

5th BUSINESS TRAVEL SHOW

Lisbon February 16, 2012

Charles Petruccelli's remarks

Good afternoon ladies and gentlemen. It is a pleasure to be here with you today and share with you my remarks after the most disruptive chain of events that has impacted our industry in recent times. **But still my theme today will be about opportunities** as we better understand and learn from the changes it has provoked or accelerated.

No one should challenge the role of Travel in the global GDP. Its importance to many countries' economic strength, makes Travel inextricably linked to the global economy and free exchange. It transcends borders and societies – creating jobs, bringing new technologies and innovation, connecting people and businesses and driving growth.

the “ New Normal ” that has followed the major economic recession we were ever confronted with - I used that word for the first time during my remarks at the “ Beat Live “ Conference in September 2009 - that new normal, is in fact here to stay. It reaches far beyond our industry. The crisis has accelerated profound changes, political changes, social changes, regulation changes, new economic powers have emerged and many business models across many industries are being reset.

A new way of operating is the consequence, for all of us today- travelers, companies, industry operators alike- who use, own, operate and/or influence the entire travel value chain . I believe that the recession has fundamentally challenged our traditional business paradigms forcing us to question the status quo to our business model. We need to ensure that we emerge stronger and more relevant for the global and local economy, for our customers, for our employees, for our business partners or we may not be there anymore. **But first let me review where we are today.**

The economic recession has been far worse than anyone in Business Travel would have guessed when it started on the heels of the financial collapse. Travel like advertising or consulting spend, is the first expense companies decide to curtail or stop when their business outlook is turning bad. And indeed they did put the brakes. A research that the American Express *Global Advisory eXpert Insights Practice* conducted jointly with Promedia Travel Content Solutions showed 40% of companies overall put a total freeze on Travel for 2009 and for larger budgets (10M of air spend and more, that percentage increased to 53%).

Demand and as a consequence volumes had dropped to their lowest levels ever in recent times. It has even threatened the globalness of business travel. No one has been left untouched.

Another American Express release, *the Global Business Travel Forecast* showed that total business Travel volume dropped in 2009 15% lower than the drop of 11% in the aftermath of September 11, 2001.

All, content suppliers, airlines, hotels, were forced to implement major capacity cutbacks, implement extensive menu pricing on ancillary services and relying on promotions, discounts or (sometimes ludicrous) conditional access to fares structures - this last point creating unnecessary tensions with the other players particularly GDS and travel agencies, at times when we should all be pulling together in the same direction. all implemented drastic restructuring decisions and were forced to eliminate jobs, or freeze all recruitment. Very few could afford to maintain an investment pool in line with their long term strategic vision.

Since the beginning of 2010 we all have been enjoying a rebound which continued in 2011. Transaction volumes have increased, load factors and occupancy have improved substantially, corporate travel spend has come back in diverse fortune though. Asia enjoys a strong aggressive and

continuous high DD growth across all markets. The US shows a solid transaction growth but this growth has slowed down in the recent months despite the fact that macro economic indicators (employment, consumer confidence, access to credit, specially for small businesses, investment capacity...) are starting to show positive trends. And finally Europe severely impacted by the Sovereign debt issue is lagging behind. Germany is in fact the only market that enjoys positive economic indicators among the large European markets. The rest is a mix bag more half empty than half full. In February 2010 at the Masters conference in Washington, as volumes were starting to come back, I was advancing the hypothesis of a recovery with a square root shape where after a rebound we would see volumes plateau until macro economic indicators start improving. I was clearly wrong in 2010 as the year maintained a steady positive growth, this continued in 2011 until mid year, then everything started to slow down again with a drop in volume months after months. It does look like my prediction will in fact reveal true in 2012. We have reached a plateau still at a level below 2007 and most key

operators expect slow growth to no growth in 2012 in transaction volumes.

In the meantime, what has changed?

The economic power has started to shift: While the GDP growth in India, China, Brazil and most countries in Asia and Latin America are expected to be in the 6 to 10% in the next 3 years, the western world expects only a low single digit between one and two percent. Clearly the previously called emerging markets have emerged. They are fuelling their own economic growth with their own domestic consumption, they are exporting high quality products, technologies and processes (China has doubled the number of registered innovation patents since 2005, and is focusing on nuclear energy, solar energy, telecoms) , they are building infrastructures to cope with booming businesses and a population that want to enjoy all the advantages of our modern age, and finally they are attracting and retaining talents who see the successful careers and personal achievement opportunities. The consequence is obvious: serious investment, spend and focus will gradually

shift from mature markets to growth markets and so will business travel spend.

Consolidation is accelerating: Let me take the airline industry as an example: Air France/KLM, Delta/Northwest , Lufthansa with Swiss, British Midlands and Austrian, Air France has a stake in Alitalia, Continental/United is done, then British Airways with Iberia have formed the IAG, all of it happened in the last 3 to 4 years ... What is next? American Airlines is clearly in play in the US, what about TAP which will be privatized in the coming months and rumours are running about possible discussions afterwards with IAG but also with Qatar Airways, what about the new Chinese carriers expanding in International, what sort of consolidation will happen in Asia and Japan as Virgin Australia, Etihad and Delta have already partnered to offer a competing network to the Qantas, British Airways, American Airlines routes thru the far east ? One thing is clear, further consolidations will happen in airlines, in hotels and in travel distribution, there will be fewer, global players sooner than later. All key

players need to ensure their cost base is flexible across the entire chain. In our industry , scale is king to benefit from synergies and global reach. So a new wave of consolidation is there to come.

New transport and distribution competition is building up.

Alternative to air continues to gain favour with high speed trains expanding across Europe and beyond including China which has now developed its own technology. In Europe this will further accelerate when rail transport will be fully deregulated and privatized.

Low cost carriers enter the business travel segment and provide point to point alternatives with an improved service that starts to attract the business traveler. And what about new entrants pure play technology providers adding content, or dynamic travel management decision rules to their platforms ?

Prices are up and up substantially. Capacity and yields are tightly managed thus fares and prices will increase and stay high. All suppliers

need it to recreate their margins and generate the investment to maintain, improve, enhance the quality of their products and services. Some are playing catch up in an environment that move fast.

Corporate behavior has changed: They have an heightened level of awareness of every aspect of travel related spend. They have the tools to do it. They have reinforced controls, tightened policies, enforced a rigorous approval process, and automated expense management tools. To be competitive companies must measure and ascertain that all spend is justified while at the same time ensuring that their traveler on the go is efficient, safe and reachable at all times. I believe the new stricter policies favoring coach fares and mid-range hotels implemented at the height of the economic recession are here to stay.

Large global companies are ready to test new uncharted servicing models. They are moving from local market servicing to regional and even global platforms with one single supplier who can service them with a global network. Let me give you what I believe is the most advanced example of

stretching the servicing model: American Express is serving 80% of the 65 markets in which one of its top 5 largest customers is present, from one single global call center with multi GDS capabilities, standardized processes, metric and controls. This has reduced cost per transaction and enhanced consistency of service and greatly improved controls.

Traveler's behavior has changed: they have become much better stewards of their companies' money; They have become flexible, willing to adapt and cost conscious, they are willing to trade down from Premium to Economy, or stay at lower tier hotels because that can save jobs; In return because they are technology savvy, they want more productive, hassle-free travel, access to internet, wifi, mobile, they can't put up with delays, mistakes, arrogance, promises that are not delivered. This is part of a new culture that stands for cost consciousness, speed and respect for the environment.

New user friendly reliable technologies have emerged that present an attractive alternative to Travel. Corporations are now able to use tools such

as Telepresence and virtual meetings as alternative to Travel for employees to connect cost effectively. These technologies have now reached a level of efficiency that make them truly viable options.

Online transactions will be dominant soon. I expect online transactions for Business Travel to represent 70% of all transactions across all large mature markets in the next 3 years and online will leapfrog offline platform in the new markets. What will remain offline will be pricey because of high touch or reserved to complex multilegged itineraries.

The opportunity is the emergence of new managed segments and new demand

New travel spend segments needs are emerging such as meetings management in general and *“internal meetings control and reporting”*, in particular, as a consequence of the negative perception which developed around the value and cost of meetings during the financial collapse. That will create greater opportunities around controls, the fulfillment chain and

sourcing. As this segment grows, let me mention briefly the opportunities for Portugal to become a meetings and events destination in this part of the world thanks to its hotels and congress infrastructure, its culture and history, its natural beauty against competing destinations that are confronted with political or social instability.

New corporate travel customers from the mid-market and small market will provide also new areas of growth. The Mid segment and SME segments which are always be first to rebound as the economy recovers clearly focus more and more on export and internationalization of their business. The example of Portuguese enterprises in the recent years not only to the African continent where historical ties exist but also to Latin America and Europe is an example of that; As a consequence this segment is now forced to optimize the travel spend like large corporations yet they have fewer resource to do so and we will increasingly see new demand for managed travel. They now have the opportunity to choose for a complete end to end outsourced travel management program. Most TMCs have

developed a mid market solution. These solutions offer a complete package with tailored booking tools, preferred rates, monthly reporting and account management and more.

Mobility will be the third revolution of our industry. Mark my words.

First we need to understand how our customer will operate. The new business traveler is tech savvy and will increasingly demand location based, customized business solutions. He will increasingly bring traveler issues and service into real time through various networking options. This is creating a fundamental shift away from the old transaction centric model – and greatly alters the way industry has until now thought about the technology architecture and the servicing architecture in the business travel domain. The traveler centric model – with richer and more dynamic content with GDS agnostic profile, preference and behavior – servicing one on one not only at point of sale but also on the go– is the new mantra. The industry

will have to free up funding to invest and upgrade the present day tools and processes, to provide for these needs.

Mobility is a game changing paradigm, and while possibilities are immense and still emerging, the industry needs to adapt

Think about some recent facts.

- Everywhere mobile usage has exploded, we expect 10 Billions mobiles smart phones/tablets within 5 years. The customer has now the possibility while he or she is on the go, to access information, make choices, take decisions and execute , all of that in the palm of his/her hands including the most sophisticated transactions and payments.
- The best innovations in mobility for Business Travel are still ahead of us. Mobile will impact business travel through 24/7 connectivity; expectation for mobile access everywhere (airplane, trains, hotels, cars) and demand for sophisticated, relevant and intuitive mobile specific applications is beginning.

- All Key industry stakeholders, airlines, hotels, GDS, TMCs, technology providers, etc will not be able to overlook this need as just an extension of their current web or point of sale strategy. The need for a valued mobile specific strategy will challenge the industry as requiring its own platform and applications and economic model. It will challenge our traditional servicing paradigm, to include applications that will drive access to information, buy travel services and auxiliary merchandising.

But together with the use of sophisticated mobile devices which will host traveler's profile and itinerary comes the **heightened scrutiny on data privacy**, firewalls that will pose a major challenge to those who operate on hard coded legacy systems. Operational risk expertise, control processes and compliance will drive the relationship with corporate customers in a world which is more and more regulated and insisting for transparency.

Let me close with 5 thoughts. This is now a complex industry, where technology is the backbone of innovation **and** customer service remains at the heart of its DNA.

First let's stop passing the buck: As an industry we must **tackle the flexibilization of our cost base across the end to end process chain.**

And it is not the same as transferring cost to others. The industry has eroded value through senseless price wars and discounting, leaving the customer confused about the real price, and then passing the buck of the cost to each other along the value chain. I have stressed this point at other forums. It is important that we understand that in the "new normal", while we are assessing what type and volume of demand in business travel will eventually come back, we certainly must focus on eliminating unnecessary cost, but recreate value and innovate as protecting margins is the only way to prosper and grow.

While alternatives to travel I mentioned earlier are real and emerging, Some wise technology CEOs are even predicting Travel will not be needed as much anymore.

Business travel is here to stay! Read my lips: I have said it many times, I will say it again because it is real: If you do not visit and meet face to face with your customers, your prospects, your partners, if you do not bring your employees together to train, motivate and recognize them, your competitors will...

WTTC commissioned last year a study that explored the link of Business Travel to a company's sales and profits. The survey confirmed that there is a direct correlation between business travel spend and company revenue growth.

The recession has offered every company the opportunity to challenge its own operating model. If Business is an investment, it has to be managed as an investment and its return must be measured.

The ROI in business travel spend, should be on the radar like every spend category watched as a C level priority. Thus, **Corporate travel managers too, need to cross the bridge in the way they manage Travel.**

In this new world, the role of the dedicated internal travel manager has to change or it will disappear. It is not anymore to micro manage the service of the implant or the call center, to verify that a ticket will be issued and delivered on time at the right fare, with a smile, that is a given, it is to manage with his/her TMC a partially or fully outsourced model with the appropriate metrics to make sure that the ROI of total travel spend is met and shown to his/her executive board and CFO: with policy management, service delivery solution, guaranteed traveler experience and service on the road, consistent data consolidation, payment solutions, expense management solutions, consulting and advisory expertise.

Like any other investment, I believe that for every company in each industry there is what I call the **Optimum Ratio**. The ratio of Travel Spend to Total revenue that fits the company policy, its industry and the benchmark against a chosen group of peers. The role of a TMC specialized in Business Travel is to drive companies to meet that ratio with global integrated solutions both offline and online which optimize process controls and saving,

purchasing controls and savings and ensure positive traveler's experience around the world on a day to day basis and during crising time and they should be adequately rewarded for doing so.

Finally I believe success will be based on **sustainable partnerships** between all players of the industry that are over long term with **co-invention of innovative solutions** that will generate new revenue streams for all. And this by opposition to the traditional supplier/distributor model based on volume leverage and clients /TMC relationship based on transaction counts– where the objective is always to get the cheapest deal for a year or two and to win over the other side!

Those who will win with quality, engineering and innovation will put greater premium on models and solutions that are win/win for everyone: multisided models that bring the strength of multiple players who co-invent together .

According to the World Travel and Tourism Council, the travel and tourism industry employs 219 million people in the world which is 7.6% of total employment, or 1 in every 13 jobs. I share these facts to describe the enormous size and place of our industry in the world.

As we enter a 2012 full of uncertainty when the eurozone countries debts are far from being resolved, when the World Bank, the IMF predict a GDP contraction in Europe , when we expect major elections in the US with a real impact on future economic policies, when social tensions are exacerbated around the world, I want to be optimistic nevertheless. Europe will eventually deal with its issues and some factors are positive, inflation is low, the Euro/\$ exchange rate helps the competitiveness of the european exports, the commercial trade of the Eurozone is turning positive, economic measures taken by the governments are starting to take stock even if they are brutal for the impacted populations. The US economic indicators have been pointing in the right direction in the last 6 months and the US is

addressing its competitiveness thru innovation, Asia and Latin America are wisely organizing and structuring their expected continued growth, Africa confirms it will emerge as an economic power. The world growth in 2012 will be driven by the new economies and the emerging markets and should trend towards 2,5% according to the World Bank 3% according to IMF and OECD.

In this new world, We **MUST** demonstrate the value of our industry to companies and customers around the world and each of you in this room have a role to play. We know our industry is resilient, past crisis have proven it. This one will pass and will have made us only smarter and stronger to be successful in this new world order where instability and change are the new paradigms.

Thank you.