

# AIRLINE DISTRIBUTION

Capturing the Opportunities  
of Modern Retailing





Boston Consulting Group is a global consulting firm that partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities.

Our success depends on a spirit of deep collaboration and a global community of diverse individuals determined to make the world and each other better every day.



The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 300 airlines or 83% of total air traffic.

IATA's mission is to represent, lead, and serve the airline industry. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

## BCG x IATA collaboration

In 2022, BCG and IATA have worked together to support the industry in its journey to airline retailing.

We have researched and analyzed the challenges the industry faces, the current situation, and the capabilities that are being developed by pioneers, to assess the value that the New Distribution Capability can provide to airlines.

In addition, Airlines are rethinking their retail approach and the consequent evolution of their commercial organizations.

This BCG and IATA report, based on our extensive research in collaboration with key airline industry players, aims to identify the value creation ambition, the investment requirements and the roadmap for this transition.

A strong partnership aimed at developing the industry understanding about airline retailing



Explore IATA's Airline Retailing industry program

OCT 2021

### Charting the future of airline retailing

IATA-BCG publication



NOV 2021

### The end vision of a world of offers and orders the future of airline retailing

IATA Digital, Data and Retailing Symposium

OCT 2022

### Reshaping the airline organization for the future of retail

IATA-BCG publication



NOV 2022

### Unlocking value creation by putting the customer first

IATA World Passenger Symposium



# Report methodology

We interviewed or surveyed airline leaders from all over the world



The three types of airlines, FSCs, LCCs and Hybrid carriers



Both commercial and technical departments, including IT and Technology, Digital and eCommerce, Pricing and RM, Distribution, Commercial and Strategy, etc.

The airlines participating in the research

**14**  
of top 26 airlines/  
airline groups

**>40%**  
of global RPKs<sup>1</sup>

**~50%**  
of participants  
with >€10bn  
revenues

**>\$340Bn**  
in annual revenues



**>40 leaders from 26 airlines globally interviewed or surveyed**

1. Revenue Passenger Kilometers



# Industry Ambitions





**Airlines are embarking on a transformational journey towards modern retailing**

Retailing through Offer Management will allow companies to:



Create and sell products and bundles that are customized and priced in real-time



Become more customer-centric, improving customer engagement and satisfaction



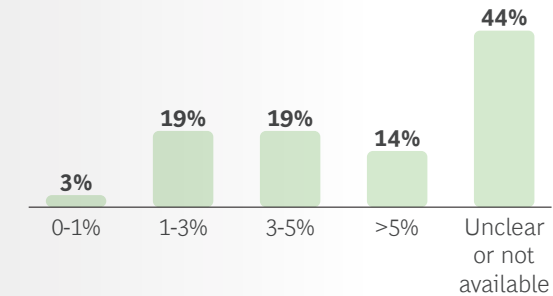
Generate significant revenue uplift and reduce distribution-related costs

Global leaders believe airline retailing can generate revenue upside...

**3% to 5%+**

Annual revenue uplift expected by most airlines

**Expected RASK improvements**

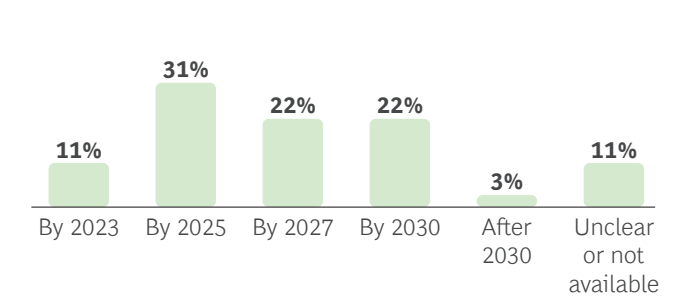


...and they expect to reach the first benefits in the next few years

**2023-25**

Timeline in which leading airlines expect to begin reaping the benefits from NDC and retailing

**Expected timeline**

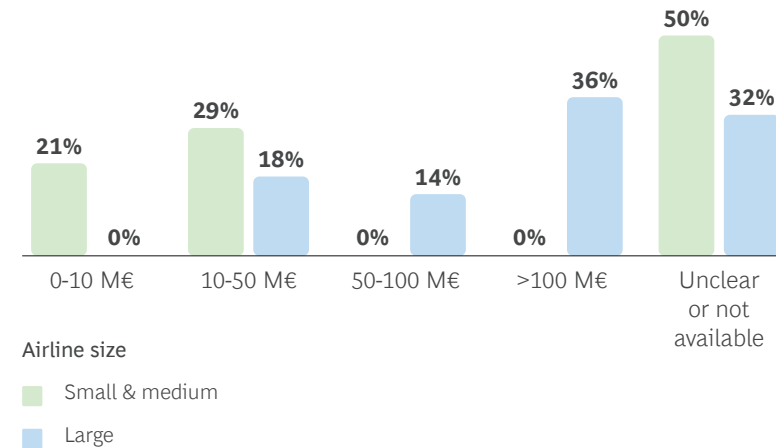


# Airlines are expecting to invest significant amounts to achieve the ambition

## \$50 to \$100M

Magnitude of investments required to unlock the full benefits of the retail transformation<sup>1</sup>

### Expected size of investment required



1. For the average airline  
Sources: BCG x IATA survey, 2022; BCG analysis.

## What the industry says

“With One Order in our full network, we can reach 3-digit million revenue increase. Even without One Order, we can realize 40% of the value, but the break-even is in year 3 or 4 for the investments needed”  
— VP Distribution

“To do One Order, we need proper accounting and systems, and this requires large investments. It will take 3-4 years to get to the end of that once we make the decision”  
— VP Distribution

“Hundreds of millions of dollars of investments will be justified considering the effort but also the value that will come down the line for the next 5-10 years”  
— Senior VP Revenue Management

“We foresee investments in the magnitude of 7-8 digits, including operating costs for 5 years. At a minimum, we are talking about 2 years of implementation”  
— Chief Commercial Officer



Number of answers  
 ■ Ambition  
 ■ Today  
 Area  
 [ ] Dynamic offers  
 [ ] Price adjustment  
 [ ] Traditional pricing

Most airlines expect to achieve the benefits by moving towards both Dynamic Bundling and Dynamic Prices



PRODUCT ↓

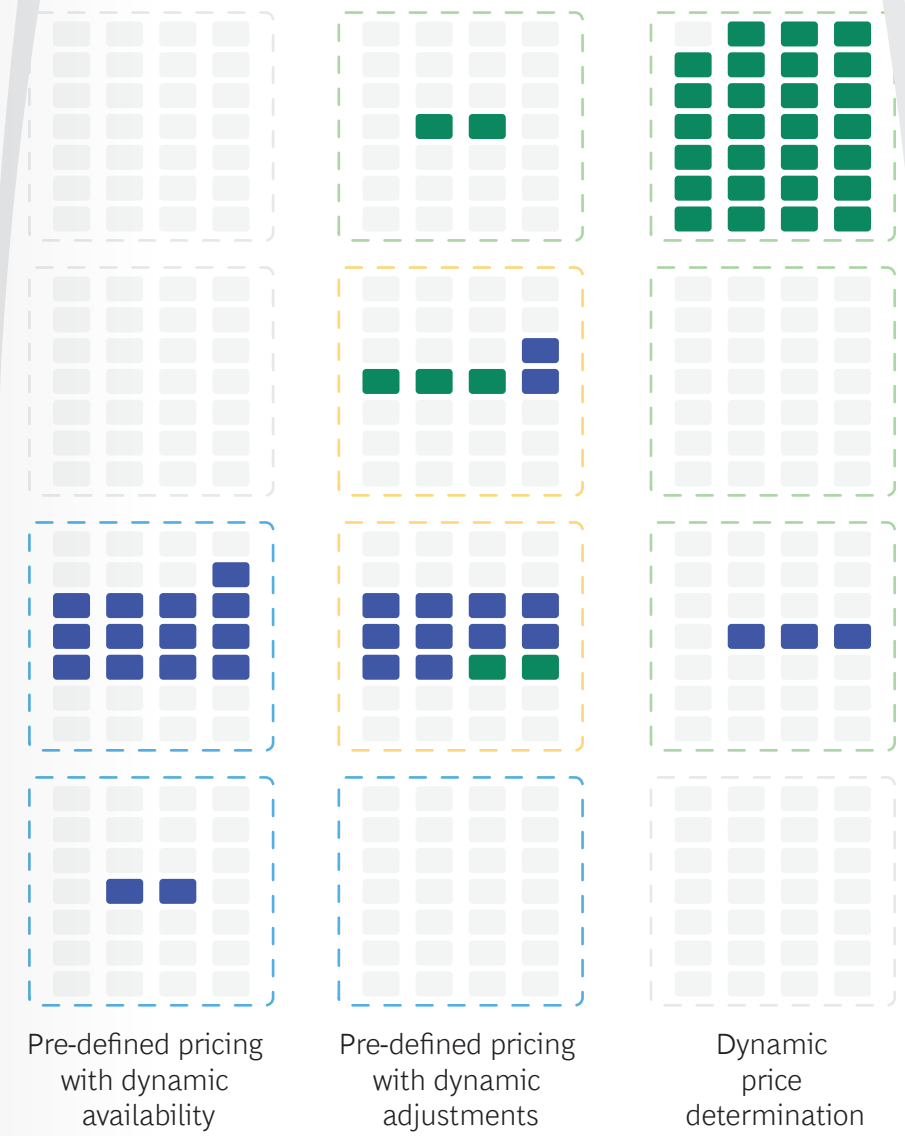
Dynamic bundling

Dynamic pre-definition of bundles

Static bundles

Static flights and ancillaries

PRICE →



Pre-defined pricing with dynamic availability

Pre-defined pricing with dynamic adjustments

Dynamic price determination



# As a starting point, airlines are focusing on setting their foundations today

## NDC

Adopt NDC and shift traffic to direct channels, improving customer data collection to offer a richer product

Implement new commercial models with distribution partners to bring down booking fees and gain flexibility

## Customer data

Offer a wider range of bundles / fare families dynamically selected

Implement continuous pricing, moving away from booking classes-tied fares

## New offers and continuous pricing

Structure customer data warehouse, combining multiple data sources available

Learn more about what matters to customers using advanced analytics



Currently, NDC is used as a cost-effective way to take a first step towards modern retailing, but still not a major source of competitive advantage and differentiation

~33%

use NDC as a cost-effective distribution channel and a first step to retailing

<20%

of airlines currently leverages NDC as a way to differentiate content

“Immediately, we started seeing the positive cost impact from moving to NDC”  
— Chief Commercial Officer

“Differentiation is the key driver of agencies’ shift towards NDC”  
— MD Revenue Management

“We want to do things in-house whenever possible. It was eye-opening to see how much in-house development is paying off for us versus competition”

— Chief Revenue Officer

From the system perspective, many airlines are diversifying the mix of technology and system vendors

39%

would use a mix of in-house development and vendor solutions

~25%

would choose a vendor to provide most of required modules





# Main Challenges and Risks



**CEOs should get even more involved in actively sponsoring the journey**

Currently, most programs are concentrated within Commercial areas, led mainly by CCOs and CIOs

**80%**

of the retailing programs led by Chief Commercial/ Revenue Officers (CCOs)

**<40%**

of the retailing programs actively sponsored by CEOs

## Three main challenges in the journey towards retailing

**70%**

Airlines encounter resistance across the organization to change the ways of working

**60%**

Leaders find it difficult to attract and retain talent with technical and analytical skills

**50%**

Respondents still need further information in order to fully maximize the opportunities from their airline's retailing ambition



# Attracting and retaining talent is difficult



Limited availability of skilled data scientists and data and software engineers



High demand and competition for talent with tech and startup companies



Higher compensation for “traditional” roles



Training and upskilling required in agile and test & learn



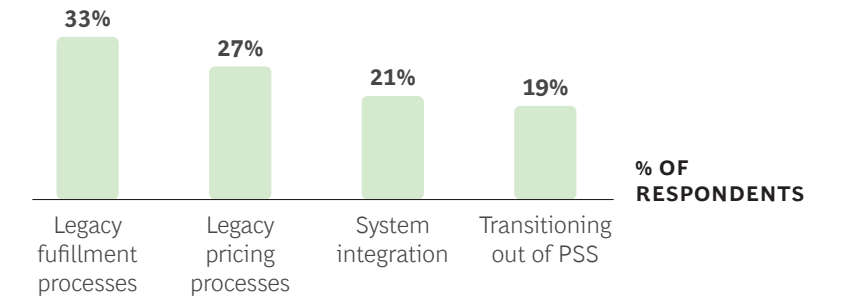
We are experiencing a large drain of talent. We train people very well and the teams become marketable to other digital companies

— *Managing Director Revenue Management*



# Legacy processes remain the biggest hurdle to success

## Main technological challenges to achieve retailing ambitions



The biggest blocker is technology, especially for real-time capabilities. Currently, it takes 6 to 24 months to implement a new branded fare

— *VP Commercial Offer*



To get full benefits of retail we need to move away from legacy pricing processes

— *Senior VP Revenue Management*





# Reshaping the Airline Organization





## Offer Management

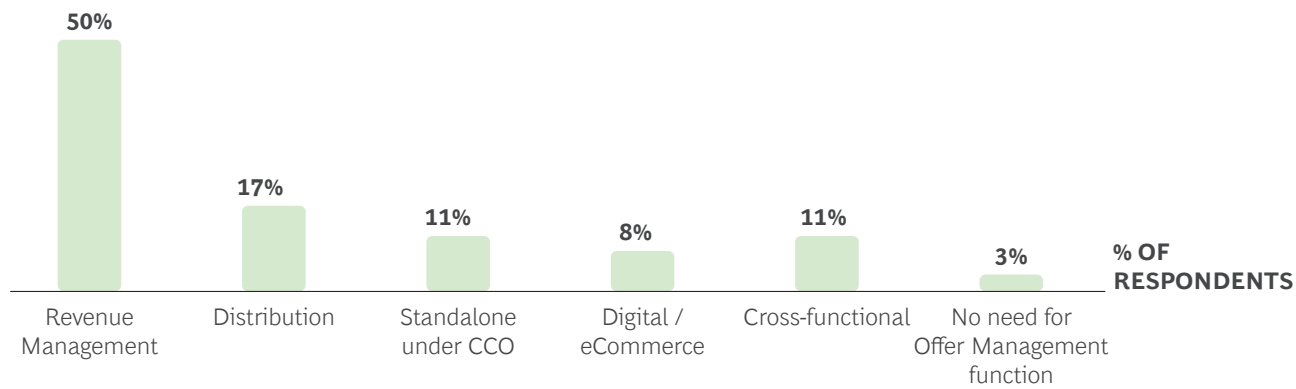
is gaining relevance

Most airlines see strong synergies between Offer Management and Revenue Management

40%

of airlines already have an Offer Creation and Management function in place

### Where should Offer Creation function sit?



## Revenue Management

is expected to become more product-oriented

### Revenue Management in the context of airline retailing is evolving

#### From...

Flight steering and capacity optimization

Route-driven pricing

Pre-filed fares

Static bundles and prices

#### To...

Total revenue optimization

Customer-driven pricing

Continuous pricing

Dynamic bundling and pricing

“RM will create new offers (anonymous or personalized) and market them, while ensuring that they do not go below the bid prices

— Chief Commercial Officer



# Four additional capabilities to reshape the organization

“The role of the Distribution organization is evolving, with far more focus on technology and change management

— Chief Revenue Officer

“The biggest area that we need to fill more is Data & Science, i.e., people with AI skills

— Senior Director Distribution

“Because of the magnitude of what we need to achieve, it is probably better to separate Technology from business in the future

— Strategy Director



## Marketing

will be critical for Offer Management, supporting customer understanding, driving customer journey and experience and creating value with CRM-driven actions



## Distribution

is playing a prominent role, driving NDC and implementing new commercial agreements



## Data Science

is key. Leading airlines are looking to enhance their data and analytics capabilities. Most see a better fit of the Data Scientist team within Revenue Management or other Commercial departments



## Technology

integration within business teams is not a standard, some airlines prefer separation

# Introducing the BCG and IATA teams



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