

DISTRIBUTION HEATMAP 2015

T2RL Staff

The Stimulus

T2RL held their first leadership summit in Whistler, Canada from the 13-17 April 2015. The participants discussed the key issues facing distribution executives.

The Results

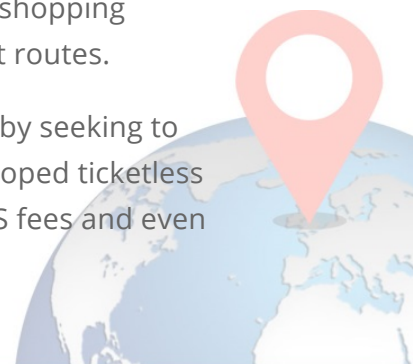
Escalating Cost of Acquisition For the Direct Channels

Many airlines appear to be experiencing increasing costs associated with the acquisition of customers for their direct channels.

Specific examples provided were:

- Metasearch providers spend millions on customer acquisition. Having exhausted shareholder funding, the business model requires the costs to be passed on to the airlines in increasing fees. Loyalty makes these sites stickier, but consumers, especially leisure consumers seem unwilling to count and value the cost of their time for the shopping process.
- SEO/SEM Costs are no longer delivering the results for the level of investment. Low fares seem to be the primary pull and conversion factor.
- Differentiation in price terms in the direct channel remains challenging for those airlines that cannot pass up the discounts offered in full content agreements from their GDS partners.
- Internal costs, particularly PSS costs, continue to rise as a result of ever increasing volumes of shopping and competitive robotics. Evolution of the architecture in customer facing systems is simplifying the connectivity of additional systems which is in turn resulting in a single customer shopping request arriving at the Airline's PSS through a number of different routes.

The team suggested that low-cost carriers are addressing this challenge by seeking to work with the GDS'. GDS' want LCC content for relevance and have developed ticketless solutions to cater for them. LCCs seem to be able to negotiate lower GDS fees and even



the right to pass the cost as a surcharge and of course retain the option to include this in their fares. This allows them to acquire customers both cheaply and efficiently.

Other carriers are addressing the internal costs in their PSS contract negotiations or adding specialist shopping engine providers.

Responding to Agency Consolidation

Agency consolidation creates challenges for both airlines and their GDS suppliers:

- Larger agents demand an increased share of the fare as Leisure customers seek to avoid the payment of service fees.
- Larger agents also demand a larger share of the GDS fees.

To meet this challenge airlines are seeking ever more sophistication in agency management and inventory controls from their PSS and RMS vendors and the PSS ecosystem.

Escalating GDS Fees and Full Content Agreements

The consistent failure of the market place to deliver any real innovation in distribution other than in the direct channels, combined with the ability of the GDSs to exert pricing power and increase booking fees year on year, makes full content agreement discounts very attractive. With no other prospects for a change in the structure of distribution, airlines are incentivised to accept the GDS offered reductions but lose the right to differentiate with lower pricing on their own channels.

To meet this challenge airlines are seeking new style contracts and agreements to cover technology and distribution.

Access to Corporate Buyers

Traditional airlines are becoming concerned that new standards are going to offer low-cost carrier competitors the ability to access their highest yield clients. Whilst this is clearly an unintended consequence of IATA's NDC initiative it explains why Accenture's Navitaire are getting behind the initiative. Airline marketing architecture attributes, defined by T2RL as class, schedule, fare distribution, E-ticket and EMD and availability

processing require significant development for Navitaire to compete for other market segments.

To meet this challenge, airlines are looking for improved capabilities to optimise the contribution from their corporate client segment. Sabre's acquisition in 2012 of Prism, a provider of systems focused on maximising the value of corporate clients, appears timely in this regard.



Travel Technology Research Ltd (T2RL) is an independent research and consulting company that specialises in the market place for airline IT systems. Based on data gathered and analysed since the year 2000 it has defined the market by tracking and classification of airlines and their IT providers. T2RL research is used by airlines to enable them to make informed choices of systems and vendors and by the vendors to help them develop products that best meet the current and future needs of the airline industry.

