

# The Pegasus View

THE WORLD'S BEST CONSOLIDATED VIEW OF THE HOSPITALITY INDUSTRY

## Know your **W**ORTH

### Strategic Pricing in the Hotel Recovery

Recovery unmistakably continues in both the corporate and leisure markets. The June GDS and ADS channels' combined revenue was up +29.7% over the prior year globally, with demand clearly the main driver. Revenue is still being hampered by weak ADRs, particularly in the leisure sector. This drain is easing for most though and, for some, has even turned into a positive force. But whether you are trying to fan flickering hopes of ADR growth or basking in the warm glow of rising rates, the key is to harness the power of strategic pricing. >>>

As discussed in this month's report, and exemplified by Marriott International's recent announcement to raise rates, better pricing isn't simply about offering the lowest ADR your hotel can afford. Any salesperson worth their salt knows that price points are simply a tool. The goal is to differentiate your product and maximize your value proposition. We need to consider each consumer as an individual, not a target market, and realize that each have an idea of what they're willing to pay. An online consumer and one walking through your front door are undergoing very different purchasing processes. The same room often could, and typically should, be offered at different prices. A large misnomer is the idea that you must abandon rate parity to do so. Another misperception in this field of thought is that the goals of ADR growth and driving business to your homepage can't be accomplished while utilizing third-party channels. In fact, rate parity and effective use of the GDS and ADS are vital in achieving these goals.

It's truly a balancing act creating revenue in a depressed market with minimized lead times, without compromising ADR-related brand identity. It takes an agile user of competitive intelligence, market analysis and comprehensive reporting in order to come out on top.

To that end, Pegasus leveraged its position as the largest single processor of hotel transactions in the world with Rubicon's market intelligence data and experience, giving rise to MarketVision Agency Position reporting. This powerful tool is unique in that it utilizes both historic and forward-looking data for a hotel and its competitive set from all channels. This advantage has been recognized by Alan Greene, sales director of business travel for Apex Hotels. "MarketVision has enabled Apex Hotels to keep ahead of the competition and plan for the future with more accurate data. As an independent hotel group, this valuable reporting system allows us to compete in a tough market against the large worldwide chains."

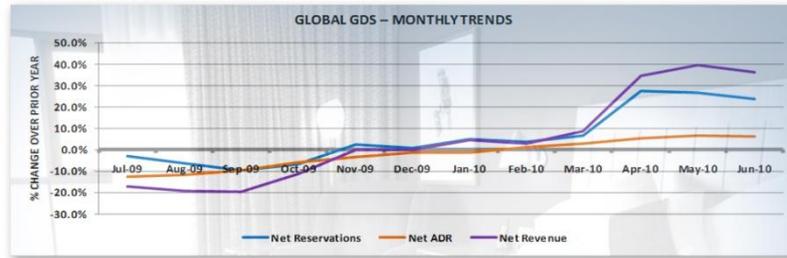
Each day that passes without revenue managers utilizing best-practice intelligence reporting is another day they are potentially leaving money on the table. Know your worth and the actual price customers are willing to pay for the value of your hotel.

Important principles to adopt as you read *The Pegasus View* June edition's analysis of each distribution channel's performance below.

#### **GDS CHANNEL (CORPORATE TRAVEL FOCUS)**

GDS booking volumes continue to demonstrate sustained recovery in the corporate travel sector. The growth rate over prior year has only fallen a few percentage points from the peak experienced in April due to stranded travelers from the Icelandic volcano fall out. June bookings came in at a healthy +23.5% above prior year, drastically higher than the levels seen in the first quarter and the third consecutive month to experience double-digit growth. The same can be said for revenue, which has increased by more than +34% from last year since April.

Adding to the argument that corporate travel recovery is being fed by group as well as transient business are the steady increases we see in ADR. Corporate and group rates negotiated prior to the recovery took their toll. Over the last 11 months, however, ADR has consistently improved. GDS rates have pushed into positive growth over prior year since February, to increases of over +6% in May and June. It's group business on the books that enables more confidence in pricing and is vital to sustained rate recovery in the business sector. Although not the ideal scenario yet, we believe that momentum has definitely been established.



As shown below, even greater gains with respect to bookings and revenue were made in June of this year against June of 2008 and 2007. June 2010 bookings eclipsed those in 2008 and 2007 by over +43%, as did revenue by over +37%. As mentioned above, rates are climbing back from knee-jerk negotiations and we see positive increases over 2009, and decreasing gaps from 2008 and 2007. Encouraging as well is the growing length of stay (LOS). This also suggests the tightened grip on travel expense budgets is loosening.

### Global GDS (Mostly Corporate) - YOY Variances

	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JUN 10 vs 09	23.5%	6.3%	3.7%	36.0%
YTD JUN 10 vs 09	15.5%	4.8%	1.6%	20.6%
JUN 10 vs 08	46.3%	-6.3%	0.8%	38.0%
YTD JUN 10 vs 08	24.3%	-8.8%	-0.6%	11.2%
JUN 10 vs 07	43.9%	-3.8%	-0.7%	37.2%
YTD JUN 10 vs 07	27.0%	-3.4%	-2.0%	19.3%

### NORTH AMERICAN GDS

GDS bookings for North America show commendable resilience as well, maintaining increases over prior year above +24% into June. ADR growth in North America also continues at a slow yet steadfast pace. June ADR is holding ground up +3.3% over prior year, just off from May's increase by about a percentage point. The combined effect of booking and rate increases results in strong revenue growth of +30.1% over prior year for June. Although still a success story, increasing demand witnessed by healthy booking volumes indicates there is yet more room to raise rates and realize additional revenue potential.



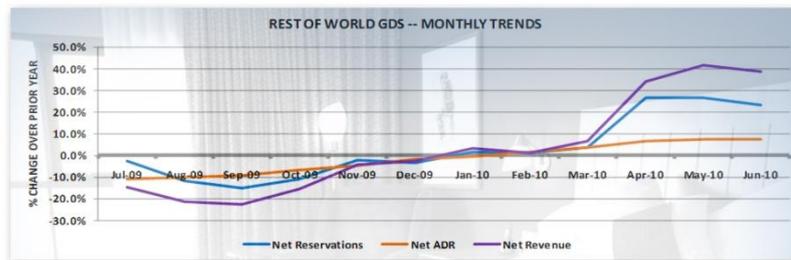
The table below likewise shows how the month of June continues to make significant strides of progress not only against 2009, but 2008 and 2007, with length of stay also improving.

## N. America GDS (Mostly Corporate) - YOY Variances

	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JUN 10 vs 09	24.1%	3.3%	1.6%	30.1%
YTD JUN 10 vs 09	18.6%	2.8%	1.2%	21.4%
JUN 10 vs 08	33.1%	-11.4%	-1.6%	15.7%
YTD JUN 10 vs 08	11.2%	-11.7%	-3.0%	-6.2%
JUN 10 vs 07	31.3%	-9.1%	-4.3%	13.7%
YTD JUN 10 vs 07	14.3%	-7.8%	-6.4%	-1.7%

## GDS AROUND THE WORLD

GDS results outside of North America continue to tell the best success story, with revenue for June at a robust growth rate of +38.8% over prior year. June bookings increased +23.1% over last year, barely wavering from the new heights reached during April's Icelandic volcano induced spike. In a global economic environment that has kept a choke hold on rates, ADR is not only holding ground gained against prior year, it is still managing to muster up higher growth. June edged out May for the highest ADR growth year to date at +7.5% over 2009; May grew by +7.3% over prior year. More proof that through strategic pricing, rates can be held, and even raised, during challenging times.



The following table makes it more evident just how well the ideal partnership of greater booking volumes, rising ADR rates and increasing length of stay benefits revenue growth. Not only did June revenue increase by nearly +40% over 2009, it is now just over +50% of levels seen in 2008 and 2007. Another positive sign is that GDS booking lead times outside North America have now shown an ever so slight increase in June over prior year.

## Rest of World GDS (Mostly Corporate) - YOY Variances

	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JUN 10 vs 09	23.1%	7.5%	5.0%	38.8%
YTD JUN 10 vs 09	13.7%	5.7%	1.9%	20.3%
JUN 10 vs 08	55.6%	-5.1%	2.1%	50.7%
YTD JUN 10 vs 08	33.5%	-8.8%	0.6%	21.3%
JUN 10 vs 07	52.8%	-2.5%	1.3%	50.7%
YTD JUN 10 vs 07	35.9%	-2.8%	0.8%	32.0%

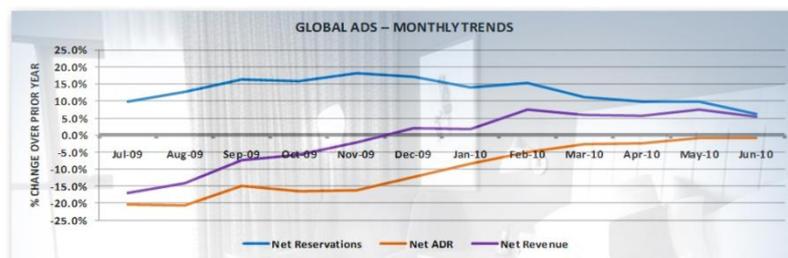
## ADS CHANNEL (LEISURE TRAVEL FOCUS)

The ADS channel does not have the same recovery bragging rights as the GDS channel, but it too has a positive tale to tell. As reported industry-wide, larger corporate markets are gaining strength while

leisure markets overall are finding it more difficult to maintain momentum. Still high unemployment rates, for one, keep consumer spending in check, particularly for the non-luxury market segments. That being said, in general people are traveling and more are continuing to do so at levels greater than last year, and in some cases greater than the last three years.

Having to do more with less in the workplace, today's stressed public is in need of getaways now more than ever. Consumers are managing to do so for the most part by taking a greater number of trips, even if short, and focusing on getting the most value for their money. The ADS average look-to-book ratio for June, an indicator of such value-oriented shopping, increased by approximately +50% over last year for the second month in a row.

As indicated below, ADS booking volumes are still ahead of last year's even though the pace of those increases has recently eased. June bookings came in at a respectable +6.3% over prior year, with revenue forging ahead at a steady growth rate of +5.3% over last year. What's most encouraging is that even though the pace of booking volumes eased in June, the ADR level against prior year did not budge at all from that in May. Why is this good news? It indicates that now even in leisure markets hoteliers are not needlessly reducing rates.



The table below displays that the number of reservations made in June and year to date are greater than last year as well as 2008 and 2007. ADR, by not retreating, is laying the ground work for filling in the holes still evident from prior levels. Another step in the right direction is that length of stay did not decrease from 2009, but rather for the first time this year came up for air in June at +0.2% over last year.

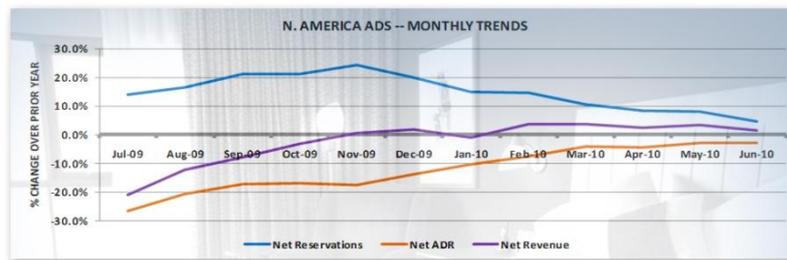
### Global ADS (Mostly Leisure) - YOY Variances

	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JUN 10 vs 09	6.3%	-0.9%	0.2%	5.3%
YTD JUN 10 vs 09	10.7%	-2.4%	-1.2%	5.7%
JUN 10 vs 08	16.3%	-27.0%	-6.4%	-20.8%
YTD JUN 10 vs 08	7.2%	-25.1%	-7.1%	-25.9%
JUN 10 vs 07	27.8%	-17.9%	-7.2%	-3.6%
YTD JUN 10 vs 07	29.4%	-19.2%	-8.4%	-6.0%

### NORTH AMERICAN ADS

North American ADS exemplifies similar trends to that discussed globally, only less pronounced. Booking and revenue are staying ahead of last year, just by a smaller margin; June bookings and revenue increased over prior year by +4.5% and +1.5%, respectively. What bears pointing out here is that in the face of easing booking growth over prior year, ADR has held fast at the same level against

prior year in June as that in May. Once again, a hopeful sign for future rate recovery and increased profits.



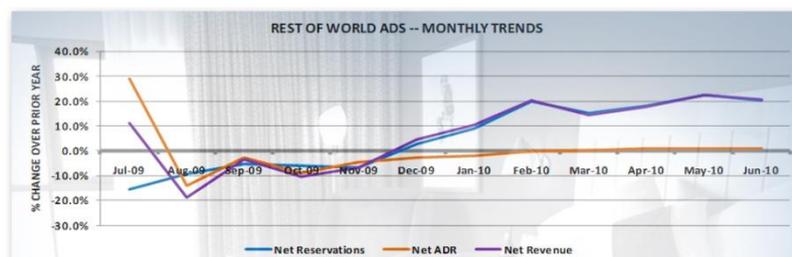
As reservations for June and year to date stay ahead of last year, albeit at a lessened pace, they are displaying even higher double-digit growth against 2008 and 2007 volumes than last month by a range of between two to 12 percentage points. Revenue growth against 2008 and 2007 has improved also, but to a lesser degree due to still being handicapped by subpar ADRs.

### N. America ADS (Mostly Leisure) - YOY Variances

	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JUN 10 vs 09	4.5%	-2.9%	0.2%	1.5%
YTD JUN 10 vs 09	9.7%	-4.4%	-1.3%	2.3%
JUN 10 vs 08	20.2%	-28.5%	-7.0%	-20.2%
YTD JUN 10 vs 08	13.4%	-26.2%	-8.1%	-23.4%
JUN 10 vs 07	36.9%	-17.9%	-8.8%	2.0%
YTD JUN 10 vs 07	40.1%	-19.0%	-10.3%	0.4%

### ADS AROUND THE WORLD

ADS channel bookings outside North America continue to rebound more enthusiastically, motoring onward at double-digit speeds over prior year. June bookings increased by +20.1% over prior year, the second highest growth level reached thus far in 2010. Although we would like to report increased acceleration in ADR growth, we are comforted that it's at least cruising along at a steady pace just above that of last year. With ADR playing a neutral role, revenue growth almost identically mirrors that of bookings, achieving a +20.8% increase over prior year.



With booking volumes progressing at a robust pace, we continue to see marked improvement made against 2008 and 2007 levels, with decreases for the month of June against both years now down to single digits. We happily witness progress being made yet again in June toward all three previous years for each key measure below.

### Rest of World ADS (Mostly Leisure) - YOY Variances

	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JUN 10 vs 09	20.1%	0.8%	-0.1%	20.8%
YTD JUN 10 vs 09	17.4%	0.5%	-0.7%	17.6%
JUN 10 vs 08	-2.8%	-15.5%	-1.9%	-20.6%
YTD JUN 10 vs 08	-17.0%	-13.8%	-1.7%	-30.3%
JUN 10 vs 07	-9.9%	-5.3%	1.5%	-15.8%
YTD JUN 10 vs 07	-9.9%	-7.3%	1.3%	-18.3%

### GDS & ADS CHANNEL PERFORMANCE BY REGION

The higher the level of magnification, the more influence can be seen from local factors. Generally speaking, demand is increasing and room supply growth is slowing – the formula for higher occupancy, ADR and revenue. It's the degree and ratio of these two factors that differ from market to market and impact recovery. So too will local economic, political, natural and man-made events enhance or detract from progress.

Undeniably, occupancy is on the rise virtually worldwide. Also reflective of upward demand are healthy reservation increases in each region. The strongest stream comes from the more corporate GDS channel, with June increases over prior year ranging from +24.1% to +51.3%. Leisure-based ADS bookings also show considerable strength by region, with June reservations excluding North America increasing +18% on average. ADRs continue to grow at a steady pace across regions in the corporate sector as seen from the GDS channel. ADRs in the leisure sector, however, are taking the brunt of local influences, as evidenced by the more disparate regional ADS rate recovery.

### REGIONAL -- % CHG OVER PY

		GDS			ADS		
		Net Reservation CHG	Net ADR CHG	Net Revenue CHG	Net Reservation CHG	Net ADR CHG	Net Revenue CHG
	JUN	24.1%	3.3%	30.1%	4.5%	-2.9%	1.5%
NORTH AMERICA	YTD JUN	18.6%	1.9%	21.4%	9.7%	-5.7%	2.3%
	JUN	51.3%	10.7%	65.0%	17.1%	7.2%	9.8%
SOUTH AMERICA	YTD JUN	38.7%	4.2%	45.4%	15.0%	3.2%	17.4%
	JUN	26.8%	8.6%	46.1%	21.3%	-1.0%	20.0%
EUROPE	YTD JUN	16.0%	6.0%	28.1%	16.3%	1.0%	17.3%
	JUN	43.7%	7.3%	61.8%	15.5%	6.5%	25.0%
AFRICA/ASIA/OCEANIA	YTD JUN	37.7%	3.2%	47.5%	22.3%	-2.7%	18.6%
	JUN	23.5%	6.3%	36.0%	6.3%	-0.9%	5.3%
GLOBAL	YTD JUN	15.5%	4.8%	20.6%	10.7%	-2.4%	5.7%

### FORWARD-LOOKING INDUSTRY TRENDS

Much to everyone's delight, GDS forward-looking data suggests a bright future for corporate travel throughout 2010. Reservations show a median average growth rate of more than +20% through December, with overall increases in length of stay. Sure to cause the industry to rejoice is the continued increases in ADR. Results thus far show a trended average growth rate up +7% through November, reaching double-digit growth potential in December. This indicates corporate sector recovery is not only here to stay, but will continue to lead the way back to the pre-recessionary levels.

**Forward-Looking – Global GDS**  
Bookings Made As of June for Arrivals July to December

	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JUN 10 vs 09	20.7%	7.1%	5.4%	36.2%
AUG 10 vs 09	22.1%	8.5%	3.6%	37.0%
SEP 10 vs 09	23.7%	8.3%	2.8%	37.5%
OCT 10 vs 09	-45.5%	49.1%	-44.5%	-54.6%
NOV 10 vs 09	38.7%	5.4%	-5.5%	37.1%
DEC 10 vs 09	21.6%	22.0%	7.7%	59.0%

While ADS forward-looking data does not show the leisure sector as the leader for recovery, it still importantly suggests continuing recovery. Reservations and revenue growth speak to a successful summer travel season, with increases for both over prior year at an average of over +9% coming up for the third quarter of 2010. The remainder of the year encouragingly shows double-digit increases for over three of the next six months, with two of those double-digit growth months still to come in the fourth quarter. The data also suggests, however, that ADR and length of stay for the leisure market will remain a thorn in our side throughout the rest of the year.

**Forward-Looking – Global ADS**  
Bookings Made As of June for Arrivals July to December

	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JUN 10 vs 09	7.6%	-0.8%	-0.1%	6.8%
AUG 10 vs 09	6.5%	-1.0%	-0.9%	4.4%
SEP 10 vs 09	14.0%	5.5%	-3.3%	16.4%
OCT 10 vs 09	3.9%	2.0%	-2.6%	3.0%
NOV 10 vs 09	10.1%	-0.3%	-4.2%	6.2%
DEC 10 vs 09	12.3%	-3.8%	-10.1%	-3.5%

**KEY TAKEAWAYS**

- The corporate travel market has the legs and arms to carry us through the recovery process
  - Not only have new heights of double-digit bookings remained in the GDS channel globally since April through June, but ADR continues to outpace prior year
- The leisure market demonstrates a much more subtle recovery
  - Global ADS channel reservations, still keeping ahead of last year, are doing so by a thinner margin. ADS rates, while thankfully not retreating, are also not advancing from their position just under prior year.
- GDS future bookings, ADR and LOS underline that corporate travel is gaining muscle, with revenue growing at an average median rate of +37% over the next six months
- The leisure market’s future still shines, just not as brightly
  - Forward-looking ADS global booking volumes show stamina, with three of the next six months at a double-digit growth rate, but ADRs look to be breathing hard during the climb back over last year’s depressed levels

In summary, the overall outlook is still quite positive. We are well into the summer travel season, and trends analyzed in *The Pegasus View* and reported by other industry sources point to an improved season over last year. Despite continued concerns surrounding the global economy, politics, unemployment and consumer confidence, travel demand remains and is rising. Does the industry have the discipline and business savvy to convert this demand into greater profit by commanding higher rates? Time will tell.

We look forward to sharing more about industry trends, developments and projections in the next edition of *The Pegasus View*.



Mike Kistner  
President and CEO, Pegasus Solutions

A handwritten signature in black ink, appearing to read "Mike Kistner".



Ric Leutwyler, COO, Pegasus Solutions  
President, Utell Hotels & Resorts

A handwritten signature in black ink, appearing to read "Ric Leutwyler".

*Note: All data is on a date of booking basis unless otherwise stated. ADR and revenue percentage changes are calculated from values using a single constant exchange rate to eliminate the effects of currency exchange rate movements.*

#### **ABOUT PEGASUS**

Pegasus Solutions is the world's leading provider of technology and services to hotels and travel distributors, supplying state-of-the-art central reservation systems and electronic distribution services, advanced agency commission processing and payment services, and hotel marketing representation services. Founded in 1989, Pegasus created and launched the hotel switch, and today its customers include more than 95,000 properties around the globe as well as a majority of the world's travel agencies. Additionally, Pegasus' powerful representation arm incorporates Utell® Hotels & Resorts and Utell Connect, services that have been chosen by more than 9,000 member hotels in more than 130 countries, making Pegasus the hotel industry's largest third-party marketing, sales and reservations specialist. Pegasus also powers the niche consumer Web site [www.hotelbook.com](http://www.hotelbook.com)™, dedicated to promoting independent and boutique hotels throughout the world. Headquartered in Dallas, Pegasus has 18 offices in 11 countries, including regional hubs in London, Singapore and Scottsdale, Arizona. For more information, please visit [www.pegas.com](http://www.pegas.com) or [www.utell.com](http://www.utell.com).