WFS Stream 1: Value Creation
Last year’s learnings & today’s problems

Thursday 26 October 2023
Payment: an enabler for value creation

- Payment challenges, such as cash flow control, refunds and outdated back-office processes
- Improving payments is crucial for airlines to meet demand and enhance performance
- In 2022, a study undertaken by Edgar, Dunn & Company explored the costs and revenues associated with payments for the airline industry globally
The airline payment ecosystem is highly complex due to the number of stakeholders involved in the value chain and due to the multitude of sales channels.

EDC undertook the Study to provide a baseline across four cost and two revenue drivers associated with payments.*

Payment is a key pillar to support the recovery of the airline industry and to “unlock value creation”.

(*) The scope of this Study includes all sales channels and all forms of payment, but does not include costs / revenues associated with co-brand card programmes.

**Stakeholders in a Card Transaction**

* (simplified view)

- Card Issuer
- Travel Agency
- GDS
- IATA BSP / ARC
- NDC
- Airline
- Payment Gateway
- Merchant acquirer

**Cost Drivers**
- Payment Fees
- Fraud & Losses
- OpEx Costs
- Cash-Flow

**Revenue Drivers**
- Customer Reach
- Payment Conversion
The Study used a total payment value of $977 billion and estimated total payment costs for airlines at $20.3 billion per year.

### Industry Payment Value
- The baseline used in the Study was the 2019 total airline industry payment value.
- This represents the total value paid by travellers to airlines (including $93bn of fees and taxes).

### Payment Cost and Revenue Drivers
- The four cost drivers and two revenue drivers include a number of subcategories and key assumptions.
- These cost and revenue assumptions were validated with the help of 10 airlines.

### Interviews with Airlines
- The Study included 10 bilateral interviews with airlines from different regions to validate the key cost and revenue assumptions.
- The feedback from the airlines was anonymised and aggregated.*

### Cost & Revenue Sizing Results
- Due to the lack of supporting quantitative data from airlines, it was not possible to estimate the revenue impact.
- Applying detailed cost assumptions to the total payment value, the Study estimated the total cost of payments for airlines.

* EDC would like to thank these 10 airlines but cannot mention their names, as data was collected on an anonymous basis and aggregated.
The study highlighted the need for airlines to review their costs of payments and identify cost-reduction opportunities

Compared to retailers in other verticals, airlines are currently less focused on monitoring / optimising revenue drivers related to payments

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<thead>
<tr>
<th>Cost Drivers - Key Findings</th>
<th>Best Practices for Airlines</th>
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<tbody>
<tr>
<td>The payment costs for airlines need to be calculated, monitored and managed</td>
<td>An internal payments team</td>
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<td>Payment fees are the largest payment cost</td>
<td>Full and granular visibility of the cost of acceptance</td>
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<td>The payment fees in the indirect channel are driven by cost of “card” transactions</td>
<td>Close and on-going coordination between Distribution and Finance</td>
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<td>Cash-flow costs have gained importance</td>
<td>Analysis of risk mitigation options</td>
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<th>Revenue Drivers - Key Findings</th>
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<tr>
<td>Most airlines accept at least one Alternative Form of Payment (AFOP), (e.g., e-wallets, bank transfers, Buy Now Pay Later)</td>
<td>IT agility / flexibility to implement relevant AFOPs and measure the impact on incremental pax revenues generated by AFOPs</td>
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<td>Only a minority of airlines had undertaken payment initiatives to support ancillary revenue</td>
<td>A 2–3-year payment roadmap and resources</td>
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<td>Airlines do not proactively monitor or optimise card approval rates</td>
<td>Monitor and optimise card approval rates</td>
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<td>Airlines generally monitor the level of declines due to fraud suspicion</td>
<td>Find the right balance between low fraud rate and friction</td>
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EDC suggests a four-phase end to end approach for an airline to optimise payments

**Step 1**
360° Payments Diagnostic/Audit
Define current situation and identify priority payment opportunities

**Step 2**
Future State/Roadmap
Define future state and list payment projects on roadmap

**Step 3**
Roadmap Execution
Execute roadmap and support your business to launch payment initiatives

**Step 4**
Project Implementation Support
Project & payment operational management and support; coaching / training
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