



# The Pegasus View

THE WORLD'S BEST CONSOLIDATED VIEW OF THE HOSPITALITY INDUSTRY

## Leisure & Corporate Travel End 2010 Soundly Despite Mother Nature

Although weather wreaked havoc with holiday travel plans, December provided proof of a resilient recovery for both the leisure and corporate markets. Both markets still saw revenues out-pace year-to-date growth over prior year globally, with corporate ADR continuing to achieve record high growth. Yes, December ended the year on a confident note, reinforcing that 2010 was a year of not just turning the corner but of climbing back. Solid progress has been made on the road to recovery, and all bodes well for greater progress to be made in 2011. There have also been many trends unfolding in the industry that should make for a fruitful and interesting new year. >>>

DECEMBER 2010 REPORT

These are ever changing times. In addition to the various performance trends discussed in this month's edition, there are powerful consumer and technology-driven forces impacting the industry and evolving its landscape. Below we've compiled a breakdown of the major trends which impacted 2010 as well as forward-looking influential factors to watch for in 2011.

## 2010

- **Social Media** – Facebook, Twitter and the numerous other social media sites have grown significantly in terms of numbers of users and influence on the market. The direct impact on travel distribution is still evolving (see 2011) but changes in the way that information is shared and used to make decisions is already evident.
- **Mobile Computing** – 2010 was mainly about establishing a presence in the mobile space. The expectations of consumers have evolved rapidly and the current wave is bringing new and better applications that are optimized for the mobile environment rather than just being smaller versions of an existing website.
- **Cloud Computing / Software as a Service** – Cloud computing makes technical infrastructure more of a commodity and allows better connections to be built between applications and data sources. This technical background is important in determining things like speed to market and flexibility which drive many other aspects of hospitality distribution.
- **Shopping Trends and the Demand for Content** – High look-to-book ratios evidence the massive rise in transaction volumes that are burdening, if not straining, many systems. The demand for access to detailed, up-to-date rate/availability data and rich content continues to grow – which affects suppliers, distributors and technology providers, and necessitate the adoption of available solutions.
- **Channel Optimization** – In a constrained economy, hotels look to maximize their distribution reach. This gives distribution channels an advantage, especially those that can guarantee volume. As the economic conditions have gradually improved in 2010, hotels are looking to take back more control via new technologies, revised revenue management strategies or enhanced merchandising.

## 2011

- **The Independent Hotel** – The established hotel brands will continue to deploy their marketing budgets and brand value to build business by size and scope. Meanwhile, the independent sector is increasingly able to leverage its own strengths through the new and emerging channels.
- **Mobile Adoption** – Mobile will continue to be a significant topic in 2011 as the range and variety of mobile services expands.
- **Distribution** – The first rumblings of change began with Google's proposed acquisition of ITA. Now we have the airlines and OTAs battling for control of the customer. The outcomes cannot be accurately predicted, but it is a safe bet that the travel distribution landscape (including hotels) will look different at the end of 2011.
- **Hotel Merchandising** – As hotels look for revenue growth by becoming more customer focused and responding to the needs of the market, they will increasingly look for ways to offer access to on-property services, dynamic packaging, rich content, etc. to support comprehensive merchandising. Distributors are also seeking ways to differentiate the properties they offer, applying pressure to hotels from both supply and demand.
- **Partnerships, Integration and Alliances** – The combination of more standardization in technology and more demand for innovation means that we are likely to see an increase in link-ups and acquisitions in 2011. There will likely be acquisitions following from Google/ITA and also more partnerships between providers of complementary services. The boundaries of the established hospitality technology space are changing. As new entrants appear there will be more opportunities to create a whole greater than the sum of the parts.

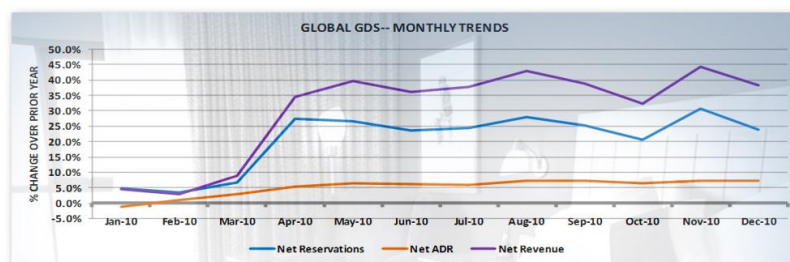
Impactful trends to contemplate as you read *The Pegasus View* December edition's analysis of each distribution channel's performance below.

### GDS CHANNEL (CORPORATE TRAVEL FOCUS)

December GDS channel results further re-enforce the strength of the corporate travel sector and its role as the leading force behind the travel industry's recovery. December storms brought travel to a standstill in many areas across the globe. Yet, despite the challenges, the corporate market fared quite well. Global bookings registered a growth rate of +23.7% over prior year, still out-pacing the year-to-date growth rate of +20.3%, and revenue managed to increase almost +40% over prior year at +38.4%. Most commendable is that ADR continued to sustain its record growth rate of +7.4% – held in four out of the past five months since August. Following November's peak growth rate and understanding that year-over-year margins often narrow during a sector's softer months, as December is for business travel, the corporate market delivered a sound December performance.

The reason widespread December storm conditions did not bolster net bookings, as was the case during the Icelandic Volcano eruption, is due to a combination of factors. For one, there is simply less business travel in December. Additionally, weather forecasts and advanced alerts of canceled flights allowed for advanced cancelation of trips. Other key differentiating factors include comparably limited air space restrictions and varying lengths of delays by location which resulted in some stranded travelers resigning themselves to sleep at airports. This is not to say, however, that certain airport-area hotels would not have seen additional bookings from the lengthy delays. For the month in total though, such additional bookings did not out-weigh related cancelations, as was the case brought about by volcanic ash last April. (For more in-depth analysis on the impact of the Icelandic Volcano on travel, see the Pegasus Special Edition at [www.pegs.com](http://www.pegs.com).)

Looking back, most would agree that along with Mother Nature, the global economy guided hotel industry performance during 2010. Corporate profits are returning, fueling the rise in business travel demand and starting to bring back planned group and meetings travel. Tight financial capital markets have been beneficial with regard to keeping new construction in check and hotel room supply growth low. This combination is laying the foundation for further recovery and improvement in rates.



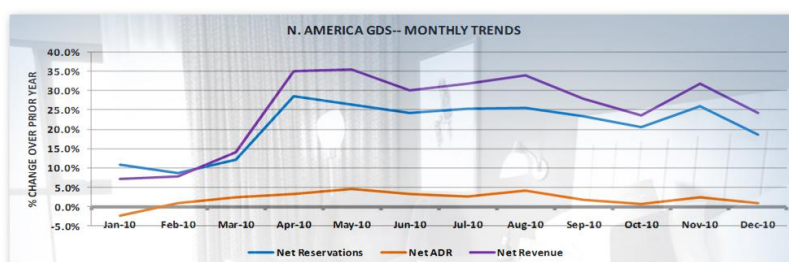
Continuing to validate corporate recovery and the return of group business is the increase in both average length of stay (LOS) and average booking lead time. Meetings and conference travel generally involve greater expenses, budget approval, advanced planning and longer stays than transient travel. The global average LOS increased from 2.16 nights in December 2009 to 2.25 nights in December 2010, an increase of +4.2%. Likewise, business travel was, on average, booked 18.4 days in advance in December 2010 as opposed to 17.73 days in advance in December 2009.

## Global GDS (Mostly Corporate) - YOY Variances

Month	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
DEC 10 vs 09	23.7%	7.4%	4.2%	38.4%
YTD DEC 10 vs 09	20.3%	5.2%	2.2%	29.4%
DEC 10 vs 08	24.6%	5.9%	4.8%	38.2%
YTD DEC 10 vs 08	22.0%	-5.5%	0.7%	16.0%
DEC 10 vs 07	58.1%	-3.1%	0.6%	53.9%
YTD DEC 10 vs 07	33.2%	-3.3%	-1.3%	27.1%

## NORTH AMERICAN GDS

The GDS channel for North America reflects similar durability for the corporate sector in this region. With both the United States and Canada hit hard by winter storms, booking volume still increased by +18.7% over prior year. Although the ADR growth pace lessened in December, it remained just ahead of prior year by +0.9%. Therefore revenue forged solidly ahead at a growth pace of +24.1% over prior year.



Here, too, both LOS and booking lead times are increasing. December trips were on average 2.15 nights long in December 2010 versus 2.07 in 2009, for a +3.8% increase. Trips were booked an average of 16.28 days in advance during December 2010 versus 16.00 in 2009.

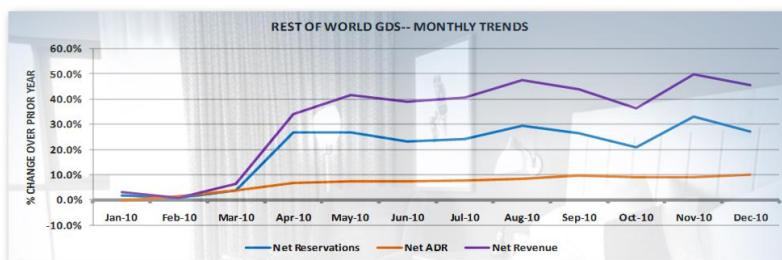
## N. America GDS (Mostly Corporate) - YOY Variances

Month	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
DEC 10 vs 09	18.7%	0.9%	3.8%	24.1%
YTD DEC 10 vs 09	21.0%	2.0%	1.4%	25.1%
DEC 10 vs 08	27.7%	1.0%	1.8%	31.2%
YTD DEC 10 vs 08	18.9%	-9.0%	-2.0%	5.0%
DEC 10 vs 07	41.5%	-11.0%	-1.8%	23.4%
YTD DEC 10 vs 07	19.6%	-8.6%	-5.1%	3.3%

## GDS AROUND THE WORLD

GDS channel results outside of North America also display remarkable sustainability. Whether due to the severity of storms and/or the uncharacteristic nature of them for certain regions, December weather wreaked havoc across many locations around the world. Yet, both booking volume and revenue outside North America in December reached the third highest growth rate over prior year in

2010, at +27.1% and +45.4%, respectively. ADR, in fact, finished the year with a new growth record for 2010. On the cusp of a double-digit increase, December ADR grew by +9.9% over prior year.



Average LOS and booking lead times continue to expand. The average LOS in December 2010 outside North America was 2.31 nights as opposed to 2.21 nights in 2009, for a +4.2% increase. December trips were booked 19.64 days ahead of time on average in 2010 versus 18.77 in 2009. These trends provide further support of growing confidence in the corporate market.

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

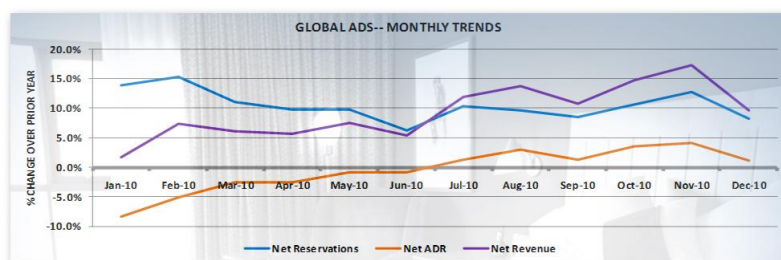
Month	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
DEC 10 vs 09	27.1%	9.9%	4.2%	45.4%
YTD DEC 10 vs 09	19.9%	6.6%	2.7%	31.4%
DEC 10 vs 08	22.7%	8.1%	6.6%	41.4%
YTD DEC 10 vs 08	23.9%	-4.4%	2.3%	21.6%
DEC 10 vs 07	70.2%	-0.6%	1.7%	71.9%
YTD DEC 10 vs 07	42.6%	-1.9%	1.0%	41.4%

### ADS CHANNEL (LEISURE TRAVEL FOCUS)

ADS channel performance paid tribute to the resiliency of the leisure sector as well. Leisure markets deserve applause for faring as well as they did with so much weather disruption occurring in the midst of the holiday travel season. Following the record high growth rates reached in November, December booking volumes only fell off the year-to-date growth pace of +10.3% by a couple of percentage points to still achieve an increase of +8.2% over prior year. December revenue maintained the elevated growth pace set forth in July, increasing +9.7% over prior year and staying just ahead of the year-to-date growth of +9.2%. Even ADR growth, although lessening, remained above prior year by +1.2% and ahead of the year-to-date decrease of -0.5%.

December flight and ground transportation disruptions did not catapult overall net bookings as seen in April from Iceland's volcanic eruption for the leisure market either. Contrary to corporate travel, December is a high-volume period for leisure trips. The same differentiating reasons stated in the GDS channel discussion, however, still apply. Plus, due to the timing, these cancellations were commonly associated with travel to vacation destinations involving multiple-night stays. The extra nights incurred due to transportation delays in December did not, in total, out-number nights associated with these cancellations. April, on the other hand, is a less holiday-driven leisure travel period. Therefore the hotel stays from travelers stranded by the ash cloud were mostly in excess of their planned travel agenda.

Besides natural and environmental disasters, it's no surprise that the global economy had the most widespread impact on the leisure market in 2010. Consumer travel spending is directly related to consumer confidence and disposable income. Consumer confidence and disposable income rise as more people return to the work force. Businesses begin hiring again as they get back on their feet. However, in general, businesses are not yet hiring at a fast enough pace to drive unemployment rates back down to pre-recession levels globally. It is this remaining link in the economic recovery chain that will enable full recovery for the leisure travel sector – full recovery with regard to both booking volumes and ADR.



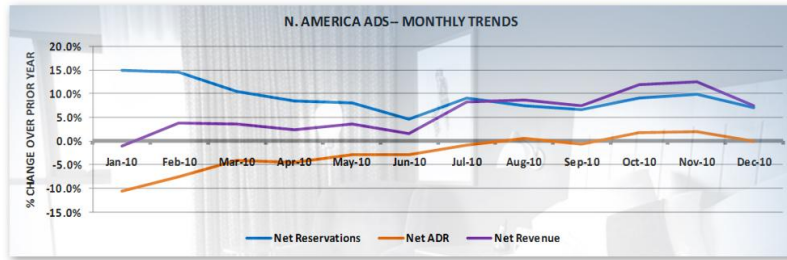
Both average LOS and booking lead times continue to slowly trend in a positive direction overall, signifying that consumer confidence may be fragile but is on the mend. The average LOS in December 2010 was 1.95 globally versus 1.93 in December 2009, staying just ahead of prior year by +0.7%. Global average booking lead times grew from 15.44 days in December 2009 to 15.65 days in December 2010. Look-to-book ratios remain inflated, but eased compared to prior year again in December. December's look-to-book ratios were higher than last year's by +43%, an improvement from the increases by over +50% seen for the past three months.

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

Month	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
DEC 10 vs 09	8.2%	1.2%	0.7%	9.7%
YTD DEC 10 vs 09	10.3%	-0.5%	-0.4%	9.2%
DEC 10 vs 08	26.7%	-11.3%	-0.3%	11.8%
YTD DEC 10 vs 08	15.9%	-20.4%	-5.0%	-13.8%
DEC 10 vs 07	32.5%	-23.4%	-6.1%	-5.8%
YTD DEC 10 vs 07	26.3%	-20.2%	-7.8%	-7.9%

### NORTH AMERICAN ADS

December ADS channel results for North America also demonstrated respectable performance. Reservations volume barely strayed from the year-to-date performance in spite of the circumstances. Bookings increased by +7.1% for the month compared to the year-to-date pace of +8.9%. ADR flattened once again to just under prior year by -0.1%, but stayed above the year-to-date average of -2.5% under prior year. Revenue also beat the year-to-date growth pace of +5.7% with an increase over prior year of +7.5% in December.



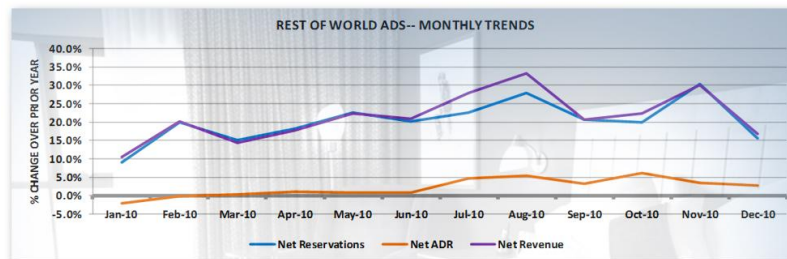
Average LOS and booking lead times in North America grew in December, but fractionally, particularly with regard to LOS. The average LOS in December 2010 was 1.93 nights compared to 1.91 nights in December 2009, increasing by +1.0%. The average booking lead time in December was 13.51 days versus 13.43 days last year.

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

Month	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
DEC 10 vs 09	7.1%	-0.1%	1.0%	7.5%
YTD DEC 10 vs 09	8.9%	-2.5%	-0.3%	5.7%
DEC 10 vs 08	28.4%	-14.0%	-0.7%	9.4%
YTD DEC 10 vs 08	20.6%	-22.7%	-6.1%	-13.6%
DEC 10 vs 07	45.2%	-24.1%	-7.3%	1.6%
YTD DEC 10 vs 07	36.8%	-20.5%	-9.6%	-2.0%

### ADS AROUND THE WORLD

December ADS channel results outside North America commanded respect as well. December bookings held on to a double-digit increase of +15.6% over prior year. ADR delivered an increase of +2.8% over prior year and revenue still grew by +16.6%. With a holiday season burdened with obstacles, this December is a tainted indicator of leisure performance. However, viewed with the perspective of the weather issues faced by key markets during peak vacation travel, falling off the year-to-date pace for revenue by only four percentage points demonstrates an encouraging amount of buoyancy for leisure demand.



Average LOS and booking lead times outside North America both decreased against prior year, continuing to reflect consumer challenges in general, and not helped by the disruption of December travel plans. The average LOS was 2.05 nights this December versus 2.09 nights last year, for a decrease of -1.7%. Average booking lead times shrank slightly as well from 28.53 days in December 2009 to 27.96 days in December 2010.

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

Month	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
DEC 10 vs 09	15.6%	2.8%	-1.7%	16.6%
YTD DEC 10 vs 09	20.1%	2.1%	-1.2%	21.2%
DEC 10 vs 08	16.6%	-0.2%	2.8%	19.3%
YTD DEC 10 vs 08	-6.8%	-6.2%	0.8%	-14.4%
DEC 10 vs 07	-16.1%	-5.7%	0.5%	-22.4%
YTD DEC 10 vs 07	-14.5%	-6.9%	0.9%	-21.8%

### GDS & ADS CHANNEL PERFORMANCE BY REGION

Looking at performance by region, it is apparent that 2010 has been the year recovery began, albeit uneven recovery. Various factors have played into why this is a multi-speed rebound across the globe. From the very beginning of the recession, it wasn't a level playing field with regard to hotel room supply. Certain markets, such as Dubai, had seen high room growth to capitalize on the high demand levels experienced and anticipated. When recessionary impacts were felt, these markets were hit extra hard being in a situation of over supply with lessening demand. As the global economy weakened, countries like Greece, Spain, Portugal and Ireland experienced financial market woes applying extra pressure to already strained markets. Added to the mix were more local impacts associated with protests, strikes, travel alerts, weather conditions and environmental issues. At the same time some markets were impacted less deeply by economic factors. For example, China and India, with their growing middle class and market share, are rebounding more briskly. Even within countries themselves, urban and city-center markets are bouncing back better than rural markets, and some cities such as New York and London are experiencing remarkable growth.

Improvement is expected worldwide in 2011, however, and markets are preparing to reinvigorate travel to their destinations. Tourist campaigns are not only touting the distinctive appeal of their locations in general, countries are leveraging major events related to everything from sports, anniversaries of historical battles, to discoveries of natural wonders, and royal weddings.

Looking at December GDS channel performance at a regional level, the corporate sector continues to lead recovery across the globe. Outside of North America, however, the difference in revenue growth over prior year by region has narrowed. South America has taken the lead for highest revenue growth rate in December with a +69.0% increase over prior year, Europe is ranked second with a +61.0% increase and Africa/Asia/Oceania, previously in first place, is now third with a +57.3% increase. These regions' revenue growth rates are all strong and within close range of each other, with ADR increases over prior year close to +10%.

With regard to December regional ADS channel performance, Europe maintains top ranking with leisure-based revenue growth over prior year at +19.0%. South America now takes second place with an increase of +18.7% over prior year. Africa/Asia/Oceania, ranked second last month, ranks third with an increase of +12.6% over prior year. North America trails with a revenue growth of +7.5% over prior year, but overall it was a respectable showing for leisure travel over the holidays.



## REGIONAL -- % CHG OVER PY

		GDS			ADS		
		Net Reservation CHG	Net ADR CHG	Net Revenue CHG	Net Reservation CHG	Net ADR CHG	Net Revenue CHG
	DEC	18.7%	0.9%	24.1%	7.1%	-0.1%	7.5%
NORTH AMERICA	YTD DEC	21.0%	2.1%	25.1%	8.9%	-2.5%	5.7%
	DEC	40.9%	12.2%	69.0%	14.7%	2.3%	18.7%
SOUTH AMERICA	YTD DEC	40.8%	6.5%	51.6%	11.2%	3.2%	11.5%
	DEC	43.2%	9.9%	61.0%	23.1%	-1.8%	19.0%
EUROPE	YTD DEC	23.6%	7.5%	38.7%	21.7%	2.2%	22.9%
	DEC	33.2%	12.1%	57.3%	-1.7%	12.5%	12.6%
AFRICA/ASIA/OCEANIA	YTD DEC	37.3%	7.8%	53.9%	16.2%	1.8%	18.5%
	DEC	23.7%	7.4%	38.4%	8.2%	1.2%	9.7%
GLOBAL	YTD DEC	20.3%	5.2%	29.4%	10.3%	-0.5%	9.2%

### FORWARD-LOOKING INDUSTRY TRENDS

GDS forward-looking global data suggests solid corporate growth through the second quarter of 2011. Bookings display a potential average growth pace of over +25% for the first and second quarter of 2011. ADR looks to continue a healthy growth pace through June as well, with average LOS expanding through Spring. These factors point to additional substantial recovery in store for the corporate sector heading into 2011, along with more progress made with regard to group and meetings business – the mainstay of corporate travel.

### Forward-Looking - Global GDS

Bookings Made As of December for Arrivals January to June

Month	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JAN 11 vs 10	25.8%	9.5%	4.5%	43.8%
FEB 11 vs 10	28.6%	11.5%	4.9%	50.5%
MAR 11 vs 10	34.2%	12.8%	5.7%	59.8%
APR 11 vs 10	34.2%	19.9%	9.2%	74.8%
MAY 11 vs 10	39.6%	17.6%	6.5%	75.2%
JUN 11 vs 10	31.2%	18.7%	-4.4%	49.9%

ADS channel forward-looking global data displays a slowing in reservation growth pace during the first two months of 2011, but then shows potential for picking up toward the end of the first quarter and into the second. Year-over-year growth margins can tend to narrow during off-peak seasons when booking volumes are less. Therefore it is a positive sign to see the potential for double-digit booking growth over prior year return upon entering the spring and summer seasons. Future bookings suggest further ADR growth, yet still at a more passive and less consistent pace. No doubt all eyes will remain focused on ADR performance in 2011, particularly for the more tenuous leisure market.

## Forward-Looking - Global ADS

Bookings Made As of December for Arrivals January to June

Month	Net Reservation CHG	Net ADR CHG	Net AVG LOS CHG	Net Revenue CHG
JAN 11 vs 10	3.0%	1.9%	3.3%	7.8%
FEB 11 vs 10	4.3%	-0.9%	-0.6%	2.2%
MAR 11 vs 10	16.9%	3.5%	-0.4%	19.3%
APR 11 vs 10	19.4%	4.8%	-0.2%	24.2%
MAY 11 vs 10	23.4%	2.9%	-2.2%	24.2%
JUN 11 vs 10	19.3%	-2.1%	-6.7%	7.4%

### KEY TAKEAWAYS

- Corporate travel displays durability. Despite weather-related travel delays, December global GDS bookings grew by +23.7%, still out-pacing the year-to-date pace of +20.3%. ADR matched the record growth pace of +7.4% for yet another month, and both LOS and average booking lead times grew as well.
- Leisure travel had a respectable showing against widespread flight cancellations caused by storm activity hitting during the holidays. Global ADS booking volumes increased by +8.2%, falling off the year-to-date pace of +10.3% by only two percentage points. ADR kept ahead of last year by +1.2%. Booking lead times improved globally and LOS remained close to last year's level.
- GDS forward-looking data exhibits continued strength in the corporate sector. Booking volumes are showing an average monthly growth rate potential of approximately +30% into the second quarter of 2011. ADR displays potential for increases at the same or greater pace than that seen in 2010.
- ADS forward-looking data resonates with resiliency for the leisure sector. While the growth pace of bookings looks to slow during January and February, future bookings point to the pace picking up again heading into the second quarter of 2011. ADR appears to continue to improve, although with uneven growth patterns. LOS shows little sign of improvement.

In summary, December finished the year admirably against all the obstacles being thrown its way. While storms brought transportation in many areas of the world to a standstill, it did not halt the travel industry's recovery. Its momentum continues while the economy regains its strength. Unlike down-turns driven by specific events with sharp declines and relatively fast recoveries, this downturn has been economy-driven, and therefore full recovery for hotels hinges on full recovery of our global economy. As trends analyzed in *The Pegasus View* and reported by other industry sources confirm significant progress continues and the future looks to be a positive one. There have been many trends that are playing a significant role in evolving the industry and shaping its future that will surely make 2011 an exciting year full of change and opportunity.

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



Mike Kistner  
President and CEO, Pegasus Solutions



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

*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.*

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