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.

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.
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
- >40 leaders from 26 airlines globally interviewed or surveyed
- >$340Bn in annual revenues
- ~50% of participants with >€10bn revenues

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

…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 RASK improvements

<table>
<thead>
<tr>
<th></th>
<th>0-1%</th>
<th>1-3%</th>
<th>3-5%</th>
<th>&gt;5%</th>
<th>Unclear or not available</th>
</tr>
</thead>
<tbody>
<tr>
<td>3%</td>
<td>19%</td>
<td>19%</td>
<td>14%</td>
<td>44%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Expected timeline

<table>
<thead>
<tr>
<th></th>
<th>By 2023</th>
<th>By 2025</th>
<th>By 2027</th>
<th>By 2030</th>
<th>After 2030</th>
<th>Unclear or not available</th>
</tr>
</thead>
<tbody>
<tr>
<td>11%</td>
<td>31%</td>
<td>22%</td>
<td>22%</td>
<td>3%</td>
<td>11%</td>
<td>22%</td>
</tr>
</tbody>
</table>
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

Expected size of investment required

- 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

What the industry says

1. For the average airline
   Sources: BCG x IATA survey, 2022; BCG analysis.
Most airlines expect to achieve the benefits by moving towards both **Dynamic Bundling** and **Dynamic Prices**.
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 leverage NDC as a way to differentiate content

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

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
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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

Source: Industry interviews and survey, BCG analysis
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

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

Main technological challenges to achieve retailing ambitions

<table>
<thead>
<tr>
<th>% OF RESPONDENTS</th>
<th>Legacy fulfillment processes</th>
<th>Legacy pricing processes</th>
<th>System integration</th>
<th>Transitioning out of PSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>33%</td>
<td>27%</td>
<td>21%</td>
<td>19%</td>
<td></td>
</tr>
</tbody>
</table>

Limited availability of skilled data scientists and data and software engineers

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— Managing Director Revenue Management
Reshaping the Airline Organization
Offer Management is gaining relevance. Most airlines see strong synergies between Offer Management and Revenue Management.

**Where should Offer Creation function sit?**

<table>
<thead>
<tr>
<th>Function Type</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Management</td>
<td>50%</td>
</tr>
<tr>
<td>Distribution</td>
<td>17%</td>
</tr>
<tr>
<td>Standalone under CCO</td>
<td>11%</td>
</tr>
<tr>
<td>Digital / eCommerce</td>
<td>8%</td>
</tr>
<tr>
<td>Cross-Functional</td>
<td>11%</td>
</tr>
<tr>
<td>No need for Offer Management function</td>
<td>3%</td>
</tr>
</tbody>
</table>

40% of airlines already have an Offer Creation and Management function in place.

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

— Chief Commercial Officer
Four additional capabilities to reshape the organization

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

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

Introducing the BCG and IATA teams

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