

A large commercial airplane is shown from a low angle, flying over a vast mountain range. The plane's wing and engine are prominent in the foreground, while the tail and fuselage extend into the distance. The mountains below are rugged and partially covered in snow, with a hazy atmosphere in the background.

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VIRTUAL INTERLINING

SEIZING THE OPPORTUNITY FOR AIRLINES AND AIRPORTS

In cooperation with



Written by
Linda Fox



“We believe that, by 2021, airline distribution will evolve from its current passive, rigid and technology-centric state to a more flexible, dynamic and passenger-centric environment which we call Active Distribution.” (IATA)

Airline initiatives - such as IATA's New Distribution Capability, direct connect and API developments - and tentative explorations around blockchain are conspiring with wider economic factors - such as rising fuel prices, labor issues and general turbulence in the global economy - to make everyone in aviation stop to consider where revenue will come from going forward. It's making airlines question how old systems might be improved upon, reinvented or ditched in the digital world.

Then there's the consumer who expects everything online regardless of the access device. He or she can do more for themselves than ever before via the internet in terms of shopping, banking, travel and more and expectations of this self-service world continue to rise.

Further pressure is being put on airline distribution by the growing passenger numbers. IATA figures reveal worldwide passengers exceeded four billion last year. And, according to the organization, in 2000, the average person flew once every 43 months; by 2017, this had reduced to once every 22 months.

There is no letup as the forecast for 2036 is a near doubling of air passengers to 7.8 billion. Say that to yourself a couple of times and consider the current air shopping, airport and overall travel experience to let it sink in.

New ways of doing things will continue to emerge and evolve. In its *Future of Distribution 2016 to 2021* report, IATA says:

“We believe that, by 2021, airline distribution will evolve from its current passive, rigid and technology-centric state to a more flexible, dynamic and passenger-centric environment which we call Active Distribution.”

The emergence of virtual interlining is a good example and several models have surfaced in recent years. Many in the industry feel that the current model of interline agreements between carriers is outdated. There's a belief that it makes things unnecessarily complex for airlines and is often not great for passengers either.

The following white paper seeks to lay out the different virtual interlining models that exist, benefits to both consumers and the wider aviation industry, the potential for growth and the challenges.

Evolving models

In its simplest form, virtual interlining enables passengers to buy two or more legs of a trip from different airlines, both traditional, full-service and low-cost carriers, in one transaction. Where the difference in the models tends to lie is the systems used and what can be booked. More important, however, is who takes responsibility for the booking.

Travel technology company Kiwi.com, for example, works on an agency model. The consumer books different, unconnected flights on the website with one or more stops, and Kiwi.com facilitates the process by combining the tickets into one booking. It then adds a guarantee to rebook passengers on the next available flight if they miss their connection or provides hotel accommodation or meal vouchers if the next available flight is not until the next day. Kiwi.com spends several million Euros on guarantee costs.

Kiwi.com stresses that the number of people actually claiming on the guarantee is insignificant to the overall picture. The company works hard to provide its own connection times so that consumers have the most options possible. This could be reducing airport connection times as well as increasing them, but Kiwi.com is working with airports to see if connecting flights can be in the same terminal, if there are any fast-track options and even with gates in proximity to each other.

According to Kiwi.com's CEO, Oliver Dlouhý, the guarantee is a "very real proposition which adds huge value to the consumer, giving added protection and reassurance."

A second model for virtual interlining is Worldwide by easyJet which was launched in late 2017.

The initiative enables customers to connect easyJet flights to long-haul flights initially through London Gatwick and, more recently, extending to Milan Malpensa, Berlin Tegel, Venice Marco Polo and Edinburgh.

Barcelona will be added next says easyJet, with additional airports in Paris and Amsterdam Schipol to follow, bringing access to millions more connecting passengers each year.

For the carrier, virtual interlining is an "untapped opportunity to connect the dots within its network." It says this is the "first step" to more seamless connectivity with partners and will "accelerate the shift away from traditional airline interline partnerships."

The Worldwide by easyJet model is supported by technology from Iceland-based metasearch specialist Dohop. Dohop describes it as more of a "direct model" where the bookings are owned by the airline compared to the Kiwi.com agency model. Customers perform a single search for two separate fares that are presented in a single booking flow. In the background, the Dohop technology combines them and adds the cost of a connection guarantee. Dohop holds a "super Passenger Name Record" within its system covering the PNRs for separate tickets within an itinerary.



"The partnership with Kiwi.com is a revolutionary transfer product and a win-win for airlines and passengers. We wanted to create something which takes in as many of the advantages and as many of the disadvantages - something that allows the passenger journey to be simple."

(Stansted Airport)



It's fair to say that both models have been gaining momentum recently. Kiwi.com is keen to exploit B2B partnerships and recently announced a tie-up with London Stansted Airport. The partnership offers passengers a fast and "hassle-free" transfer product with the ability to combine full-service and low-cost carriers operating at the airport.

It's a significant development for Kiwi.com which believes that its virtual interlining product is unlike any other product that exists today. It has already been developed and used by their partners at various airports and airlines.

Current models require self-connecting passengers to exit to the land-side area of airports to reclaim luggage and check it in again. However, this latest cooperation aims to remove that hassle.

Aboudy Nasser, chief commercial officer of Stansted Airport says the partnership is a "revolutionary transfer product" and a "win-win" for airlines and passengers.

"We wanted to create something which takes in as many of the advantages and as many of the disadvantages - something that allows the passenger journey to be simple."

He adds that it can be sold through Kiwi.com's website, the respective airlines' websites and the airport's website.

Summing up the benefits of the self-connect model, Nasser says it puts the risk of the missed connection onto the airport, removes the need for interline agreements and enables low-cost carriers and full-service carriers to be connected.

Similarly, Worldwide by easyJet is also growing. It has just announced the addition of Singapore Airlines and Virgin Atlantic to its virtual interline model.

At the recent Aviation Festival in London, easyJet chief executive Johan Lundgren described Worldwide as a "great innovation" and a way for the airline to participate in long haul without "taking the risk of buying long-haul planes or changing our model."

He says that the virtual interline model is attractive to long-haul carriers in terms of helping them to fill seats and means a "seamless proposition for customers."

A third virtual interlining model is the Asia-based Value Alliance which uses a system from ABB Technology. The Value Alliance is made up of Asia-based low-cost airlines and enables travelers to book multi-airline itineraries offered by any partner. It believes its patented air connection engine goes further than others because it allows for the sale of ancillaries and provides customers with a seamless experience.

Potential for growth

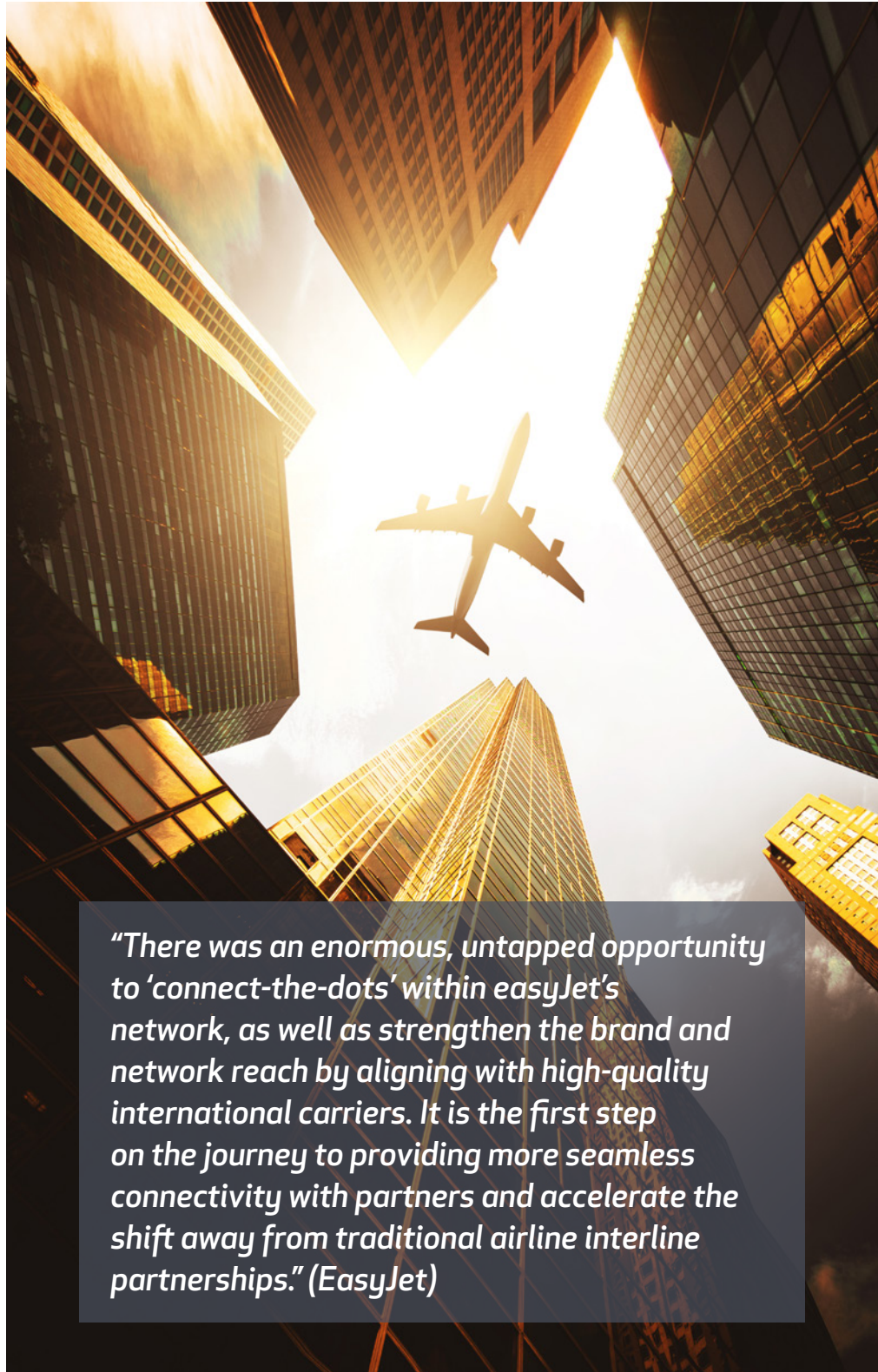
But the real question that remains with virtual interlining is the size of the market across all its forms. Answers vary widely depending who you talk to.

Research conducted in 2017 by consultancy firm ICF showed that more than 55 million passengers a year worldwide make self-connections. The research goes on to say that almost all of those self-connections include a low-cost carrier. Furthermore, ICF predicts that as airlines, online travel agencies and airports embrace the model, the number will double in the next five years.

Even with technological advances in aviation such as longer-range aircraft for more point-to-point journeys, opportunities for virtual interlining on new routes emerge simultaneously.

The benefits for consumers are clear in terms of significant cost savings by joining up flights from different carriers from A to B via C. However, there are also benefits for airlines by expanding their networks and boosting ticket sales as supported by easyJet's Lundgren and benefits for airports, by creating new revenue opportunities and exploiting their assets.

EasyJet says that more than 150 million passengers fly between continents with their trips starting or ending at an easyJet airport. The carrier adds that 70 million of those are making at least one transfer - whether via London Gatwick, Amsterdam, Charles De Gaulle or Milan Malpensa.



“There was an enormous, untapped opportunity to ‘connect-the-dots’ within easyJet’s network, as well as strengthen the brand and network reach by aligning with high-quality international carriers. It is the first step on the journey to providing more seamless connectivity with partners and accelerate the shift away from traditional airline interline partnerships.” (EasyJet)



Then there are the data benefits, not only in terms of customer intent and the potential to personalize offers, but also around disruption management, which costs the aviation industry billions every year.

Kiwi.com, for example, employs a meteorologist to track weather patterns that might impact airports around the world - insight that could be offered to airline partners to help them manage their schedules.

The growth of air passengers as well as the predicted growth going forward are good indicators for the growth of virtual interlining. There are further positive signs from the growth of airports where the most connections are already made.

OAG Megahubs Index 2018 published in September shows Heathrow as the most internationally connected airport for the second consecutive year. The airport continues to grow and plans for a second runway will mean opening up further capacity.

Stansted's Nasser believes there is a large potential market for virtual interlining and that it's "hugely growing."

"We know from the profile of passengers we have here at Stansted that people most likely to build these itineraries are millennials and people traveling alone, which represents a lot of people."

Challenges ahead

There are challenges too. The model still has room to grow and mature especially from an operational standpoint. Although all models are backed up by guarantees, that naturally represents a worst-case scenario for passengers, even before they've started a journey.

Additionally, in today's technology-driven world, the idea of having to go landside within an airport to pick up luggage and recheck it feels like an alien concept. But, the aviation world is mired in rules and regulations, there to ensure the safety and security of passengers.

There's also, perhaps an education process needed for the airline industry which is so fiercely competitive that the idea of feeding passengers to each other's networks might seem crazy.

Existing players such as Dohop and Kiwi.com and their respective airline and airport partners already see the opportunity as opposed to any threat. Dohop says it is having conversations with about 60 airlines about the model and has active projects with about 10 carriers across three or four continents.

Both companies believe many airlines are recognizing that the old way of interlining is going to go away and that the virtual model is the future as long as the customer is looked after. But it's more than that. Nasser believes the aviation industry is on the cusp of a further major wave of disruption. It has been through the emergence of Gulf carriers, low-cost airlines and the internet, and has entered a wave of disruption, potentially the biggest, completely driven by technology.

Many airlines have realized, however, that they are not technology specialists but there is a world of opportunity in partnering with existing players.

At the heart of Kiwi.com's success lies its proprietary algorithm which allows users to automatically combine flights from nearly 500+ airlines into a single itinerary in a process called virtual interlining. It guarantees alternative flights or a refund to customers in case of flight delays and cancellations.

CEO Oliver Dlouhý together with Jozef Képesi set up Kiwi.com in 2012 to provide users with the cheapest flight itineraries and combinations. Kiwi.com serves customers across the world with 24/7 support. Today, the company sees more than 90 million flight searches every day and employs over 2400 people worldwide. The site makes travel affordable and easy, by allowing consumers to book everything from individual flights to complete flight itineraries across multiple airlines (both low cost and full-service) in a straightforward and cost-effective way. Kiwi.com has newly incorporated trains and busses into the web search getting closer to its goal of creating a one-stop-shop for travellers. In 2017, Kiwi.com entered the Deloitte Technology Fast 500 EMEA list in 7th place, becoming the highest ever ranked Czech company.

More details @ b2b@kiwi.com or visit us @ partners.kiwi.com





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