

The internet has created new sales channels for airlines, and seen the advent of emerging GDSs. While these new points of sale pose a threat to GDSs, they still have several advantages. Airlines' quest for e-commerce could revitalise the need for this traditional distribution channel.

GDSs: their threats, evolution & future

Traditional global distribution systems (GDSs) have lost market share to other points of sale (POS) and distribution channels. This loss has mainly been brought about by the internet, which has generated two new POS for airlines: their own websites and those of on-line travel agents. The percentage of airlines' sales made through these is constantly growing at the expense of GDSs. On-line travel agents, however, still depend on GDSs to provide flight information, seat availability and other data necessary to make reservations. The internet has also more recently been responsible for a third new POS, known as Emerging GDS, which is offered by companies such as Farelogix. While the market penetration of these new-generation distribution systems via the internet is still limited, it is growing fast, offering booking fees that are about 20% of those charged by conventional GDSs to airlines. Will the internet and new distribution channels ultimately bring about the demise of the GDSs, or do they still provide services that other POSs cannot offer? Moreover, can GDSs evolve and develop to remain competitive with other distribution channels?

GDS evolution

The number of GDSs has consolidated over the past 10 to 15 years, leaving three big players, Worldspan, Amadeus and Sabre, and five or so smaller ones that include: China's TravelSky; the pan-Asian Abacus; the Korean Topaz; and the Japanese Access and Infynity GDSs.

The GDS's core role is still its original function of providing and facilitating airlines' available seat inventory, by

connecting into their host reservation systems, making reservations with these data, and issuing tickets to buying passengers in travel agencies around the world. Airlines still have the same essential requirement, since GDSs were developed and written in the 1960s and 1970s, of maximising their marketing reach and availability to all possible markets and potential buyers in as many parts of the world as necessary.

Until very recently individuals did not have the capability to search for flights and seat availability by themselves, or to make reservations. While on-line searches and self-made reservations and ticketing have increased in the US and other Western countries, there is still limited capability for individuals to do this in many other regions. Individuals still rely on travel agents to make searches and reservations for them. "This is why GDSs have been regulated and are required to provide a neutral environment for travel agents to offer impartial flight, seat availability and fare information to buying individuals," explains David Doctor, director of airline distribution and low-cost carriers (LCCs) at Amadeus. "Travel agents can subscribe to one or more GDSs, having made separate agreements with each one, and depending on which GDS they use, are able to provide flight and seat availability for several airlines to the buyer. GDSs are required to provide the information in a neutral or impartial way, and will show both direct and indirect routes. They can also be programmed to show lowest fares first, if required. Regulation of GDSs started in 1987, but they have since been deregulated in the US. European regulations, however, dictate what is neutral availability, and GDSs have to follow these guidelines."

GDSs therefore provide travel agents with all the information necessary to make bookings for buyers. Each GDS is subscribed to by several airlines, which in turn can subscribe to several GDSs. Sabre, for example, is subscribed to by about 400 airlines and is used by 57,000 travel agents in 130 countries. Amadeus is connected to about 500 airlines. "Most travel agencies only use one GDS," says Doctor. "However, many agents in the Asia Pacific use two GDSs, because the cost of labour is low. Airlines want to connect to as many GDSs as possible so that they maximise their connectivity with travel agents around the world. A regional airline in Russia, for example, has many choices of connection. If it uses Amadeus it will reach about 80% of all travel agents in the country. We have 34% of global travel agents. This figure increases to about 50% when the US is excluded."

GDSs charge segment fees when travel agents make reservations. These fees are negotiated between GDSs and travel agents, and are a fixed amount for each segment for every booking. Therefore a travel agent booking a ticket with four sectors will pay four segment fees to the relevant GDS.

GDSs were regulated heavily in the US until the 1990s. Regulations stated that airlines had to provide the same content regarding availability and fares on every GDS at the same time, thereby ensuring that one GDS was not favoured over the others. GDSs therefore competed for airlines' business on the basis of the segment fees they offered. Deregulation in the 1990s meant that airlines could give preferential treatment to particular GDSs over others with respect to content. Airlines' contracts with GDSs were eventually renegotiated so that missing



content was put back in.

Using GDSs is still cumbersome for travel agents. GDS providers supplied computer hardware to agents, so that if agents wanted to use more than one GDS system they required different sets of equipment. The information provided on screens is also presented in a green screen and computer language, non-windows type format, so that agents have to be trained to use each type of GDS. These differences have meant that many travel agents only use one type of GDS. The result is that airlines are unable to maximise their distribution to all parts of the world.

It is only in recent years that front-end windows have been developed by middleware providers. These windows allow agents to use multiple GDSs on a single desktop, and they amalgamate all the information provided by the GDSs in an impartial and user-friendly format. Agents are unaware of which GDS is used when a booking is made, and the middleware performs all the functions to complete the transactions.

Although many travel agents still subscribe to only one GDS, the use of multiple GDSs is growing. It is expected that all travel agents will have this capability within 10 years when the use of front-end windows becomes widespread. Market changes mean that travel agents can no longer afford to rely on one GDS.

The internet

In parallel to GDSs feeding travel agents, airlines have also had their own call and reservation centres, as well ticket

offices in airports and certain cities, which have direct contact with buyers. Airlines have therefore had two main POSs at their disposal. As described, the internet has now provided airlines with two other main POSs. The first of these are on-line travel agents, which are served through websites such as Opodo, Expedia and Travelocity. These websites still depend flight information data being fed to them from GDSs, however. Airlines have also developed their own websites. These form direct sales channels with buyers.

The POSs available to airlines now therefore fall into four categories: on-line direct (their own websites); off-line direct (airline reservation and call centres); on-line indirect (website travel agents); and off-line indirect (travel agents using GDSs).

The internet has, in recent years, also provided what is regarded by some as a fifth POS or distribution channel, and by others as a subdivision of GDS travel agent sales. These are the 'new entrant' or 'emerging' GDSs. The major player in this market is Farelogix, which first entered the airline distribution market in 2005. "Emerging GDSs work over the internet and supply travel agents with the same flight, seat availability and fare information as traditional GDSs. Emerging GDSs also allow reservations to be made and ticketing to be completed, as well as other functions such as clearing revenues through banks. They provide all the functionality that traditional GDSs do," explains Jim Davidson, chief executive officer at Farelogix. "The difference with an Emerging GDS, however, is that an airline provides this

The internet has created two new sales channels for airlines. Airlines' websites have become the dominant sales channel for some carriers. These have the advantage of allowing a direct relationship with the customer, and avoiding GDS segment fees and travel agents' commissions. The internet has now spawned a new distribution channel; known as emerging GDSs. This provides a direct link between an airline's host system and travel agents.

information to travel agents via the internet. The remaining flights displayed to an agent when making a search are provided by a traditional GDS. This is not a problem, since many travel agents now subscribe to multiple GDSs. Travel agents can now also access several GDSs at the same time through a front-end window. Bookings can be made through Farelogix or another GDS without the travel agent being conscious of which source provided the information for a particular flight search. It is therefore of no relevance that we provide information for single airlines. Emirates was our first customer, and we have since acquired American, Continental, Northwest and AirTran in the US. Our latest customer is Air Canada, and we expect to sign several more airlines by the end of 2008. The main advantage that we offer to airlines is that our rates are about 20% of the GDSs. Moreover, we charge a fee of \$2-3 per ticket, while GDSs charge a fixed fee per segment. Finally, the benefit of using the internet is that mainframe computers are no longer required."

Sales channels

The advent of the internet has clearly made it possible for individuals to make their own flight and fare searches, which has forced airlines to make the fares used on each route visible. While this has made the market more competitive, airlines have still benefited from this evolution. A growing percentage of sales are made through the two on-line POSs: airlines' own websites, and on-line travel agents. Airlines' own websites completely avoid segment fees charged by GDSs, and also the commissions paid to travel agents, thereby increasing the airlines' share of gross ticket price. On-line travel agents still use GDSs, and so segment fees have to be paid, but airlines can still avoid travel agents' commissions.

Not surprisingly, the percentage of sales made through travel agents has fallen. The same has been seen with sales through airline call centres. Travellers with the capability and know-how clearly prefer to have more control and visibility over fare searches and their own bookings. Airlines encourage the use of on-line bookings, particularly through their own websites, which are the

While the internet and booking portals have seen high growth for airlines in the west, credit card limits in many parts of the world mean travellers still have to deal direct with airline call centres and travel agents.

cheapest way to generate sales. They also have the benefit of being able to collect customer relationship management (CRM) data. The data collected, which includes basics such as the name and location of travellers, also monitors their buying and travelling behaviour. It therefore gives airlines more information about their passengers and, ultimately, more marketing control, since it means that they can communicate with passengers directly.

Airline websites, however, have only generally managed to capture a high percentage of airline sales in each carrier's home country. For example, www.ba.com is used widely through the United Kingdom (UK), but British Airways (BA) still relies on travel agents and ticket offices for the majority of its sales outside the UK.

"We are a global airline, and probably have the largest international route network of any airline in the world. We therefore have to use as many distribution channels available to us as possible," explains Abigail Goodwin, trade selling manager at BA. "While www.ba.com accounts for a high percentage of our sales at home, only about 25% of sales come through it in mainland Europe, and less than this in North America."

Travel agents are no longer the main POS for airlines in the West which have achieved a high percentage of direct on-line sales in their home markets. Travel agents are still the dominant sales and distribution channel in many other parts of the world. While large credit card transactions for ticket purchases are customary in the US and Europe, financial regulations in many areas of the world prevent individuals from buying their tickets on-line. This is the case in regions such as Russian, China, India, South America and Africa. The internet has also had less penetration in these markets.

Even some airlines in the US gain a relatively small percentage of sales through their own websites. While Southwest, which provides point-to-point services, achieves about 80% of its sales on-line, carriers like United and Delta only secure about 25% of their sales through their own portals. This is explained by the hub-and-spoke system,



and the need for many passengers to transit a hub, thereby making it difficult for passengers to make their own bookings.

Macro data for the industry show that by 2007 about 27% of all airline sales were through their own websites; up from just 5% on 2002. All on-line sales are now 35% of total airline sales, indicating that on-line travel agents account for about 8% of all airline sales. This figure is up from about 5% in 2002. About another 13% of sales were made through airline centres, a fall from about 20% in 2002. The percentage of all airline sales in 2007 made via travel agents in 2007 was therefore about 52% of airline sales. This is down from about 70% in 2002.

GDS alternatives

As described, airlines have sought to reduce the percentage of sales made via GDSs to avoid their segment fees and have more direct contact with customers. The challenge for airlines is to find methods of distributing to potential buyers in all possible markets without using GDSs. Several developments are making this more possible. SITA, which hosts airline reservation systems, has developed a travel agency portal that avoids the use of GDSs altogether. "The portal used by travel agents communicates with airline inventory systems. The airlines set parameters such as commissions or handling fees with the agent," explains Michael Cunningham, director passenger portfolio integration at SITA. "The agent makes the booking and the airline avoids the GDS fees. SITA's

system interrogates airline inventory via the internet and so replaces GDSs. We do charge a segment fee for this, but it is only \$0.50. The travel agency portal looks like a consumer booking engine or travel agency website. The portal, however, only has inventory and booking capability for an individual airline. A travel agent in Thailand would therefore only have a relationship with Thai International via the portal. This would be beneficial to both parties because lots of bookings would be made on the national airline from several local agents. The incentive to travel agents of using the portal is that they will get paid higher commissions than on bookings made through a GDS. Another advantage is that by making a booking through the portal, it is the airline that receives the CRM information, rather than the travel agent, which is what would happen on a GDS booking. Airlines are only likely to use a travel agency portal in their home markets and to use travel agents abroad where they know they are getting a high volume of sales.

"While the airline makes a small saving in distribution costs, the other advantage of the system is that it also opens up many ancillary revenue opportunities for the airline. Up until now these have only really been possible through the airline's own website, and not other POSs," continues Cunningham.

As described, emerging GDSs also provide inventory and fare information for an airline via the internet, rather than via a GDSs, at a travel agent or on-line travel agent. These systems therefore allow airlines to achieve distribution through indirect POSs. That is, to a large



number of global travel agents and on-line travel agents. This can be done while achieving a large reduction in segment or booking fees. Farelogix also provides similar information for hotels and car hire companies, which can be combined with the airline sales process.

“Not only does Farelogix provide this emerging GDS service, it also provides travel agents with a platform, called FLX, which shows flights in an aggregate way. FLX is a front-end window that allows travel agents to set their own parameters for selecting flights, such as lowest fares, or prioritising a particular GDS or certain airlines,” explains Davidson. “More agencies are now using front-end windows to display flights from several GDSs and other sources. There are six companies that make these front-end windows, including Open Jaw based in Dublin, Ireland.

“Farelogix also allows airlines to merchandise ancillary revenues, which until recently was only possible via their own websites,” continues Davidson. “Farelogix has become possible because GDSs have become less regulated, front-end window technology has become available, and mainframes are not required.”

GDS future

While new distribution channels and POSs have emerged, GDSs still provide airlines and travel agents with several benefits. The main advantage for travel agents is that GDSs provide inventory and flight availability information for a large number of airlines. For the airlines they have connections to thousands of travel agents, and therefore provide massive reach around the world. They

offer airlines the maximum chance of achieving sales outside their home markets, including in those regions where use of the internet, or even e-tickets, is not yet prevalent, or where credit card purchases are not possible because of credit limits.

“The GDS is even the best method of distribution for airlines in their home markets where passengers have a large choice of airlines to fly with. In these situations, travellers will search for the right flight through travel agents or on-line travel agents,” explains Gordon Locke, vice president of airline marketing and strategy at Sabre. “This is because GDSs have a high search capability with a large number of airlines.”

GDS providers also offer airlines other sales technologies. These include airline host and reservation systems, airline websites, on-line travel agent portals, and merchandising or retailing capability for airlines.

“The next stage of evolution for GDSs is the use of e-commerce to increase airlines’ revenues,” explains Doctor. “This is first through providing airlines with CRM data and information on travellers that book sales through indirect POSs. The technology now exists to provide airlines with these data. The other major use of e-commerce will be generating ancillary revenues and merchandising for airlines through these indirect sales channels. Airlines have been selling ancillary products and services through their own websites for several years. This includes items like booking particular seats, paying for lounge access, and booking hotels or hiring cars. It has not been possible for airlines to offer these services through indirect sales channels.”

Airlines are now using multi-channel merchandising to sell a variety of products in one transaction together with flight tickets. Airlines are also seeking to employ e-commerce to achieve multi-channel merchandising across all four distribution & sales channels. GDS vendors have already begun offering this technology.

Evolving GDS technology now allows airlines to offer these services and generate ancillary revenues from travel agent bookings via the internet. It is also now possible to offer these services via emerging GDSs.

“This development means that we have been offering an ‘open system’, which we started in 2000 and aim to have finished in 2010,” says Doctor. “The system is being completed in stages, so it is being used, and its capability is constantly improving. The ultimate goal is to provide airlines with a seamless service so that they can offer the same level of sales capability across all four POSs.”

From a travel agent’s point of view, these capabilities will be displayed in a similar way to flights listed through on-line travel agents’ web pages when a flight request is made. It is up to individual airlines to make their merchandising and additional products available via GDSs to these web pages, and pop-up windows or flags will alert travel agents to products and services that each airline is offering. Examples are discounts available for passengers that do not check in baggage, or the payment of an additional fee for the use of a lie-flat bed.

“E-commerce therefore allows airlines to market themselves with a lot of options or services through travel agents and on-line travel agents,” explains Locke. “This therefore creates a dynamic system and allows services to be offered that cannot be sold using a traditional GDS. Selling these through a GDS requires an open system that will result in multi-channel merchandising. Now that airlines are able to provide a seamless sales service across all four main POSs, they can package a large number of travel services together. A traveller planning a holiday, for example, is able not only to book flights, but also car hire and hotel rooms, as well as arranging insurance cover, making restaurant reservations, or buying excursion tickets together in one booking. This is known as dynamic packaging. It is up to airlines to make these services available at a particular on-line travel agent.” **AC**

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