

UK OFFICE

August 2013 REPORT

Prepared by: Venessa Alexander
UK Director

TRADE LIAISON

- UK & Ireland Sales Mission – Finalised all plans pertaining to the UK & Ireland Sales Mission including the Tower Bridge VIP dinner event. The sales mission will start on the 9th September for a period of 5 days.
- Flight Centre Retail Promotion – Preparations for the forthcoming in store retail promotion with Flight Centre continues. The campaign will go live on the 1st September and will last in store for a period of 2 weeks.
- Chased all outstanding ad invoices for fiscal year close out.
- Finalised invitees on forthcoming Product Managers fam and started work on the itinerary.
- Finalised details of the Expedia promotion that is running alongside the Manchester consumer campaign. Solicited flight and air for sweepstakes prizes to run in Manchester evening news also as part of this campaign.
- Confirmed attendance at the Danish Visit USA workshop in March 2014.
- USAirtours – Finalised all details for the Destination of the Month campaign due to launch in September. The destination of the month campaign includes a dedicated landing page for the destination, social networking activity, inclusion in their weekly trade emails and their monthly newsletter.
- Signed off last piece of co-op with Virgin Holidays targeting their cruise customers.
- Funway - Confirmed our participation in the phase 2 of the Funway Florida's Beaches campaign. Activity includes: Travel Bulletin Newsletter Banner, Travel Bulletin Full Page Advert, Travel Bulletin Solus E-Blast, Travel Bulletin Microsite, Funway Homepage Feature, Funway Web Banner, Funway Landing Page, Funway E-Blast, Funway Social Media and Trade Posters. Activity will commence at the end of September and will continue into October & November.
- Finalised advert for inclusion in the Travelbiz Irish Directory.
- Tour America Staff Incentive – The staff incentive is now live but due to low sales with August being quieter than anticipated in the Irish market, the incentive has been extended and will continue into the month of September. The incentive is based on sales and the top selling agent will win a Michael Kors watch.

- Norwegian Cruise Line – We are participating in a partnership with NCL and as part of the agreement we shall be attending their travel agent road shows in the UK in November, hosting a web chat training session as well as attending a dinner event in the coming months. Work has started on providing NCL with all of the necessary information they need from us to proceed with the activity.
- Visit USA UK General Meeting – Confirmed our attendance at the forthcoming VUSA UK general meeting taking place in London next month.
- Expedia – Confirmed attendance at an Expedia Partners event in September.
- Rooster PR – A UK Trade & PR update meeting has been scheduled with Rooster next month.
- USAirtours – A meeting & training session has been confirmed with USAirtours in September. A product and update meeting will be held with Linda Dixey, Product Manager as well as a training session for approximately 7 of their new staff as well as their new Product Trainer.
- BA Executive Club – The August edition of the British Airways Executive Club monthly E-newsletter featured holidays from as little as £519 to Tampa and the Gulf Coast including St. Pete/Clearwater.
- TUI Specialist – Finalised a Hayes & Jarvis e-newsletter that is being distributed this month. This e-newsletter is the final part of a co-op marketing campaign that has been running over the past 2 months.

ENQUIRIES:

Telephone/website enquiries for information and/or literature 36

MARKET INTELLIGENCE:

01 August 2013 – Source Travel Daily

UK Air fares could rise 3.5%

Flight prices in the UK could go up 3.5% next year while hotel rates remain flat, according to a new forecast from Carlson Wagonlit Travel (CWT). The travel management company also found UK rail costs could see the highest increase in Europe at 6%, while it will cost travellers 2% more than today's prices to hire a car. Across the EMEA region flight costs are expected to rise 3.1%, with Russia potentially seeing an 8% increase in costs, the 2014 Travel Price Forecast Index detailed. Prices could go up 4% in Asia Pacific and Latin America, while air fares in North America could increase 2.6%.

New rail services in Italy and France are thought to be putting pressure on domestic air traffic, while projects in China and Latin America will have an impact when they come to fruition. Car hire costs are set to increase in the majority of markets.

01 August 2013 – Source Travel Daily

International Travel up for Europe's airlines

Airlines in Europe saw a 5.9% increase in international air travel during this June year-on-year, IATA has found. Capacity increased 3.4% in the month, which took its load factors to 83.2% for international routes. Middle East-based carriers continued to see the highest growth with international traffic up 12.1% compared to last year, while those in Africa, Latin America and Asia Pacific grew 11.2%, 8.7% and 5.5% respectively. Europe's growth was slightly shy of the global 6% average growth globally against a 5.6% rise in traffic that set load factors at 81.7%.

05 August 2013 – Source Travel Daily

Europe and transatlantic routes boost IAG

British Airways' parent company IAG has continued to post losses in its second quarter results but saw a traffic boost from Vueling and US routes. The group's operating profit for the three months up to 30 June were at EUR245 million (US\$325m), dramatically up from EUR4m year-on-year but in the six months up to 30 June saw a pre-tax loss of EUR506m. Its operating loss for the half year came in at EUR33m while revenue for the six months was up 2.1% to EUR8.7bn. Iberia's restructuring programme has helped the increase in numbers although the group continues to make job cuts at the Spanish carrier to reduce the loss the group faces. In comparison, BA made a EUR247m operating profit in the second quarter results. "The benefits of Iberia's restructuring are beginning to show. Having reduced capacity at Iberia in the first quarter, costs began to be taken out in the second quarter following the implementation of the mediator's proposal," said IAG's chief executive Willie Walsh. "Nearly 1,700 employees have left the airline so far with remaining staff taking salary reductions of 18% for flight and cabin crew and 11% for all other employees.

This is the first step in the restructuring but it is already bearing fruit with Iberia's losses down from EUR93 million last year to EUR35 million reversing the negative trend of the last 11 quarters," he added. New acquisition Vueling, which IAG now owns 90.51% of, posted an operating profit of EUR27 million for the six months up to 30 June. "The airline has continued to manage its capacity growth effectively by expanding its business while increasing profits. It's also benefitted from its Barcelona base where it has developed a strong competitive position," said Walsh. Together with Vueling the group's traffic for continental Europe had been higher than expected, with capacity up 13.7% and traffic increases of 18.2% to set a load factor of 75.3%. Its North America routes are performing well with load factors at an 83.2% average. Its Caribbean, Latin America, Asia Pacific, Africa and Middle East routes all saw load factors between 76-82%. Across BA and Iberia the group saw capacity go up 1.2% for the first six months of 2013 against a 2% increase in traffic.

08 August 2013 – Source Travel Daily

Travel and tourism growth projection weakens

The World Travel & Tourism Council (WTTC) has downgraded its forecast for the sector's GDP growth in line with a dip in the world GDP forecast. WTTC's research in March 2013 predicted that the travel and tourism industries would grow 3.1% in 2013 outperforming the wider economy increase of 2.4%. Now the world GDP expected growth figure has been reduced, the WTTC said this will impact the travel sector although it is currently unclear how much. Despite the downgrade, the WTTC said indicators had suggested the travel industry is holding up against the overall economy and was "generally robust". IATA figures have continued to show an increase in passenger traffic including 5.9% for June year-on-year, while data from analysts STR Global suggests hotel average daily rates have been improving.

In its global report, the WTTC said: “At this mid-way stage, the indicators suggest that our forecast of “slowing but growing” continues to be appropriate for the travel and tourism industry.” Economy updates continue to fluctuate across the globe, with the UK seeing an unexpected boost in its economy this week. Consumer spending is a key growth driver and is expected to improve against tax changes and inflation rates, although will not get back to pre-recession levels until 2015. In Europe the high youth unemployment rate and a dip in industrial production is impacting market growth, while the US GDP forecast has scaled back from 2% to 1.8% in the last month citing weaker consumer spending as the main factor. The largest WTTC forecast downgrades were for the US, China and Brazil.

12 August 2013 – Source Travel Daily

OFT opens hotel booking investigation to public

The Office of Fair Trading (OFT) has opened its investigation into the room-only online booking market to a public consultation. The competition authority has asked interested parties to comment on competition within hotel bookings on the internet as part of its on-going investigation into agreements between Booking.com, Expedia and InterContinental Hotels Group (IHG). In July 2012, the two OTAs were accused of entering separate contracts with IHG that supposedly breached competition law by restricting the discounts that other OTAs could offer. Booking.com and Expedia have now agreed to relax these restrictions, which mean other OTAs will be allowed to use commission revenue or margin to offer discounted rates to certain clients. Both OTAs have denied breaking competition laws since the OFT first launched the investigation in September 2010. While the case will focus on a small number of companies for what the OFT hopes will be a “swift and effective outcome”, it warned that the study is likely to impact further as the practice is “potentially widespread” across distribution arrangements in the industry. “The OFT is consulting on whether these commitments offer an immediate and effective means of injecting some meaningful price competition into the online offering of room only hotel accommodation bookings where, in our provisional view, none may exist. Under the proposed commitments, OTAs would be able to offer discounts off hotel room bookings to qualifying consumers,” its statement read. “The OFT would now like to hear the views of all interested parties before it makes its decision on whether to accept the commitments.” In a press statement IHG said it had worked closely with the OFT to agree on the commitments.

14 August 2013 – Source Travel daily

US government blocks American Airlines merger

The planned merger between American Airlines and US Airways has been challenged by the US Department of Justice (DOJ). The government unit, along with six US states and the District of Columbia, has filed a lawsuit aimed at preventing the deal, saying the merger would lead to “higher fares, higher fees and receiving less service” for the American consumer. Texas-based American and Arizona-based US Airways are planning to form the world’s biggest airline group, operating more than 6,700 daily flights and carrying an estimated 190 million passengers per year. But this, according to the DOJ, would be unfair on the customer, leaving the US with just three main carriers, following the recent mergers of Delta and United with Northwest and Continental respectively. “If this merger were to go forward, consumers will lose the benefit of head-to-head competition between US Airways and American on thousands of airline routes across the country – in cities big and small,” the DOJ said. “They will pay more for less service because the remaining three legacy carriers – United, Delta and the new American – will have very little incentive to compete on price. Indeed, as our complaint shows, the management of US Airways, which will run the new

airline, sees consolidation as a vehicle to reduce competition between the airlines and raise fees and fares.”

The DOJ cited several instances in which US Airways current fares are cheaper than the three so-called legacy carriers, and even cheaper than low-cost airlines like JetBlue. “If this merger happens, US Airways’ aggressive discounting... will disappear,” it warned.

American and US Airways said they “intend to mount a vigorous and strong defence” to the lawsuit. “We believe that the DOJ is wrong in its assessment of our merger. Integrating the complementary networks of American and US Airways to benefit passengers is the motivation for bringing these airlines together. Blocking this pro-competitive merger will deny customers access to a broader airline network that gives them more choices,”

American’s parent company, AMR Corp, said in a statement. “We will mount a vigorous defence and pursue all legal options in order to achieve this merger,” it added. But following this legal challenge, it is now unlikely that the merger will close in the third quarter of 2013, as initially planned.

21 August 2013 – Source Travel Daily

Young people prefer to save for holiday than first house

A study has concluded that 72% of young people (those aged between 18-34) would rather spend their money on a holiday than use it to save towards their first house. The survey, which was conducted on behalf of lastminute.com also said that 60% of young people would not cut back on their spending over holidays because it was just a ‘drop in the ocean’ when compared to putting down a deposit on a first property. Dr. Tomas Chamorro-Premuzic, professor of business psychology at University College London commented on the study: “We’ve seen mind-sets in Britain become even more hedonistic, especially among young people. This reflects the extent of pressure many young people now face –both immediate job worries and long-term concerns over owning a home. The motivation to save for a property has also clearly been affected by the level of savings required. Psychologically, it is much easier to make the first step if the task in hand seems manageable. Holidays are a great antidote to daily stress and routine but budgets should be balanced so long-term goals can be achieved as well as short-term fun. This is less obvious to young people who are more inclined to live in the present, because they feel they’ve got time on their side to worry about the future. However, worries can have a positive function, signalling the things we need to change or improve to help us create a better future and help us to realise the life we’ve envisaged for ourselves.”

27 August 2013 – Source Travel Weekly

Travelocity to be powered by Expedia in new deal - Agreement to initially concern only North American sites

US travel giants Travelocity and Expedia have inked a new partnership whereby Expedia will run the technology behind the current Travelocity platforms in North America. The deal will also mean that Travelocity has access to Expedia’s supply and customer services. However, for the time being, Travelocity will remain owned by Sabre Holdings, with the deal not affecting European businesses like lastminute.com. Expedia saw a 13% rise in bookings in Q2 2013 but profits fell “Over the years, Travelocity has become one of the most recognised travel brands in the US and Canada,” said Expedia CEO Dara Khosrowshahi. “Going forward, this agreement will enable Travelocity to focus on further building its brand while at the same time providing consumers with an enhanced suite of travel products and services.

This announcement stands as a true testament to the advanced capabilities that our significant technology investments over the past several years enabled us to build. We believe

volume generated through the agreement will add further scale to Expedia's global supply and customer service capabilities. The news come just a month after Travel Daily reported that Expedia profits were sliding with the company reporting a significant drop in second quarter profits of somewhere in the region of 39% – or US\$94.3million. Carl Sparks, president and CEO, Travelocity Global: "Since launching in 1996, Travelocity has grown from a pioneering Internet start-up to one of the leading brands in travel. "In staying true to our core values of meeting the needs of both consumers and travel suppliers, we have elected to evolve and strengthen our business model in the US and Canada by working with Expedia, Inc. to offer a top-notch booking platform and a more robust supply of travel options, allowing us to focus increased resources on building our competitive strengths in marketing and retailing."

27 August 2013 – Source Travolution

Expedia - Travelocity deal: A stepping stone to something bigger?

Last night's big news of the strategic alliance forged between formally 'mortal enemies' Expedia and Sabre-owned Travelocity may have caught some by surprise. But for keen watchers of the OTA space a move towards consolidation in this sector won't have been a huge shock given the pincer movement by meta-search and booking direct. The two sides in the agreement that was revealed on the PR Newswire shortly before 10.30pm UK time (after the NASDAQ closed) said it only related to Travelocity's US and Canadian sites. It was further clearly stated that Travelocity's European subsidiary lastminute.com was not part of the agreement under which Travelocity sites will be powered by Expedia technology.

However, overlooked in much of the analysis to date is the fact that while not a part of the deal, lastminute.com will start taking Expedia's deals. Travelocity content is available to all of its sites globally, not just those operating in the US and Canada, meaning Expedia's influence will be felt from the off. So it appears speculation that yesterday's announcement of the tie-up is a prelim to a more all-encompassing deal that will emerge over time, is certainly not too wide of the mark. It will be interesting to look back on this week's developments in, say, three year's time to see where things have progressed. The driver for consolidation in the OTA space is coming from changes in the online travel market that is seeing price comparison continue its rise to dominance. Given that this tends to expose the price differential between booking direct and through an intermediary, this is not likely to favour OTAs. Last year's \$1.8 billion buy-out of Kayak by booking.com parent Priceline was testimony to that trend, as was Expedia's own purchase of hotel website Trivago. But even at the domestic UK level the deals comparison game is becoming an increasingly crowded marketplace. Pure-play metas like Kayak have entered the package holiday comparison market while Skyscanner and Momondo have both diversified their product reach.

And in the UK's traditional beach holiday market, incumbents like Teletext Holidays and Icelolly have seen the likes of loveholidays.co.uk and icecreamholidays.com enter the fray.

They are not likely to be the last new entrants into this market which lastminute.com, in effect, outsourced to the Lowcost Holiday Group in 2011 in a partnership deal. Former Expedia subsidiary TripAdvisor's switch away from being a pure review site has been reported to have hurt the online agency as it directs booking leads more widely. The boost to Expedia's share price from news of the Travelocity will have been welcome given the \$2 billion wiped off its valuation in July after a second quarter earnings update. But Expedia remains the world's largest online travel agency and arguably Travelocity's need to secure this deal was greater, although insight is more difficult into a private company. Sabre, which

operates enormous divisions in more core sectors than online travel agency like GDS, airline operations and hospitality, spoke about sticking to its strengths. Carl Sparks, president and chief executive of Travelocity Global, said: "In staying true to our core values ... we have elected to evolve and strengthen our business model in the US and Canada by working with Expedia to offer a top-notch booking platform and a more robust supply of travel options."

The deal comes under a week since Sabre announced president Tom Klein was to take over from Sam Gilliland, known to have been a big supporter of Travelocity, as chief executive.

Travelocity has also been cutting its cloth accordingly, having sold off its business travel division and lastminute.com's Holiday Autos brand in June. The Dallas Morning News offered this analysis of the relative position of the now partners on August 15: "Sabre operates, in part, in the increasingly fragmented world of online travel agents. "And numbers from ComScore, which collects data on consumer behaviour online, show Travelocity yielding market share "Market leader Expedia has consistently been at the top of the pack, with about 60% of the unique visitors to online travel websites. "Travelocity has seen its share dip from 23.5% of visitors in July 2010 to 17.8% last month. That's a nearly 35% drop in the number of unique visitors."