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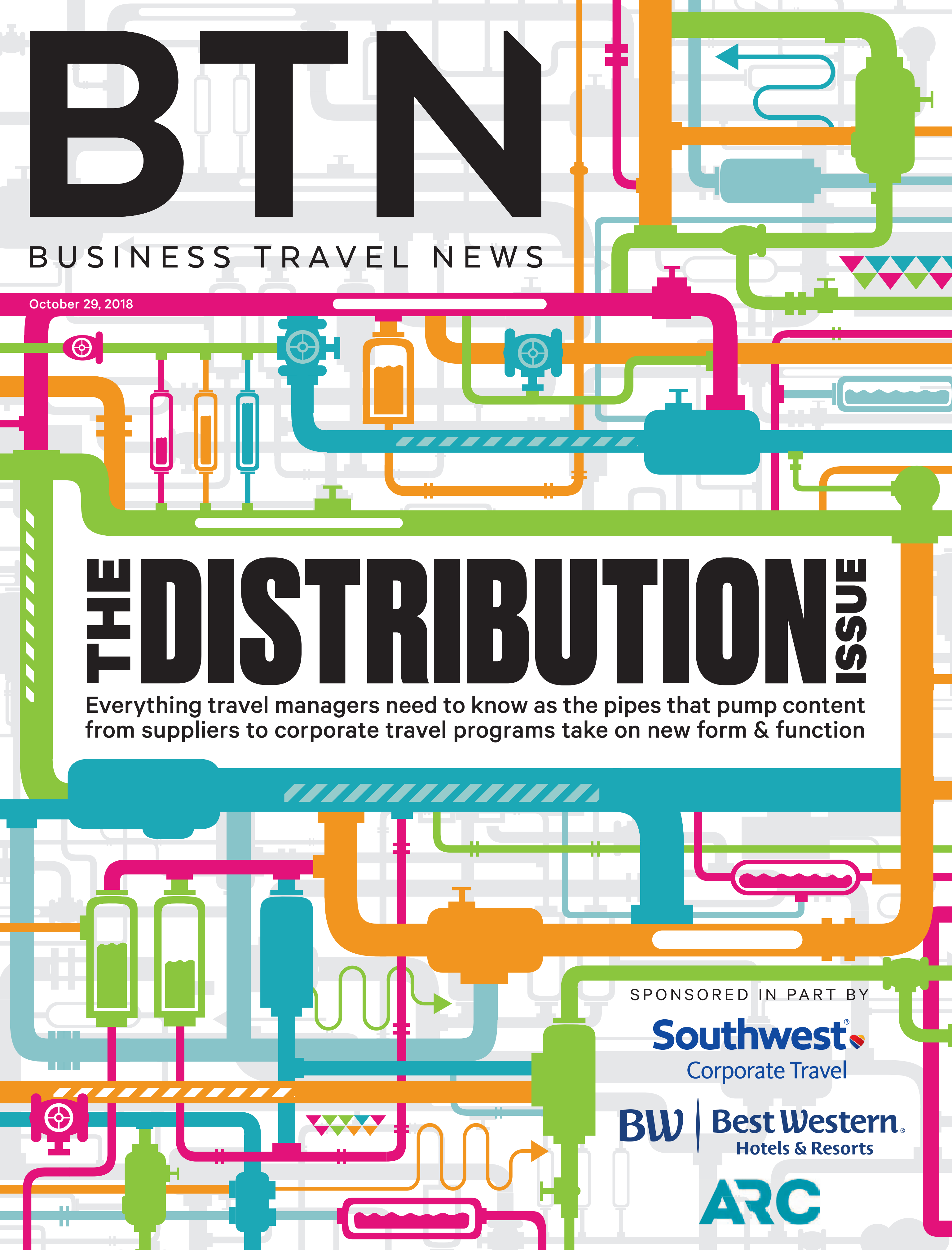

# THE DISTRIBUTION ISSUE

Everything travel managers need to know as the pipes that pump content from suppliers to corporate travel programs take on new form & function

# THE DISTRIBUTION ISSUE



## GET THE PICTURE




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ARC

Dear Reader,

Travel distribution is a rapidly evolving landscape teeming with potential disruption. As airlines and other suppliers pursue a wide spectrum of individualized strategies to create a richer retailing environment, technology providers like ARC are developing flexible, dependable and cost-effective solutions that will enhance distribution capabilities and improve the traveler experience.

This transformation will particularly impact corporate travel programs and the experiences of business travelers. With the increased adoption of New Distribution Capability (NDC) and the rise of emerging technologies like AI and blockchain, the business travel industry will see more robust content, increased capabilities for more effective personalization and enhanced opportunities to create more meaningful supplier-TMC-buyer relationships.

As a leader in air travel distribution solutions, ARC is proud to sponsor this research report, as it provides our industry with a more comprehensive understanding of how shifting dynamics in the ecosystem will impact the travel buying (and servicing) experience. With a better understanding of these immense industry changes, our hope is that leaders from throughout the travel value chain will be better equipped to transform how they do business, creating a more collaborative and thriving corporate travel community.

Sincerely,

Michael J. Premo
President & CEO
ARC

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Dear Corporate Travel Industry Partners,

The hospitality industry has evolved tremendously over the past five- to 10-years. Today's travelers are seeking the lowest rates available and have a plethora of resources at their disposal for research and booking. The internet is no longer just a source of information; it is now a point of sale, open 24/7, even via mobile in the palm of our hands.

Lines distinguishing business and leisure travel have become blurred and complicated over the years. Many travelers now book through what was traditionally considered a consumer channel, straying from the corporate tools they would have used in years' past due to rates and inventory being displayed in some channels and not others.

As a result, traditional corporate distribution points have begun sourcing consumer inventory, so they're able to offer the lowest available rates to travelers, and keep the traveler in their preferred booking channel. This adds value for the travel manager, who is now able to offer consumer content that allows travelers to make the right decisions and have much-needed data for duty of care.

As we move forward, how do we as an industry enhance the customer journey and create less friction between the traveler and the travel manager? Now more than ever before, it is important to understand the transparency of rate content, how content is distributed and to whom, and the relevancy of the content. How is the content being positioned in self-booking tools and who is in control? Are you part of the problem or part of the solution?

Best Western places great value on the corporate market segment and is committed to ensuring that the right content is offered to the right people, in the right place. We hope you enjoy this special issue.

Best regards,

Sandra Taylor
Senior Director Worldwide Sales, Corporate Travel Marketing
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Dear Travel Partner:

As the new Vice President of Corporate Sales, I am excited to continue building on the foundation we set out two years ago to make Southwest Airlines easier to business with. As you'll see in this issue, as well as when you are working with our Sales Team, we are striving every day to make processes, which once were hurdles to doing business with us, disappear. The Southwest Airlines Corporate Sales Leadership Team is continuing to evaluate areas of opportunity that we've identified that would make it easier for you and your companies to choose Southwest for your air travel needs.

One of the projects we are undertaking now is the redevelopment of SWABIZ, our free online corporate booking tool that allows you to manage and track your travel program without fees. Throughout the next several months, you'll see many new upgrades and enhancements on swabiz.com that will make your business travel experience as seamless and simple as possible for travelers and Corporate Travel Managers alike.

I'm thrilled to be leading this Sales Team and continuously energized by their motivation to build relationships with existing and new Customers. Our Team is dedicated to you and making sure that we are helping YOU with your bottom line and meeting your goals. Let us know how we can help!

Enjoy this issue,

Dave Harvey
Vice President of Corporate Sales
Southwest Airlines

BY DAWIT HABTEMARIAM

# A Brief History of Air Travel Distribution

"This is the future of the industry." That's what Luft-hansa chairman and CEO Carsten Spohr said during the Global Business Travel Association's European conference in Frankfurt in 2015. That year, Lufthansa Group imposed a surcharge on tickets purchased through global distribution systems, breaking from full content participation in the GDS distribution model and motivating travelers and agents to book direct on Lufthansa Group websites. There were few carveouts on that surcharge and plenty of consternation that Lufthansa had not fully accommodated corporate travel interests before forcing the move. As with many dynamics in managed travel, there's a significant backstory.

### 1960s: CREATING A COMPUTER RESERVATION SYSTEM

In the mid-1950s, IBM developed a data processing system, dubbed SAGE, for the U.S. air defense system. The story goes that a chance meeting on an American Airlines flight between an IBM salesperson and then-American Airlines CEO C.R. Smith resulted in a pitch for IBM to build an airline reservations solution based on learnings from SAGE technology. Smith understood the opportunity and partnered with IBM to introduce Sabre in 1960.

Sabre ran on two IBM mainframes connected to 1,500 terminals across the U.S. and Canada and by 1964 could process 7,500 reservations per hour. On each terminal, an American Airlines ticketing agent could search American's inventory of flights, make reservations and receive confirmations in seconds. The error rate was nearly zero. They also could access a passenger's name, itinerary and contact information—the origin of today's passenger name record, or PNR. Sabre instantly became a competitive advantage for American. Other carriers realized they'd better follow suit.

Big players like United and Trans World Airlines worked with partners on customized systems with ambitious features like the ability to access 3,000 terminals and incorporating management information, flight planning and market research, but neither carrier realized its vision. IBM introduced a solution for midsize carriers in 1964, with a standardized airline computer reservation system called PARS. Initial customers included Delta, Continental, Braniff, Northeast and Western.

Eastern Air Lines took advantage of PARS, as well, but partnered with IBM on customizations. Eastern rolled out System One in 1965. TWA and United got the memo, scrapped their projects, purchased Eastern's software and contracted with IBM to implement. United enhanced System One to create Apollo in 1971. The following year, American implemented a version of Sabre underpinned by Eastern's System One. By the end of 1972, nine out of the 10 biggest U.S. carriers had a CRS based on PARS.

### 1970s: TRAVEL AGENCY CONTRACTS & AIRLINE DEREGULATION

By the early 1970s, all the major carriers experimented with bringing the CRS to travel agencies. At the time, travel agents manually checked their books for flight schedules and fare information, then called airline ticket agents, to inquire about seat availability and reservations.

Airlines, platform providers and the American Society of Travel Agents put forth a major effort to create a unified CRS dubbed the Joint Industry Computerized Reservation System, but it fractured as the group established commercial terms for participating airlines. United, the largest airline and thus the carrier that would have shouldered the most financial burden under the JICRS, announced in 1976 its intent to sell agency access to its own CRS. American adopted similar plans and installed its first

**1964**

American Airlines & IBM complete the development of SABRE, the world's first computer reservation system. IBM markets a CRS product for midsize carriers.

**1965**

Eastern Airlines launches System One.

**1968**

Delta launches the Delta Automated Travel Account System.

**1971**

United launches Apollo, & Trans World Airlines launches PARS.

**1976**

American & United offer travel agents remote access to Sabre & Apollo, respectively.

**1978**

President Jimmy Carter signs the Airline Deregulation Act into law, lifting restrictions on fares, route, coverage & market entry.

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terminals in 130 travel agency offices the same year. TWA and Eastern jumped in the mix soon after.

***CRS providers & commercial terms.*** Under an exclusive, long-term contract, a CRS provider would equip the agency with hardware, installation, software and training. They charged a monthly subscription fee based on usage. To lower the monthly fee, the agency had to make more bookings on the system.

Travel agencies, however, wanted access to broad airline content, not just one airline's. CRS providers saw the opportunity to open their content platforms to other carriers. For noncompeting airlines, CRSs established cohost agreements, which allowed the cohost airline to pay the CRS for favorable placement in content displays. Along with biasing fees, the CRSs also charged cohosts a booking fee for each reservation made on the system. CRSs did not offer cohost agreements for competing airlines. Rather, they charged competitors higher booking fees, without advantages.

***Airline deregulation.*** The landscape in which CRS providers operated changed dramatically in 1978 when the U.S. government lifted restrictions on fares, route coverage and market entry. Airlines could fly wherever they wanted and charge whatever they wanted for flights, and airfares and schedules could fluctuate monthly, weekly or even daily. Passengers now demanded seats at the best prices. To stay on top of customer inquiries, travel agents needed real-time access to airfares and flight schedules. Wanting to cut costs, airlines started shifting the bulk of their ticket distribution from city ticket offices to travel agencies. A CRS became essential for a travel agency to do business, creating a lucrative market for American's Sabre, United's Apollo and others.

## 1980s: CRSs REGULATED

The significant capital required to build and maintain a CRS combined with lengthy, exclusive travel agency contracts resulted in an air distribution market dominated by five CRS providers; United and American jointly controlled nearly three-quarters of total agency revenue, according to the widely cited Department of Justice's 1985 Report to Congress on the Airline Computer Reservation System Industry.

In 1983, 60 percent of all airline ticket sales were made by travel agencies and 90 percent of those sales were made using a CRS, according to the Department of Justice. As CRSs' importance to distribution rose, CRS owners leveraged their position, benefiting greatly from agents' tendency to book flights on the airline providing the CRS. Competing airlines accused CRSs of employing additional tactics to lock in that advantage. They claimed CRSs boosted their own flights on agent terminal displays, delayed content loading times for competing airlines and delayed schedule updates for competing airlines to make the content from those airlines seem less reliabile. Competitor airlines also called foul on the higher booking fees they paid.

Travel agencies complained that exclusivity in their CRS contracts locked them into one system for too long. They cited overly punitive fees for subscribing to other CRSs, clauses that required high system usage and agency commissions that were tied to bookings on the contracted CRS. They also complained that the process of booking a flight from a non-CRS owner was laborious and time consuming.

The Civil Aeronautics Board, which regulated the airline industry at the time, investigated and in 1984 issued rules to regulate CRS providers' relationships with airlines and with travel agencies. The rules banned display bias, functionality bias and discriminatory booking fees. CRS providers could no longer tie travel agent commissions to use of their system. Agency contract terms could not exceed five years and minimum-use requirements could not preclude agencies from subscribing to other CRSs.

In practice, the rules were ineffective. In November 1984, nearly a dozen airlines sued American and United for violating antitrust laws. For the rest of the decade, CRSs endured scrutiny from a Congressional subcommittee, the General Accounting Office, the DOT and courts, most of which found excessive market power concentration.

In spite of the controversy, 95 percent of travel agents subscribed to a CRS in 1987, and 92 percent of airline tickets were

**1984**
The Civil Aeronautics Board issues CRS regulations.

**1987**
Nine European carriers form Galileo, & Air France, Iberia, Lufthansa and SAS form Amadeus.

**1990**
A merger between Northwest and TWA's PARS and Delta's DATA II forms Worldspan.

**1991**
Eastern Airlines shuts down & plans liquidation.

**1992**
The Department of Transportation adds requirements & prohibitions for airline-owned CRSs.

**1996**
Sabre launches Travelocity, & Microsoft founds Expedia.

**1997**
The DOT amends 1992 rules to prohibit CRS vendors from including parity clauses in airline contracts.

**2000**
Sabre acquires GetThere. Airlines invest in Hotwire.com.

**2001**
TWA files for bankruptcy, & American acquires it; United completes GDS divestments; airlines invest in Orbitz.


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booked through a travel agency, according to the DOJ.

### 1990s: GLOBAL DISTRIBUTION SYSTEMS EMERGE & THE INTERNET CHANGES EVERYTHING

In 1992, the DOT addressed gaps in the Civil Aeronautics Board's 1984 rules. The DOT compelled CRS providers to share service enhancements to their systems with other airlines that were participating in the CRS. It also compelled the airlines that ran CRSs to participate in competing CRSs, as well. CRS providers' contracts with travel agencies had to permit agencies to purchase their own equipment and use any given terminal to access more than one system. The DOT banned minimum-use clauses and required CRS providers to offer agencies three-year contract terms.

Five years later, the DOT amended the rules again to prohibit CRS providers from including "parity" clauses in their airline contracts. These clauses required airlines to give whatever inventory they shared with one CRS provider to others, as well.

At the same time, airlines were divesting their ownership in CRSs. Sabre launched an IPO in 1996 and became fully independent of American Airlines in 2000. Galileo, which had merged with Apollo, went public in 1997. Amadeus, which had absorbed System One, went public in 1999.

CRSs gained more influence as independent and increasingly global entities. Major airline mergers, acquisitions and bankruptcies formed mega carriers that expanded into global markets. With routes covering the world, CRSs transformed into today's global distribution systems: Amadeus, Galileo, Sabre and Worldspan. Corporate travel agencies that specialized in complex and often international business travel itineraries depended heavily on GDSs to serve their clients.

***The internet.*** As a backdrop to this transformation, the internet was emerging. GDSs offered travel agencies internet access and the software necessary to build and maintain their own websites. GDSs also targeted consumers directly through new online travel agencies: Sabre launched Travelocity in 1996, and Worldspan provided content for Microsoft's Expedia startup that same year.

### 2000s: ALTERNATIVE CHANNELS, GDS DEREGULATION & NEW BUSINESS TERMS

GDSs weren't the only ones finding new opportunities via the web. Online commerce gave airlines an avenue to bypass GDS booking fees and to pursue customers directly rather than through agencies. Carriers developed websites and gave consumers access to schedules and discounted web fares. They also invested in search engines like Orbitz and Hotwire.

A number of third-party technology developers like Farelogix, G2 SwitchWorks, ITA Software and Travelfusion offered travel agencies and carriers direct connect technologies that funneled content directly from airlines to the agencies. These companies became known as GDS new entrants, or GNEs.

GDS market share fell significantly for the first time in this internet-powered environment, but GDSs diversified their products and services. They began supplying IT tools to airlines, as well as tech infrastructure and content to OTAs. Critical to their growing concentration of corporate travel clients, GDSs also invested more heavily in corporate online booking tools. Sabre acquired GetThere in 2000, and it launched corporate OTA Travelocity for Business in 2003 as an online competitor to its corporate travel agency clients. Amadeus acquired e-Travel in 2001, gaining a corporate online booking tool; it now plans to sunset in favor of a newer tool, Cytric. Given the growing competition and the fact that airlines were divesting their ownership in CRSs, the DOT eliminated some of its CRS regulations and let the rest expire.

Agencies continued to contract with GDS providers for access to travel inventory, but the dynamics changed. GDS providers began paying agencies signing bonuses and incentive payments based on how much volume an agency could push through the GDS channel. On the airline front, content parity—yes, the contract condition banned in 1997—became standard between GDSs and large, legacy carriers in exchange for reduced booking fees.

The perception of outsize booking fees remained a frustration for carriers, on the grounds that the hefty charges subsidize GDS incentives to travel agencies and don't provide enough distribution value. Strategy pivots from the likes of low-cost carrier JetBlue contradicted

**2003**

Expedia acquires Hotwire.com; two private equity firms acquire Worldspan

**2004**

The DOT allows CRS regulations to expire & Amadeus takes 56 percent ownership of European online travel agency Opodo.

**2006**

Airline ancillary sales pegged at $2.62 billion worldwide.

**2007**

Worldspan & Galileo consolidate under Travelport.

**2008**

American Airlines initiates checked bag fees, & legacy carriers quickly follow suit.

**2012**

International Air Transport Association adopts resolution for New Distribution Capability XML standard.

**2015**

Lufthansa Group imposes fees for booking on GDS channels; Expedia Group acquires Travelocity & Orbitz.

**2017**

Airline ancillary sales reach $82 billion worldwide.

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that claim. The former GDS opponent rejoined Sabre, Galileo and Worldspan in 2006 and in 2007 strongly underscored the value of the GDS channel for its access to high-yield business travelers, for benefits of scale and for better interlining with codeshare partners. These benefits, along with reliable and efficient technology connections in a complex world, continue to be the GDS value proposition.

### 2010s: DIRECT CONNECTS & LUFTHANSA'S BREAK

By the late 2000s, however, a new issue had grabbed the spotlight: the lack of options provided by GDSs for airlines to merchandize to customers and differentiate their products. After 9/11, many airlines dropped their meal services, and in 2005, Delta began selling snack packs and meals in economy class. Then came checked bag fees; ultra-low-cost carriers had introduced them early in the millennium, but American Airlines picked them up in 2008, introducing the first charges for the first checked bag, and other legacy carriers quickly followed. In 2010, American experimented with a fee for passengers reserving the first few rows of economy class. The carrier dubbed them Express Seats and bundled them with priority boarding. Delta followed with new fare families in 2012, including stripped-down Basic Economy fares in certain markets to compete with LCCs. Revenue from ancillary fees skyrocketed.

Worldwide, ancillary airline fees hit $2.29 billion in 2006, according to IdeaWorks, which tracks ancillary sales annually. By 2008, it was $10.25 billion; little if any of that was transacted through the GDS. The firm estimated that ancillary airline revenue in 2017 reached $82.2 billion worldwide.

The ability to grow that revenue and target the right customers with rebundled offers has become a constant drumbeat behind airline strategy. GDSs have made strides in accommodating merchandizing efforts, but the persistence of legacy technology and green screen interfaces and the lack of rich visual content and options to recombine ticket attributes has challenged the channel and the agents who access it. Airline websites, on the other hand, have transformed the consumer shopping and booking experience.

Some carriers have turned to GNEs as a viable way to bypass the GDS and incorporate richer, more flexible content with systems based on extensive markup language, or XML. The industry has recently coalesced around XML technology standards of the International Airline Transportation Association's New Distribution Capability, but GDS providers offered considerable opposition to those who sought other pipes for transmitting content between airlines and travel programs.

American attempted to bring direct connect technology developed by Farelogix to Expedia and Orbitz in 2011, the latter of which was partially owned by Travelport. Orbitz refused the connection, and American pulled its content off the OTA, which at the time included corporate travel agency Orbitz for Business. Expedia also removed American's content, and Sabre biased the displays of American content on agency screens. American, Sabre and Travelport settled privately in court.

Four years later, Lufthansa Group broke away from GDS content parity agreements and pursued a direct distribution strategy that imposed a 16-euro booking fee on tickets purchased through GDSs. The airline continues that strategy today, despite controversy, and has developed agency portals to support corporate business. Major corporate clients Siemens and Volkswagen adopted the direct connect in 2016. Lufthansa has said it intends to offer "tailor-made" products to corporate clients that adopt such connections. Will the GDSs survive? To answer that, look behind the curtain at Lufthansa Group's technology partner. There you'll find Amadeus IT Group, the IT solutions sibling of the Amadeus GDS.

*—Additional reporting by Elizabeth West*

## WHAT'S AN AGGREGATOR?

GDS New Entrants emerged as low-cost carriers splintered traditional distribution pathways, preferring direct website bookings over paying global distribution fees. Yet, LCCs still wanted to participate in corporate agency and online travel agency marketplaces, and travelers wanted that content. Aggregators answered the demand by providing direct connect technologies into their third-party systems and pumping that content into the agencies.

As airline merchandizing heated up, aggregators expanded their capabilities to get fare families and ancillary content into their pipes. New Distribution Capability has put a finer point on their connectivity skills, as players like Travelfusion and Farelogix are highly engaged in the transformation and as so-called NDC New Entrants like Atriis and AirGateway get in the game. Farelogix has gone beyond the aggregator "box" and supplies display technology to agencies for easy access to direct connect content. Not every player wants to go there; Travelfusion CEO Moshe Rafiah told BTN sister publication The Beat display technology isn't a central part of that company's vision.

However, NDC creates new dynamic between traditional GDSs and newer aggregators, as some GDSs now refer to themselves as the original aggregators. Where the industry may see the technology race heating up is in transformational technology that is able to get content that's not in the traditional passenger name record reformatted and serviceable in a TMC environment. Travelfusion is chasing that goal, as is Farelogix, alongside all the GDS players.


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BY ELIZABETH WEST

# Fragmented

## Air travel distribution gaps are breaking managed travel programs. Who's going to fix it?

The seeds of air travel content fragmentation were planted with low-cost carriers: Ryanair, Spirit, Frontier, EasyJet and the undisputed low-cost leader in the U.S., Southwest. LCCs' reticence to pay for global distribution solutions led travel programs in the U.S. and their travel management companies to link out of corporate online booking tool to the Southwest corporate portal for bookings on that carrier. But that was just one airline, right? Presumably all was well.

Still, the until-then unquestioned model of distributing air content indirectly through the global distribution system had begun to unravel. Yes, that was powered by a burgeoning internet. Yes, it was major innovation. But it was a problem for travel agencies that had built their operational models on GDS technology, including agency desktops and midoffice and back-office systems that process bookings and store data.

### UNBUNDLING THE AIRLINE TICKET

European LCCs like Ryanair and EasyJet compounded the direct distribution problem by introducing the concept of merchandizing—unbundling checked bag privileges, meals and even advanced seat assignments from the price of a seat on a plane. Legacy carriers saw that customers perceived value in the stripped-down offer, and they recognized the margin potential in LCCs' a la carte strategy.

American Airlines made the first move among U.S. legacy carriers when it began charging travelers to check, not their second bag, but their first bag in 2008. All the mainline carriers fell in line, unbundling checked bag privileges from the price of a ticket. Southwest notably remains the lone holdout. Nevertheless, the concept of merchandizing had taken hold in the airline industry.

Delta Air Lines in 2012 became the first U.S. carrier to offer basic economy, a bare-bones option that included only the fare in the price. At the time, it was limited to specific routes where Delta competed with LCCs like Spirit, Frontier and Southwest. Other legacy carriers followed with versions of basic economy, and these days, airlines have generally reconfigured their product into fare families. With the premium economy concept, they've also expanded beyond the traditional coach, business and first class cabins. Marketable ticket attributes may include physical differences like legroom, seat pitch and meal service, as well as terms of the ticket like whether mileage can be accrued for loyalty programs and whether the ticket is refundable, whther it includes a seat assignment or whether it's eligible for priority boarding.

This is when the real distribution challenge began, according to industry veteran and Serko U.S. market SVP Tony D'Astolfo. "Airlines created a very different product with multiple attributes … that are not readily available in the traditional travel distribution platforms."

### How Painful Can Booking Fragmented Content Be?

**Premium economy, for instance, requires three steps in one frustrated travel buyer's program:**

1. The traveler books economy on the online booking tool or by calling the travel management company.
2. The traveler purchases an upgrade on the airline's website or by calling the airline.
3. The traveler sends the revised itinerary to the OBT.

### PROBLEMS FOR TRAVEL MANAGERS

In a world where access to all kinds of content is just a few finger taps away for consumers, accessing travel content in a managed travel program has become a huge headache for travel managers.

KBB Partners director of travel services Mira Rosenzweig described the three-step process for booking a premium economy airline ticket in her managed program. First, the traveler or travel arranger makes a booking through OBT Concur Travel or calls the TMC. Second, the traveler calls the airline or goes to the airline's website to purchase the upgrade. Third, the traveler sends the new itinerary to Concur to ensure KBB knows both where the traveler is on the aircraft and what the full spend of the trip is. If the travelers don't take that last step, the data is lost, leaving gaps in the program.

A travel agent also could purchase the upgrade for the traveler, but Europe's General Data Protection Regulation prompts most agents to avoid that it in order not to have to collect corporate card details from the traveler, Rosenzweig said.

"And that's just for a premium economy seat, which has been around for so long," Rosenzweig said. She added that linking off to Swabiz for travelers who fly Southwest compounds the pain.

Microsoft global program sourcing manager Diane Smith said gaps in distribution not only erode the traveler booking experience that's critical in Microsoft's culture but also lead travelers to make decisions that yield poor trip experiences, such as foregoing premium economy, priority boarding or airport lounge access. "I can negotiate all sorts of things, but if I can't get that content in front of my traveler in a digestible way, then the user isn't making the kind of informed choice that I'd like them to make," she said. When travelers can't find what they want, she added, it drives them to other channels. "You start to lose argument and credibility if you're trying to force them to go through a managed process [but] there's a better experience or better value for them by going through a different channel."

Rosenzweig knows the feeling. "That's when I have to explain the value of policies, products and contracts in place for business purposes," she said.

## THE FEAR FACTOR

"You don't have to be hugely insightful to read airline marketing or listen to airline earnings calls and understand how important the development of the ancillary revenue source is to airlines," said ARC president & CEO Mike Premo. Ancillaries delivered more than $82 billion to airlines worldwide in 2017 according to IdeaWorks. That's up from $2.6 billion worldwide in 2006 before merchandizing ran wildfire.

It's not entirely about margins for the airlines, though. "We want to act as modern retailers, including in our indirect channels," offering customers more choices and customization options, said United Airlines distribution director Tye Radcliffe.

That strategy has helped keep base fares low. And while that sounds like a good thing, it could cause problems for travel managers like Rosenzweig who need to understand the full cost of the trip—for budgeting purposes but also because they want to get credit with their suppliers for all their contracted spend. A world where merchandizing is kept out of managed channels undermines that ability.

On the other hand, corporate travel buyers need to be cautious about how much retailing occurs and how many options airlines offer to travelers. The ability to merchandize through managed channels and to target offers as if on a consumer site may look like an invitation for travelers to increase spend unnecessarily.

According to Premo, though, improved distribution means better content control for the travel manager. "Travel managers should be approaching this from the position of, 'I know this is a growing spend area, and it's clearly strategic to these suppliers. How do I get better line of sight into that spend, better data on where it's going, and how can I leverage it to improve my program?' [That includes] the quality of life of my travelers, better discounts, what have you. It's better for the buyer to have clear transparency, better that they are able to bring those attributes into negotiations and really tailor what they are going to be buying to whatever their policies are. Some companies are going to optimize the program for comfort because they're all about keeping their talent happy. Others are going to say, 'We're a bare-bones operation—we're manufacturing, we're a government contractor. We're not going to reimburse for that stuff.' Some may opt not to show certain content to travelers. Solving the gaps in distribution will give travel managers the control they don't have right now."



## INDUSTRY ALTERNATIVES

The International Air Transport Association's New Distribution Capability XML standard has gained momentum from airlines, GDSs and some TMCs that are committed to more robust retailing. IATA aims to have its 21 Leaderboard airlines pushing 20 percent of their indirect transaction volume through NDC-enabled application programming interface connections by the year 2020. While it's a laudable goal and the industry seems to be falling in line behind the standard, that represents just a fraction of the airline volume and content out there. *(See page 30 for details on NDC.)*

In the meantime, alternatives have emerged in the margins. "We're not waiting. We've built a platform that enables us to consume content via an API and via other methods out there," said Serko's D'Astolfo. He was referring to Zeno, the revamped online booking platform that the New Zealand-based company launched regionally at the end of 2017 and this year in the U.S. To get as much content as possible, D'Astolfo said Zeno integrates with Amadeus, Apollo, Galileo, Sabre and Travelport. It gets content directly from Australian carrier Qantas and uses airline aggregator companies AgentWare and Travelfusion

*(see page 12)* to pipe in additional airline content. Zeno was also the first corporate booking tool to integrate rich content from Routehappy so travelers can understand seat attributes like legroom, pitch, electrical outlet capability, Wi-Fi and entertainment before booking. D'Astolfo said the company is working on more direct connections with airlines.

Startup TripActions has a similar strategy. It's a mobile travel concierge tool that blurs the line between technology provider and TMC. Its artificial intelligence-enabled recommendation platform pipes in content from GDSs, direct connect APIs and aggregators. The difference is that, unlike mobile travel startups like WhereTo and 30SecondsToFly, TripActions can issue a ticket. It is a true TMC, with ARC credentials and midoffice and back-office technology connected to some traditional rails, at least for now. The company is rebuilding that infrastructure, which could free it from the constraints of traditional TMCs that rely on legacy GDS providers not only for content but also for much of their technology stacks. While TripActions is richly funded by investors and claims to be taking business away from mega TMCs, the industry considers it still to be in its infancy and perhaps not yet able to handle complex global programs.

SAP Concur continues to expand its supplier network for TripLink, which acts as a travel manager workaround for travelers who won't book in indirect channels. TripLink allows them to book their corporate negotiated rates from supplier websites and then prepopulates the data into SAP Concur's TripIt itinerary app and SAP Concur Expense. Travel managers capture the bookings in real time without travelers forwarding their itineraries to SAP Concur. TripLink has a growing number of supplier partners live, but only three are airlines, thereby limiting the solution. More airlines, however, are expected to go live, including Lufthansa in the "relatively near future," according to SAP Concur supplier and TMC services EVP Mike Koetting.

Traxo is another provider that gathers data on supplier-direct bookings, mainly by scanning email inboxes for messages sent from suppliers' domains and then parsing the itinerary data and pushing it into corporate systems, including travel dashboards and data tools. Startup Shep's lightweight browser extension technology chases a similar objective of capturing direct booking data. It caters, however, to the small market.

### MANAGING THE CHAOS

With the industry in distribution transition, travel managers are guiding travelers as best they can; they're also putting pressure on suppliers to devise better solutions.

For KBB's Rosenzweig, TripLink no longer is an option. While her travelers get access to TripLink through SAP Concur's TripIt Pro, most KBB member firms have asked to switch it off because travelers weren't properly trained and personal trips were flowing into SAP Concur Expense. She also said it encourages people to book outside their designated channels. "As soon as you open the floodgates and tell people they can book direct, that's it. They expect to be able to book directly everywhere," Rosenzweig said. "We're looking at technologies all the time that address these issues."

While Microsoft doesn't encourage direct booking on supplier sites, Smith said she's looking into a solution like TripLink or Traxo. "We have to. If we can't effectively get content through our channel, we have to provide an avenue for our travelers to be able to book it and report their information back to us for duty of care," she said, adding that she needs that data for Microsoft's traveler personalization efforts and for supplier negotiations, among other purposes.



To keep Microsoft travelers up on what's available through the company's travel program, including air travel benefits Smith has negotiated, she communicates via a company intranet email and Tripism, a dedicated mobile app powered by Roadmap, the social site Yammer, a Q&A travel bot that went live in June and access to UserVoice, a website that allows travelers to vote for program improvements. In July, Smith uploaded to Tripism, the Microsoft traveler community platform, information on negotiated air travel benefits. "We're trying to create different areas for our travelers to educate themselves on what's available. When they go to book, at least they have a better idea of where to steer that booking," even if the content is not available in the booking tool. Smith admits it's "clunky," and she'd much rather have a seamless experience within corporate booking channels.

Rosenzweig wants to cut to the chase and move toward content feeding directly from her preferred airlines and hotels into a single platform. "If we have partnerships in place with the vendors we need, why isn't that directly coming into some sort of technology solution?" she asked.

**OVERCOMING ENTRENCHED INDUSTRY MODELS**

There are advantages to getting content from the clearinghouses that are GDSs, but at the BTN Group's recent The Beat Live conference, FINRA corporate travel services manager Carol McDowell embodied the frustration of of travel managers about GDSs' inability to deliver nuanced content when she said, "Just freaking build it, OK?"

Koetting understands the sentiment: "It's such a reasonable question: 'Why is this so hard?' Why is it so difficult to provide that diversity of experience in packaging and pricing in a corporate environment? Those travel managers are right."

United's Radcliffe said that was the concept behind creating the GDS in the first place and that it would be too much work for an airline to do a direct API connection with every TMC or OBT and then configure per client, especially if every other airline does the same thing. It would be too much work. "That's why the industry got together and worked on NDC, and that's what we've tried to put forward," he said.

But NDC doesn't solve the real issue, according to Koetting. He said, "NDC is about the ability to sell a richer variety of priced and packaged airline seats. It doesn't address the fundamental dependence of [TMCs] on legacy GDS infrastructure, and it will not be widely adopted by [these] intermediaries until it is consumable in a GDS" passenger name record.

That is to say: Direct connects into booking tools or new platforms do not hold a lot of promise until TMCs shrug off the influence of GDSs. GDSs provide TMCs with agency desktops, profile management systems and backoffice technologies, all of which accept information as structured on the PNR. GDSs therefore limit TMCs' ability to service trip segments not booked within the GDS. Driving that influence home are the incentives that GDSs pay to TMCs for booking volume thresholds within the channel.

"If the primary objective is to enable access to content for a traveler and that traveler can execute the transaction on his or her own behalf and is comfortable and confident supporting themselves in the event of a disruption, etc., the bar becomes much lower for enabling that content," Koetting said. "To the degree that travel managers expect the same level of service that is delivered [by the TMC via legacy] infrastructure that relies on that PNR, enabling different distribution channels may be extremely problematic."

Koetting's point speaks to the variety of ways airlines may decide to distribute via NDC—for example, via direct connects rather than through the GDS *(see pages 36 & 37)*. As Southwest established so many years ago, direct connects stand to save airlines money, and NDC-enabled GDS solutions presumably will cost more than traditional service—a cost some airlines already complain about. Which airlines will go all-in with GDS providers? No one yet knows, but it should be noted that even Southwest now distributes a portion of its content through Amadeus' GDS.

But servicing and supporting travelers is the *raison d'etre* for managed travel, so airlines that want to play in the managed space will need to consider the consequences of eliminating GDS pipes in favor of alternatives.

> A world where merchandizing is kept out of managed channels undermines travel managers' ability to understand the full cost of the trip.

On the other hand, certain TMCs are making a straight-up play for direct connect business. The concept is that reduced distribution fees will lower costs for travel programs, win business and allow them to focus on servicing clients no matter where those clients' travelers want to book their travel. That seems to be the roadmap for TripActions and WTMC, both of which claim never to have taken a GDS incentive payment and are trying to build profitable travel businesses on a different economic model.

Smith is confident change is coming to the managed travel industry. "I've never felt this sense that we're at a point where things are going to be changing, and changing quite significantly, as I do now. We're at a tipping point. The models as they exist today have to evolve and have to improve."

D'Astolfo's advice for travel managers who want to see change: "Get a seat at the table to have conversations with suppliers, TMCs, booking tools and GDSs."

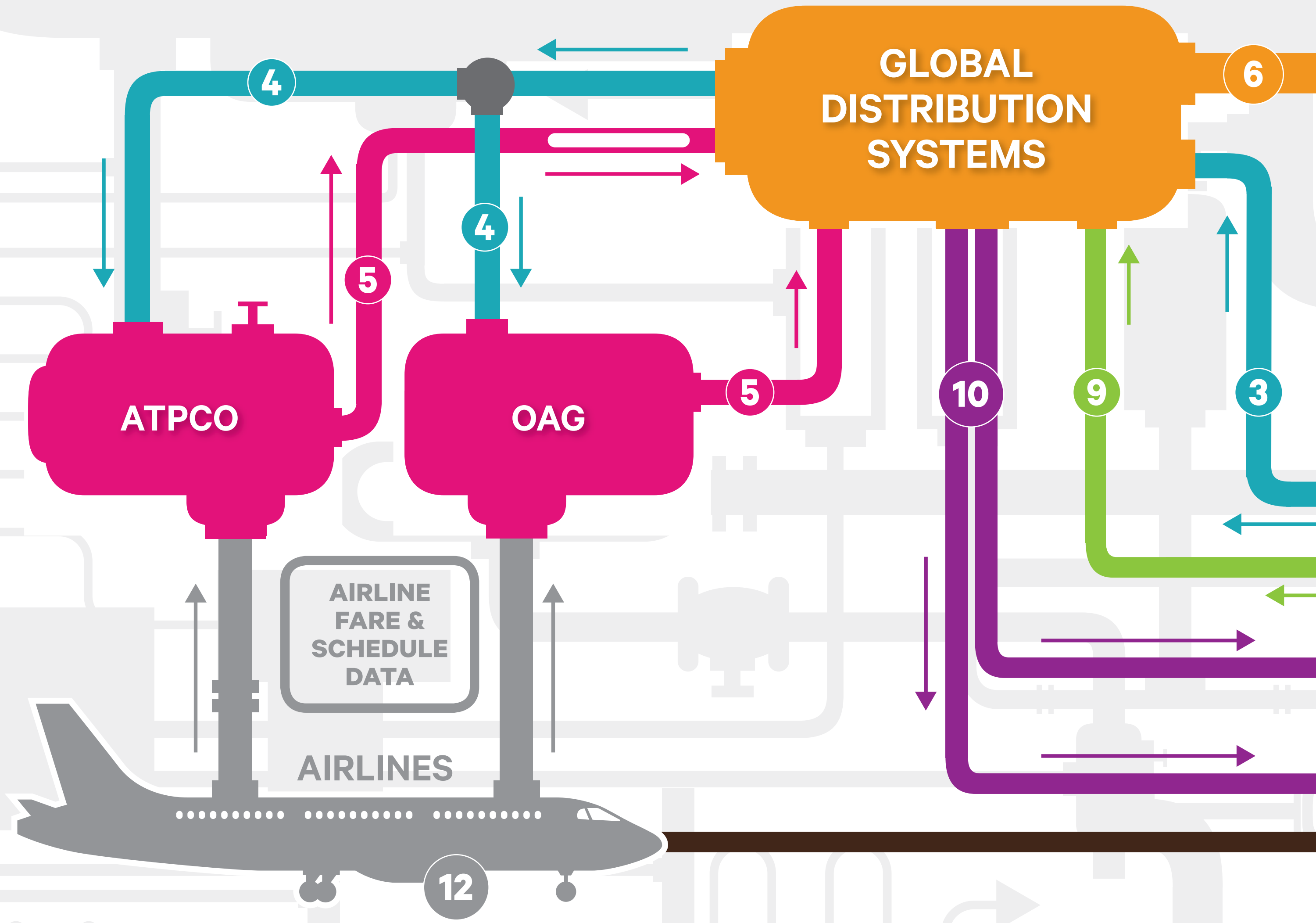
Premo agreed, but also encouraged buyers to become more conversant in distribution if they expect to have influence. "Buyers need to know how that data flows, know who touches it and be savvier. They need to understand when something gets displayed on a screen or a self-booking tool where it came from and what it means and what its reliability factor is. I get that it's not easy and it's certainly not intuitive, but it's important."

*—Additional reporting by JoAnn DeLuna*

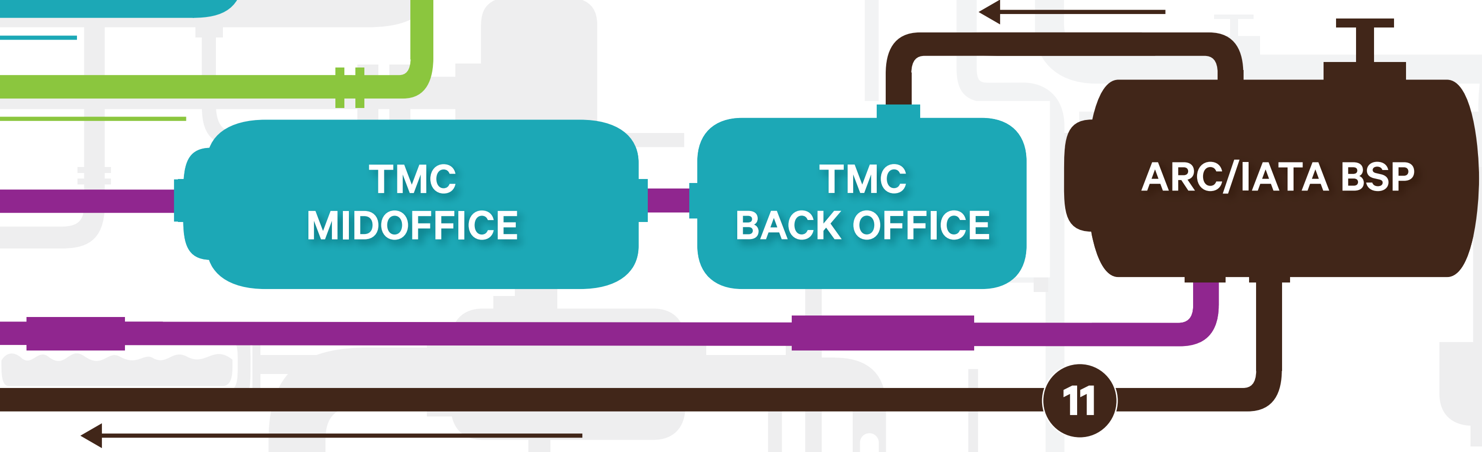
# Where Are We Now?

You could argue that this infograph already shows an "old" view of air content distribution in the managed travel world. But it's a starting point for understanding a transformation process that promises turbulence along the way. Travel managers who understand both the limitations and the potential will have more influence over distribution transformation outcomes. Follow the data pathways below and key information at right to travel through the pipes that currently serve your company's managed travel program.

**Acknowledgments:** BTN would like to thank the following individuals for contributing to the creation the below diagram and the diagram on pages 36 & 37: ARC president & CEO Mike Premo, SAP Concur supplier & TMC services EVP Mike Koetting, WTMC VP of global travel management Jennifer Steinke & Pass Consulting CEO Michael Strauss.




1. Profiled corporate traveler initiates a travel request through an online booking tool or by calling the agency.
2. Agency profile management system identifies the traveler and applies known preferences, requirements and policy.
3. Request hits the global distribution system, which maintains information about corporate negotiated discounts.
4. GDS simultaneously pings ATPCO, which houses airline content and fares, and OAG, which handles airline scheduling. Airlines constantly feed available content, fares and schedules to these entities.
5. ATPCO & OAG send respective data packages based on the traveler's request to the GDS.
6. GDS constructs a menu of offerings based on those data packages, coupled with corporate negotiated discounts and returns all to the OBT or agency desktop.
7. Agent or OBT communicates options, flagging or blocking non-preferred options based on corporate program configurations.
8. The traveler chooses a flight.
9. Data flows through the agency desktop or OBT back to the GDS.
10. GDS registers the booking and sends it to agency midoffice and back-office systems and simultaneously to Airlines Reporting Corp. or International Air Transport Association's Billing & Settlement Plan. The midoffice runs quality control and file finishing; the back office stores data for reporting.
11. ARC/BSP settles the payment to the airlines and returns booking details to the agency back office and to the airline.
12. Airline registers the booking and removes that content from the shelf.



BY AMANDA METCALF

# Travel Management Companies Battle the Content Gap

The travel management company's first purpose was to print paper airline tickets and deliver them to travelers. TMCs since have diversified into duty of care, reporting and consulting, but in order to stay in the booking business, AmTrav CEO Jeff Klee said, they have to close the content gap. "It's not sustainable to offer less than the full menu of products that airlines and hotels offer," he said.

"There's a lot of content in terms of options, ancillaries and rich details about the products that are available on supplier sites that are not available in corporate booking tools or GDSs," Klee said. "For reasons that I don't understand, the corporate market has accepted this. There's just this acceptance of the idea that you can't get everything that you have on the supplier site in the corporate booking tool." As a matter of routine, travelers from some AmTrav clients book on a corporate booking tool and then go immediately to the airline website to get the seat. That's crazy, as far as Klee is concerned.

Sounding a lot like Klee, WTMC CEO Sarosh Waghmar said, "The biggest problem is: All the content is not there." He was referring to a different kind of content, though. While Klee bemoaned the lack of extras like seat upgrades and Wi-Fi, Waghmar aches at the actual fares missing from global distribution systems: rates from many hotels, low-cost carrier fares and even some fares from major carriers.

The bane of TMCs' existence, he said, is when a traveler speaks that famous, cringeworthy line: "I found something cheaper." Traditionally, he said, GDSs have formed the sole point of sale for TMCs. By contrast travelers look at multiple channels. To illustrate, Waghmar, sitting in his New York office, pulled up United's website and found tickets from Bombay to New York ranging from $5,000 to $6,000. Then he clicked the India flag at the bottom of the website, switching to the India version of United's site, and found fares from $2,500 to $3,000. Just as Waghmar looked in more than one spot, travelers look beyond their corporate booking tools, and thus they find different results. That's jarring, and it shakes travelers' confidence in their companies' preferred channels. They'd say the TMC is robbing them, he said. Amazon shows different shoppers the same price, but the TMCs and the GDSs don't play like that, he said. Rather, the search results depend on the commercial relationships among the airlines, GDSs and TMCs.

Shortcomings considered, Mike Qualantone—general manager of global supplier relations, marketing and the partner network for American Express Global Business Travel—believes GDSs still form the best-value way for TMCs to get content. They provide 99 percent of the content Amex GBT customers need, he said, and they do it in a cost-efficient way. Qualantone noted that for two European airline groups that have enacted surcharges on GDS bookings—Air France-KLM and International Airlines Group—Amex GBT has contracted exceptions to those surcharges. Access to that surcharge-free "private channel," as it's been called, has been made only to large TMCs, however.

> "It's a huge problem that there's this content gap."
>
> **AmTrav's Jeff Klee**

> "The biggest problem is: All the content is not there."
>
> **WTMC's Sarosh Waghmar**

He also said GDSs are getting better at presenting ancillaries with point-of-sale tools for travel agents who are willing to give up their green screens. Sabre Red Workspace is one example, he said, and the other GDS operators also offer graphical user interface, point-and-click platforms *(see page 26)*. The airlines, though, have to provide content for such platforms. Travel Leaders Corporate president Gabe Rizzi agreed that GDSs have employed richer content. They're proven and have the best "computing capability to deliver content in a meaningful way," he said, adding, "The best aggregator—for now, at least—is the GDS."

### WHOSE RESPONSIBILITY IS IT?

The corporate travel industry seems united on the concept that a complete collection of


CORPORATE PROFILE

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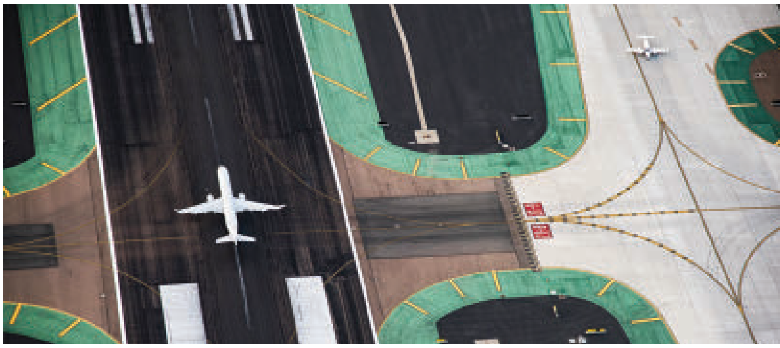


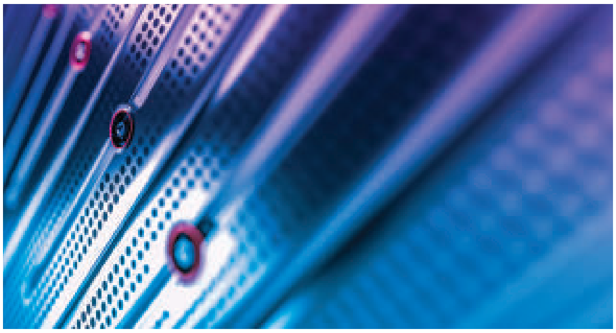
## A Leader in Distribution

The air travel distribution landscape is undergoing rapid evolution. As airlines pursue divergent strategies to deliver richer merchandising and traveler-centric content, ARC supports the full spectrum of models, including the critical travel agency and TMC channel. With a proven history of facilitating complex processes, ARC delivers customizable solutions to enhance the business success of the airline and agency community. Through its enhanced distribution platform, airlines and agencies can create mutually beneficial partnerships that deliver richer, more personalized experiences to the traveler.

## The World's Most Comprehensive Airline Data

ARC has the world's most comprehensive air travel transaction database, critical for effective benchmarking, performance validation and identification of new opportunities. In the exceptionally dynamic air travel marketplace, ARC's credible, neutral dataset helps airlines, travel agencies and corporate travel buyers grow and thrive.

Settling more than 287 million passenger trips annually—over $88.5 billion in transactions—ARC's comprehensive ticketing data is uniquely versatile: It delivers reliable, large-scale insights into origin-and-destination pairs, seasonality and future travel trends, and also drills down to granular details, such as fare class and location. This breadth and granularity allows customers to isolate the information that matters most to their business.



## Delivering a Return on Innovation

ARC's technology is customer-focused, designed to anticipate client needs and proactively deliver solutions that enhance efficiencies and create value. Its flexibility supports the full spectrum of airline distribution strategies while securely and efficiently delivering high-quality data. It's designed to optimize the user experience, enabling customers to quickly gain actionable insights that help strengthen their core business and identify new opportunities.

With thousands of global businesses depending on ARC's distribution and data capabilities, its technology platforms ensure continuous reliability and availability. By utilizing automation whenever possible, ARC is able to increase its own efficiencies and reduce complexity for the global air travel community.

ARC places the highest priority on proactively ensuring the integrity of its systems. ARC is PCI Level 1 Compliant and has been ISO 27001 certified since 2013, demonstrating a commitment to comprehensive, enterprise-wide security for its customers, their transactions and data.

## The Industry Connector

The global travel industry is a leading example of how effective relationships can enhance success and drive growth. As a leading industry connector since its inception, ARC has taken strategic efforts to generate collaboration and efficiencies, and inspire relationship-building throughout the travel community. As this dynamic industry continues to evolve, ARC will continue to help airlines, agencies, technology providers, GDSs, payment providers and travel managers connect, grow and thrive.

ARC

**To learn more about how ARC's solutions can help your organization evolve in the new distribution landscape, visit www.arccorp.com.**

booking options should live in one place. The question of who should make that happen, though, is where opinions scatter. At the BTN Group's recent The Beat Live conference, John Snyder, CEO of mega travel management company BCD Travel, expressed disappointment, that Lufthansa, International Airlines Group carriers and others are making "one-off decisions" to withhold some content from the GDS—and indeed are surcharging GDS bookings and incentivizing bookings through New Distribution Capability channels and direct connects. In Snyder's view, those airlines are letting the corporate travel programs down: "I just don't think they've got the customer at the core of the decision process. … They haven't said, "Is this really the right thing to do for our customers? I believe that every airline has the right to distribute inventory the way they want to distribute inventory, but I also think you need to keep the customer in mind when you're doing that."

Snyder does note, however, that TMCs can take steps to bring in other content. "That's really what our focus is at BCD: to make sure that if there is inventory outside of the GDS, we're going to have visibility for our customers of that inventory."

Though Qualantone questioned major suppliers that don't make content available on the GDS, he said Amex GBT also would find ways to get such content for customers. "We all know one airline likes to limit access to their content," he said, ostensibly a reference to Southwest. "When you make your content broadly available, you allow people to shop it and compare it." When the TMC pulls in non-GDS content, whether from aggregators like Travelfusion or from direct connects, costs factor in. "We have to make sure our customers are aware of that. We have many customers who want us to go book that airline's content, and we fully, fully support that."

Referring to direct connects as an example, though, he said: "But how do you then handle pricing, and how do you handle the shopping? How do you handle refunds, exchanges, cancellations? How do you combine air with car and hotel? How do you shop that one airline in a direct connect against all the other airlines? There's a whole lot of cost, functionality and distribution components."

## IMAGINING A WORLD IN WHICH THE GDS IS JUST ONE OF MANY CONTENT SOURCES

Klee and Waghmar, meanwhile, view GDSs as one of many sources of content. In fact, each has made as-complete-as-possible content stacks a cornerstone of his company's value proposition. Waghmar's WTMC views GDSs as a source of content on par with NDC direct connects, aggregators and online travel agencies. Klee's AmTrav gets what it can from the GDSs but takes it upon itself to supplement liberally from other sources.

WTMC doesn't take incentives from GDSs, as virtually all other TMCs do. "If you want to build technology that is truly disruptive, that will actually lead throughout the industry, you have to start looking at the distribution channel purely for distribution, not for fees or not for processing," Waghmar said. "Pull in the content, figure out where to transact elsewhere, figure out how you can build out profiles and all of that separately because those kinds of technology platforms are available. You have to build all of that and bring all of that together in the ecosystem."



He's flabbergasted that TMCs resist being technology providers, that they leave that to the GDS operators, Concur and other online booking tools, especially as NDC opens doors to non-GDS ways of transacting bookings. "I can build an actual full stack," he said. "I have my own global data warehouse. I'll use the GDS for what it is good for. I'll build out my NDC pipes." He acknowledges he can't do that on all the airlines in the world—"I have a life, too"—but said he can do it on the 20 airlines that matter to WTMC clients. "We'll work with them, put all their best content out, aggregate all of that, build out that platform and push that kind of travel or experience to the client."

Waghmar said NDC not only will provide content for the airlines his clients use most but also will reveal the true cost of a trip. Traditional TMC/GDS bookings could show a travel program that a traveler spent $500 on a fare. But there's more to the real cost. Purchases made through WTMC's NDC connections to airlines also could capture upfront the $20 that traveler spent on Wi-Fi and the $100 he or she spent on checked bags. Plus, those ancillaries would be associated with the ticketed trip. WTMC does work with third-party booking tools like Concur, but now that it's got NDC work underway with American Airlines, Lufthansa, British Airways, United and other airlines, WTMC is working on its own booking tool to present the data and help travel managers manage travel policy and the content they choose to make available.

AmTrav, like WTMC, is working on NDC pilot programs with airlines. NDC is "a step in the right direction, although it's too small, too slow a step, in my opinion,"

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The brand launched a transformational refresh in 2015, investing $2 billion in property investments and unveiling a new contemporized identity. With over 4,200 hotels in more than 100 countries and territories worldwide, Today's Best Western offers 13 brands to suit the needs of travelers in every market: Best Western®, Sadie Hotel℠, Aiden Hotel℠, Best Western Plus®, Best Western Premier®, Vīb®, GLō®, Executive Residency by Best Western®, BW Premier Collection® by Best Western, and BW Signature Collection® by Best Western. The brand also launched franchise offerings: SureStay® Hotel by Best Western, SureStay Plus® Hotel by Best Western and SureStay Collection® by Best Western.

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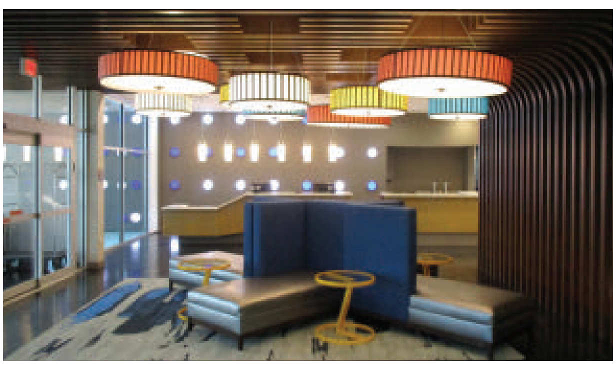

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said Klee, "but at least it's moving the ball forward." He said the existing travel agency workflow was designed for an era that predated branded fares and ancillaries. The traditional agent desktop and OBT have emphasized finding the lowest fare for a flight rather than showing multiple fares from basic economy or regular economy to premium economy or extra legroom. Airline websites, meanwhile, enable travelers to see instances when business class is only $50 more or extra legroom is only $20 more, and those upgrades might be worth it for the price to travel programs, Klee said.

TMCs should be more open to NDC, he said. "Other TMCs say things like, 'Oh, sure, I'm fine with NDC, as long as I don't have to change anything about my existing workflow.' We all have to wake up to the reality that we do need to make some changes and we don't want things to stay the same. We should all want to shake up our workflows in order to close the content gap that we struggle with today." NDC promises to change that, he said, but is still in its infancy.

So while Klee is optimistic about NDC, he's not waiting for it to mature and reach critical mass. The TMC has built a content stack for the here and now. If airlines allow comparison shopping among their own fares and GDSs allow comparison shopping of base fares across most airlines. Klee wants business travelers to be able to compare the true cost of multiple fares, including ancillaries, from multiple airlines. The company has spent years building a booking tool and, for domestic flights, a pricing engine. While a typical GDS search yields a list of flights and the lowest price for each, AmTrav queries the GDS for all fare and flight options—just the raw data, no value algorithms necessary—and then aggregates those availabilities with its own database of airlines' ancillary pricing to present a true-cost-of-flight booking option in its booking tool.

All told, AmTrav uses content from GDSs, aggregators and an increasing number of direct connects and supplements it both with its own databases of brands' fare rules and amenity content, including images, and with Routehappy rich content. Klee said the goal is to provide travel programs with a gluttonous amount of information, even more than an airline's website if he can: not just whether a flight has Wi-Fi, for example, but how good the Wi-Fi is, details on inflight entertainment and even seat dimensions. "It's quite an effort [to keep it updated], and we would love not to have to do that," he said. "The GDSs are slowly getting there, and NDC connections, when they're widely available, will also make some of what we do unnecessary. We're kind of anxious to get to that day, but we don't want to wait for that day" when NDC is viable and at scale.

Qualantone said Amex GBT supports NDC but wants GDSs to lead the way on this content source, too. "We're pressing technology providers, mainly GDSs, to solve for that," he said, adding that this would allow GDSs to absorb dynamic content from airlines. Rizzi also is a GDS guy. "As the GDSs evolve and as the GDSs bring in new content, we're obviously going to serve that up to our clients," he said.

## THE END IS NIGH?

According to Klee, if TMCs don't get it together—the content, that is—Concur TripLink, Traxo and others that capture off-channel bookings and aggregate travel program data will take the booking business off TMCs' hands.

There also are corporate booking engines aggregating diverse data sources. Serko integrates with Amadeus, Apollo, Galileo, Sabre and Travelport GDSs; air carrier Qantas; aggregators AgentWare and Travelfusion; and Routehappy, and it's working on direct integrations with airlines, said North America SVP Tony D'Astolfo.

> "I believe that every airline has the right to distribute inventory the way they want to distribute inventory, but I also think you need to keep the customer in mind when you are doing that."
>
> **BCD Travel's John Snyder**

TravelPerk launched in 2015 and is gunning for established TMCs and booking tools with its consumer-friendly technology and a variety of content feeds: One-third of bookings go through GDSs, 22 percent through aggregators and half via application programming interface direct connects. On top of that, chief commercial officer Jean-Christophe Taunay-Bucalo claimed NDC will be a snap for the company: "For us, it's very easy to integrate NDC because we are a tech company. It's what we do every day. Traditional TMCs struggle way more than we do with technological shift." There are signs that it's an easy time for digital booking platforms to take over from TMCs, he said.

And then there's TripActions, which wants to beat out the mega TMCs. CEO Ariel Cohen calls his company "a new kind of TMC." It doesn't rely on GDS incentives, and it aggregates GDS, OTA, direct connect and other aggregator content and even merges passenger name records from multiple vendors into one trip.

Klee referenced the danger of off-channel-booking aggregators, but he also could have included this new wave of booking platforms when he said, "It's a real existential threat to TMCs and the current model. I don't see TMCs ever going away, but either they solve the problem of providing a good booking experience or they get out of the booking business."

# Southwest Airlines®

## Southwest Airlines® is proud to have a multi-channel distribution strategy to meet the needs of small, medium, and large companies alike.

Currently Southwest offers its fares and schedules through multiple business travel channels: Global Distribution Systems (Sabre and Travelport), a direct B2B portal SWABIZ and a Direct Connect to all of the primary corporate booking tools in the marketplace. In managing a multi-channel distribution portfolio our immediate goal is to provide Customers with a menu of options to book their business travel on Southwest Airlines; long-term, our goal is to ensure that the channel strategy that we have in place positions Southwest as easy to do business with, as well as meet our Customers' needs.

### Studying New Ways To Strengthen Relationships

In an effort to deliver on our long-term goals, we are currently exploring our overall channel strategy to determine ways for us to strengthen our business travel offerings. Part of the exploration process is being more intentional in building relationships with the Travel Management community. We realize the value that TMCs bring to the travel management and business travel buying processes, so we are including this as an integral part of our review of our total channel management strategy. We are also evaluating the idea of adding a team that would approach travel management relationships from an account relationship perspective.

### Expanding Reach

We are also thrilled to announce that we have signed an extension with Travelport, which opens the option for Southwest to distribute its fares and schedules through the Worldspan GDS. The timing on this effort is to be determined—but adding



this pipeline/ channel to our channel portfolio will greatly benefit Customers who prefer to book their travel through this GDS. Through the amendment, we have opened that door to conveniently book Southwest, and give even more corporate and government entities options to do so through their preferred GDS. Offering our Direct Connect strategy with our corporate booking tool partners will continue to remain a focal point in our channel strategy. Additionally, we are also exploring the option of direct connecting to other intermediaries in the corporate travel space, to ensure that we are able to meet the needs of all of our business travelers. We continue to listen to our Customers, who have shared with us that offering Southwest fares and schedules through more channels will make it easier and more cost-effective for them to book their business travel.

### New Synergies To Come

We have recently integrated Amadeus as our host reservation system, and we fully expect synergies that will come about as we continue to review our channel management strategy. Adding Amadeus as our host system opens the possibility of Southwest engaging in more industry standard marketing partnerships, codeshares, interline agreements, and other offerings that will enhance our overall brand. While these items are further down our roadmap, we are continuously looking for ways to deliver on connecting business travel through value, simplicity, and service.

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**To learn more, visit southwest.com/corporatetravel**

BY ELIZABETH WEST

# GDSs Look to an Omni-Channel Future

"Unfortunately, the GDS technology is not capable of managing or handling all this unbundling and that is part of the continuing rift between us as carriers—and our needs in raising additional revenues and satisfying the needs of the marketplace—versus a technology model which simply can't cope."

That was the state of airline distribution a decade ago, as expressed by Air Canada's then VP of sales and product distribution Marc Rosenberg and reported by BTN sister publication The Beat. Air Canada was among the first North American carriers to go all-in with merchandizing, and it was Galileo, now part of Travelport, that hooked up the first direct connect through Air Canada's application programming interface in 2007. The move caused a stir in the corporate agency and travel manager community, echoed in some of what one might hear today about the International Air Transport Association's New Distribution Capability: problems with increased fragmentation, difficulty integrating with mid- and back-office solutions, workarounds, etc. But it also set off a wave of "what-if" contemplation among airline distribution executives.

American Airlines was among the most aggressive. Executives from the carrier spoke at the time of the increased importance of flexibility in its distribution partners and of prioritizing, in global distribution system partner negotiations, "the ability to deliver products and services in a way that generates the kind of customer interaction and revenue streams that we are able to get through our other channels."

United Airlines was less bullish on the concept at the time but instantly understood the importance of a coherent strategy. "We are trying to figure out what direct connect is. Is it a technical solution to an economic problem easily solved with negotiations with the GDSs? Is it a technical solution to respond to how airlines are evolving and offering ancillary services and how those are displayed to the travel agency? We have to answer that question ourselves," said then-distribution director Kathleen Bennett.

## TECHNICAL ISSUES

The three major GDS providers—Amadeus, Sabre and Travelport—have been criticized for clinging to cryptic Electronic Data Interchange for Administration, Commerce and Transport, or EDIFACT, codes and "green screen" user interfaces that have in the past limited differentiation in the indirect distribution channel and, therefore, restricted how airline product can be communicated and displayed through agency desktops and corporate online booking tools. Airlines were limited to 26 fare codes, not just by the GDS to be fair, but also in their own reservation systems

Given the number of fare families and bundle permutations the airlines want to convey today, these codes are insufficient. Moreover, without visual cues and explanation, adding even more codes for differing product bundles would guarantee confusion for the agent when communicating to any traveler. It also would mean consternation for corporate travelers in an online booking environment that exposes multiple price points but almost no product information beyond type of



plane, connecting city and duration of the flight.

"I know what our Smartpoint [agent] desktop looked like in 2011, and it was definitely, you know, a green screen experience," said Travelport president and managing director for the Americas Simon Ferguson. "GDS providers have come a long way since then. Has it been at the speed that [the airlines] would have liked? Probably not. That's not because we are unwilling to do it; it's because doing so is not as simple as changing a retailing website for a single carrier. We've got more than 250 other airlines, and we've got to aggregate and normalize what comes into our platform so when users get into the corporate booking tool or agency desktop, they can see not just the options for one airline but those from everyone else."

To that end, all the major GDSs have brought rich content and graphical user interfaces to their agency desktops. Ferguson pointed out that Smartpoint offers the ability to book "many types of ancillaries" directly in the GDS and noted that airlines upload their own rich content to the system to ensure what is displayed in the indirect channel matches what is displayed on the carrier's own site.

Amadeus has invested in its Selling Platform Connect and Sabre in its Red Workspace, piping in rich content and shifting to graphical user interfaces. All of these platforms, however, still have EDIFACT foundations. One reason, according to Amadeus IT Group EVP of travel content sourcing Anna Kofoed, is that agents versed in cryptic codes, as they're called, often find it easier to rely on the skills they have to initiate, advise and book travel. All providers have made their agency desktops flexible to accommodate different levels of cryptic skill and enable agents to flip back and forth from the cryptic to the graphical user interfaces as needed.

That's good because plenty of agents are still using those cryptic codes, according to SAP Concur supplier and travel management company services EVP MIke Koetting, who formerly was an executive at mega TMC Carlson Wagonlit Travel. "The new graphical user interface displays offered by the GDS agency desktops are a different flavor of icing on the cake. It's a different veneer of a mechanism to shop and complete a transaction for a travel agent. It's a veneer that, frankly, is less productive for an agent who's accustomed to having used cryptic commands for the last 30 years," said Koetting.

Both Kofoed and Sabre NDC VP Kathy Morgan agree with Koetting that cryptic has some practical advantages for the agent over the graphical user interface, but Morgan points out the extended value. "Even if the agent is using the desktop with cryptic, we have the ability to push graphical responses to each inquiry," she said, adding that graphical information is what can now be pushed out to the traveler for a better experience with the agency.

Koetting agreed that graphical user interfaces are "a step in the right direction to be able to display a richer content with photos to differentiate the new packaging that's being made available. But it doesn't address the rest of the plumbing which is entirely reliant upon a GDS passenger name record."

## THE FUNCTIONAL ELEMENT

"You have to remember that the PNR was built by the airlines," said Morgan. "There's an important role that the PNR continues to play between the GDS and the airlines' operational systems. Things like schedule changes, baggage tracking and the processes that get a wheelchair to show up at the right gate at the right airport. A lot of those processes are still triggered today out of the PNR."

Indeed, the agency's midoffice and back-office systems are predicated on that PNR. These systems provide agencies continued access to travelers' itineraries and the ability to act on their behalf in case of itinerary changes and disruptions. They also process and store all the data that agencies feed to associated business intelligence tools and/or traveler tracking tools and security partners. Itinerary elements booked outside the designated channel generally are not incorporated back into the itinerary as a segment that can be serviced by the agency. Off-channel aggregators like Concur TripLink or Traxo can deliver the data, but most agency systems can't reach outside the PNR, given the agencies' current technology stacks, which often are provided by their GDS partners. Moreover, some industry insiders believe GDS providers incentivize agencies to stay within those bounds.

## FOLLOWING THE MONEY

Particularly as GDS providers lagged airlines in their ability to deliver merchandizing platforms, carriers began questioning the value of the indirect channel to their long-term strategies.

"With certain airlines, there seems to be an article of faith—you know, somewhere written in stone tablets in the airline CEO's office—that indirect distribution costs significantly more than direct distribution. We do not think that's the case," said Ferguson, citing the value of the vast corporate market to which GDSs expose airline content via TMC partners. It's a market that's hard to crack from a customer-acquisition standpoint. Also the technologies and services provided by the GDS to accommodate airline interlining and corporate negotiated deals, and not just with airline content, but with hotel and car rental, as well.

> "With certain airlines, there seems to be an article of faith ... that indirect distribution costs significantly more than direct distribution."
>
> **Travelport's Simon Ferguson**

Industry-sponsored research conducted by Infrata in 2017 supports Ferguson's view, pegging average distribution costs for a round-trip fare via indirect channels at 14.21 euros and via direct channels at 12.56 euros. Clearly using a different calculus, Lufthansa in 2015 pegged its GDS distribution fee at 18 euros compared to its direct costs at 2 euros. British Airways came to similar conclusions as did Air France-KLM. "When airlines make that kind of statement, they are often ignoring the huge marketing costs they have ... marketing directly to consumers," said Ferguson.

These conflicts have been particularly apparent in Europe, where low-cost carriers and some mainline carriers have opted out of full content deals with GDS partners. Without full content agreements, airlines are free to differentiate content per channel—GDSs, direct connects, websites—but they get less advantageous distribution rates from GDS partners. The result for corporate clients in some of these cases is a distribution surcharged added to the cost of each ticket segment purchased through the GDS. Lufthansa's break in 2015 created the controversial 16-euro round-trip distribution cost charge, and BA followed with a $20 roundtrip surcharge in 2017, which it recently raised to $24. This wasn't the first time airlines looked to reallocate distribution costs across the value chain, but they had never before been riding the coattails of a movement like NDC.

Looking a bit deeper, these clashes around costs may be better characterized as altercations around innovation. To this day, TMCs sign lucrative contracts with GDS providers based on paybacks for realizing booking volume goals through the channel. Those incentives are a significant revenue stream for agencies, and airlines have chafed against this arrangement, viewing their distribution fees as subsidizing the agency payouts that keep restrictive technology structures in place. Redistributing these costs to agencies—whether they absorb them or explain them and pass them on to corporate customers—has been the airlines' way of forcing agencies to consider alternative booking channels.

A source who declined to be identified summed it up: "You didn't have to be a rocket scientist to figure out that airlines, at some point, are going to want to control how they distribute their product and are going to want to break the stranglehold and sell something of their own. So it wouldn't take a genius at a TMC to say, 'Hey fellas, we should invest in a system that can do something other than a GDS PNR.' Yet not a single TMC has done that."

## WAITING FOR NDC

If agencies were waiting for GDSs to make the fragmentation created by airline merchandizing to go away, they seem to be on the cusp. All of the three major GDSs have committed to NDC, which will allow airlines to connect via extensible markup language APIs to GDS providers; content aggregators like Farelogix, Travelfusion and HitchHiker *(see page 12)*; and even directly to TMCs and online booking tools to display special branded fares, bundles and merchandizing content. *(For a full discussion and update on NDC, see page 30.)*

GDSs now see themselves as taking a leadership role in bringing standardization to the NDC standard, which Sabre's Morgan said lacks discipline. "There may have been a perception that GDSs, including Sabre, weren't actively engaged in NDC developments. I can say on behalf of Sabre that we've been very engaged from the beginning," she said. "We know that initiatives of this magnitude are going to take a while. There's a lot of work and it's hard. It became very clear in 2017 that it was time to lean in hard. "IATA and airlines were driving the dialogue but not recognizing how the content needs to fit into a broader ecosystem. Sabre's role has been to champion a balanced approach as a marketplace maker. We have suppliers, we have buyers and we have to figure out how to drive this new content into the marketplace in a way that it has value for both … and fully optimize NDC content."

To that end, Morgan, Kofoed and Ferguson all pointed to the idea of normalizing the content entering the GDS through NDC pipes so corporate clients can continue to comparison shop through the agency channel. Morgan continued, "We actually start with the airline saying, 'Here's what we need from you from an API perspective. Here are the capabilities we require.' This is how we establish that standard flow on top of the standard so we're able to integrate this into a normalized workflow that sits alongside all the other types of content."

## THE OMNI-CHANNEL FUTURE & THE ROLE OF THE GDS

Kofoed and Morgan addressed the issue of GDSs continuing to build on the functional element of the PNR and expand what is possible through indirect channels. "When it comes to NDC, we will aggregate the content like all the other aggregators," said Kofoed, momentarily indicating that the GDS would become just another source of content for TMCs and online booking tools. "However we will add on an element—to be honest, we have not seen any players having a vision of going as far as we are prepared to go—which is to do true integration. This is fundamental for the agency [because] not only will we aggregate the content, we will make it available in the downstream systems, which will deliver the detailed reporting, the ability to service the bookings and support duty of care."

> "Not only will we aggregate the content, we will make it available in downstream systems, which will deliver the detailed reporting, the ability to service the bookings and support duty of care."
>
> **Amadeus IT Group's Anna Kofoed**

Morgan also referred to a future that would "remove the constraints of the PNR" and function off the concept of an order. "This is part of our NDC strategy," she said, adding that the goal of the GDS is to get past all the technical issues of NDC and deliver a platform that handles the personalization and deeper relationships that corporate travel buyers and airlines are already pursuing.

"Corporations work hard to negotiate beyond fare benefits. They want to know that their top-tier employees always have a certain set of products. Maybe they always have priority boarding, and they're always in the front of the cabin. They need to know the technology is in place to ensure those benefits flow through and are sitting on TMC shelves and in corporate booking tools. A lot of this is available through ATPCO now, but NDC is another enabler. Within NDC we communicate that this offer request is on behalf of Corporation X. Then the airline [systems] themselves recognize "Oh, we need to make sure we put all these components in the offer."

Ferguson reminded, however, that NDC was unlikely to become the standard among standards and that GDS providers more than anything are preparing to function in an omni-channel future that includes traditional fare-filing pathways through ATPCO and OAG, along with the new workflows for NDC that will increase personalization.

"Eighty-five percent of passengers travel once a year. Do you really want to be using NDC APIs for those 85 percent? Probably not. Airlines will likely leave those [travel requests] in the traditional workflows because: Why go through all of that trouble? It will be the other 20 percent, the really frequent business travelers, that need NDC personalization. That's who [the airlines] are really interested in, and we'll be ready to reach them." ◀

BY MICHAEL B. BAKER

# Catching Up to NDC: A Primer & an Update

Will the day come when the International Air Transport Association's New Distribution Capability standard be so engrained that no one will even need to talk about it anymore? That's an increasingly common prediction voiced at industry events.

Clearly, that day is not today. Even though NDC has been around since 2012, it remains a source of confusion for travel buyers, and introductory-level discussions still draw crowds at conferences. This also, however, has been a year of rapid progress in terms of major players on all sides of the distribution chain getting on board. As such, the window—in which learning about NDC is a luxury, not a necessity—is closing quickly.

For those dealing with global programs, it has been closing even more quickly. "From a corporation's perspective, in Europe, they've had to deal with it much more quickly than in the Americas," TravelCast principal and co-founder Kim Castro said during the Global Business Travel Association convention this summer. "For the Americas, some corporations are more prepared, interested and active than others."

An IATA-formed advisory group of travel managers, led by S&P Global director of travel and meetings Ann Dery and Leo Pharma manager of travel and meetings Jens Litorp, wrote an open letter in September that referenced their experience at the IATA Air Business Travel Summit this summer. "We were witness for the first time to tangible examples of how NDC will affect the products and services we buy, and it is great to see that we have been listened to and that our needs as corporate travel buyers are recognized by those who have progressed in their capability to date." However, they also noted "there are still challenges to be overcome."

### NDC 101

NDC is a data transmission standard based on extensible markup language, or XML, that's designed to improve communication between airlines, buyers and everyone in between on the distribution chain.

Beverly McCabe, CEO of corporate booking technology supplier Innfinity Software Systems, described it as "the euro of the airlines," which from a booking tool's standpoint means that "whether we are interfacing with the airline directly or a GDS or an NDC exchange through ATPCO, it will have the same messaging format."

For buyers, the how is less interesting than the why. Ultimately, NDC can serve as a building block for airlines to change the way they sell their products. Airlines can create Amazon-like retail experiences—offering not only fares but also ancillary products like upgrades, bag fees, Wi-Fi, food and beverage and other offers—personalized to a traveler's needs. They already do this via their websites, but using the NDC content transmission standard instead of the old global distribution system Electronic Data Interchange for Administration, Commerce and Transport, or EDIFACT, standard, they can achieve similarly robust retailing power through third-party channels with relatively quick setup.

So, where does that leave GDSs?



If TMCs, booking tools or even the buyers themselves can access this content directly from the airlines, what role is there for a third-party distributor, particularly as some airlines—Lufthansa, Air France-KLM and British Airways parent company International Airlines Group—have introduced surcharges on bookings made via the GDS?

GDSs will continue to play the central role in distribution, particularly because some airlines will only partially adopt NDC, leaving at least some portion of their booking volume in the GDS. Some will adopt NDC not at all, leaving the central distributor in its traditional role. In fact, despite some early reticence, all the major global GDSs have adopted the standard themselves and—according to Farelogix CEO Jim Davidson, who was an early direct connect innovator and an NDC advocate—are now moving in lockstep with airlines as they pursue a retailing future. Additionally, NDC has given rise to a number of new distribution systems specializing in NDC connections.

### WHO'S PLAYING: THE NDC ROSTER

IATA currently offers three levels of certification for NDC, and several of the major players in corporate air travel already have reached the top.

***Airlines.*** IATA lists 53 airlines as certified at the top level as of early October. This includes all three U.S. legacy carriers, as well as the Big Three European carriers. About a dozen more airlines are listed at lower certification levels.

Delta, along with its partner

Virgin Atlantic, was among the most recent to achieve Level 3. These carriers look to use NDC as the basis for a "next-generation storefront," according to Delta VP of sales operations and development Kristen Shovlin.

***GDSs.*** All three of the major GDSs—Amadeus, Sabre and Travelport—are among the dozen aggregators certified at the top level by IATA, as are metasearch providers like Skyscanner and Kayak.

Travelport was the first GDS to achieve Level 3, followed this summer by Amadeus. In the meantime, Amadeus has been pushing for adoption via its NDC-X program, which is testing and refining uses of the standard with its airlines and travel-selling customers. As of early August, three mega travel management companies and American Airlines had signed as NDC-X partners. Sabre achieved Level 3 in September, has been building up its Beyond NDC collaboration to test NDC-based capabilities and has enlisted American Express Global Business Travel, BCD Travel, Carlson Wagonlit and Flight Centre Travel Group, as well as American Airlines, United and other participants.

***TMCs.*** IATA lists 16 suppliers as certified at the top NDC level for travel sellers. Hogg Robinson Group, recently acquired by Amex GBT, is the only major TMC name on that list.

A smaller player, WTMC, has been at the forefront of building NDC airline connections: with British Airways, Lufthansa and Star Alliance carriers including United, Singapore and SAS. It also is building a "personal travel assistant," Bots&Beings, to aid in searches, and NDC connections will be a key element, according to WTMC CEO Sarosh Waghmar. "What NDC will champion is personalization," he said. "Even the biggest [travel] websites in the world today, after you fill out a profile, [they] push out [options] based on the cheapest fare and then you scroll down and find the one you want and book it. With personalization at the time of search, it can recognize me, and as long as it's in policy, a traveler is going to select what he or she wants."

## TECHNICAL CHALLENGES

With the number of players growing, IATA's next step is to push actual transaction volume through NDC. The association has 21 airlines on its Leaderboard, including the Big Three European carriers and both American and United, that have committed to having at least 20 percent of their bookings outside their own websites coming from an NDC application programming interface, said IATA NDC director Yanik Hoyles.

As of now, though, no NDC connections are running on a large-scale basis, so it remains to be seen how quickly and how well they will operate once they are hit by demand comparable to what a GDS processes today, Travelport president and CEO Gordon Wilson said at the BTN Group's recent The Beat Live conference.

The Travelport platform, for example, processes about 6 billion itineraries daily, and the average speed of a search in the Travelport system is two seconds; a good portion come back in less than a second, Wilson said. For airlines working with NDC APIs today, searches are trending around five seconds or more, he said.

As such, booking systems will have to figure out whether it's better to wait to display results until all are available or to stream them as they come. "How does that work from the consumer perspective?" Wilson said. "After we get some information back from the fastest airline, then, oh, somebody else popped up in here. These kinds of considerations are the things that we are working through, in cooperation with our airline partners."

In addition, Wilson noted there are differences in how airlines are interpreting the NDC standards. Some airlines, for example, are guaranteeing inventory and pricing for a certain period of time following a search via NDC, while others are guaranteeing it only at the time of the search.

"This means that 'standard' is, actually, a very loose term," Wilson said. "It also means that cost to serve and manage content in a normalized environment is

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### Top-Level NDC Certifications

**53**
airlines

**3**
major global distribution systems, plus nine more aggregators

**16**
travel management companies

## WHAT DO THE LEVELS MEAN?

**The International Air Transport Association's NDC certification comes at three levels, based on capabilities of the suppliers' application programming interfaces.**

**Level 1:** The APIs can handle simple add-ons of ancillary products after an airfare is booked. For example, a traveler using this would be able to buy extra legroom or pay for a checked bag separate after buying the ticket.

**Level 2:** The APIs can handle offer management, such as an airfare bundled to include ancillary products like extra legroom, checked bags and Wi-Fi.

**Level 3:** The APIs are capable of connecting to an airline system so pricing and availability is seen in real time and allow for traveler personalization. APIs also enable airlines to ticket and fulfill bookings not through a global distribution system.

## AIRLINE CONTRACTING IN AN NDC WORLD

Getting a better handle on ancillary spend has long challenged travel buyers. U.S. legacy carriers—including American Airlines, which is scheduled to put a tool into beta in November—have introduced reporting tools to improve that capability, but many buyers still fall short in tracking them.

About half the buyers in an Association of Corporate Travel Executives survey of 218 corporate travel buyers in May and June said travelers are buying out-of-policy ancillaries directly from airline websites at least some of the time. About half said they are not monitoring travelers' spending on ancillary items.

New Distribution Capability-based tools could supply more opportunity for buyers to introduce those ancillary products at the point of sale. For example, when travelers are allowed by policy to use in-flight Wi-Fi, they often buy it onboard and then file it as a separate item in their expense reports, American Airlines director of distribution strategy Neil Geurin said. With NDC, buyers could bundle it into the available fares.

Similarly, if a traveler is allowed to access preferred seats, current setups require them to make a booking through a corporate tool then go elsewhere to select that seat. NDC would fix that. "We've been putting Band-Aids on a 40-year-old system, but it's little things like that we're shooting to make more convenient," Geurin said. "Conveniences like that will matter in the long run."

### Contracting & Managing Total Costs

"I actually believe that NDC will benefit corporate travelers and corporate travel managers more than it will benefit anybody else from a content standpoint," said Farelogix CEO Jim Davidson. "Buyers are already having more conversations with airlines around add-ons and service, but delivering that has been a problem."

NDC will allow buyers to "break away more than ever" from one-dimensional price negotiations, and the offer becomes more dynamic because it is constructed by the airline, he said. "Buyers can actually negotiate a number of ticket attributes. Those add-ons could even be dynamic in nature, based on availability. [For example], a free bag they can get pretty much every time, but extra legroom-seats are capacity controlled and the airline may not have it. What I've negotiated is: If the airline has X number of extra legroom-seats or business class seats available by the time the traveler makes that commitment to buy, then they will get that seat.

WTMC VP of global travel management Jennifer Steinke believes these dynamics will change not only the way travel managers contract with airlines but also how they think about policy. Buyers will be able to "put forth in front of travelers a logical buying decision," she said. Rather than rely on lowest-logical airfare policies, travelers could see that they have status that enables a free bag and a preferred seat on one carrier, making it a better choice than one that has a base fare that is $25 cheaper. With that environment, buyers could "offer branded fares, leverage spend with carriers and drive their costs down," she said.

> "WE'VE BEEN PUTTING BAND-AIDS ON A 40-YEAR-OLD SYSTEM."
> **AMERICAN AIRLINES' NEIL GEURIN**

NDC-fueled personalization opportunities also could boost traveler compliance, said Shari Quackenbush Meisner, who until recently was global agency and online lead for IBM. "The airline [should] recognize that the last time I flew that airline, there was a disruption … and either make an offer as I'm booking or offer more personal service as I'm boarding," she said. "Or if it's an airline I don't regularly fly and they see [in my traveler profile] who I work for, they'd have knowledge that I'm a frequent traveler and might [make an offer] to persuade me to try the airline."

Beyond the ability to create bundles, NDC is poised to deliver rich content for corporate booking tools to display at the point of sale, boosting the user experience and thus compliance. Many booking tools currently offer few details beyond price and flight duration.

Of course, airlines also need to understand that not all buyers will be interested in pushing ancillaries to travelers and many remain skeptical of NDC. Only a slim majority, 53 percent, in the ACTE survey expected NDC to be a net positive. More than half were concerned that offers in an NDC world would be less transparent than fares paid today.

"Our goal is to give buyers as much control as they want," Geurin said. "If bundles make sense for your corporation or just for the C-suite within your corporation, we want to help enable NDC content for you that meets those needs. We've talked to some companies that do not want that control, and that's fine, too."

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high, due to complexity and lack of consistency."

### THE CHALLENGE OF CHOICE

In addition to normalization challenges, NDC has the potential to explode the amount of choice making its way to the corporate traveler. "I've tried to do the math," said Davidson, "and each added ancillary creates 200 or 300 potential options in the actual offer."

Even if booking tools could reasonably display all those options, it would be impossible for travelers to sift through the choices before booking, said SAP Concur supplier and TMC services EVP Mike Koetting. "It's ultimately a great opportunity for travelers to purchase a product that's the best fit for their needs, but it has a price of complexity for the entire industry," he said. "Trying to rationalize all those independent interpretations of NDC packaging and pricing into a coherent, efficient purchasing tool is challenging for technology developers, as well as for the traveler." He added that more content options for travelers will require travel managers to provide policy guidance.

Davidson suggested that policy coupled with traveler profile and machine learning-enhanced filters ultimately would deliver what corporates want at the point of sale—and not what they don't. "Corporate travel is an execution against a prenegotiated agreement, and NDC will allow that to happen more smoothly, more dynamically and more successfully than the way we're doing it today."

That only works, however, if all the technology is in place to accommodate the content. Davidson and Koetting share that concern, as does former IBM global agency and online lead Shari Quackenbush Meisner, who is eager to see the standard deliver change. "My biggest concern, though, is that the industry will try to roll out NDC before the workflows and the technologies to support it are fully baked," she said.

### RESHUFFLING BUSINESS MODELS

Business models are another major question mark for NDC, and one that concerns every player across the value chain. Most will say that NDC as a technical standard should be considered outside of financial models, but in reality, NDC is likely to precipitate many changes. It already has; Lufthansa initiated a GDS booking surcharge in 2015, followed relatively quickly by Air France-KLM and IAG. And it's not just with airlines. Amex GBT implemented in 2016 a $10 surcharge on bookings initiated outside GDS channels, so distribution-based financial scuffles have begun. American Airlines has approached the idea with a spoonful of sugar, incenting agencies with a $2 payback on every booking executed through their NDC pipes.

With retailing content becoming available through TMCs, will airlines consider commission payments aligned with upselling? Will that fly in the face of travel managers' directives to keep costs low?

And what will happen to the cost of distributing through the GDS for airlines? Travelport's Wilson commented on the complexity of normalizing the variations inherent in the NDC standard. At what cost? Will airlines opt to keep content out of the GDS channel, reducing agency bookings and, consequently, the incentives GDSs pay to TMCs?

Sabre VP of NDC Kathy Morgan sees broad potential for NDC to redistribute value across the chain and said changes in financial models would follow suit: "What value is being created? Who is the value being created for? Who is the value being created by? And how do you distribute that value in equitable ways? You have to start thinking beyond 'all bookings being equal' into a world [where we] align the value across the value chain and figure out what the commercial model needs to look like."

> "I am willing to pay slightly more and will negotiate with willing partners for a better product or experience on the aircraft. I don't want to pay anything more for getting the technology in place to buy that."
>
> **Former IBM travel buyer Shari Quackenbush Meisner**

Will the corporate end up footing the bill for NDC? ARC president & CEO Mike Premo, at an Association of Corporate Travel Executives conference in May, predicted they would. "If I were a corporate travel manager, I would be planning that, by 2020, my transaction costs by my agency are going to go up $5, $10 or $15. … The TMC model is going to change because the GDS model is going to change, and you're naive if you think that's not going to happen."

Quackenbush Meisner said TMCs and GDSs need to "own the costs" as part of the development cost of getting the connections in place. "I am willing to pay slightly more and will negotiate with willing partners for a better product or experience on the aircraft," she said. "I don't want to pay anything more for getting the technology in place to buy that."

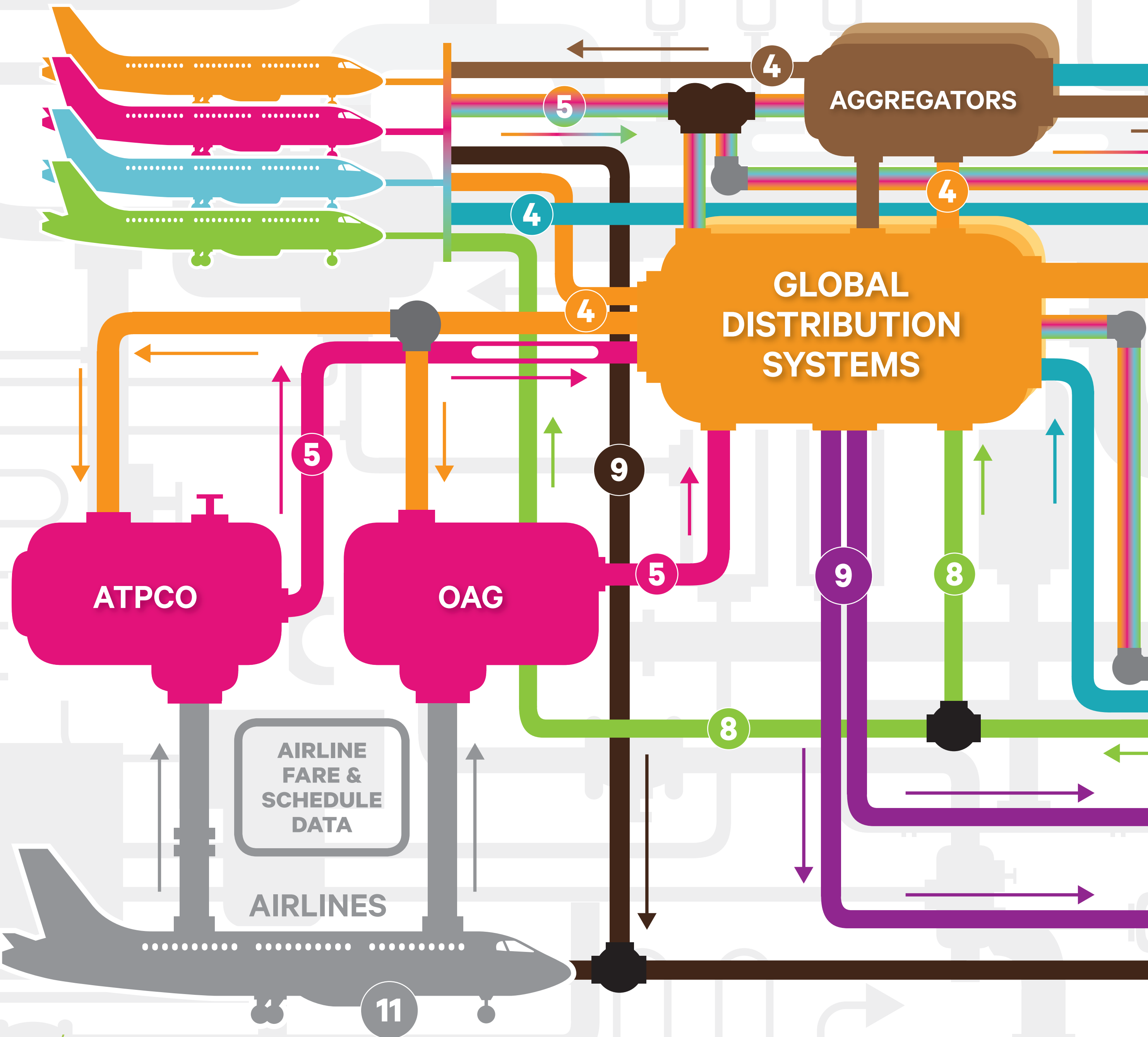
Some airlines are on the same page. "If you go to a hotel, there's no cost for rich content," American Airlines director of distribution strategy Neil Geurin said at GBTA, "so we're not going to charge you to have access to more content. That's not to say there won't be parties who want to charge."

WTMC VP of global travel management Jennifer Steinke sees it differently. She agrees that TMC models will change but said direct connect TMCs like WTMC will bring a new dynamic to the table. "Buyers are going to win. There will be more opportunity than ever before to gain better discounts with carriers by helping them reduce their distribution costs."

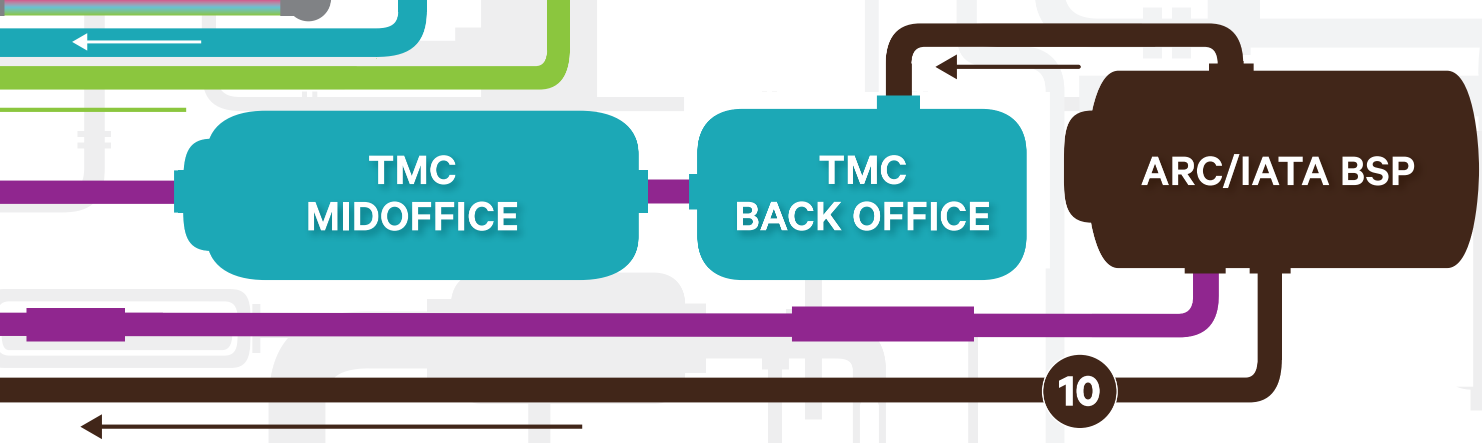
*—Additional reporting by Elizabeth West*

# Where Are We Going?

The managed travel industry is looking toward an omni-channel future where airlines may do direct connects with an agency or even direct with a corporate online booking tool. A technology-first travel management company could establish itself as a hub of direct connects, but "NDC" and "direct connect" are not synonymous, especially now, as GDSs dive into the NDC initiative. Traditional TMCs could leverage GDSs for the majority of content through traditional pipes but also leverage these partners for certain personalized content through NDC pipes. Air content aggregators will continue to play a significant role. Chal-lenges remain: Interlining with additional carriers for one itinerary, servicing bookings at the TMC level and pushing trip data into back-office systems for reporting. Additional technology will have to solve those problems.




1. Profiled corporate traveler initiates a travel request through an online booking tool or by calling the agency.
2. Agency profile management system identifies traveler and applies known preferences, requirements and policy.
3. Request could take multiple routes: to the global distri-bution system, to an aggregator or direct connect to carriers.
4. **Traditional path:** The GDS simultaneously pings ATPCO & OAG. **NDC paths**: The GDS, aggregator or travel management company directly pings the airlines.
5. **Traditional path:** ATPCO and OAG send their respective data to the GDS, which constructs and returns the offers to the TMC. **NDC paths:** The airlines construct and return the offers.
6. The agent or OBT aggregates and communicates the options to the traveler, flagging or blocking nonpreferred options based on the corporate travel program's configurations.
7. Traveler chooses a flight.
8. **Traditional path & GDS NDC path:** Data flows through the agency desktop or OBT back to the GDS. **NDC paths:** The data flows through the agency or OBT back to the airline.
9. **Traditional path:** GDS registers the booking and sends it to the agency midoffice/back office and to Airlines Reporting Corp. or IATA's Billing & Settlement Plan. **NDC paths:** Airline registers the booking, potentially settles the transaction and sends the data to ARC/BSP; integration with midoffice and back-office systems currently is unsolved.
10. **Traditional path:** ARC/BSP settles payment and returns data to the agency back office and to the airline. **NDC path:** ARC/BSP settles the payment if airline has not and returns the data to the agency back office and to the airline. If airline has settled, ARC/BSP acts as a pass-through to the agency back office.
11. Airline registers the booking and removes that content from the shelf.



BY JULIE SICKEL

# Linking Changes in Hotel Distribution to Changes in Customer Expectations

The hotel distribution landscape, like the broader hotel industry itself, is complicated and fragmented. It's made up of entrenched intermediaries, lagging legacy systems and Band-Aid solutions developed over the past 50 years to take the industry from on-property bookings to call centers to internet systems to today, when locating and booking a hotel room is expected to be as easy as saying, "Alexa, find me a hotel."

With the complexity inherent in the distribution landscape, it's easy to get overwhelmed and lose sight of which shifts may be occurring and why. But the reality is, many of the changes hitting the hotel industry link right back to changes in traveler behavior and expectations. And, hoteliers, like corporate travel managers, are working not only to keep up, but also to prepare for the future. What follows are some of the moves taking place in the hotel industry and how they link to shifting customer demands, plus a roundup of other disruptive forces shaking things loose in the industry.

## CLOUD-BASED SYSTEMS TO SUPPORT SHIFTS IN BOOKING BEHAVIOR

In recent years, a number of the major hotel companies—including Choice Hotels International, InterContinental Hotels Group and Wyndham Hotels & Resorts—have announced cloud-based central reservation systems. A hotel company owns, leases or licenses a CRS, alternatively called a global reservation system, as a centralized database that communicates with property management systems so the hotel comapny can process reservations for all its hotels, according to curriculum from the Hotel Electronic Distribution Network Association. The new cloud-based systems have either been built in-house, such as Choice's ChoiceAdvantage, or they've been developed by global distribution system providers, such as Wyndham's adoption of Sabre Corp.'s Synxis Central Reservations.

Why the move to the cloud? Since online travel agencies and meta search companies have entered the hotel distribution landscape, hotels are expected to distribute content on an increasing number of channels. Travelers, in turn, expect to be able to search and book hotels on whichever channels they prefer.

"What we are seeing is the explosion in shopping and booking transactions, and this is in the billions—literally hundreds of billions—that we deal with every year," Choice president and CEO Pat Pacious said last year about the shift to ChoiceAdvantage. "We saw a need to improve the velocity of our ability to move information around from our hotels out to third parties out to our own proprietary sites, and we saw the variety of data. So, the volume, the velocity and the variety of data was really changing in a significant way. We needed to be on the forefront of that." A cloud-based system, he added, enhances speed across the system and increases the accuracy of hotel content because it's not being stored in disparate systems.

> "What we are seeing is the explosion in shopping and booking transactions—literally hundreds of billions—that we deal with every year."
>
> **Choice Hotels International's Pat Pacious**

The new CRSs aren't the only cloud migrations taking place in the industry. Property management systems, too, are heading to the cloud. PMS software sits at the property level and coordinates various functions at a hotel—including bookings, accounting, point of sale, payroll and sales and marketing—according to STR. Opera by Oracle is one of the earliest PMSs and, therefore an entrenched player in this space, but there are hundreds of providers globally. The costs of switching to a new system are high, which keeps this level of distribution fragmented. CRSs developed as a way to connect disparate PMSs.

However, with the emergence of cloud-based systems, PMSs can bypass CRSs in the web of distribution. Yet, most PMSs aren't sophisticated enough to meet the needs of that "explosion in shopping and booking transactions" Pacious referenced. That's where channel managers step in.

Channel managers emerged around the rise of online travel agencies to serve as an interface between internal hotel systems and third-party extranets for inventory distribution. Today's channel managers do more, however. "If you look at the channel managers of yesterday, they're becoming much more like CRSs, and I think the independent hotel space is getting a lot more access to technology that previously was reserved for the chains because of how companies like ours have evolved," said Mike Ford, co-founder and CEO of large channel manager cum cloud platform SiteMinder. The company's tech sits on top of a PMS or a CRS to provide connectivity to the guest-acquisition landscape, keeping up with paradigm shifts and establishing hundreds of integrations with the various distributions channels, including OTAs, wholesalers and metasearch companies.

For hoteliers, the growing sophistication of players like SiteMinder has important implications around things like revenue management. But for travel management companies and corporates, increasing sophistication at this level of the distribution landscape—including CRSs, PMSs and channel managers—opens up the possibilities for direct connections with hotels that bypass GDSs.

"A lot of third parties are out there providing niche services now to connect hotels to various points of sale," Ford said. "Even though you have channel managers or PMSs connecting to direct channels, you've still got sometimes two or three systems sitting between the hotel and then who they sell to. … I think that's going to become a lot more streamlined. The hotels are going to have access to a lot more direct distribution."

Moving to the cloud and possibly moving away from intermediaries has implications around traveler personalization, too, but more on that later.

## TRAVELER CHOICE, THE NEED FOR CONTENT & THE POWER OF OTAs

The proliferation of search and booking channels across the travel industry has conditioned travelers to expect to choose where and how they book. As a way both to drive traveler satisfaction and to plug up program leakage on the corporate travel side of things, many travel managers and travel technology providers bring in content from aggregators to offer as many hotel choices to a traveler as possible.

While this can be a positive for travel programs and their travelers—Unilever and ITW are two examples of programs that have embraced high volumes of content through open-booking or supplementing with an aggregator and have seen positive results—it can complicate an already complex distribution environment and have knock-on effects for hotels.

At the risk of oversimplifying, consider Expedia. It serves as one of two dominant players in the OTA bucket of distribution, alongside Booking.com. Its position in the industry allows it to charge hotel commissions in the range of 15 to 25 percent. The hotels don't like those high commissions, but, in spite of attempts to bypass OTAs through recent direct booking campaigns tied to loyalty, hotels cannot ignore Expedia as a distribution channel. But Expedia is not just an OTA, it's also an aggregator with its Expedia Affiliate Network. And there's been no shortage of deals in recent years to feed content from EAN and similar aggregators into GDSs, TMCs, and corporate booking tools as a way to expand the choices available to travelers. So while hotels spend marketing dollars to try to get travelers to book direct and not on Expedia, which conflicts with how corporates would like their travelers to book, the tools corporates then ask their travelers to use to book hotels are supplemented with content provided by, essentially, Expedia.



"Because of how fragmented and how difficult it is for people to access hotel content availability and whatnot, [Expedia] can capture a lot of business indirectly by basically feeding its connectivity to a bunch of other companies and just sharing revenue," said Arise co-founder and CEO Nadim El Manawy.

Arise uses a distributed ledger—aka blockchain, though Arise doesn't use cryptocurrency—and aims to, among other things, decrease the number of intermediaries that sit between hotels and buyers. The company is currently building out two proofs of concept. The first focuses on commission tracking and reconciliation for large TMCs. The second touches on the lack of transparency in how rooms are sold via aggregators, GDSs and wholesalers.

In that second proof of concept, smaller OTAs travel chatbots and others that rely on content from a combination of aggregators, GDSs and wholesalers connect into Arise's network. "We can basically now track all their search and booking queries that they send to those intermediaries, and we aggregate and anonymize them all," El Manawy said. "Then we can show hotels how much money they're losing for all those bookings getting produced for their hotel by all those different types of travel companies that they currently don't see because it's kept opaque by the guys in the middle."

El Manawy said the hope is that distributed ledger technology would more easily allow for direct connections between hotels and TMCs or even between hotels and corporates, which would eliminate the need for wholesalers, aggregators, switches and, yes, GDSs.

## PERSONALIZATION & ALL THE DATA

Choice and flexibility aren't the only expectations of today's corporate travelers. They also want personalization. The good news is: Corporate travel programs and hoteliers alike want to provide personalization because both know it can drive traveler satisfaction and loyalty. The bad news is: The structure of modern hotel distribution makes it difficult for both sides to work together to deliver.

The problem is centralization, said El Manawy. Picture a game of telephone between three people. Person A on one end tells a story to Person B who sits in the middle. It's a good story, lots of details. But when Person B turns to Person C on the other side, all Person B can remember is the rough plot, no nuance. That's what a centralized system does — no matter how well Person A tells a story, Person B only has the capacity for so much information.

"GDSs need to limit the amount of information that can pass through their systems, which is a big problem," said El Manawy. As a distributed ledger company, Arise does have a stake in decentralizing hotels, but El Manawy said information sharing for personalization has come up repeatedly in conversations with large TMCs. "There is way more information they would love to pass back to the hotels," he said. "They're starting to gather much more relevant information about the travelers, especially in corporate travel, when people travel more often. But this is information they can't pass back to hotels because again, it's very limited in terms of the capabilities of what they can pass back through the GDS."

## WHAT TO WATCH & WHAT TO IGNORE

***Blockchain.*** Arise isn't the only distributed ledger company trying to change hotel distribution. Another entering this space is Winding Tree, which already has a strong foothold in the airline space and just recently partnered with Sciant to make Hospitality Technology Next Generation's distribution standards compatible with Winding Tree's distribution platform. Winding Tree founder and COO Pedro Anderson said the goal of the company is to democratize the travel distribution flow. He said that as the industry encourages more open innovation, it increasingly will be able to attract talent to help solve and disrupt current issues in hotel distribution.

***Metasearch.*** AccorHotels CEO Sebastien Bazin said in June he spends more time worrying about what Facebook and Google will do in the future than he does about hotel competitors. Bazin may have the right idea. "Google is really starting to accelerate their movement to travel now, I think," said SiteMinder's Ford. "They've been doing a lot of groundwork in the last few years around the travel experience. … It just feels like they're sort of accelerating efforts there and providing hotels a real opportunity to participate directly at that point of sale, essentially competing directly with the OTAs."

***Chinese travel companies.*** Google may not be the only potential threat to Expedia and Booking.com. Ford notes that Chinese companies like Ctrip and Alibaba have been fairly focused on local markets and Chinese domestic travel but that's likely to shift in the coming years. "They're really starting to move to be global players, and that's quite a big change," Ford said. According to eMarketer, China is expected to account for a quarter of digital travel sales worldwide by the end of 2021.

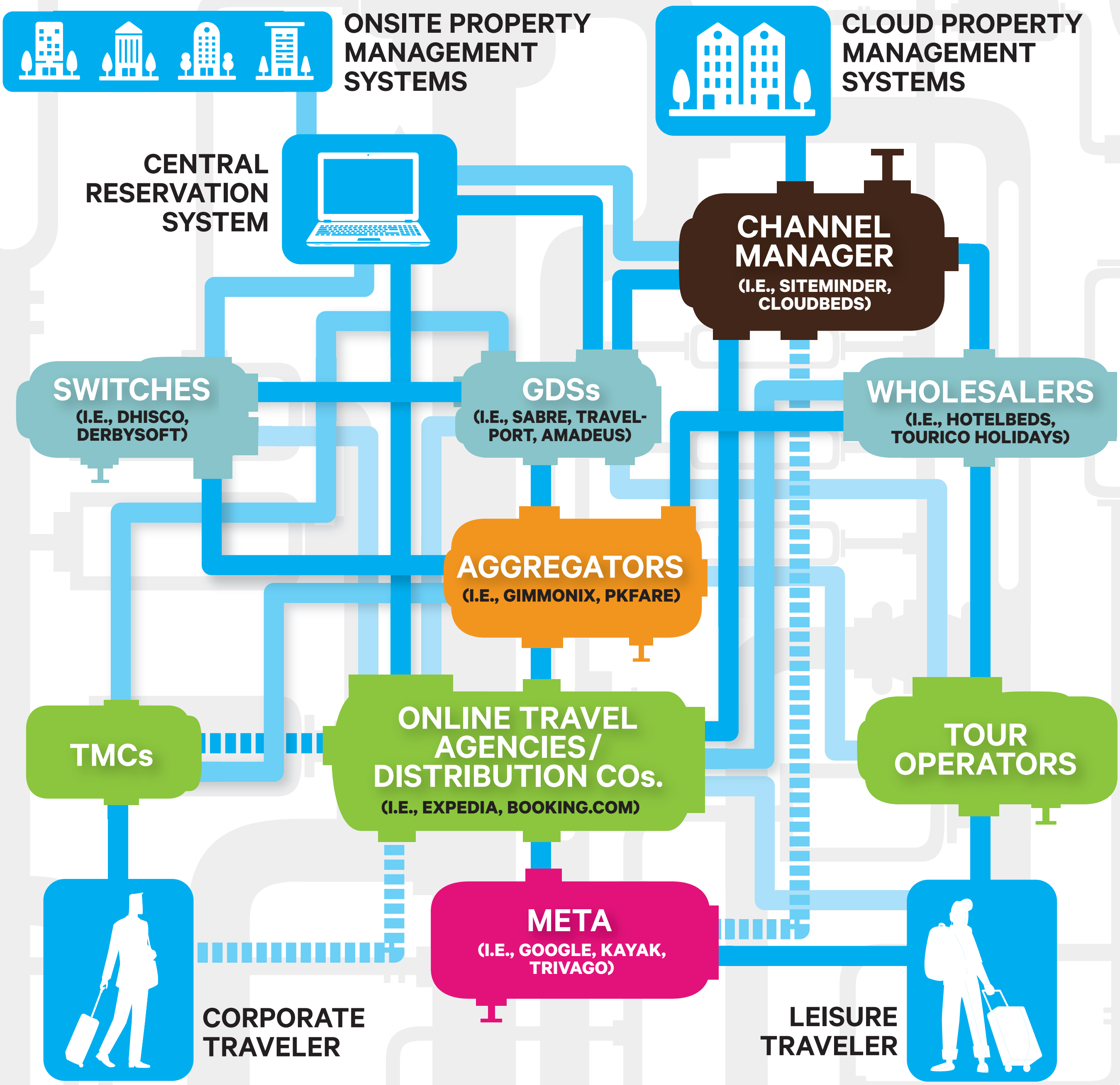
***NDC for hotels.*** Hotels may have been fine with piggybacking on airline distribution last century and even continuing to adapt airline revenue management practices for the hotel industry. But when it comes to New Distribution Capability, it looks like hotels are going to pass. Last year, Hotel Technology Next Generation explored adopting NDC standards and what that could look like. In the end, they found that "NDC is really solving a problem the hotels don't have," said HTNG COO David Sjolander. Anderson added that NDC for airlines is more than five years in the making, and were hotels to look to do something similar, "by the time that it's made, it may not even be relevant."

## How the Content Flows

- Central reservation systems moved to the cloud to deliver consistent content to multiple distribution channels.
- Cloud-based property management systems can bypass CRSs, but the small size and local nature of PMS companies, of which there are hundreds globally, limits their ability to keep up with changes in the distribution landscape.
- Channel managers emerged as a way for CRSs and PMSs to distribute their inventory across multiple channels more effectively.
- Before channel managers, switches directed content to multiple global distribution systems, but now they serve as alternative channel managers.
- Innovators are looking at technology like blockchain to disintermediate switches, GDSs, wholesalers and aggregators and give hotels tighter relationships with the end user.

# How the Content Flows

This diagram comes with one big caveat: Everything is more complicated than it looks. It used to be that entities on this network could occupy a single box within the hotel distribution landscape: A switch company was just an intermediary between hotels' central reservation systems and the global distribution systems, and a channel manager was only an inventory distributor to sales and marketing channels. Now, however, players in this space have become multifunctional as a way to adapt to changes in technology, to overcome other nodes' failure to change and to avoid becoming commoditized. The result is a complex web.




**Acknowledgments:** Created with assistance from Arise co-founder & CEO Nadim El Manawy & the Hotel Electronic Distribution Network Association.

BY ELIZABETH WEST

# The Corporate Travel Manager's Role

Even as the International Air Transport Association's New Distribution Capability has barely taken flight, the organization has stepped up the push for its next initiative, One Order.

Global distribution system providers and other industry insiders clearly have contemplated this move as the future of NDC. Sabre VP of NDC Kathy Morgan spoke of her company's vision of travel bookings as "orders" rather than passenger name records. Farelogix president and CEO Jim Davidson talked about transforming the PNR into an order and an order into a PNR. The language of the industry already is focusing on the concept.

According to IATA, One Order eventually will erase the need for multiple reservation records—e-ticket numbers, airline reference numbers and GDS reference numbers, for example—merging them into a single ticket format. That reference number then can be used across the distribution chain, making servicing the traveler easier across any point in the journey. "When we moved to electronic tickets, we moved a paper process to an electronic format, and it was more about automating the complexity than reengineering the process," said Sebastien Touraine, who heads the initiative for IATA. "[One Order] is moving the industry to go to a standardized retailing solution, moving away from the idea of a paper-based ticked."

As that is a massive undertaking, it naturally will be done in steps, Touraine said. So far, there have been a few pilot programs, including one with Amadeus and British Airways last year. Next year likely will see some system providers certified for One Order, and airlines will begin pioneering programs over the next few years. "The standard is there, and the pilots have proven it is feasible," Touraine said. "Now, it's more of a question of implementing."

## SLOW DOWN TO GO FASTER?

Pass Consulting CEO Michael Strauss—whose company provides technology, integration and tools for participants across the managed travel chain—warns that NDC and One Order may need to slow down and consider what will really provide air travel distribution, and other travel product distribution, a path to the future. "It's not XML," he lamented about the NDC standard, which uses technology that is already a dozen years old. The sentiment echoed a blog post of his from late last year, which said: "Developers today prefer JSON (JavaScript Object Notation) and rapid API development and run when they hear XML. Hence, an argument can be made that [NDC] is not so 'new' after all."

Strauss also criticized the numerous versions of NDC that IATA has rolled out and urged the organization to consider its next steps more carefully, including how the organization engages the industry around One Order. "There's a real question of how well [IATA] will do it," he said. "If it's the same as NDC, it's going to be a long run for everyone and maybe a failure."

Even with his skepticism, Strauss was keen to see a future untethered to the PNR. But, he said, it would take a lot of collaboration, a willingness to shift value along the chain and a focus on new technologies that will ensure transparency. "We need to think new about using a blockchain or something to store the data and allow everyone access," he said. "We don't want to be 10 or 15 years behind."

> "Unless a collection of influential, large companies and their travel managers insist on and select suppliers and partners who embrace this broader vision, the constraints of existing legacy architecture will continue."
>
> **SAP Concur's Mike Koetting**

SAP Concur supplier and travel management company services EVP Mike Koetting agreed, particularly with Strauss' call for more collaboration rather than everyone grabbing for their territory. "I genuinely think that the industry realigning its mission to embrace this broader purpose—of helping clients manage all spend and helping all travelers regardless of where that travel was purchased—will ultimately secure the long-term success and survival of travel intermediaries," he said. "Embracing this mission would require the collaboration of suppliers, TMCs and their technology partners and GDSs."

What's the role of the travel manager, you ask? "That technical collaboration to expand corporate travel management and the legacy GDS PNR infrastructure to accommodate that kind of service is only possible when clients and travel managers demand it and demonstrate a willingness to compensate for it," Koetting said. "Unless a a collection of influential, large companies and their travel managers insist on and select suppliers and partners who embrace this broader vision, the constraints of existing legacy architecture will continue."

*—Additional reporting by Michael B. Baker*

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