	Comfort Suites	604	47,375	\$86.89	1.7%	62.8%	1.1 pp	\$54.53	3.4%
		Econo Lodge	914	54,434	\$56.56	1.4%	48.7%	0.2 pp	\$27.52	1.7%
		MainStay Suites	45	3,549	\$72.46	4.5%	68.0%	-2.4 pp	\$49.27	0.9%
		Quality	1,595	139,703	\$70.19	1.1%	53.0%	1.4 pp	\$37.17	3.7%
		Rodeway Inn	441	24,800	\$54.25	1.7%	51.6%	0.8 pp	\$27.96	3.1%
		Sleep Inn	391	28,518	\$74.35	2.7%	58.5%	2.2 pp	\$43.46	6.6%
		Suburban Extended Stay	64	7,256	\$42.67	2.5%	70.1%	0.4 pp	\$29.91	3.1%
Dolce Hotels and Resorts	Rockleigh, N.J.	Dolce	23	4,326*	NA — Privately held					
Extended Stay America	Charlotte, N.C.	Total	684	76,219	\$54.15	8.8%	74.2%	0.9 pp	\$40.18	10.2%
		Crossland Economy Studios	47	5,900						
		Extended Stay America	632	69,600						
		Extended Stay Canada	3	500						
		Hometown Inn	2	265						
Fairmont Raffles Hotels International	Toronto	Total	109	41,407	NA — Privately held					
		Fairmont	68	28,274						
		Raffles	10	1,617						
		Swissotel	30	10,914						
		Other	1	323						
Four Seasons Hotels & Resorts	Toronto		92	20,000*	NA — Privately held					
G6 Hospitality	Carrollton, Texas	Motel 6/Studio 6	1,100	104,018	NA — Privately held					
GLH Hotels	London	Total	38	8,913	NA					
		Guoman	5	2,687						
		Thistle	33	6,226						
Hilton Worldwide	McLean, Va.	Total	4,115	678,630	\$136.49	3.3%	72.3%	1.3 pp	\$98.65	5.2%
		Conrad	23	7,877	\$268.77	4.3%	67.6%	0.8 pp	\$181.73	5.6%
		Doubletree	371	93,054	\$127.64	3.8%	72.7%	2.2 pp	\$92.81	7.0%
		Embassy Suites	215	51,367	\$143.51	3.7%	75.5%	1.4 pp	\$108.32	5.7%
		Hampton	1,937	190,635	\$110.49	3.0%	69.9%	1.0 pp	\$77.26	4.5%
		Hilton	554	196,670	\$162.33	2.9%	72.7%	1.3 pp	\$92.81	7.0%
		Hilton Garden Inn	581	79,878	\$122.91	2.9%	72.8%	1.8 pp	\$89.46	5.5%
		Hilton Grand Vacations	42	6,547	NA					
		Home2 Suites	27	2,928	\$100.39	-1.8%	71.3%	4.7 pp	\$71.62	5.0%
		Homewood Suites	333	36,778	\$120.17	3.5%	76.7%	0.4 pp	\$92.11	4.0%
		Waldorf Astoria	24	10,529	\$302.87	7.1%	72.5%	1.0 pp	\$219.54	8.7%
		Other	8	2,367	NA					
Home Inns	Shanghai	Total	2,180	256,555	\$26.99	1.5%	86.1%	0.0 pp	\$23.22	1.8%
		Home Inn	1,784	201,600*						
		Motel 168	378	52,889						
		Yitel	18	2,066*						

Hotel Company	Headquarters	Brands	Properties	Rooms	2013 ADR	YOY Change	2013 Occupancy	YOY Change	2013 RevPAR	YOY Change	
Hyatt Hotels Corp.	Chicago	Total	548	147,388	\$174.53	1.7%	72.5%	1.4 pp	\$126.58	3.7%	
		Andaz	11	2,269	\$280.84	0.2%	76.8%	1.4 pp	\$215.62	2.0%	
		Grand Hyatt	40	22,262	\$240.32	0.2%	73.8%	0.9 pp	\$177.33	1.4%	
		Hyatt	38	8,609	\$169.05	4.6%	74.2%	0.7 pp	\$125.37	5.5%	
		Hyatt Regency	149	70,995	\$168.04	1.7%	70.8%	1.5 pp	\$118.98	3.9%	
		Park Hyatt	33	6,535	\$342.70	-1.6%	66.1%	4.2 pp	\$226.51	5.2%	
		Hyatt Place	192	25,575	\$101.98	3.5%	75.1%	1.0 pp	\$76.54	4.8%	
		Hyatt House	58	8,154	\$123.90	3.9%	79.5%	1.7 pp	\$98.52	6.1%	
	Other	27	2,989	NA							
InterContinental Hotels Group	Denham, U.K.	Total	4,697	686,873	NA	1.8%	67.1%	1.3 pp	NA	3.8%	
		Candlewood Suites	312	29,778							
		Crowne Plaza	391	108,891							
		Holiday Inn	1,216	224,577							
		Holiday Inn Express	2,258	214,597							
		Hotel Indigo	55	6,199							
		InterContinental	178	60,103							
		Staybridge Suites	196	21,518							
		Other	91	21,210							
Jumeirah Group	Dubai	Total	21	5,895*	NA	5.0%	NA	5.0%	NA	11.0%	
Kempinski Hotels	Geneva, Switzerland	Kempinski	73	19,615	NA — Privately held						
Kimpton Hotels & Restaurants	San Francisco	Kimpton	59	10,896	NA — Privately held						
La Quinta Inns & Suites	Irving, Texas	La Quinta	834	83,658	\$79.46	5.7%	64.4%	1.7 pp	\$51.14	8.4%	
Loews Hotels	New York	Loews	20	10,013 ⁽⁴⁾	NA — Privately held						
Mandarin Oriental Hotel Group⁽⁵⁾	Hong Kong	Mandarin Oriental	26	7,936	\$390.87	2.1%	70.4%	0.3 pp	\$274.12	4.2%	
Maritim Hotels	Bad Salzungen, Germany	Maritim	51	15,628	\$124.43	6.0%	53.7%	-2.9 pp	\$66.80	0.5%	
Marriott International⁽⁶⁾ <i>(continued on p. 30)</i>	Bethesda, Md.	Total	3,916	675,623	\$143.33	3.4%	71.5%	0.9 pp	\$102.46	4.6%	
		AC Hotels	75	8,491	NA						
		Autograph Collection	56	11,463	\$207.34	6.4%	76.6%	1.7 pp	158.87	8.8%	
		Bulgari	3	202	NA						
		Courtyard	953	140,549	\$123.07	3.6%	70.2%	0.9 pp	\$86.35	4.9%	
		Edition	2	251	NA						
		Fairfield Inn & Suites	708	64,965	\$98.58	3.3%	67.9%	0.6 pp	\$66.95	4.3%	
		Gaylord	5	8,098	NA						
		Marriott/JW Marriott	559	204,901	\$164.37	4.0%	71.3%	1.0 pp	\$117.20	5.4%	
		Marriott Executive Apartments	27	4,295	NA						
		Renaissance	153	51,900	\$153.33	3.2%	71.3%	0.7 pp	\$109.30	4.2%	
		Residence Inn	653	79,405	\$125.04	3.5%	77.4%	0.4 pp	\$96.79	3.9%	
		Ritz-Carlton	84	24,990	\$323.83	6.6%	71.3%	1.4 pp	\$230.82	8.7%	
		Ritz-Carlton Residential/Apartments	44	4,807	NA						

2014 BUSINESS TRAVEL SURVEY

Hotel Company	Headquarters	Brands	Properties	Rooms	2013 ADR	YOY Change	2013 Occupancy	YOY Change	2013 RevPAR	YOY Change
Marriott International⁽⁶⁾ <i>(continued from p. 29)</i>	Bethesda, Md.	SpringHill Suites	308	36,187	\$107.42	3.3%	72.2%	1.3 pp	\$77.57	5.2%
		TownePlace Suites	224	22,317	\$115.00	3.4%	71.8%	0.7 pp	\$82.52	4.4%
		Other	62	12,802	NA					
Meliá Hotels International⁽⁷⁾	Palma de Mallorca, Spain	Total	397	99,566	\$121.09	6.4%	67.6%	2.9 pp	\$81.88	9.5%
		Gran Meliá	10	3,010						
		Innside	13	1,645						
		ME	6	1,388						
		Meliá	101	28,273						
		Paradisus	9	4,452						
		Sol	79	25,587						
		Tryp	87	14,160						
		Other*	92	21,051						
Millennium & Copthorne Hotels	London	Total	114	31,733	\$158.79	2.2%	72.3%	1.5 pp	\$114.72	4.6%
		Copthorne	33	6,838						
		Grand Millennium	5	2,455						
		Kingsgate	12	1,277						
		Millennium	43	14,644						
		Other	21	6,519						
Morgans Hotel Group	New York		11	3,102	\$320.43	1.0%	80.4%	5.8 pp	\$257.63	8.9%
NH Hoteles	Madrid		379	58,195	\$106.69	1.8%	66.1%	2.2 pp	\$70.48	5.2%
Omni Hotels & Resorts	Dallas	Total	58	20,471	NA — Privately held					
Orient-Express Hotels	Hamilton, Bermuda	Belmond ⁽⁸⁾	35	3,216	\$510.00	7.4%	60.0%	2.0 pp	\$306.00	11.3%
Pan Pacific Hotels Group	Singapore	Total	32	10,000*	NA — Privately held					
		Pan Pacific	18	5,800*						
		Parkroyal	12	3,600*						
		Other	2	600*						
Peninsula Hotels	Hong Kong	Peninsula	9	3,013	\$398.08	-0.2%	68.0%	2.0 pp	\$271.45	2.8%
Red Lion Hotels Corp.	Spokane, Wash.	Total	55	12,451	\$8,845.00	3.5%	60.8%	0.6 pp	\$51.48	4.5%
		Leo Collection	2	3,256						
		Red Lion	53	9,195						
Rosewood Hotels & Resorts	Dallas	Rosewood	18	2,534	NA — Privately held					
Shangri-La Hotels & Resorts	Hong Kong	Total	81	34,803	NA					
		Kerry	2	1,060						
		Shangri-La	65	28,418						
		Traders	14	5,325						
Sonesta Collection	Boston	Total	55	10,589	NA — Privately held					
		Royal Sonesta	5							
		Sonesta	28							
		Sonesta ES Suites	17							
		Sonesta Nile Cruises	5							

Hotel Company	Headquarters	Brands	Properties	Rooms	2013 ADR	YOY Change	2013 Occupancy	YOY Change	2013 RevPAR	YOY Change	
Starwood Hotels & Resorts	Stamford, Conn.	Total	1,175	346,800	\$173.35	2.4%	68.7%	1.2 pp	\$119.15	4.2%	
		Aloft	79	13,300	\$111.74	2.1%	68.2%	2.4 pp	\$76.26	5.8%	
		Element	11	1,800	NA						
		Four Points by Sheraton	181	32,400	\$118.09	1.3%	66.7%	1.6 pp	\$78.81	3.9%	
		Le Meridien	95	25,800	\$194.50	1.4%	67.8%	1.7 pp	\$131.90	4.0%	
		Luxury Collection(9)	85	17,000	\$319.95	4.1%	65.1%	3.7 pp	\$208.24	10.3%	
		Sheraton	432	152,700	\$154.98	1.6%	65.3%	0.5 pp	\$101.24	2.4%	
		St. Regis	31	6,700	See Luxury Collection data						
		W	45	13,000	\$312.19	2.4%	77.3%	2.3 pp	\$241.35	5.6%	
		Westin	198	75,700	\$189.03	1.4%	70.4%	2.1 pp	\$132.99	4.4%	
		Other	18	8,400	NA						
Steigenberger Hotel Group	Frankfurt	Total	87	16,295	\$128.31	6.5%	63.7%	1.0 pp	\$81.70	4.2%	
		InterCityHotel	36	6,193							
		Steigenberger	51	10,102							
Taj Hotels, Resorts and Palaces ⁽¹⁰⁾	Mumbai		118	14,300	\$173.89	-4.4%	63.0%	-2.0 pp	NA	NA	
Wyndham Hotel Group	Parsippany, N.J.	Total	7,485	645,423	\$68.27	1.7%	52.7%	0.9 pp	\$36.00	3.4%	
		Baymont	329	27,108	\$63.14	-0.2%	51.3%	0.8 pp	\$32.40	1.4%	
		Days Inn	1,817	146,959	\$64.34	2.0%	48.8%	0.7 pp	\$31.42	3.6%	
		Dream	5	989	\$229.77	5.9%	71.8%	-0.3 pp	\$164.88	5.4%	
		Hawthorn Suites	91	8,933	\$71.46	-2.0%	62.6%	0.7 pp	\$44.71	-0.9%	
		Howard Johnson	449	46,777	\$62.06	-0.7%	47.7%	0.1 pp	\$29.58	-0.6%	
		Knights Inn	380	23,325	\$45.04	4.5%	42.0%	0.7 pp	\$18.92	6.4%	
		Microtel	312	22,304	\$64.42	3.6%	57.6%	2.7 pp	\$37.10	8.7%	
		Night	3	630	\$152.65	-4.0%	62.4%	4.6 pp	\$95.18	3.6%	
		Ramada	834	115,394	\$80.19	1.7%	53.0%	0.4 pp	\$42.50	2.4%	
		Super 8	2,391	152,648	\$52.33	-1.3%	56.3%	1.5 pp	\$29.45	1.3%	
		Travelodge	432	32,012	\$67.10	1.1%	49.5%	1.3 pp	\$33.23	3.8%	
		Tryp	113	16,216	\$96.09	-1.4%	60.5%	-0.2 pp	\$58.16	-1.7%	
		Wingate	159	14,559	\$85.11	2.0%	60.9%	-0.1 pp	\$51.82	1.8%	
Wyndham	170	37,569	\$117.27	6.3%	58.6%	-0.3 pp	\$68.74	5.8%			

*BTN estimate

1 ADR, occupancy and RevPAR figures represent performance of owned and leased properties worldwide.

2 Carlson is privately held and does not report financial data. ADR, occupancy and RevPAR represent Rezidor's leased and managed hotels.

3 ADR, occupancy and RevPAR figures represent domestic properties only.

4 Room total does not include Loews Chicago.

5 BTN determined operating results using a weighted average of data from 15 properties listed in Mandarin Oriental's annual report.

6 Brand ADR, occupancy and RevPAR data represents North American properties only.

7 Operations metrics represent owned and leased hotels only.

8 Orient-Express rebranded its properties to the unified Belmond brand earlier this year.

9 Starwood combines performance results for St. Regis and Luxury Collection brands.

10 Results based on fiscal year running from April 2012 through March 2013. Currency conversions adjusted accordingly.

Note: Year-over-year occupancy change measured in percentage points, unless otherwise indicated.

Source: Company reports

CONTINUED FROM PAGE 26

to Carlson Wagonlit Travel, but varied by country. Corporate rates were up in the United Kingdom and France but down in Portugal and Spain, for example.

In terms of rooms under construction, the United Kingdom leads the continent with more than 11,000 rooms as of March, according to STR Global. Russia is second with more than 9,000 rooms under construction, followed by Turkey and Germany, each with just less than 7,000.

Corporate rates on average also were stable in the Asia/Pacific region but were down in many of its largest economies, including China, India and Japan, according to CWT.

China has seen significant hotel development in recent years and also has taken hits to demand due in part to government austerity programs. Even so, hotel compa-

nies see the country as a continuing area of opportunity in the years ahead. Starwood's van Paasschen noted the company's first-quarter occupancy in China was up even amid the government cutbacks and a drop in inbound travel, thanks in part to a mobilization of call centers and sales teams that target small corporate accounts.

"We've maintained for some time that an economy as large and rapidly changing as China's will see some fits and starts, and while we agree with our owners that the Chinese economy has many years left to grow, we also recognize that China will need to make some significant structural changes along the way," he said. "China will remain a relatively low occupancy market, where our growth will be driven more by occupancy than rising rates."

The Asia/Pacific pipeline remains the largest among global regions in terms of to-

tal rooms under development. As of March, more than 2,300 projects totaling 513,443 rooms were in the region's pipeline, according to STR Global. Several emerging markets have significant growth planned in the coming years, including Bangladesh, Myanmar and Indonesia.

In Latin America, corporate rates on average have been rising, thanks both to booming business travel in Brazil and steep increases in Venezuela, which is facing inflation and a recently revalued currency. Corporate rate increases in Brazil for 2014 were more moderate than the prior year, according to CWT, and corporate rates declined in other such markets as Colombia and Argentina.

Brazil also continues to dominate Latin America in terms of hotel development. As of March, the nation had almost 13,000 rooms under construction, more than four times as many as did Colombia, which has the second-largest share of rooms being built in the region.

Africa also has been a growing focus for hotel development among the major multibrand companies. Marriott International this year closed an agreement to acquire South African hotel company Protea Hospitality Holdings, giving it 116 hotels in South Africa and six other African countries. The deal nearly doubled Marriott's distribution in the Middle East and Africa and made it the largest hotel company in the region.

Wi-Fi Policies Evolve

Even as hotel rates look set to rise in the foreseeable future, the industry also is showing signs that charges for wireless Internet access are becoming less of an issue.

While many buyers can negotiate Internet access fees as part of their corporate rate program, the paradigm still persists that upper-tier hotels charge for in-room Internet usage while mid-tier hotels offer it as a rate-inclusive amenity.

In recent years, however, multibrand hotel companies have begun waiving such fees for elite members of their loyalty programs.

InterContinental Hotels Group, which remains the world's largest hotel company in terms of total rooms, took it a step fur-

Largest Hotel Companies By Number Of Properties

Wyndham Hotel Group	7,485
Choice Hotels International	6,340
InterContinental Hotels Group	4,697
Hilton Worldwide	4,115
Best Western International	4,063
Marriott International	3,916
Accor	3,576
Home Inns Group	2,180
China Lodging Group	1,425
Starwood Hotels & Resorts	1,175

Largest Brands By Number Of Hotels

Best Western	2,911
Super 8	2,391
Holiday Inn Express	2,258
Hampton	1,937
Comfort Inn	1,824
Days Inn	1,817
Home Inn	1,784
Quality	1,595
Holiday Inn	1,216
Motel 6/Studio 6	1,100

Largest Hotel Companies By Number Of Rooms

InterContinental Hotels Group	686,873
Hilton Worldwide	678,630
Marriott International	675,623
Wyndham Hotel Group	645,423
Choice Hotels International	506,058
Accor	461,719
Starwood Hotels & Resorts	346,800
Best Western International	314,984
Home Inns	256,555
Carlson Rezidor Hotel Group	168,961

Largest Brands By Number Of Rooms

Holiday Inn	224,577
Holiday Inn Express	214,597
Best Western	207,021
Marriott/JW Marriott	204,901
Home Inn	201,600
Hilton	196,670
Hampton	190,635
Sheraton	152,700
Super 8	152,648
Days Inn	146,959

Source: Company reports

CONTINUED ON PAGE 34

Hotel Management Companies

Company	Headquarters	2013 Net Income (US\$ millions)	Number Of Hotels	Rooms In Portfolio	Brands In Portfolio (Total Properties of Most Represented Brand)
Aimbridge Hospitality	Dallas	NA	180*	25,000*	Quality Inn (42), Aloft, Baymont Inn & Suites, Best Western Premier, Cambria Suites, Clarion, Comfort Inn, Crowne Plaza, Days Inn, Doubletree, Econo Lodge, Element, Embassy Suites, Fairfield Inn, Four Points, Hilton, Hilton Garden Inn, Holiday Inn, Howard Johnson, Hyatt, Hyatt House, Jameson Inn, Marriott, Phoenix Inn Suites, Radisson, Residence Inn, Sheraton, Super 8, Wingate, Wyndham
Ashford Hospitality Trust	Dallas	(\$41.3)	87	18,030	Courtyard (17), Crowne Plaza Embassy Suites, Hampton, Hilton Garden Inn, Hilton, Homewood Suites, Hyatt Regency, Marriott, SpringHill Suites, Fairfield Inn, Residence Inn, Sheraton, Towne-Place Suites, other
Boykin Management Co.	Charlotte, N.C.	\$65.0	8	1,406	Hilton (2), Hyatt
Chatham Lodging Trust	Palm Beach, Fla.	\$3.0	25	3,591	Homewood Suites (7), Courtyard, Hampton, Hilton Garden Inn, Hyatt, Residence Inn, SpringHill Suites
Concord Hospitality Enterprises Company	Raleigh, N.C.	\$470.0	93	13,300	Courtyard (33), Cambria Suites, Clinton Inn, Crowne Plaza, Doubletree, Fairfield Inn, Four Points, Hampton Inn, Hilton Garden Inn, Holiday Inn Express, Homewood Suites, Hyatt House, Hyatt Place, Marriott, Renaissance, Residence Inn, Sheraton, SpringHill Suites
Crestline Hotels & Resorts	Fairfax, Va.	NA	44	7,709	Marriott brands, including Marriott, Courtyard, Residence Inn, TownePlace Suites, Fairfield, SpringHill (23); Crowne Plaza, Doubletree, Four Points, Hilton, Hilton Garden Inn, Holiday Inn, Holiday Inn Express, Homewood Suites, Westin, other
Davidson Hotel Company	Atlanta	NA	46	13,567	Hilton (10), Courtyard, Doubletree, Embassy Suites, Hilton Garden Inn, Hyatt, Marriott, Radisson, Renaissance, Sheraton, Westin, other
Denihan Hospitality Group	New York	NA	14	3,423	Affinia (6), James, other
Destination Hotels and Resorts	Englewood, Colo.	\$231.0	41	10,679	Mostly independent hotels; also Embassy Suites (2), Doubletree, Intercontinental, Red Lion
DiamondRock Hospitality Co.	Bethesda, Md.	\$49.1	26	11,121	Marriott (9), Conrad, Courtyard, Hilton, Renaissance, Westin, other
Donohoe Hospitality Services	Washington, D.C.	NA	10	2,180	Residence Inn (5), Courtyard, Hilton Garden Inn, Holiday Inn
Dow Hotel Co.	Tukwila, Wash.	NA	11	3,233	Hilton (7), Hyatt, Marriott
Drury Hotels Co.	St. Louis, Mo.	NA	129	18,681	Drury Hotels (102), Best Western, Four Points, Hampton Inn, Holiday Inn Express, Hyatt Place, Marv Herzog Hotel, Pear Tree Inn, Posada Ana Inn, Ramada, Staybridge Suites, Thrifty Inn
FelCor Lodging Trust	Irving, Texas	(\$65.8)	59	17,412	Embassy Suites (32), Doubletree, Fairmont, Holiday Inn, Marriott, Morgans, Renaissance, Royalton, Sheraton, Weston, Wyndham
Gemstone Hotels & Resorts	Park City, Utah	NA	18	3,500	Independent
Hersha Hospitality Management	Philadelphia	\$32.8	54	8,389	Courtyard (8), Holiday Inn Express (8), Candlewood, Hampton Inn, Hawthorn Suites, Hilton, Hilton Garden Inn, Holiday Inn, Hyatt, Hyatt House, Hyatt Place, Marriott, Residence Inn, Sheraton, other
Hospitality Properties Trust	Newton, Mass.	\$133.2	291	43,976	Courtyard (71), Candlewood Suites, Country Inns & Suites, Crowne Plaza, Hawthorn Suites, Holiday Inn, Hyatt Place, InterContinental, Marriott, Park Plaza, Radisson, Residence Inn, Royal Sonesta, Sonesta, Sonesta ES Suites, SpringHill Suites, Staybridge Suites, Wyndham, Wyndham Grand, other
Hospitality Ventures Management Group	Atlanta	\$209.0	40	7,190	Hilton (20), Carlson, Choice, Hilton, Hyatt, IHG, Starwood, Wyndham, other
Host Hotels & Resorts	Bethesda, Md.	\$325.0	114	59,838	Marriott (57), Delta, Embassy Suites, Fairmont, Four Seasons, Hilton, Hyatt, Ibis, Starwood's Luxury Collection, Novotel, Ritz-Carlton, Sheraton, St. Regis, Swissotel, W, Westin, other
Inland American Real Estate Trust	Orlando	\$272.0	99	19,337	Marriott (54), Hilton, Hyatt, Kimpton, Starwood, other

Company	Headquarters	2013 Net Income (US\$ millions)	Number Of Hotels	Rooms In Portfolio	Brands In Portfolio (Total Properties of Most Represented Brand)
Interstate Hotels & Resorts	Arlington, Va.	NA	380*	73,000*	Holiday Inn Express (41), Aloft, Autograph Collection, Baymont Inn & Suites, Best Western, Candlewood Suites, Comfort Inn, Country Inns & Suites, Courtyard, Crowne Plaza, Days Inn, Doubletree, Embassy Suites, Fairfield Inn, Four Points, Hampton Inn, Hilton, Hilton Garden Inn, Holiday Inn, Holiday Inn Express, Homewood Suites, Hotel Indigo, Hyatt, Hyatt House, Hyatt Place, Ibis, Marriott, Novotel, Quality In, Radisson, Renaissance, Residence Inn, Sheraton, SpringHill Suites, Staybridge Suites, TownePlace Suites, Westin, Wingate, Wyndham, Wyndham Garden, other
Island Hospitality Management	Palm Beach, Fla.	NA	79	10,803	Residence Inn (42), Aloft Courtyard, Embassy Suites, Four Points, Gatehouse Suites, Hampton Inn, Hilton Garden Inn, Homewood Suites, Hyatt House, Hyatt Place, Sheraton, Stay Inn, SpringHill, TownePlace, Westin
John Q. Hammons Hotels & Resorts	Springfield, Mo.	NA	78	18,988	Embassy Suites (31), Courtyard, Crowne Plaza, Hampton Inn, Hilton, Holiday Inn, Holiday Inn Express, Homewood Suites, Marriott, Radisson, Ramada, Renaissance, Residence Inn, Sheraton, other
LaSalle Hotel Properties	Bethesda, Md.	\$89.9	45	11,384	Largely independent hotels; also Hilton (3), Westin (3), Embassy Suites, Hyatt, Marriott, Palomar, Sofitel, Viceroy
New Castle Hotels & Resorts	Shelton, Conn.	NA	29	4,995	Hilton (10), Marriott, Starwood
Outrigger Enterprises Group	Honolulu	NA	43	9,881	Outrigger (26), Best Western, Embassy Suites, Hilton, Holiday Inn, Ohana, Wyndham
Peachtree Hotel Group	Atlanta	\$43.0	30	3,015	Marriott (11), Hilton, Hyatt, InterContinental
Pebblebrook Hotel Trust	Bethesda, Md.	\$42.9	29	7,221	Affinia (5), Doubletree, Embassy Suites, Hilton, Hyatt, InterContinental, Le Meridien, Marriott, Palomar, Radisson, Sofitel, Viceroy, W, Westin
PM Hospitality Strategies	Washington, D.C.	NA	26	4,419	Hilton (14), Choice, Marriott, Starwood
Rezidor Hotel Group	Brussels, Belgium	\$31.9	337	75,277	Radisson Blu (218), Missoni, Park Inn, other
Richfield Hospitality	Denver	\$105.7	19	4,436	Hilton (4), Choice, Hyatt, InterContinental, Starwood, Marriott
RLJ Lodging Trust	Bethesda, Md.	\$105.5	147	22,324	Residence Inn (36), Courtyard, Doubletree, Embassy Suites, Fairfield Inn, Hampton Inn, Hilton, Hilton Garden Inn, Homewood Suites, Hyatt House, Marriott, Renaissance, SpringHill Suites
Strategic Hotels & Resorts	Chicago	\$9.9	18	8,272	Four Seasons (4), Fairmont, Hyatt Regency, InterContinental, JW Marriott, Loews, Marriott, Ritz-Carlton, Westin, other
Sunstone Hotel Investors	Aliso Viejo, Calif.	\$70.0	29	13,744	Marriott (7), Courtyard, Doubletree, Embassy Suites, Fairmont, Hilton Garden Inn, Hilton, Hyatt, Hyatt Regency, JW Marriott, Park Plaza, Renaissance, Sheraton
Supertel Hospitality	Norfolk, Neb.	(-\$1.4)	68	6,009	Super 8 (27), Clarion Inn, Comfort Inn, Comfort Suites, Days Inn, Hilton Garden Inn, Quality Inn, Rodeway Inn, Savannah Suites, Sleep Inn, Suites Key Largo, Supertel Inn

*Approximate
Source: Company reports

CONTINUED FROM PAGE 32

ther this year, making Internet access free at hotels for all loyalty program members, regardless of status. A few other hotel companies, including Carlson Rezidor, Omni and Wyndham, already had a similar approach. Many international brands outside of the United States, including Jumeirah, Shangri-La and Peninsula, also have elected to include Internet access in basic rates.

Ultimately, tiered Internet pricing could become the predominant approach, in which hotels offer basic Internet access for free but charge a premium for faster speeds needed to stream mov-

ies or other high-bandwidth activities.


'Soft Brands' Proliferate

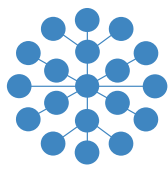
Some of the fastest-growing brands in hotel companies today are what the industry calls "soft brands," collections of hotels that don't adhere to strict brand standards and designs. While such collections are nothing new for the hotel industry, considering such groups as Preferred Hotels or Leading Hotels of the World, they've seen increasing adoption by the multibrand hotel companies in recent years.

Marriott's Autograph Collection, for example, grew to more than 60 hotels in

fewer than four years. In about the same period, Choice's Ascend Collection has grown from about 20 hotels to more than 120.

Hilton Worldwide, the world's second-largest hotel company in terms of number of rooms, soon also will get in the game.

During the company's first-quarter earnings call in April, president and CEO Christopher Nassetta said the company plans to launch this summer a brand that will "aggregate four-plus-star urban hotels and iconic resort hotels that don't fit in the box of specified standards of our other brands." 



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