The Future Of Airline Distribution
A Look Ahead To 2017

by Henry H. Harteveldt
5 December, 2012

A Special Report Commissioned by IATA

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Travel Weekly in the United States named Henry one of the 33 most influential people in the travel industry. In 2008, Henry was honored by HEDNA, the Hotel Electronic Distribution Network Association, with its Award of Excellence. In 2011, Henry was elected Chair of the Board of Directors of the Association of Travel Marketing Executives (ATME), a volunteer-based, not-for-profit professional development organization serving travel industry marketing professionals.

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FROM THE INDUSTRY THAT CREATED ECOMMERCE

The story of the 1950s conversation between American Airlines’ founder, CR Smith, and an IBM salesman is legendary. Fast forward to 1962 and American’s launch of its Sabre system, and the world saw the birth of eCommerce -- it’s just that no one realized it at the time. Fast forward a few more years to the psychedelic 1970s, and airlines pioneered another form of eCommerce -- desktop shopping and booking, achieved by placing “dumb” terminals on travel agents’ desks.

In the 50 years since the airline industry began to teach the rest of the world how to conduct business electronically, much has changed within and across airline distribution. Although airlines don’t fly the same planes in 2012 that they did in the 1950s, 1960s, or 1970s, parts of the industry’s business processes, business models, and technology infrastructure date back to those eras -- and, in some cases, even earlier. It’s okay to be nostalgic for airline memorabilia, but nostalgia has no place in contemporary airline distribution, let alone positioning the industry to be successful during the next five years.

PLANNING AND BUYING FLIGHTS IS A COMPLEX EXPERIENCE

On a typical day in 2012, more than 8.1 million people worldwide will board a commercial airline flight. To market and sell their services, airlines conduct business in a fragmented, complex distribution environment. The growing use of the Internet by travellers who shop, plan, and buy airline flights online shines a glaring light on the challenges airlines face in distributing their content.

Analysis from Google shows that the typical traveller uses 22 websites to research a trip, in multiple shopping sessions, before booking. In researching flights, a brand-agnostic, price-focused traveller shopping third-party online intermediaries such as metasearch sites (e.g., Kayak and Bing Flight Search), online travel agencies such as Lastminute.com and eLong, and consolidators like Vayama, and receive different fare quotes for the same itinerary. Travellers relying solely on third-party websites would not receive all the information needed to make a fully informed purchase decision. For example, online intermediaries may not educate travellers on journeys involving multiple carriers that better fares may be available by flying airlines within an alliance, advice when extra-legroom economy class seats or premium economy cabins are available, or let them know if amenities such as in-flight Wi-Fi, in-seat power, or on-demand audio/video are available.

Consider a business traveller lacking “elite” airline loyalty program status making a complex trip from Burlington, Vermont-Miami, Florida-Lima, Peru-London, England-Madrid, Spain-Burlington. This traveller isn’t allowed to fly first or business class, but can book premium economy or

Google analysis shows that travellers shop on 22 websites before booking

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economy seats with extra legroom. She values amenities like in-seat power, Wi-Fi, and on-demand audio/video entertainment.

Traditional travel agencies, including corporate travel management companies (TMCs) would know about the benefits of consolidating flights within an alliance, and can generally book premium economy -- but can't always book extra-legroom seats. Not all travel agents may know about checked baggage policies or service or product offerings for the airlines they don't regularly book.

In our example, Burlington-Miami is booked on American Airlines through JFK, with the Burlington-JFK segment booked using an AA code-share on a flight operated by JetBlue. Miami-Lima is booked on LAN, Lima-London on Iberia (via Madrid), London-Madrid on British Airways, and Madrid-Burlington booked by way of JFK on AA code-share flights -- Madrid-JFK on Iberia and JFK-Burlington again on JetBlue.

Consider these various differences in the passenger experience that the traveller would benefit knowing about when planning and booking this trip:

- JetBlue offers one free checked bag, but American does not for its domestic economy travellers who lack “elite” status. Thus, the passenger will have to pay a checked-bag fee for Burlington-Miami.
- JetBlue offers an extra-legroom section on every flight, but only sells these seats in its website and kiosks. American doesn’t yet offer extra-legroom seats on every flight. AA code-share passengers on JetBlue can only buy extra-legroom seats at airport check-in.
- JetBlue offers free snacks and satellite TV on its flights, but American does not.
- American has Wi-Fi on some of its mainline fleet; JetBlue won’t offer this until early 2013. Most metasearch, OTA, and consolidator sites do not tell travellers when Wi-Fi is offered. Airline websites, mobile apps, and online check-in processes generally communicate this.
- Both LAN and Iberia offer premium economy cabins on their long-haul flights. Third-party online intermediaries generally don’t alert their users about premium economy.
- Long-haul LAN and Iberia flights feature in-seat, on-demand audio/video entertainment, an amenity not communicated in most metasearch sites, OTAs, and consolidators.
- Iberia, which shares a common corporate parent with British Airways, charges for all beverages and food in economy on intra-European flights; British Airways does not. These differences are not communicated on metasearch, OTA, or consolidator sites.
- Iberia and British Airways charge fees to reserve seats ahead of flight check-in; JetBlue, American, and LAN do not. American charges non-elite and discount economy passengers a fee to select a “preferred” seat at the front of the economy cabin.
One traveller. One journey. One alliance. Multiple airlines, with vast differences in the passenger experience, and just as many ancillary product cross-selling and up-selling options -- few of which are satisfactorily addressed in the content provided to travellers in third-party distribution channels.

DIGITAL TRAVELLERS HAVE CONTROL -- AND WANT MORE

The world in 2012 is a digital one. More than one billion people have Facebook accounts. There are more than 200 million tweets per day on Twitter.\(^3\) Apple sold 2 million iPhone 5 smartphones in the first 24 hours the devices were available to pre-order.\(^4\) Every day, more iPhones are sold worldwide than babies are born.\(^5\) Nine in 10 UK online leisure airline passengers have high-speed Internet access in their homes, as do 94% of the online leisure passengers in France, Germany, and China, 95% of Brazilian passengers, and 98% of US online leisure airline passengers.\(^6\)

The world’s airline passengers are online citizens, empowered through their extensive adoption of various consumer technology devices (see Figure 1). Passengers spend noticeably more time on the Internet each week than they do watching TV, meaning they will increasingly turn to the web for their travel planning, booking, and servicing -- and expect airlines and their authorized intermediaries to be able to take care of them in their digital channels.\(^7\)

Figure 1: Tech Devices Are In The Hands, Purses, And Briefcases Of Many Passengers

![Tech Devices](image-url)

<table>
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<tr>
<th>Device</th>
<th>US</th>
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Base: Online leisure airline passengers

Sources: Atmosphere’s US Online Traveler Survey, Q2 2012; UK Online Traveler Survey, Q2 2012; France Online Traveler Survey, Q2 2012; Germany Online Traveler Survey, Q2 2012; China Online Traveler Survey, Q2 2012; Brazil Online Traveler Survey, Q2 2012
Spurring future growth of the Internet as a travel planning, booking, and service channel is mobile, namely smartphones and tablet devices. Mobile is the most important, and most interesting, contributor to eCommerce’s upward spiral. Passengers are more likely than the general population to own smartphones and tablet devices, with substantial growth expected due to these devices’ growing capabilities (see Figure 2-1 and Figure 2-2). Passengers show strong interest in using mobile devices to plan and book flights, illustrating their comfort with these devices (see Figure 3). Airline executives expect mobile to generate 7% of online direct sales in 2012. By 2017, Atmosphere expects 50% of online direct bookings will be made on mobile devices -- with even more ancillary purchases made through mobile, given the devices’ portability and ease of use.8

Worldwide eCommerce sales will reach US$1.4 trillion in 2013, with double-digit CAGR expected.9 Travel is the largest eCommerce category, led by airline ticket sales. In the US, it’s estimated that business and leisure travellers will spend $85.7 billion online for airline in 2012 -- nearly 58% of total online spending -- increasing to $110.2 billion (56% of total) in 2016.10 Upwards of 4 in 5 passengers are Bookers, and they book most -- though far from all -- of their flights online.11

To continue to capture the online bookings they get now, and to earn even more, will require more than just the use of new gateways like mobile. It’s essential that all players involved in airline distribution understand online passengers’ mindsets. Consider how:

- **Overly complex experiences send travellers to higher-cost offline channels.** Among US passengers who buy travel online, 82% say it’s easy to plan and book trips online -- so easy that they buy 84% of their flights online.12 The 18% who don’t find online travel planning and booking easy book 21% less of their flights online -- and are 15% more likely to buy from an offline travel agency compared to passengers who find booking easy.13 Passengers want simple, straightforward planning and booking processes -- though these processes can’t omit choice and relevant flight details.

- **Control is as important in booking flights as in buying a cup of coffee.** The typical Starbucks shop offers more than 87,000 variations of the drinks it sells.14 Hotels offer “pillow menus”. Consumers can customize almost any good or service, including cars, smartphones, and apparel. Passengers may accept that airlines can’t be the first to offer customization tools like buttons, sliders, and other similar controls that make flight shopping easier by letting travellers filter the flight search results they receive. Their patience with airlines, however, will not last long. As passengers see these tools deployed on other websites, they will expect airlines to offer comparable functionality as well.

- **Want both good prices- and the opportunity to indulge themselves.** Among leisure passengers, getting a good price for a flight is -- understandably -- important. A critical mass number of passengers allow their budgets to dictate their destination (see Figure 4). Distribution channels, including direct and third-party websites, must be able to engage
Figure 2-1: Near Universal Smartphone Adoption Among Passengers By 20

Source: Atmosphere Research

Figure 2-2: Anticipate Sharp Growth In Passengers' Tablet Device Adoption By 2017

Source: Atmosphere Research
Figure 3: Service And Support Mobile-Based Functionality Top Passengers’ Interests

“How interested are you in doing any of the following activities from your mobile phone in the next 12 months?” (Top two boxes)

Base: Online leisure airline passengers who own and use smartphones

Sources: Atmosphere’s US Online Travel Benchmark Survey, Q3 2011; UK Online Traveler Survey, Q2 2012; France Online Traveler Survey, Q2 2012; Germany Online Traveler Survey, Q2 2012; China Online Traveler Survey, Q2 2012; Brazil Online Traveler Survey, Q2 2012;
passengers by merchandising offers that appear at the proper point during the shopping, planning, and booking processes -- and which are made more useful though the use of well-written copy and good-quality visual content. Importantly, back-end data software must exist to help airlines and authorized distribution partners identify the passengers -- or their travel agencies -- who are, and who are not, most likely to be interested in these to improve conversion and sales.

Your Future Generations Of Passengers Are Very Different Consumers

As the world’s airlines evaluate their distribution strategies, it’s essential to understand the mindset of your future base of customers, especially passengers between the ages of 22 and 35, or Generation Y (“Gen Y”). Passengers in this age group are more likely to have completed their university studies and entered the workforce, which helps provide them with the disposable income they need to travel.

This is a sizable audience, though not consistently so. Fifty-eight percent of China’s online leisure passengers belong to Gen Y, as do 38% of Brazil’s. Although smaller than China and Brazil,
developed countries have plenty of passengers who belong to this group: 34% in the UK are Gen Y passengers, as are 29% in the US and 26% in both Germany and France. Airlines can’t focus on “Baby Boomers” without considering Gen Y’s needs -- and the substantial business opportunity they represent. Gen Y passengers have a lifetime of buying airline tickets ahead of them. They will eventually become more important than Boomers, as Boomers begin to retire and travel less.

Gen Y passengers are the first to have grown up with the Internet integrated into the daily fabric of their lives. They enjoyed high-speed connectivity at home and school. Their use of laptop computers and mobile phones, rather than desktops, helped them develop a perspective that Internet access is immediate, easy, and omnipresent. Some in this group were the first to use smartphones as young adults.\textsuperscript{15} Airline distribution and eCommerce strategies will have to have “mobile first” strategies to be visible to this audience.

These travellers believe the answer to any question or need, whether personal, professional, commercial, or social, can be found through the endless digital content available to them. If the solution isn’t there, they’ll invent it (witness Facebook). Gen Y’s online shopping and buying rates come close to that older, more financially established passengers spend online. Even when they buy something offline, this group will be more likely to consider using a smartphone app in the store to check prices, or make a digital payment using tools such as digital wallets.

Regardless of where they live, Gen Y passengers use OTAs. Given OTAs’ breadth of airline choices, reputation for lower fares, and contemporary marketing images, airlines must anticipate that they will have to work aggressively to change this younger audience’s behaviors -- and that earning their channel loyalty will also be a difficult challenge.

**DISTRIBUTION COST, MERCHANDISING FRUSTRATE AIRLINES THE MOST**

Airlines have been increasingly successful generating direct sales via their websites and mobile applications -- their lowest cost sales channels. A global Atmosphere Q3 2012 survey of airline executives shows that, on average, low-cost carriers (LCCs) generate about twice as much of their bookings through their websites compared to network/flag airlines, and less than half as much in the GDSs. As previously noted, some LCCs generate almost all their sales from their websites.\textsuperscript{16}

The cost of third-party distribution clearly frustrates airline executives (see Figure 5). Airline executives worldwide consistently tell Atmosphere they need lower costs, especially from GDSs. Frontier Airlines in the US states it costs the airline 20 times more to sell via OTAs than its website -- a function of both GDS and OTA compensation.\textsuperscript{17} Asked by Atmosphere to index the yields of various sales channels, with their websites’ yields indexed at 100, airlines claimed that OTA yields indexed 91, substantially below average (see Figure 6). Traditional offline leisure agencies’ yields
indexed at 102, but that premium wasn’t adequate to make airline executives happy, given the cost to sell through GDSs. Only TMCs, whose yields index at 118, placate airline executives.

Beyond costs, airline executives are also unhappy with what they perceive as inadequate transparency of fare families and ancillary product merchandising in GDS-based distribution channels -- particularly OTAs. Unlike airline websites, which present all fares and offers, third-party intermediaries generally provide only limited airline content -- generally just the lowest fare available, and links to checked baggage fee information (see Figure 7). GDSs may sell only part of an airline’s ancillary product suite, though Travelport’s Agencia and Sabre Red claim they offer their agency users access to more ancillary content than is found through “standard” GDS access.

“Our website presents multiple fare families. We’ve improved the [user interface] to help with up-selling and how we present ancillary products. Take-up rates for some of our ancillary offers exceeds 20%. We get none of that -- zero -- on the OTAs.”
- Director, eCommerce, US-based network airline

“Distribution is about transparency. In retail, the stores must present merchandise the way the brands want. Airlines have no control over presentation or merchandising in GDSs and OTAs.”
- Vice President, Distribution, European network/flag airline

“GDSs and travel agencies that can’t or won’t sell our ancillary products the way we want will find that they’ve becomes invisible to us.”
- Managing Director, eCommerce, European network/flag airline

Figure 5: Distribution Business Issues Frustrate Airline Executives More Than Technology

“Thinking about third-party distribution, how much of a concern are the following” (Number who answered in the top two boxes for each response)

<table>
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<th>Number</th>
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<tr>
<td>Fare/fare family presentation/merchandising</td>
<td>11</td>
</tr>
<tr>
<td>Ancillary product/service merchandising</td>
<td>10</td>
</tr>
<tr>
<td>Technology</td>
<td>8</td>
</tr>
<tr>
<td>Passenger recognition/personalization</td>
<td>6</td>
</tr>
<tr>
<td>Travel agency cost/business model</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Atmosphere telephone interviews with 15 airline marketing/sales/distribution executives
SEAT 27A IS NO LONGER JUST ANOTHER SEAT

Airlines have morphed into retailers -- true merchants of the skies. As merchants, airlines need systems that can help them not just distribute their flights, but merchandise their products and value across the channels that make sense -- offline and online, direct and indirect -- at sensible costs. What airlines don’t want are distribution channels that present all airlines as equally substitutable commodities. Airlines want, and expect, their distribution partners to offer passengers helpful contextual information to make well-informed purchase decisions, reducing the number of reservations made based primarily or exclusively on price.

In the evolving business of airline retailing, the price one pays for a reservation may not be associated with a specific seat -- at least in the standard economy cabin. As “merchants,” regardless of whether they’re a LCC or network/flag airline, carriers sell their products in increasingly different ways -- approaches that require increasingly robust, flexible, retail-friendly commercial platforms. LCCs and network/flag airlines alike:

- **Offer “fare families”** in which airlines cluster fares based on business rules such as advance-purchase or flexibility in changing reservations, or where airlines have “productized” fares by incorporating them with defined, tangible amenities or benefits, such as priority boarding and loyalty program accrual (see Figure 8).
Figure 7: OTAs Show Only The Lowest Fare, And Do Not Present Ancillary Products

- **Unbundle their experiences** to offer the low fares passengers seek, while enabling those who are interested the ability to buy additional, optional amenities or services.

- **Democratize the journey**, by making some amenities once available only to premium travellers, such as priority security screening and airport lounge access, available for sale to a broader range of passengers.

- **Extract a seat's benefits**, like being located on the aisle or window, having extra legroom, or offering in-seat power, to increase its appeal and help distinguish it from other seats in the cabin. Conversely, seats that are less appealing -- for example, a seat that doesn’t recline -- can also be highlighted.

- **Introduce new services** for sale, such as in-flight Wi-Fi or premium meals, to enhance a passenger’s productivity or enjoyment while aloft.
Our business traveller example illustrates how an alliance’s airline members -- even carriers with common corporate ownership -- can offer extremely different passenger experiences. If distribution systems and channels are unable to support this by merchandising what is included and extending relevant up-sell and cross-sell offers, neither the airline not the traveller will receive the greatest possible value. Absent useful contextual information, the passenger buys based on price, and perhaps schedule, rather than value -- and may miss out on enjoying a more pleasant journey.

**Figure 8: Airline Websites Present Fare Family Information In Rich Detail**

Source: AirCanada.com

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**EVOLVING BUSINESS STRATEGIES IMPACT DISTRIBUTION**

The airline industry does not view the status quo as acceptable. Established airlines expand, contract, consolidate, and close down. New entrants emerge. Carriers enter and leave routes and markets. New business models and strategies illustrate that innovation is alive within the industry. Along with changing technology and consumer behavior, the evolution of airline distribution will be heavily influenced by the two largest groups of carriers: global airline alliances and LCCs.
The three major airline alliances -- one\textsuperscript{world}, SkyTeam, and Star Alliance -- currently account for approximately 53% of the world’s passengers.\textsuperscript{18} Atmosphere believes that three elements will influence this group of airlines’ distribution strategies:

- **Antitrust immunity and joint ventures.** Antitrust immunized (ATI) joint ventures (or joint business agreements) exist across all the alliances, and across all three IATA Traffic Conference regions.\textsuperscript{19} ATI joint efforts are strongest across the North Atlantic, where they accounted for 87% of North Atlantic traffic in 2011.\textsuperscript{20} ATI joint ventures are fundamental to enabling member airlines to be more productive and efficient in various business efforts, including distribution and sales.

- **Strategic polarization of distribution, sales, and marketing by country.** Alliance memberships, especially when enhanced by ATI joint ventures, enable alliance airlines to focus their distribution and sales efforts where they will do the most good -- and deliberately deemphasize less valuable markets. In its home and important foreign countries, an alliance carrier can drive sales through preferred distribution channels, such as its website. In foreign countries where the airline’s presence is weak, but where a partner -- ideally part of an ATI joint venture -- may be strong, the partner can take the lead on distribution. Where both the airline and alliance are weak, the airline can opt to capture whatever business it naturally receives in its direct channels.

- **Alliances replace individual airlines as corporate account gateways.** The growth of ATI joint ventures enables alliance airlines’ sales teams to negotiate pan-alliance contracts with corporate accounts. A US network/flag airline senior sales executive told Atmosphere, “A critical mass of our contracts are now negotiated on an alliance level”. A TMC executive in the US commented, “We’re past the tipping point where clients’ contracts are with alliances. A growing number of our clients now have deals with multiple alliances”. Over time, corporate accounts’ airline interactions -- including, importantly, reservations -- will increasingly be alliance-focused, rather than airline-focused. As their clients’ relationships evolve with airlines, TMCs will find themselves following along, working increasingly, though not exclusively, at the alliance level.

The second important block of airlines -- LCCs -- account for nearly 26% of the world’s passengers in 2012.\textsuperscript{21} LCCs embrace varied distribution strategies, reflecting different business, network, and operational strategies.\textsuperscript{22} Some LCCs, like Ryanair, Allegiant, and Tiger Airways, use direct distribution exclusively, with online sales producing almost all their reservations. Other LCCs, such as easyjet, Virgin Australia, and Southwest, participate on a selective basis in GDSs. Why would a LCC use GDSs, given GDSs higher costs? As an eCommerce Manager at an Asia/Pacific-based LCC stated, “We use GDSs to reach business agencies and their clients.”
Airlines are pragmatic businesses. As such, they will seek out new business opportunities and relationships, even if that means straying outside certain “boundaries”. Alliances airlines, for example, engage with independent network/flag airlines and LCCs. On October 8, 2012, SkyTeam members Air France and KLM announced a code-share arrangement with Etihad Airways, which does not belong to an alliance, and airberlin, which is a member of oneworld.23 Emirates, another independent airline, and oneworld member Qantas announced a joint-venture on September 6, 2012.24 Virgin America, an independent LCC, has interline relationships with non-US airlines across all three alliances.25 Canadian LCC Westjet code-shares with SkyTeam member Korean Air. Relationships between alliance and third-party airlines will continue, and may expand -- and they will need a distribution infrastructure capable of supporting them.

The Technology Landscape

In some ways, airline IT departments are victims of their own success. As pioneers in the computerization of business operations -- in particular reservations and, subsequently, distribution -- airlines and their technology partners were in many cases forced to invent reliable server infrastructures, programming paradigms, and data networking techniques just to automate their business processes and connect with suppliers and channel partners. Contemporary technology at the time more often than not involved expensive, proprietary mainframes and minicomputers and slow, closed data communication networks. All calculations and data processing were performed centrally with user access limited to simple data entry through "dumb" terminals consisting of little more than a keyboard and a video display screen.

There are additional, equally important contributors to this new technology environment that will enable airline distribution to enter a new era, including:

- The ability for various distribution components, such as inventory and sales, to be extracted from the reservations/PSS cores and run on a more independent basis.
- The ability to pass “cookies” or “tokens” that identify a traveller through third-party distribution systems between airlines and intermediaries.
- The ability for airlines to implement more comprehensive software that will support more dynamic pricing/faring approaches, reducing the need for airlines to file fares as has been done.
- The emergence of new airline-focused content aggregators like TravelFusion and LUTE that use APIs to link disparate reservations systems to extract and assemble ad hoc itinerary and fare options, such as combining a network airline and a LCC, or between
carriers that lack ticketing and baggage agreements. Though these may require separate tickets, enabling intermediaries and passengers to choose these options will provide more choice, control, and value to the traveller, and allow airlines to better compete.

- The emergence of ERP and CRM business/finance database and solutions providers such as Concur, Oracle, and Salesforce.com that allow enterprises to track corporate travel spending at various levels (e.g., employee, department, P&L center, etc.), and which also enable a consumer-focused travel agency to track spending by traveller.

Today’s IT architectures -- even large, centralized ones -- bear little in common with their mainframe forebears, and the pace of change has only accelerated recently as Cloud Computing, mobile and tablet computing, and “Big Data” have entered the landscape.

**BY 2017, “DISTRIBUTION” WILL MORPH INTO “COMMERCE”**

“Distribution” is no longer an adequate way to think about how airlines must sell their products. While GDSs and various online and offline third-party channels enable airlines to distribute their products, “distribution” implies process -- when airline executives instead are increasingly focused on results. That’s why, by 2017, what airlines currently call “distribution” will be replaced by a focus on channel-based, value-creating commerce.

Organizationally, an airline’s “distribution” team will become part of the “commerce” department, and will likely be part of an airline’s marketing department. The “commerce” team’s focus will shift from “pushing product” to identifying and choosing the relevant commerce channels and technologies the airline needs to strategically and cost-effectively generate revenue, and working with other relevant groups, such as pricing, revenue management, and customer insights, to ensure the airline achieves its business and financial objectives.

Airline commerce will not ignore its legacy as it re-envisions its purpose. It will, however, look to businesses outside the airline industry for inspiration and ideas. For example, search engines know what their users search for and view, their location, and the platform they use (e.g., traditional web, smartphone, tablet). Amazon knows its customers’ addresses, transaction histories, the items they view and buy, forms of payment used, and more. Social networks let people share ideas, information, and opinions. Travellers will expect the same degree of flexibility, responsiveness, and control when they plan, shop, and book their flights. Knowing this, airline commerce teams must work to incorporate experiential elements in their commerce platforms -- including those belonging to third-parties -- so they can effectively deliver the selling experiences passengers expect.
Direct Channels Will Emerge As Airlines' Largest Commerce Gateways

In the United States, people age 65 and older will increase from 13% of the country’s population in 2010 to 20% in 2020.²⁶ Europe will see its population of adults age 65 and older increase from 16% in 2010 to 19% in 2020.²⁷ An aging population means fewer business travellers in two of the largest business travel markets. Technologies like web conferencing and “high-definition” telepresence systems will also cut into business travel. The result: Atmosphere estimates business travellers will decline from 45% of the world’s airline passengers in 2012 to 40% by 2017.

Still, with 2 in 5 passengers flying for business, this audience will remain important to airlines -- and carriers know they will need to support its commerce needs, including respecting the relationships between TMCs and their corporate and government travel clients. Airlines will adopt a very different mindset with mass-market leisure travel agencies, especially OTAs. As airlines find themselves increasingly reliant on leisure travellers -- a generally brand-agnostic group with more time than money -- carriers will become more aggressive in their efforts to challenge the OTAs for leisure passengers.

Airlines’ websites and mobile apps have been and will continue to be a prime area of investment. The Chief Marketing Officer of an Asia/Pacific-based network/flag airline told Atmosphere, “There are few marketing areas where I can be as confident in our commitment over the next five years as I am about our commitment to eCommerce and our website.” Pricing, marketing, and business strategies that favor bookings made via an airline’s website, such as Frontier Airlines’ policy that lets its website Bookers -- but not OTA users -- reserve seats in advance, and investment by airlines into new front-end designs and functionality and back-end systems, will help the world’s airlines produce 59% of their booking volume through their websites by 2017, up from 35% in 2012 -- with much of this share shift coming from OTAs.²⁸

“Big Data” Will Make Data-Based Commerce Possible And Practical

Passengers want better, and more relevant, value when they plan and buy their flights. Few airlines want passengers buying solely on price.

Fortunately, a solution exists, and it uses an asset most airlines already have in abundance: data.

“Big Data” may not be the most elegant descriptor, but the widely used term nicely illustrates how airlines exist in the center of a galaxy of data that they can, and should, capitalize on to improve the quality and relevancy of their offers (see Figure 9). Between 2012 and 2017, Big Data will allow
airlines to enter the era of data-based commerce -- or dbCommerce. dbCommerce will build on many of the initiatives being considered as part of IATA’s New Distribution Capabilities (NDC).²⁹

dbCommerce will, arguably, be the biggest technology revolution to airline commerce since the Internet became a viable consumer channel in the mid-1990s. For airlines to benefit from dbCommerce, they will need to invest in creating customer data warehouses, acquiring or upgrading relevant software, such as CRM, and hiring employees such as data scientists who are skilled areas such as analytics and data visualization. These initiatives will put airlines in stronger positions to mine their passenger, operational, and business data in ways that will allow them to develop actionable customer personas, segmentation models, and marketing strategies and tactics. The result of this work will be a dbCommerce infrastructure that empowers airlines to present relevant, tailored offers and prices to travellers or travel agents shopping for flights.

Airline pricing, as a result, will evolve from the current practice of filing vast numbers of fares to dynamically generating prices that reflect not only the product or experience being sold, but key dbCommerce inputs. The extent to which an airline will tailor a price will vary. In some cases, a
“one to many” will suffice — or be as much as an airline can do. In other cases, especially for airlines with more extensive dbCommerce capabilities, highly personalized offers will be created. Regardless of how an airline is able to customize an offer, the intended outcome will be the same: to shift passengers’ focus from price to value as they shop for flights.

**Direct And Alternative Distribution Yes, “Direct Connect” No**

Airline executives tell Atmosphere that they need commerce systems that do a better job of recognizing customers, merchandising and retailing their ancillary products and offers, and enable travel agencies to present the airline’s content in a more comprehensive, transparent manner. Few airlines show interest in true, “unfiltered” direct links between their host systems and key travel agencies beyond what they may have now (see Figure 10). Instead, their interest lies in alternative distribution options like Farelogix and TravelFusion. These companies bypass the GDSs, but still consolidate content for agencies’ use, and provide a buffer between agencies and the airline’s host systems.

**Figure 10: Airlines Show More Interest in “Alternative” Distribution Than “Direct Connect”**

Source: Atmosphere telephone interviews with 12 airline marketing/sales/distribution executives

**PAY ATTENTION TO “CAFGA”: CONCUR, APPLE, FACEBOOK, GOOGLE, AND AMAZON**

The traditional primary focus of airlines’ distribution attentions have been their own channels and those of key third-parties, such as GDS, metasearch, and offline and online travel agencies. These channels continue to merit airlines’ attention — but they cannot be carriers’ sole focus.
Atmosphere asserts that a new “gang of five” warrant airlines’ ongoing scrutiny. None of the five are traditional airline distribution players. The five companies: Concur, parent of the Triplt itinerary management tool, Apple, Facebook, Google, and Amazon -- CAFGA for short.

Why should airline executives pay attention to these companies?

- **Concur may know more about your travellers’ trips than you.** Thanks to buying Triplt in 2011, Concur is positioned to become a gateway between airlines and their passengers. Triplt lets travelers upload their flight, hotel, and other travel reservations to a consolidated itinerary. As a result, Triplt can create a “super PNR” of its users’ trips, and Concur can integrate user data into a comprehensive data warehouse -- made even more powerful if the traveller also uses Concur’s expense reporting software. Concur sits on massive volumes of customer data and insights. Atmosphere believes Concur will leverage this by selling data to airlines -- data that may include insights such as market share, fare paid, purchase channels used, and more -- and through Triplt-based marketing solutions.

- **Apple’s Passbook may be a wolf in sheep’s clothing.** If you think Apple is a benevolent business, ask your local music store how they feel about iTunes. Passbook, Apple’s new mobile wallet, can store a traveller’s loyalty program account information, boarding passes, coupons, and more. Apple built iTunes into a fortress that drove brick-and-mortar stores out of business, while cementing millions of people to Apple hardware and software. Atmosphere believes Passbook has the potential to threaten the airline-passenger relationship, due to how Apple designs applications that are easy, enjoyable, and nearly effortless to use, and which provide the user with enormous utility. Atmosphere sees Passbook as Apple’s “Trojan Horse” into the travel space. Apple won’t be a travel retailer, since travel doesn’t offer the same margins as entertainment, and selling travel brings with it customer service burdens. Instead, Atmosphere believes that Apple will use Passbook as the media and financial “toll booth” that airlines will have to pay to reach their passengers.

- **Facebook knows how your passengers live their lives.** With more than one billion users worldwide, Facebook has become the global “town square.” Passengers worldwide flock to Facebook, using it to search not only for friends, but brands, destinations, interests, and more. Facebook’s semantic data, search data, and advertising insights, coupled with its ability to process reservations and its growing capabilities in mobile, make the site powerful due to the data it is aggregating. Atmosphere believes Facebook will attempt to aggressively monetize its users by using real-time bidding (RTB) algorithms that will pit airlines against intermediaries to reach travellers. If there’s an upside to Facebook, it’s the site’s promise of strong consumer targeting capabilities.
• **Google will do everything but fly your aircraft.** Whether it’s to dream about, plan, shop for, book, or manage a trip, Google participates in almost every aspect of airline distribution, eCommerce, and marketing. Google’s Chrome web browser is the world’s most-used.\(^{30}\) Google has the top general search engine. It offers metasearch, through Google Flight Search. It owns ITA Software, which sells airline pricing and reservations software. Google offers several social media platforms, including Google+, Picasa, and YouTube. Google markets its own laptop computers, smartphones and tablet devices, created the Android mobile operating system, and operates the Google “Play Store,” where users can download mobile apps. Google’s mobile wallet can help travellers pay for their purchases. Google Maps and Google Earth can help travelers plan and navigate through their destination -- including airports. “Google Goggles” will serve as navigational devices, with lenses that present geolocation-based information and offers to their users. Google offers many excellent technology products, and it is a genuinely creative business. Google can use its power and reach to facilitate or interfere with the relationship an airline and passenger have with one another. Even if it chooses to facilitate the relationship, Google can make that access extremely expensive, or force an airline to use a certain product if the airline wants to reach to passengers through a specific channel.

• **Amazon is the world’s retail marketplace.** Amazon’s global websites, with their extensive offerings and “one click” buying, define the consumer digital commerce experience. Amazon may not sell travel directly, but its Amazon Web Services division hosts various transactional websites. While market share of its Kindle tablets may be small compared to Apple’s iPad and devices that run the Android operating system, Amazon gains a commerce short-cut to Kindle users’ wallets through the devices’ integration with its digital stores. And, like Google and Apple, Amazon is entering the mobile wallet space. Amazon is a powerful, mighty retailing hub, and is positioning itself to be a factor in how airlines sell, and how passengers buy, air travel.

### NEW BUSINESS MODELS WILL ENABLE INTERMEDIARIES TO PAY FOR DISTRIBUTION

While dbCommerce will be the biggest technology change in airline commerce, the way published -- not, importantly, negotiated -- airfares are made available to authorized intermediaries such as travel agencies will be the among most important commercial changes to the future of airline commerce.

Airlines’ frustration with distribution costs is not new. What hasn’t been discussed, however, is that airlines are partially responsible for their own frustrations. Why? Airlines generally require third-parties sell a published fare for the same price that the airline charges. This business approach
dates back literally to the start of commercial aviation -- when the airline brand landscape was highly fragmented, when travellers relied on travel agents to guide their choice of airline, and when then-regulated fare structures were simpler and flatter. When airlines spun off what we now know as GDS companies, what had been a source of profit immediately became an expense item. Airline loyalty programs, the Internet and growth in passengers choosing their own flights, and increasingly complex fare structures -- with massive gaps between the least and most expensive fares -- all contributed to the current environment defined by disgruntlement, antagonism, and high blood pressure.

Despite limited initiatives such as the one between British Airways and LIME Management in the UK, where agents pay LIME to issue BA tickets, the general practice in the travel industry is for suppliers like airlines to bear distribution costs. In most other industries, a retailer acquires goods at a wholesale price, and marks up the item to sell to its customers. That margin covers its expenses, including distribution. By 2017, airline commerce will embrace this. Airlines will control their financial metrics, such as yield, to preserve revenue and profit. This approach offers airlines an additional benefit: The intermediary becomes the “merchant of record”. Along with fulfillment and customer support, the agency bears the cost of “merchant fees” charged by the credit card, bank or other payment provider the passenger uses. Airlines can use one of three wholesale models based on factors such as the competitive environment, product being sold, and point of sale:

- **A traditional “wholesale” model that lets agencies determine the sales price.**
  Building off the experience airlines have using either net fares or corporate contract fares, individual intermediaries on either the leisure or corporate side could be given access to either wholesale-like fares or unique bundles of products and services. The “wholesale-like” price would be set to meet the carrier’s yield and profit targets, but allow the intermediary to determine the “street price” the passenger would pay. Consider an itinerary an airline might “retail” to travellers for US$300. The airline would charge the agency a “wholesale” price -- for example, $285. Though the agency can’t charge more than $300, it could, if it wanted, sell the ticket for less than $285. Would the airline be worried about being undersold? No. The airline is getting the revenue it wants. Thanks to the existence of net and corporate fares, the mechanisms are in place for intermediaries to mask the actual price paid.

- **Manufacturers’ Suggested Retail Price (MSRP) to preserve price integrity.** The MSRP model is the business model Apple Computer uses with its authorized retailers. Although Apple sells its products to the retailer at wholesale rates, Apple controls the retail price. Similarly, an airline that uses the MSRP model will also “sell” an itinerary to an agency at a wholesale-like price -- that meets the carrier’s financial targets -- but require the agency sell the itinerary at the same price the airline charges in its direct channels. In the MSRP model, an airline would “sell” a $300 fare to an agency for $285 but mandate
the agency charge the passenger $300, preserving pricing integrity across channels. When might an airline use this model? For premium products, such as first or business class tickets, or on routes where one airline operates all or almost all the flights.

- **“Pass through” maintains the current business practice.** In countries where regulations or business practices preclude an airline from using either the traditional wholesale or MSRP models, or for negotiated corporate fares, an airline would maintain the current business practice of “passing through” a fare to an agency at the same price the airline charges in its own channels. Without a markup, an agency can credibly argue that it has no margin to pay for distribution. Rather than continue to pay for distribution directly, the airline would provide the agency with modest financial compensation to cover distribution, including merchant fees.

Mechanisms already exist for airlines to control their own pricing by using of a “trust token” passed at the moment of ticketing. Any airline that chooses to use this will have pricing integrity, which would alleviate the need for debit memos, and allow the airline to confidently offer consistent pricing across channels. So far, no airline has chosen to do this.

### FROM GLOBAL DISTRIBUTION SYSTEMS TO VALUE CREATION HUBS

As much as airlines’ direct digital commerce efforts will evolve between 2012 and 2017, even more extensive and substantive changes will take place between airlines and third-party commerce technology providers.

The GDSs have served airlines well for many decades. GDS’s security, reliability, speed, and accuracy are among the best in any transactionally-based industry. However, based on Atmosphere’s interviews with airline marketing, sales, distribution, and eCommerce executives, airlines want more flexible, robust commerce platforms built on contemporary software and architecture. Airlines want commerce platforms that can support extensive fare and product transparency, dynamic pricing, rich basic and ancillary product merchandising and retailing, and the ability to reliably and securely process the massive volume of shopping sessions. Importantly, airlines are also eager to see new providers enter the airline distribution/commerce space. As the Vice President of distribution at a North American network airline told Atmosphere, “More competition in this space can help us get better selling solutions than we have access to now.”

Atmosphere believes this new commerce channel will become known as “value creation hubs” (VCH) (see Figure 11). VCHs will represent an evolutionary “pivot” from the current GDS approach. VCHs will use the new-generation airline commerce technology infrastructure used to power airline CRS/PSS host systems, eCommerce solutions, and more, thus reducing the need for lengthy, costly disruption in a conversion. Like GDSs, VCHs will be designed to support high-
VCHs, however, will be developed with the dbCommerce operating and business environment in mind, and be designed to provide extensive fare and product transparency, support dynamic pricing, and enable rich merchandising and retailing. VCHs will not necessarily require airlines to change their CRS or PSS host systems. However, the systems themselves may require enhancements so that they can be adapted to support the VCHs.

A key difference between GDSs and VCHs will be the business level at which the VCHs work. Unlike GDSs, which work with individual airlines, VCHs will be developed for each major alliance -- one world, SkyTeam, and Star Alliance.
Atmosphere believes a critical mass of LCCs will choose to collectively develop a VCH to serve their unique needs and help strengthen their competitive positions.

Because the VCHs will operate at a “group” rather than single airline level, the VCHs will house a “community link”, similar to Amadeus Net, which will function as the “hub of the hub”. This hub will connect to various airline CRS and PSS hosts, virtual hosts, and other systems, and serve as the gateway from and between the airlines that participate in a given VCH. As long as an airline has the appropriate business agreements with the VCH operator, it will be able to connect to their partner through the appropriate VCH’s community link. To create itineraries, the community link will extract and integrate airlines’ schedules, inventory, product content, prices, customer data, and more, using industry XML standards developed by groups such as IATA, OpenTravel Alliance, and Open Axis Group, conceptual frameworks such as IATA’s NDC, and EMDs for ancillary product sales. Ideally, OpenTravel Alliance and Open Axis will find a way to collaborate and coordinate, as both groups have begun to develop standards. Cooperating on further development of “NDC friendly” standards between OpenTravel and Open Axis would likely lead to a more cost-efficient, consistent, and useful outcome for all airlines.

An important distinction between the GDS and VCH models will be the commercial relationship with third-party intermediaries. To reach the airlines that participate within each VCH, agencies and other intermediaries will subscribe to and connect with the VCH, rather than a GDS. This reflects how intermediaries -- notably TMCs -- will increasingly do business with alliances, as well as airlines’ desires to have more control and direct interaction with key intermediaries.

Although VCHs will succeed GDSs as intermediaries’ primary airline gateways, the growth of bookings through airline direct channels -- namely their digital channels -- means VCHs will account for just 30% of airline reservations in 2017, the majority of which will be made by TMCs (see Figure 12-1, Figure 12-2, and Figure 12-3). It’s likely that a minority of the world’s network or flag airlines will belong to an alliance by 2017, and not all of these independent airlines will have code-share relationships with alliance members. This will result in a small volume of reservations continuing to be processed through a GDS. By 2017, Atmosphere estimates that “traditional” GDS bookings will account for just 7% of worldwide airline reservation volume.

One thing to note: VCHs do not mean GDS firms will disappear. Atmosphere believes that the companies most likely to take the lead in developing VCHs are the three major GDS operators: Amadeus, Sabre, and Travelport. These three companies already have extensive airline IT services business units -- and VCHs will operate off existing airline services IT components. GDS firms are also pragmatic businesses, and they will accept the need to cannibalize a part of their business -- and perhaps even exit some areas -- to achieve greater future success.
Figure 12-1: Global Channel Share Shift (Volume), All Airlines, 2012-2017

<table>
<thead>
<tr>
<th>Channel Type</th>
<th>2012</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airline direct websites/mobile</td>
<td>45%</td>
<td>59%</td>
</tr>
<tr>
<td>Airline call center/airport, city</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>GDS</td>
<td>44%</td>
<td>7%</td>
</tr>
<tr>
<td>Value creation hubs (VCH)</td>
<td>0%</td>
<td>30%</td>
</tr>
</tbody>
</table>

(numbers may not total 100 due to rounding)

Base: 24 network/flag airlines and LCCs with revenues of US $1 billion+
Source: Atmosphere’s Global Travel Industry Executive Online Survey, Q3 2012

Figure 12-2: Global Channel Share Shift (Volume), Network/Flag Airlines, 2012-2017

<table>
<thead>
<tr>
<th>Channel Type</th>
<th>2012</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airline direct websites/mobile</td>
<td>35%</td>
<td>50%</td>
</tr>
<tr>
<td>Airline call center/airport, city</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>GDS</td>
<td>55%</td>
<td>10%</td>
</tr>
<tr>
<td>Value creation hubs (VCH)</td>
<td>35%</td>
<td>0%</td>
</tr>
</tbody>
</table>

(numbers may not total 100 due to rounding)

Base: 14 network/flag airlines with revenues of US $1 billion+
Source: Atmosphere’s Global Travel Industry Executive Online Survey, Q3 2012
A key reason why the GDS firms will be willing to explore developing VCHs is the promise of better profit margins. Airline IT services appear to offer better margins than the core distribution business. In 2010, Amadeus’ logged profit margins of 46.5% for its distribution unit, and 68.1% for its IT services group. In 2011, Amadeus’ distribution group’s margin inched up to 47.2% -- while its IT services margin climbed to 72.6%. Atmosphere believes that, though their actual margins may differ, both Sabre and Travelport achieve higher margins from their IT services businesses than distribution.

Although the GDS firms have several potential advantages to develop the new VCHs, they will face competition from other airline IT companies and general software developers that see an opportunity to participate in the airline commerce landscape. These companies may attempt to develop VCHs either alone or in partnerships, possibly encouraged by airlines eager to see additional competition in airline commerce technology and services. Among the non-GDS firms that could develop VCHs are Farelogix, Google/ITA, Hewlett-Packard, Mercator, Navitaire, and SITA. As often occurs in technology, startup companies are also a possibility.
INTELLIGENT CONTENT AGGREGATORS ALLOW THIRD-PARTY INTERMEDIARIES TO CONSOLIDATE, VIEW SUPPLIER CONTENT

We’ve seen how VCHs will usurp GDS’ role as the source of airline content for third-party intermediaries. Just as a GDS can only provide information on the suppliers it can access, each VCH will be limited to the airlines it houses. OTAs and other travel intermediaries will need to reassemble the content it obtains from the various travel commerce systems it may use -- VCHs, GDSs, “direct connections”, hotel switches, and more -- within the intermediary, allowing the intermediary to apply agency-specific business rules or preferences to flight search results, and link external content systems to the intermediary’s mid- and back-office software and client data. Atmosphere calls the software application intermediaries will use to do this “intelligent content aggregators”.

“Intelligent content aggregators” will be XML-based, rules-driven middleware that intermediaries will subscribe to, and which will be housed within the intermediary’s IT infrastructure, not the airline’s. Potential developers of intelligent content aggregators include Datalex, Farelogix, LUTE, OpenJaw Technologies, Pyton, SwitchFly, and TravelFusion. APIs will help intelligent content aggregators access and consolidate airline content from multiple sources, including VCHs, GDSs, and airline hosts. To enable the airline and intermediary to present the most relevant offers, intelligent aggregators will support the use of customer authentication “cookies” or “tokens” that intermediaries can use to identify a traveller and aid in offer personalization -- a key component in IATA’s NDC strategy. The intelligent content aggregator will interface with the intermediary’s various gateways, such as call center, website, mobile, and high-street/office locations. Importantly, the intelligent content aggregators will be able to also consolidate search and availability results from hotel, rental car, rail, and other non-air suppliers, since they will be designed to connect with GDSs, switches, and other inventory and pricing content resources.

Both VCHs and intelligent content aggregators will be designed to provide their subscribers with useful analytics using a feedback loop not available in existing airline systems. Each feedback loop will include actionable analytics, such as the carriers and schedules that were presented to the traveller, the percentage of offers that were reviewed, and more.

BSPs WILL COME UNDER PRESSURE

Airlines, IATA, and travel agencies deserve recognition and respect for creating the financial networks that enable billing and settlement plans to help travel agencies efficiently report and settle airline sales. Just as consumer banking has changed, factors such as changes in the composition of airlines, technology, and changes in how travellers (and companies) pay for their tickets will affect how airlines and third-parties settle their sales in the future.
• **BSPs are “one size fits all”**. While settlement frequencies may vary from one country’s BSP to another, within the BSP all travel agencies are treated alike. From large global TMCs with extensive cash reserves to small “mom and pop” agencies that have limited cash flow, BSPs require consistent payment terms. A recent change to India's BSP payment terms purportedly puts airlines and small agents “on a collision course.” At the same time, airlines have no control over when travel agencies must settle, nor are airlines given any kind of risk-based settlement options.

• **LCCs don’t participate in BSPs.** LCCs, which are less likely to belong to BSPs now, will likely account for 30% of global capacity by 2017. Even as they attempt to increase their corporate and government traveller sales via TMCs, LCCs will resist entering BSPs, since many LCCs require “instant payment” from agencies for any tickets sold. The absence of a critical mass of airlines that will be responsible for much of the industry’s global growth significantly undermines BSP’s future utility and value.

• **Near-universal use of electronic tickets.** When airline tickets were in paper form, a carrier wouldn’t have documentation of the sale until it received the auditor’s coupon. Electronic tickets are now used for almost every itinerary worldwide. Airlines, as a result, have almost instant access to the reservations that travel agencies book.

• **Growth in non-cash forms of payment.** In the US, less than 10% of agency airline ticket sales have been paid in cash in 2012. Cash sales account for half or less of airline tickets sold in other countries, with credit card leading global payments. Credit card transactions provide agencies and airlines with almost instant access to funds used to buy tickets. Importantly, airlines and agencies alike have begun to accept new forms of payment, such as debit cards, electronic bank transfers, and alternate forms of payment such as PayPal -- although the costs to accept these are generally comparable to credit cards.

Airlines have used BSPs only because there have been no viable options. Several trends will contribute to the reduction in the number of BSPs and volumes of transactions they process by 2017:

• **Innovation in payment platforms and processes.** Innovation will enable multiple improvements in payments. Passengers’ ability to use their smartphones or tablets to upload cheque images to bank accounts will help speed up these types of payments, though cheque-based payments will continue to shrink between 2012 and 2017. Electronic bank transfers, debit cards, alternative forms of payment like PayPal, and mobile payments will increase in volume as airlines seek lower-cost alternatives to credit-card based transactions -- and increasingly differentiate payment surcharges to drive travellers to use preferred forms of payment.
Business-based settlement terms. By 2017, airlines will have developed a flexible approach to agency settlement and payment. Airlines will “score” travel agencies to determine settlement terms, based on factors such as an agency’s location, size, credit, reservations mix, and customer mix. As a result, a local, single-location leisure agency can expect to have more stringent payment terms than a regional branch of a global TMC. Airlines will also aim to manage their risk exposure by establishing payment terms with agencies based in part on an agency’s financial volume and the types of reservations it books (low-yield domestic versus high-yield long-haul, for example).

The existence of “alternate” settlement solution providers. Organizations like Hahn Air and eNett allow travel agencies and airlines to settle their accounts outside the traditional framework of a BSP. Use of these “BSP alternatives” will increase, with new entrants possibly entering the space. Contributing to these providers’ success is their ability to integrate their work processes into agencies existing workflows, which contributes to agency efficiency, and travellers’ ongoing shift to electronic payments.
METHODOLOGY

The airline passenger data cited in this report are based on the results from several “syndicated” Atmosphere Research consumer surveys. Atmosphere developed these surveys and conducted the analysis; however, the surveys were fielded for Atmosphere by third-party vendors. The consumer surveys used were the US Online Travel Benchmark Survey, Q3 2011 (n=5,058 total respondents), US Online Traveler Survey, Q2 2012 (n=2,530), Brazil Online Traveler Survey, Q2 2012 (n=2,500), China Online Traveler Survey, Q2 2012 (n=5,000), France Online Traveler Survey, Q2 2012 (n=3,000), Germany Online Traveler Survey, Q2 2012 (n=3,000), and UK Online Travel Survey, Q2 2012 (n=5,000). Industry data comes from Atmosphere’s Global Online Travel Industry Executive Survey, Q3, 2012 (n=52) and telephone interviews with executives at 15 airlines worldwide. In industry surveys, any question that has received 25 or more responses will have results presented as percentages, while questions with 24 or fewer responses are presented as whole numbers. Both consumer and industry executive responses are anonymous and confidential.

ENDNOTES

1 Source: IATA, based on 2012 annual projection of 2.973 billion passengers


3 Source: https://dev.twitter.com/discussions/3914

4 Source: http://www.apple.com/hotnews/

5 Source: http://thenextweb.com/apple/2012/01/25/there-are-now-more-iphones-sold-than-babies-born-in-the-world-every-day/

6 Sources: Atmosphere’s US Online Traveller Survey, Q2 2012; UK Online Traveler Survey, Q2 2012; France Online Traveler Survey, Q2 2012, Germany Online Traveler Survey, Q2 2012, China Online Traveler Survey, Q2 2012, and Brazil Online Traveler Survey, Q2 2012.

7 In the US, airline passengers spend 16.9 hours each week watching TV. They spend 18.2 hours online (for personal use) from either desktops or laptop computers, 8.4 hours a week on their tablets, and 6 hours online each week from smartphones. In the UK, airline passengers spend 15.4 hours a week watching TV, 17.3 hours online at their computers, 9.1 hours online from tablet devices, and 6 hours a week online using smartphones. Chinese airline passengers report watching TV for 9.2 hours a week, versus 20.6 hours online each week on their computers, 13.8 hours a week online using tablets, and 14.7 hours on the Internet from their smartphones. Sources: Atmosphere’s US Online Traveler Survey, Q2 2012; UK Online Traveler Survey, Q2 2012; and China Online Traveler Survey, Q2 2012.

8 Source: Atmosphere’s Global Travel Industry Executive Survey. Q3 2012.
The Future of Airline Distribution - A Look Ahead To 2017


10 Source: Forrester Research, Inc. 2016 data is latest available.

11 A Booker is a traveller who uses the Internet regularly and books at least some of his or her travel online.

12 Source: Atmosphere’s US Online Travel Benchmark Survey, Q3 2011.

13 US online leisure airline passengers who are Bookers and find it easy to plan and book trips online book 84.2% of their flights online, while those who don’t find it easy book 66.4% online. Just 11.8% of the passengers who book online and find it easy use offline travel agencies for at least one purchase. Among passengers who book online and don’t find it easy, 15.7% use traditional agencies. Source: Atmosphere’s US Online Travel Benchmark Survey, Q3 2011.


15 Generation Y passengers are the world’s first “mobile-first” consumers. Seventy-three percent of Gen Y US online leisure passengers own a smartphone, as do 82% of UK passengers, 83% of Brazilian passengers, and 92% of Chinese passengers. This group is also more likely to own tablet devices. Among Chinese “Gen Y” passengers, 58% own a tablet, versus 54% of all passengers. In the UK, 37% of Gen Y passengers own a tablet, noticeably ahead of the country’s 28% average. Sources: Atmosphere’s US Online Traveler Survey, Q2 2012; UK Online Traveler Survey, Q2 2012; France Online Traveler Survey, Q2 2012, Germany Online Traveler Survey, Q2 2012, China Online Traveler Survey, Q2 2012, and Brazil Online Traveler Survey, Q2 2012.

16 Network/flag airlines estimate that they will get 35% of their 2012 reservations from their websites, compared to LCCs, which anticipate generating 73% of their reservations from their websites in 2012. Source: 24 network/flag airlines and LCCs worldwide with revenues of US$1 billion or more, Atmosphere’s Global Travel Industry Executive Survey., Q3 2012.


18 Source: “Airline Alliance Survey,” Airline Business magazine, September 2012

19 Star Alliance has a joint venture between United, Air Canada, and Lufthansa that spans TC1 and TC 2. In the oneworld alliance, American has a joint business agreement with Japan Air Lines which covers travel between TC1 and TC3. SkyTeam members KLM and Kenya Airways have a joint venture within the TC2 region.

20 Source: “Strategic Partners”, Airline Business magazine, September 2012

Atmosphere estimates that network/flag airlines, including both alliance-member airlines and unaffiliated carriers, will represent 70% of global capacity by 2017. Atmosphere estimates this group will collectively generate 50% of their sales via their digital direct channels by 2017. LCCs, which Atmosphere estimates will account for 30% of capacity in 2017, will produce 70% of their reservations through their digital direct touchpoints.

IATA’s New Distribution Capability (NDC) provides airlines with additional capabilities to bring their products and services to market by filling capability gaps, improving airlines’ retailing capabilities across channels, and supporting improved customer personalization. Source: http://www.iata.org/whatwedo/stb/Pages/new-distribution-capability.aspx

In July 2012, Chrome had global market share of 33.8%, while Internet Explorer had 32%. Source: “Chrome Browser Grabs More Market Share,” August 6, 2012 http://usatoday30.usatoday.com/tech/news/story/2012-08-06/tnw-chrome-browser-market-share/56824336/1

As an example, Alaska Airlines and Virgin Australia would connect with the SkyTeam VCH to interact with Delta Air Lines.

Source: Amadeus 2010 Annual Report