Multi-channel strategy – Airline Distribution

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Airline Marketing

Wed 6th – Session 2

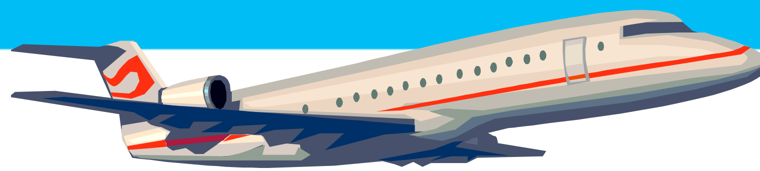
May 2015

Distribution

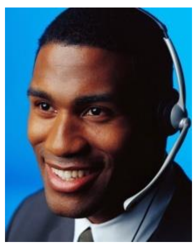
Distribution costs falling

- Direct distribution
  - Airlines are pushing sales towards direct sales on web
  - Airlines selling tickets on their website incur no costs
- Reducing travel agency commissions
  - Airlines are reducing or removing agents fees (which had been up to 12% of fares)
- Airlines pushing GDSs to lower fees
  - GDSs have introduced “low cost” reduced functionality solution

Ways an airline distributes/sells its product



Direct Channels



Airline Website

Airline Reservations

Airport or CTO

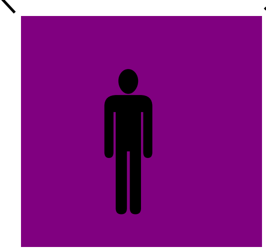
Powered by airline

Indirect Channels

Travel Agent

Online Travel Agencies

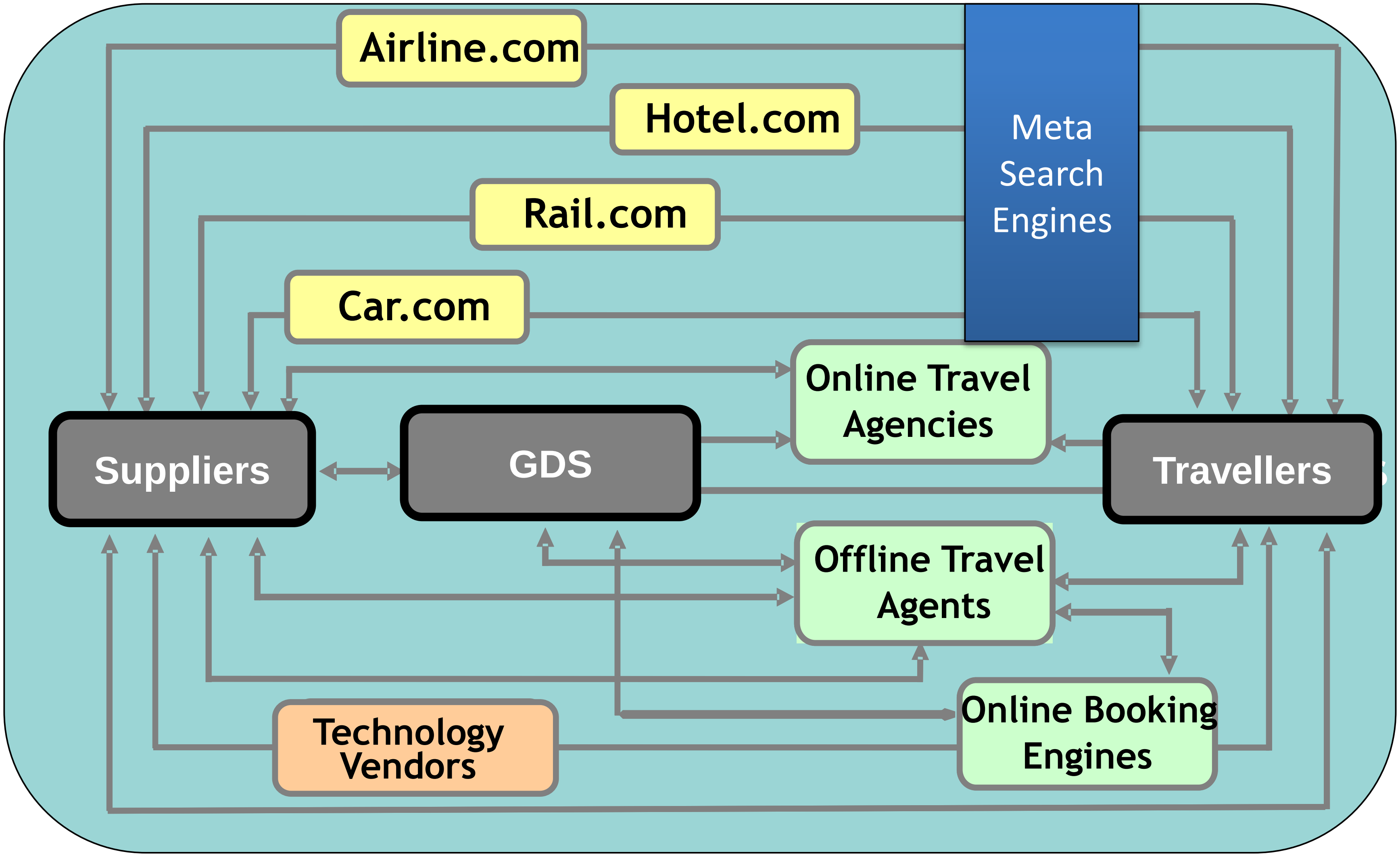
Powered by GDS



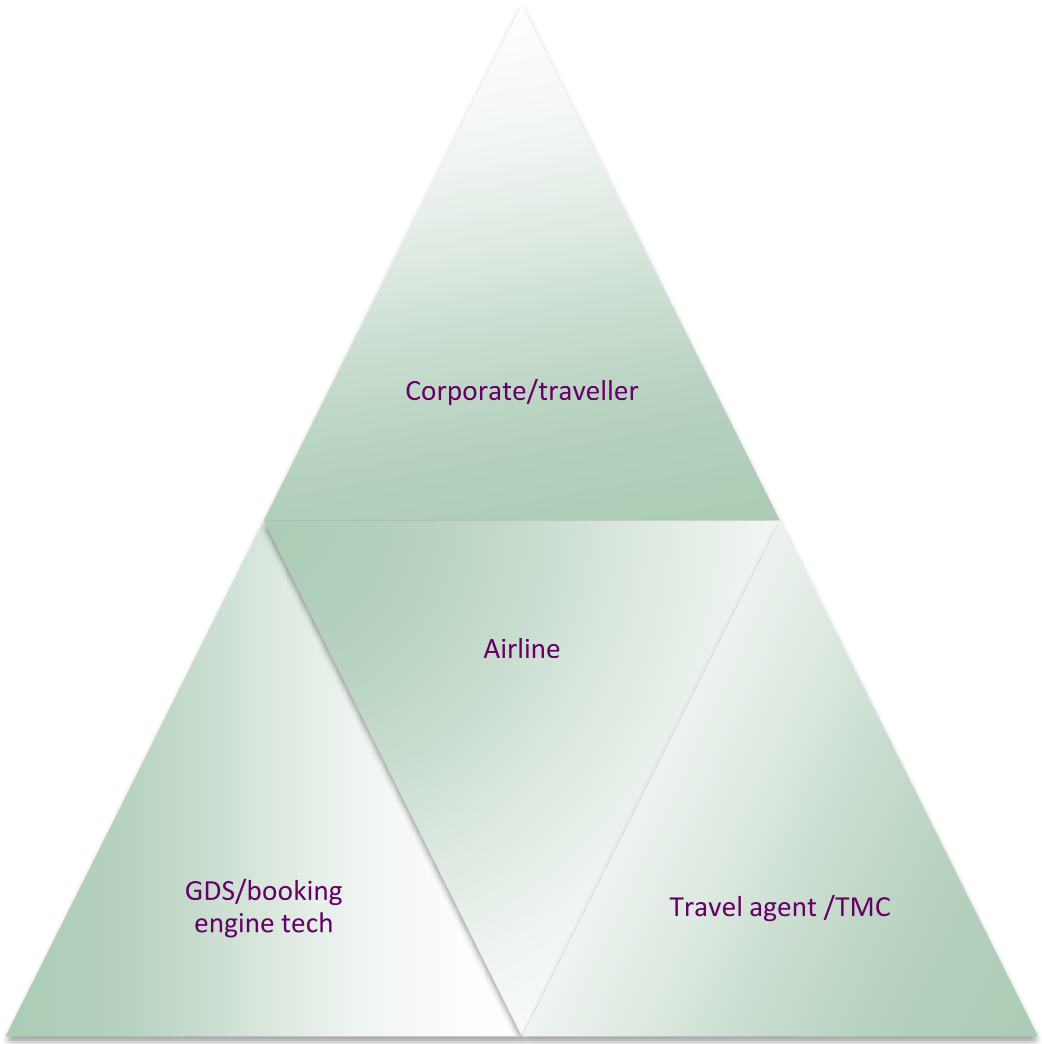
Customer

Source: Andrew Wong, Trip Advisor

Distribution Channels



A tense pyramid



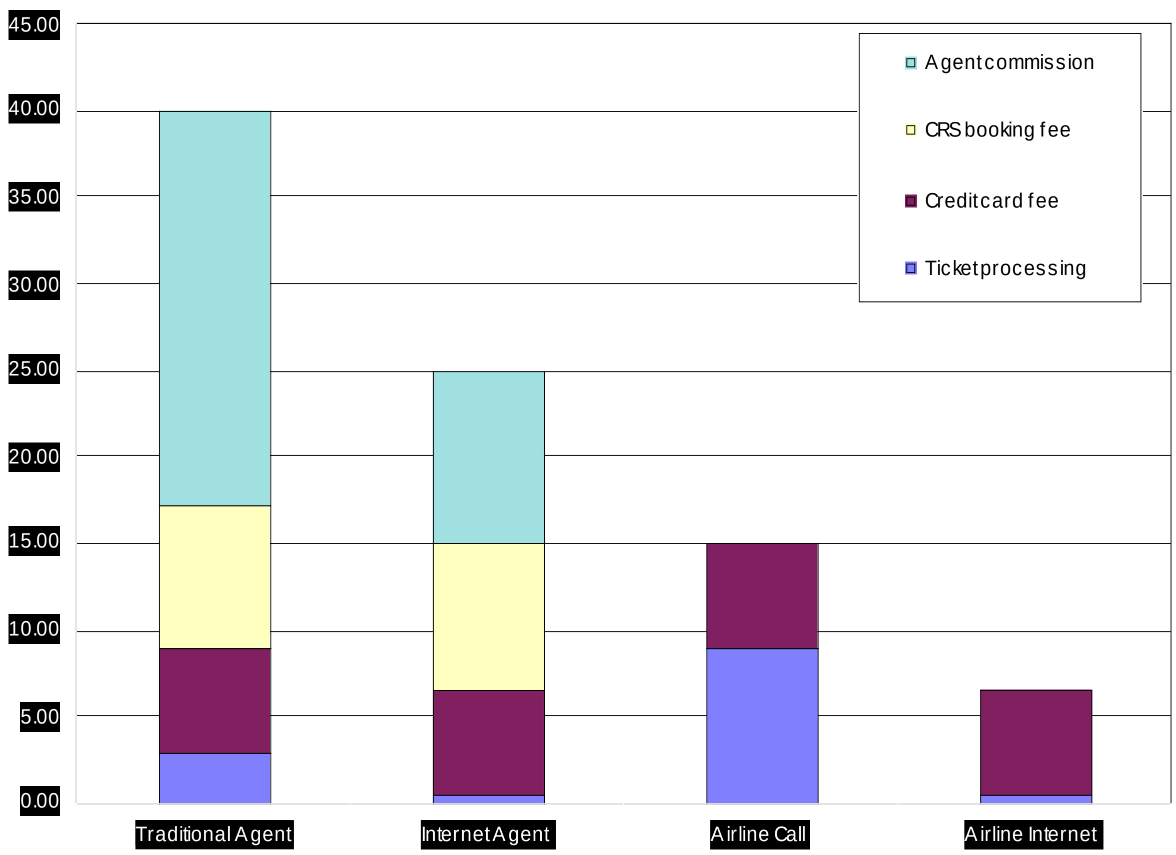
Detail on GDS

- Schedules, prices and availability are provided around the world in real time, 24/7;
- GDS participation facilitates sales via online travel agencies;
- Over 500 airlines are participants on Galileo, Amadeus or Sabre + car; hotel; rail and cruise;
- Subscribers access the GDS for free; airlines pay fees for using the infrastructure, technology and global reach of the GDS
- GDS are NOT Global – some airlines are not subscribers and not all content is available to all GDS companies.
- **For a GDS access to full content (the inventory of the airlines) is a vital part of their business.**
- Many low cost carriers are listed on a GDS
  - 15% of easyJet seats sold to business travellers are transacted over GDS (annual report 2009)

Factors affecting distribution strategy

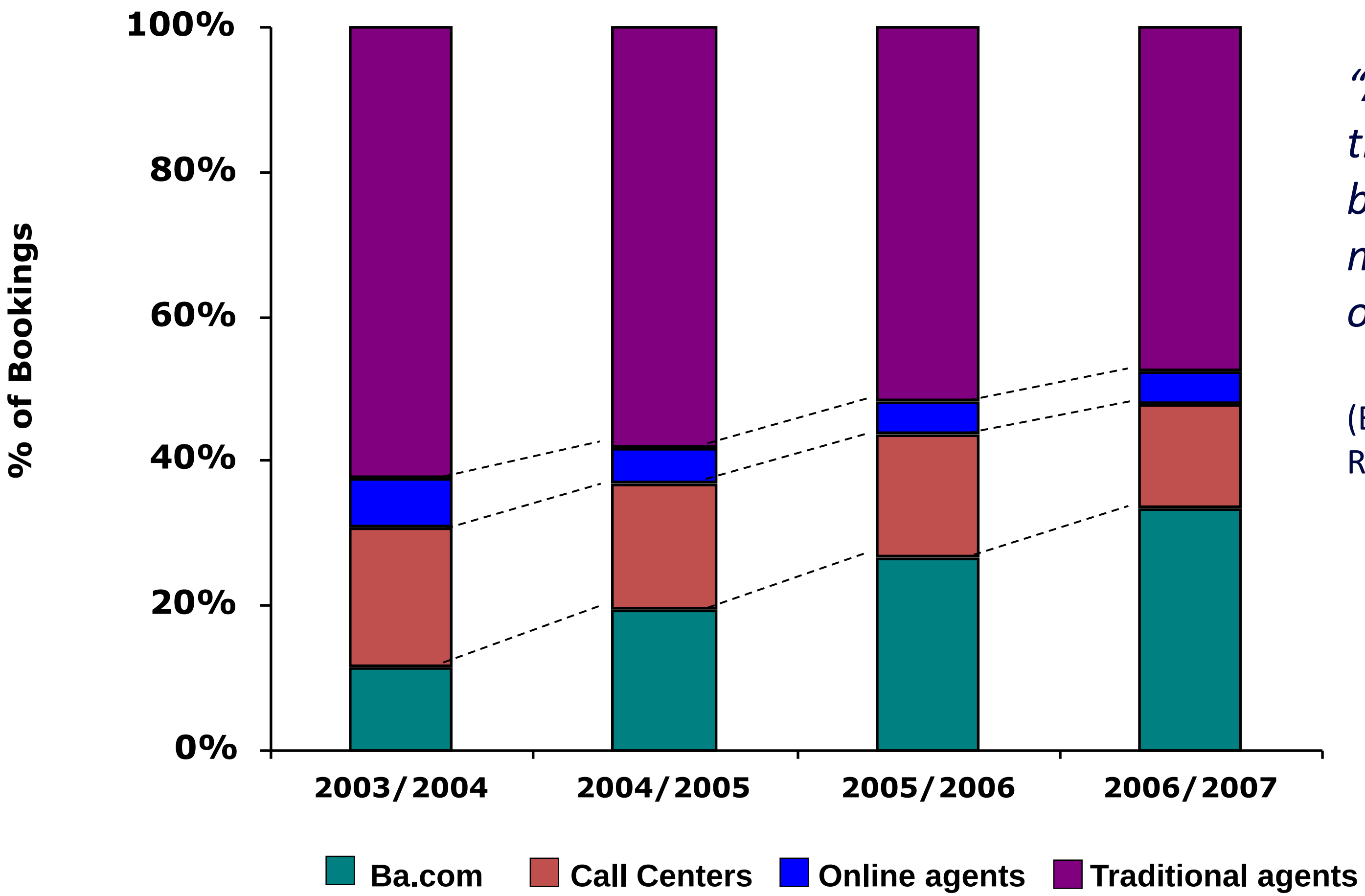
- Airlines drive to reduce costs
  - Distribution has been around 20% of operating costs
  - BA's selling costs – 15% in 1999 reduced to 4% in 2009
  - BA's selling costs – £33.27 per passenger in 1999, £11.14 in 2009
  - EasyJet's selling costs - £1.87 (advertising, merchant fees and commissions) in 2012
- Airlines wishing to have more direct contact with their clients
- Technology has provided the possibility of a direct channel between the airline and its customers
- Disintermediation - as airlines doubt the ability of agents to influence customers' choice – especially in home markets
- GDSs fees
- Large corporates are more professional in the way they purchase travel products

Airline Distribution Costs by Sales Channel:
$300 Ticket (all channels)



Source: JP Morgan, 1999

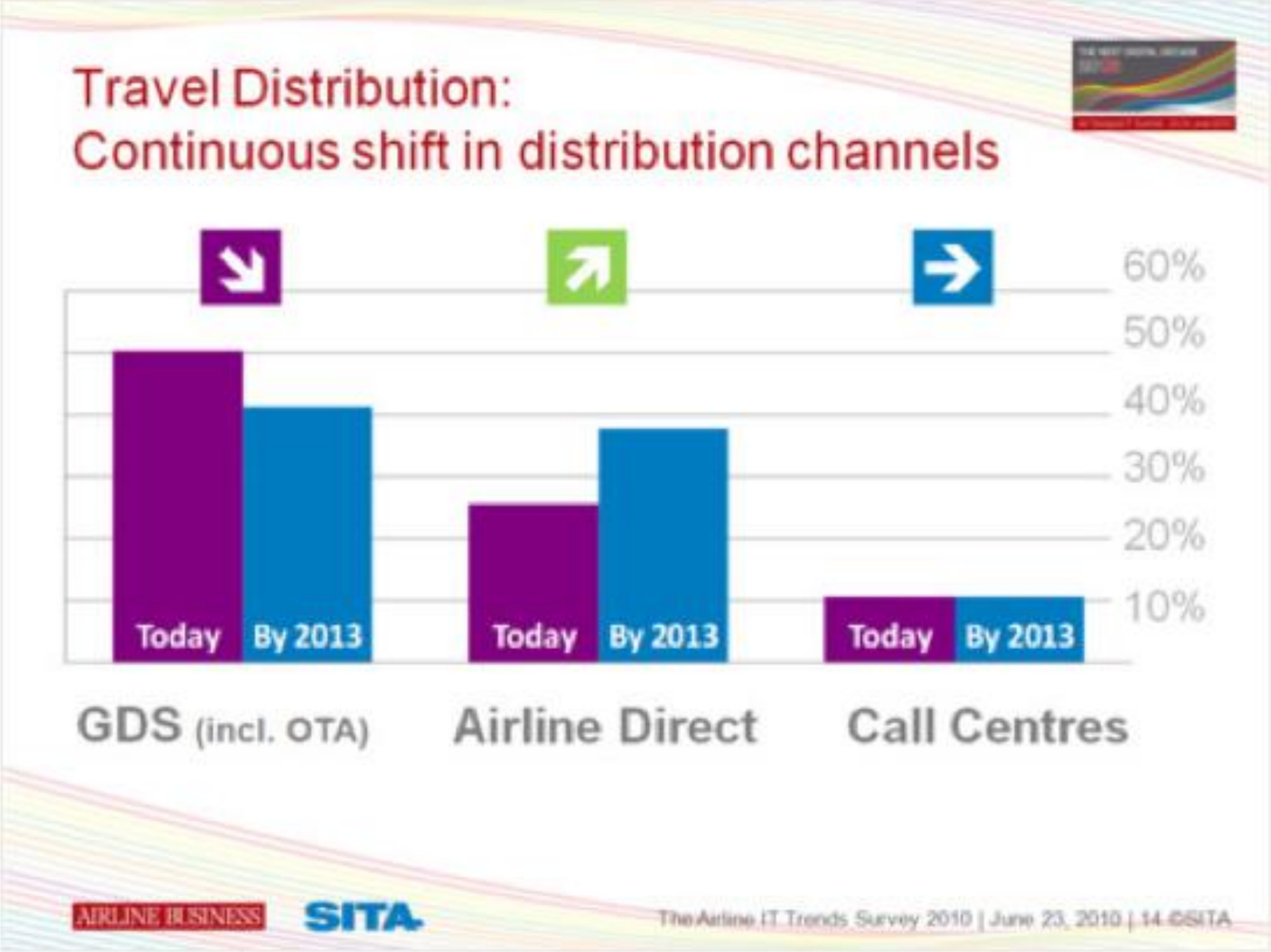
BA's Channel Shift



"Almost a third of our bookings are now made on ba.com"

(BA Annual Report 2009)

Airline Business Survey in 2010



Continuing channel shift

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The distribution value chain

- Airlines spend $5bn per annum on GDS fees

- Cost as % of ticket prices
  - GDS 8 - 11%
  - Travel Agency 1 - 2%
  - Mercantile fee 2 - 3%
    - "typical cost" for an airline accepting a credit card charge is $7-10 per ticket (Airline Business, Feb 2010)

Source: UATP(Universal Air Travel Plan), Airline Business July 2005 and July 2006

Average TSP costs per passenger
(2012)

Turkish	$22.35
Emirates	$36.42
BA	$19.65
EasyJet	$ 1.87
Ryanair	$ 2.05

Why airlines want traffic on home website

- ‘Ownership of customer’
- Promote brand
- Up-sell to passenger
  - Ancillary revenues cannot be easily handled on GDS
- Maximize yield;
- Cut out intermediaries;
- ‘Cheapest’ form of distribution

- BUT NEEDS TO DRIVE TRAFFIC TOWARDS WEBSITE

Airline strategy

- In home markets
  - Drive business to website
- Where network is not dominant
  - Continue to work with Travel Management Companies and GDS but….
  - …push costs of GDS to TMC and ultimately the customer

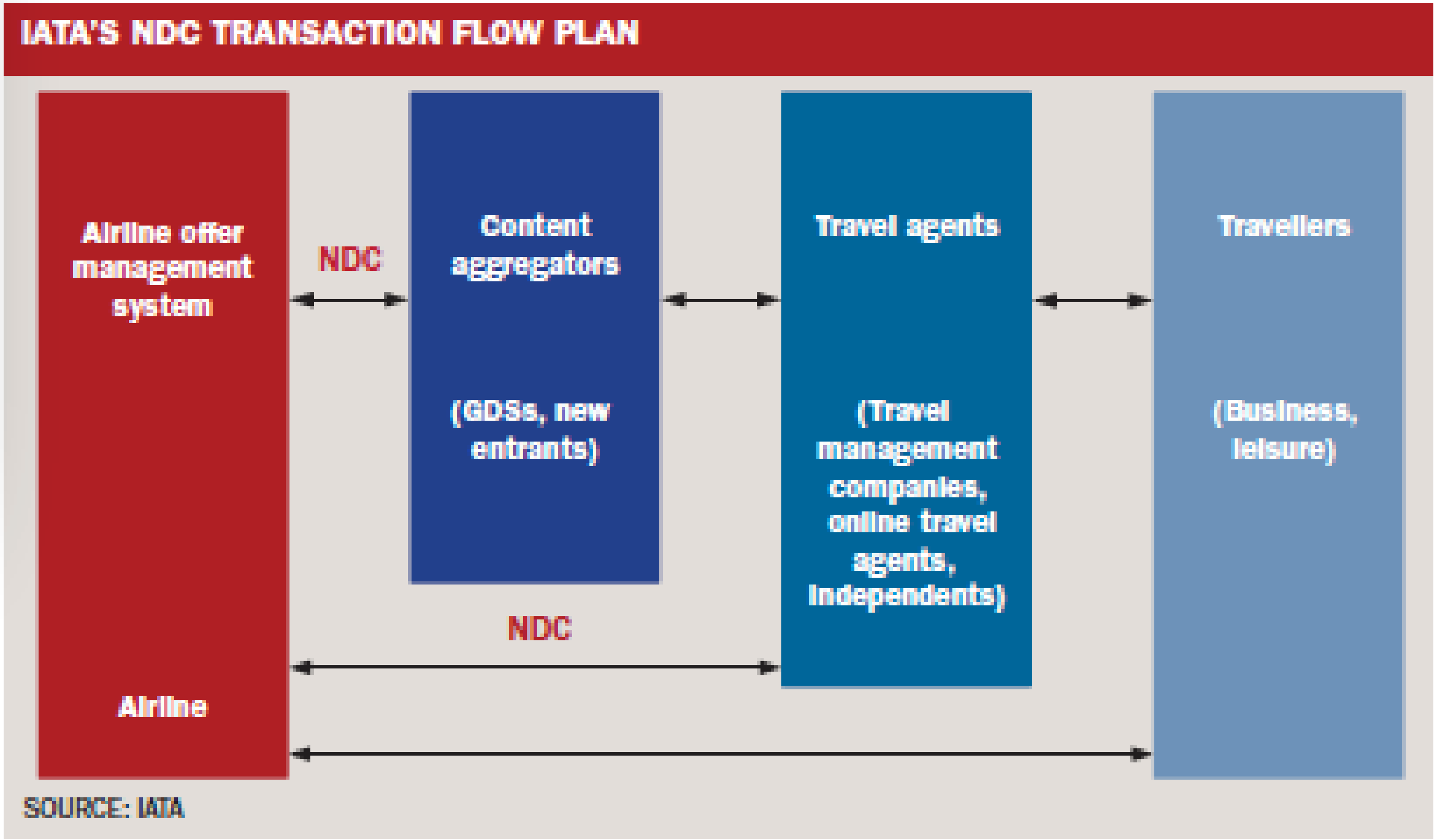
GDS New Fee Structures

- In US GDSs were deregulated in 2003
- Sabre, Travelport and Amadeus have full content agreements with all of the US majors
  - Agents can “opt in” to work with airline’s preferred GDS
  - Agents can “opt out” and not use airline’s preferred GDS
    - pay the airline a $3.50 per segment surcharge for any bookings
- Full content deals in Europe
  - Lufthansa finalised a deal with Amadeus in Jan 2010 after two years negotiation
    - GDS secures access to full content for TMC in exchange for lower prices for GDS service
    - Airline passes on €4.90 per sector to TMC.
- TMCs still need access to full content so will pass on any additional costs to travellers in service charges

IATA's New Distribution Capability (NDC)

- IATA are currently (2014/15) piloting a new XML language based distribution capability set up the airlines.
  - The obvious intention is to by-pass GDSs and to add the ability to take bookings on ancillary services which cannot be easily done through the GDSs.
  - Essentially booking engines are coming full circle, back to when they original CRSs were established by airlines.
- The concerns of many are data privacy, tailored (ie. not transparent and the same for all buyers) offers, and inability to easily compare rates.

IATA's New Distribution Capability (NDC)



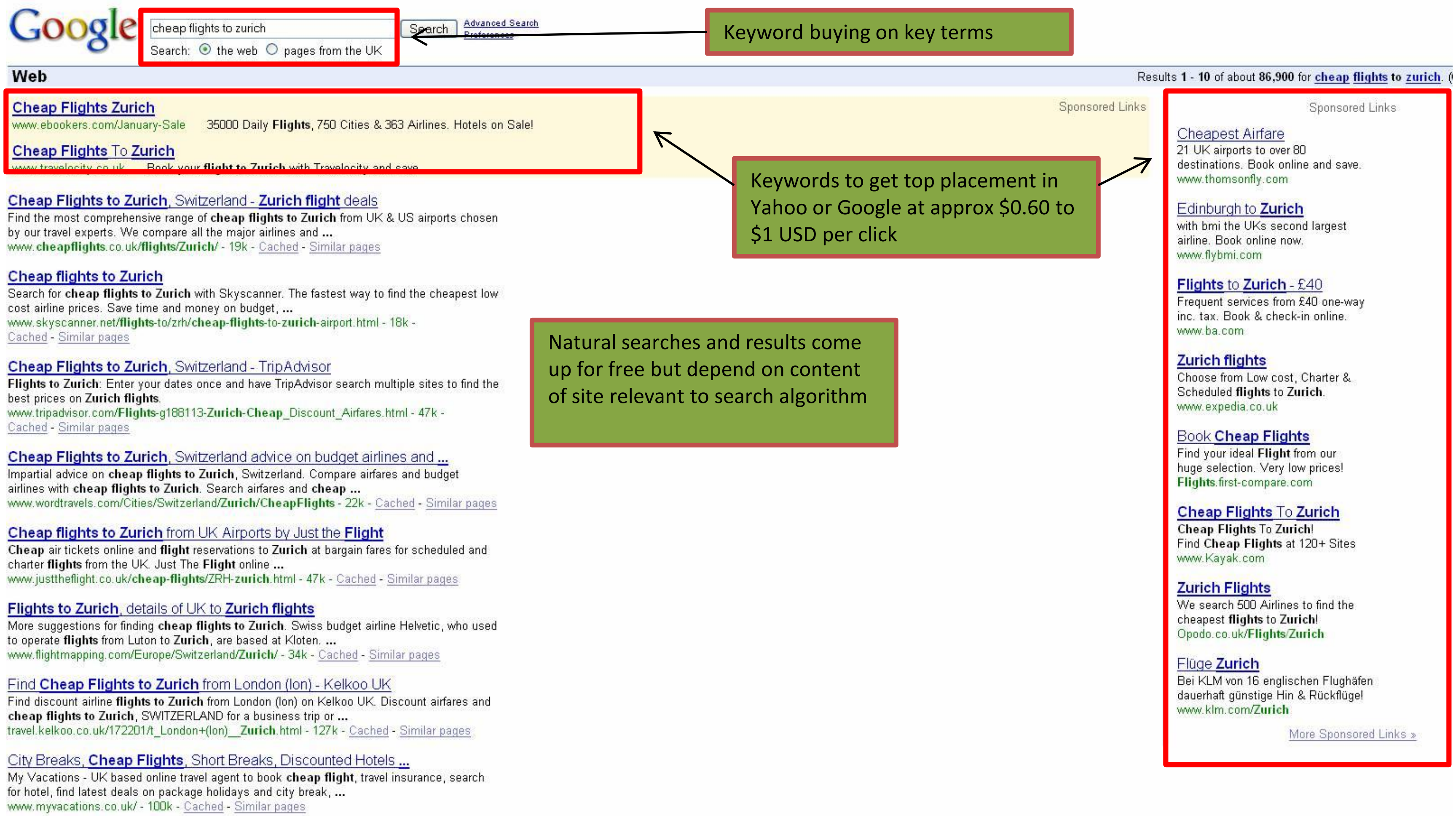
Value to airline from ‘new’ intermediaries

- Drive new and higher volumes of web traffic to airline.com
- Obtain and sell it to airline at lower rate that it can acquire itself
- Increase brand exposure
- Send more qualified traffic

airline.com

Source: Andrew Wong, Trip Advisor

Google is key…



Source: Andrew Wong, Trip Advisor

Google to enter res market?

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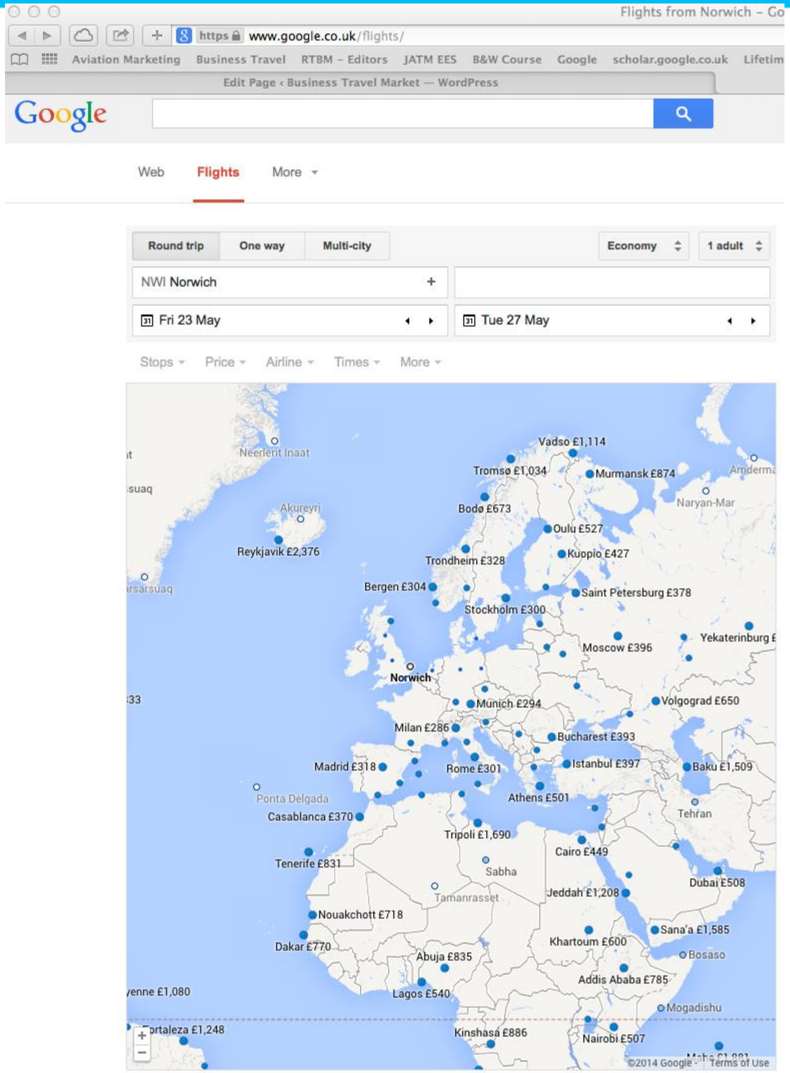
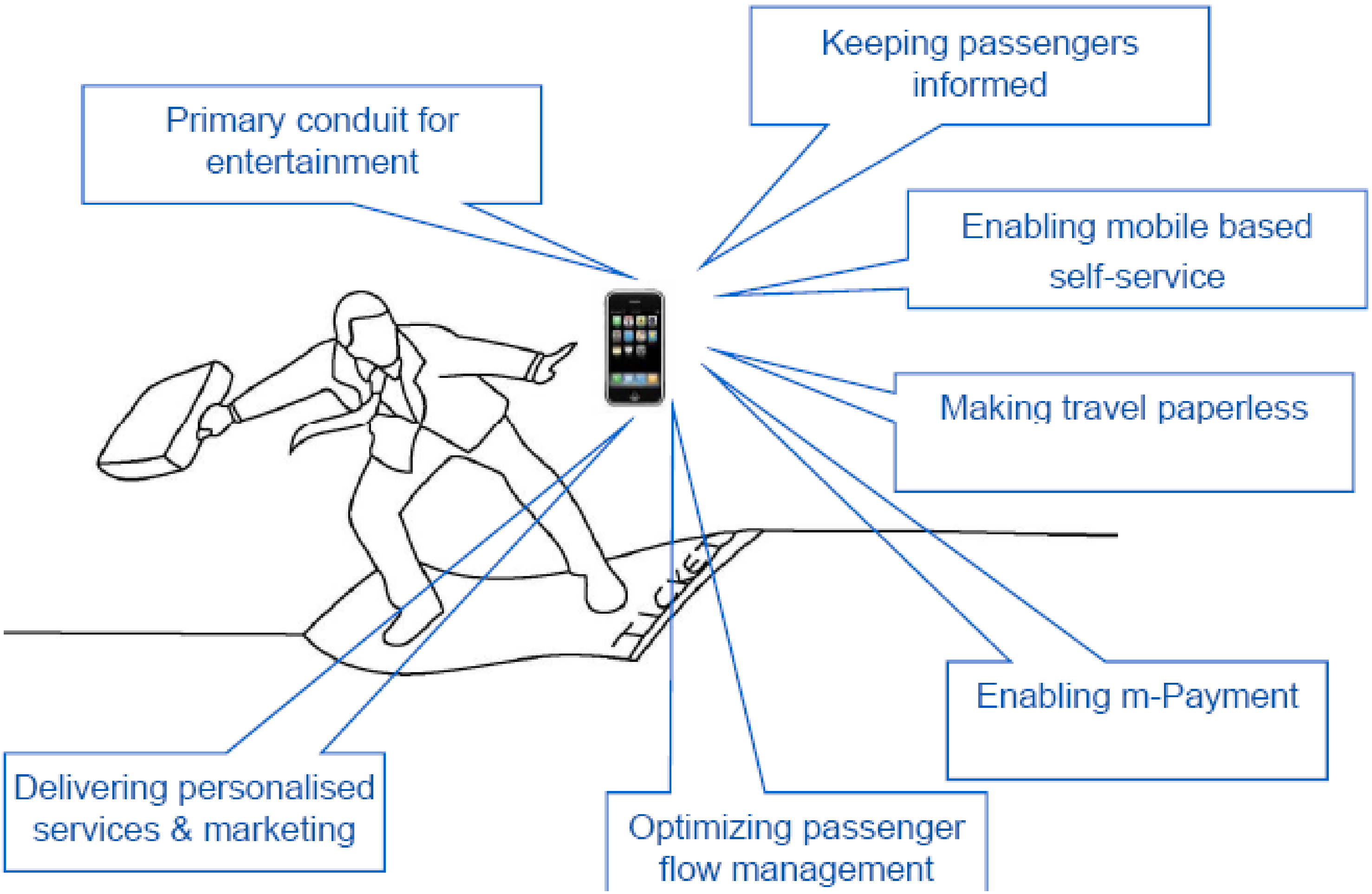
- In June 2010, Google purchased ITA, a flight information software firm.
- ITA was one of the two GDS by-pass companies that lead to the GDSs revising their remuneration systems in 2006/7
- Google's dominance of the online search market may lead to bias in ITA's listings….



Mobile apps

- Out of the 7 billion people on the planet 4.8 billion have a mobile and only 4.2 billion own a toothbrush!!

Mobile devices make it easier for travellers to go outside policy



And harder to reconcile T&E

Check-in channel shift

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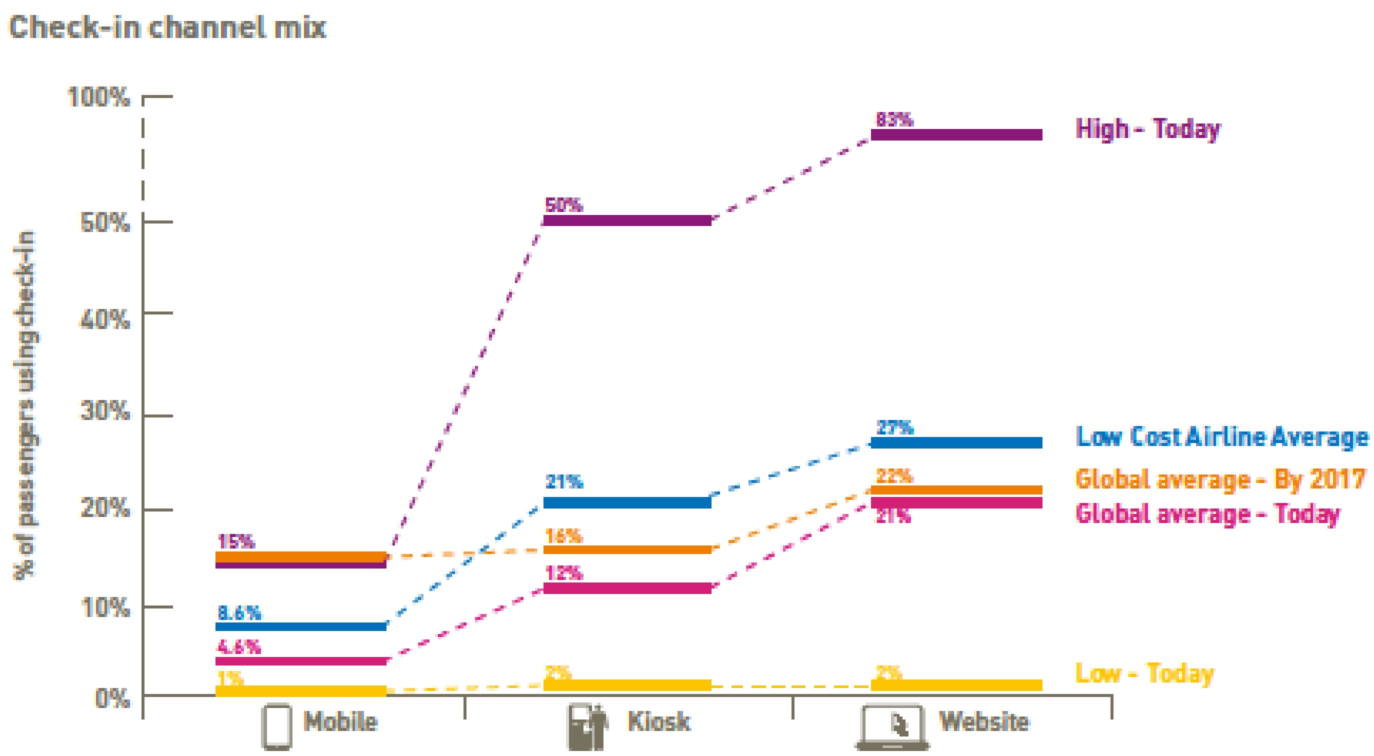
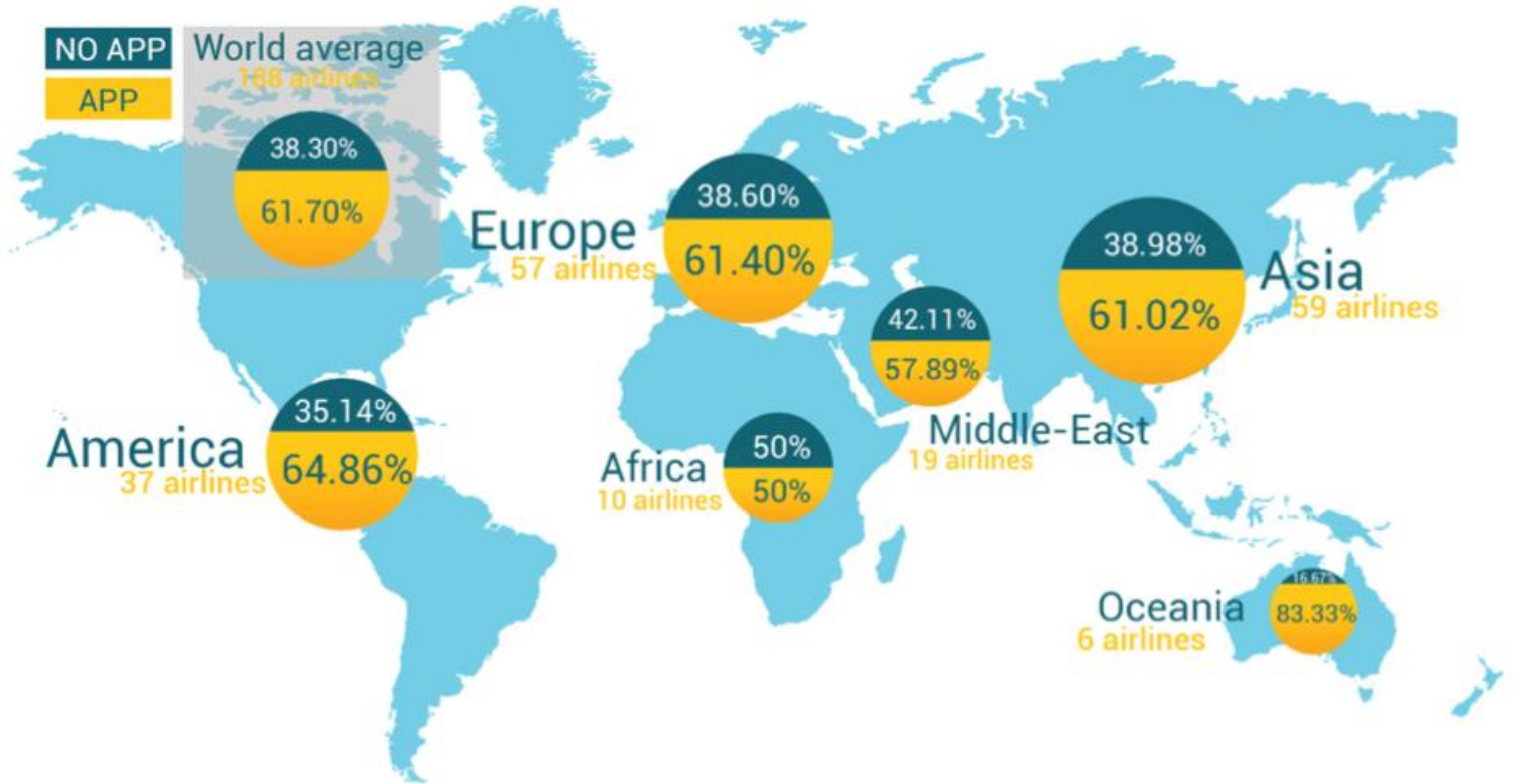
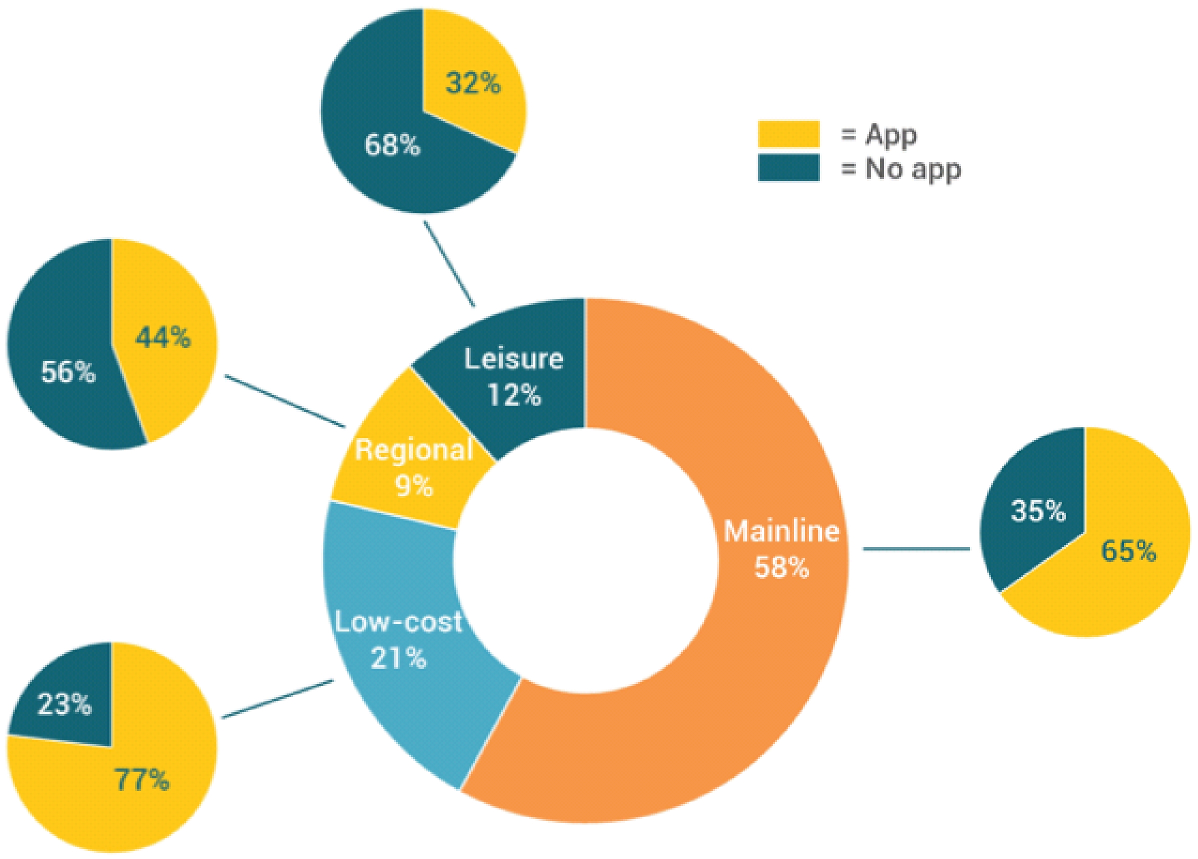


Mobile app adoption by airlines



Source: Cranfield, Vermeij, 2014. Survey of top 200 airlines worldwide, and survey of 200 passengers

Mobile app penetration by airline type worldwide



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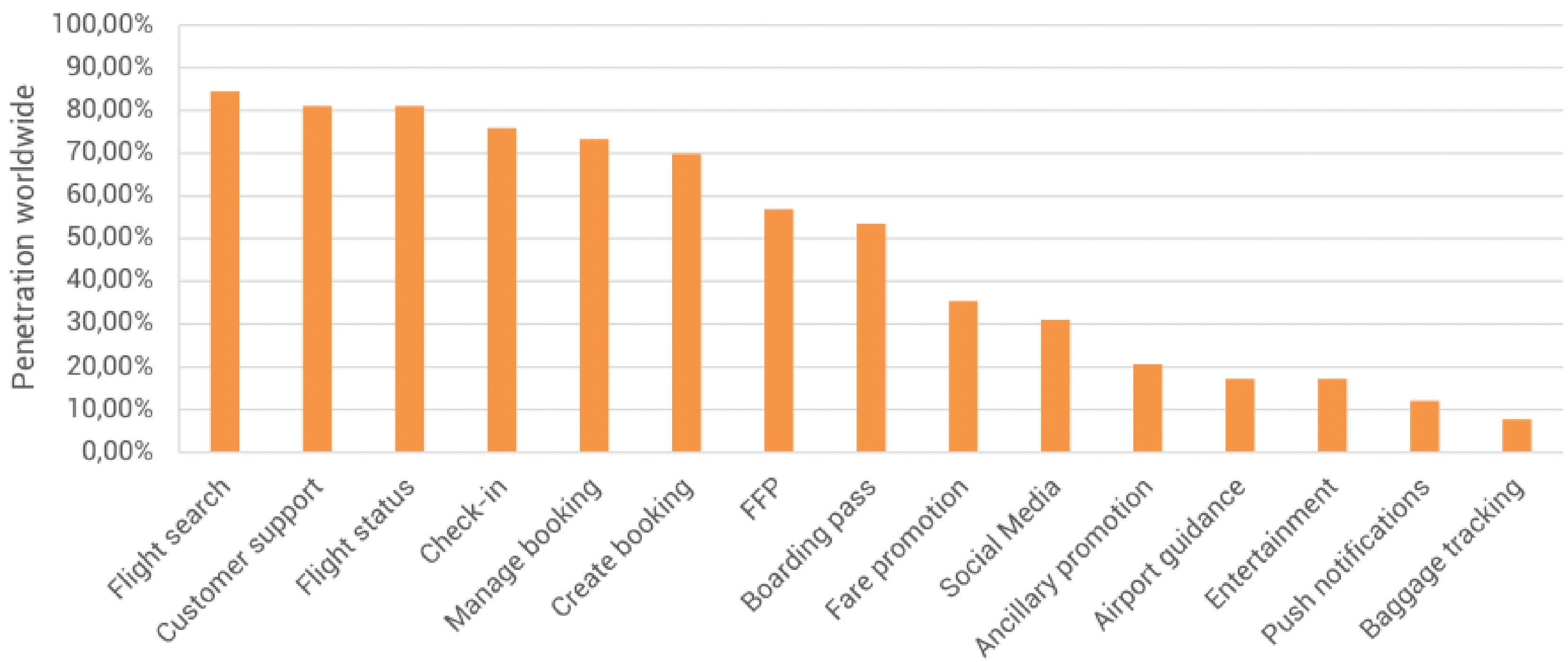
Features offer on mobile apps by Top 200 airlines worldwide



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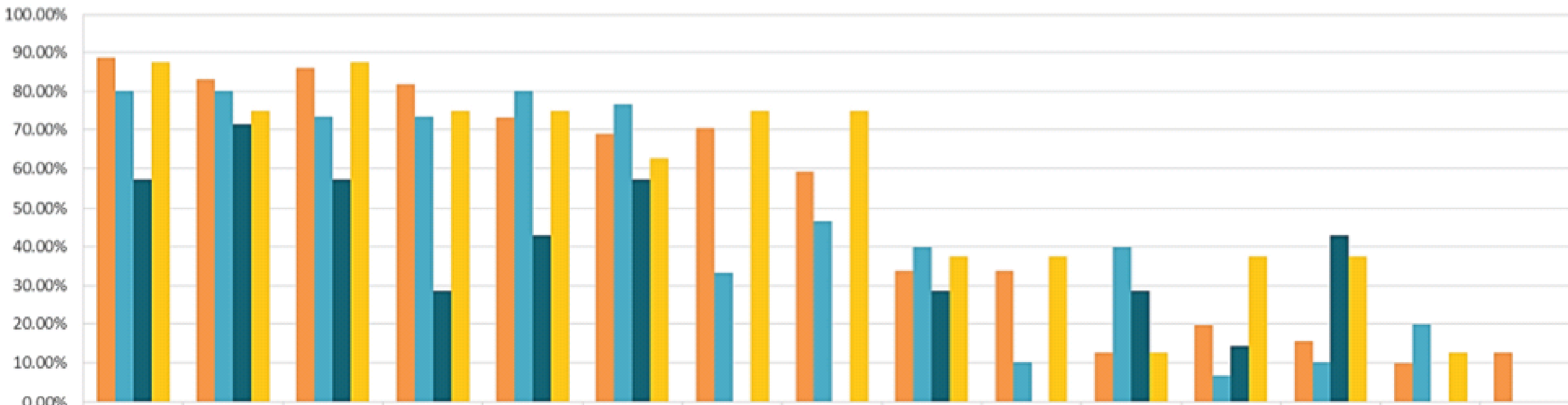
Features offered on apps by largest 200 airlines



	Flight search	Customer support	Flight status	Check-in	Manage booking	Create booking	FFP	Boarding pass	Fare promotion	Social Media	Ancillary promotion	Airport guidance	Enter-tainment	Push notifications	Baggage tracking
MAINLINE	88.73%	83.10%	85.92%	81.69%	73.24%	69.01%	70.42%	59.15%	33.80%	33.80%	12.68%	19.72%	15.49%	9.86%	12.68%
LOW-COST	80.00%	80.00%	73.33%	73.33%	80.00%	76.67%	33.33%	46.67%	40.00%	10.00%	40.00%	6.67%	10.00%	20.00%	0.00%
LEISURE	57%	71%	57%	29%	43%	57%	0%	0%	29%	0%	29%	14%	43%	0%	0%
REGIONAL	88%	75%	88%	75%	75%	63%	75%	75%	38%	38%	13%	38%	38%	13%	0%

Figure 3.5: Feature penetration per airline class

Source: Cranfield, Vermeij, 2014. Survey of top 200 airlines worldwide, and survey of 200 passengers

Apps: High penetration features per region

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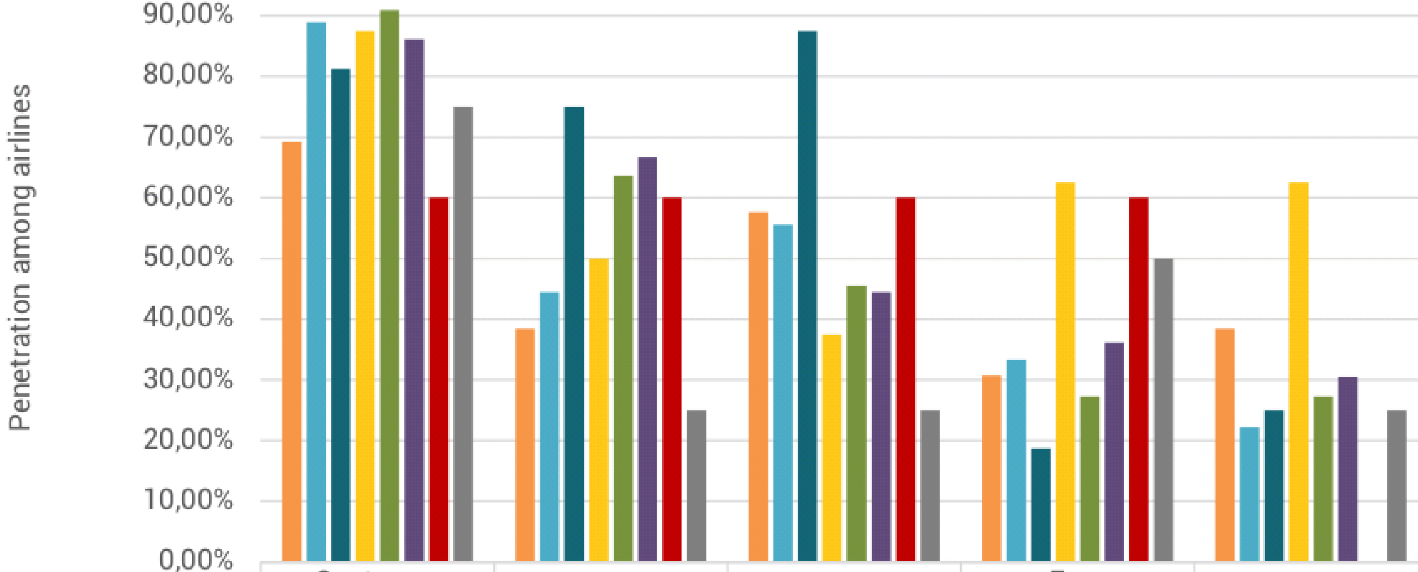

	Customer support	FFP	Boarding pass	Fare promotion	Social Media
Western Europe	69,23%	38,46%	57,69%	30,77%	38,46%
Eastern Europe	88,89%	44,44%	55,56%	33,33%	22,22%
North America	81,25%	75,00%	87,50%	18,75%	25,00%
Latin America	87,50%	50,00%	37,50%	62,50%	62,50%
Middle-East	90,91%	63,64%	45,45%	27,27%	27,27%
Asia	86,11%	66,67%	44,44%	36,11%	30,56%
Oceania/Pacific	60,00%	60,00%	60,00%	60,00%	0,00%
Africa	75,00%	25,00%	25,00%	50,00%	25,00%

Source: Cranfield, Vermeij, 2014. Survey of top 200 airlines worldwide, and survey of 200 passengers

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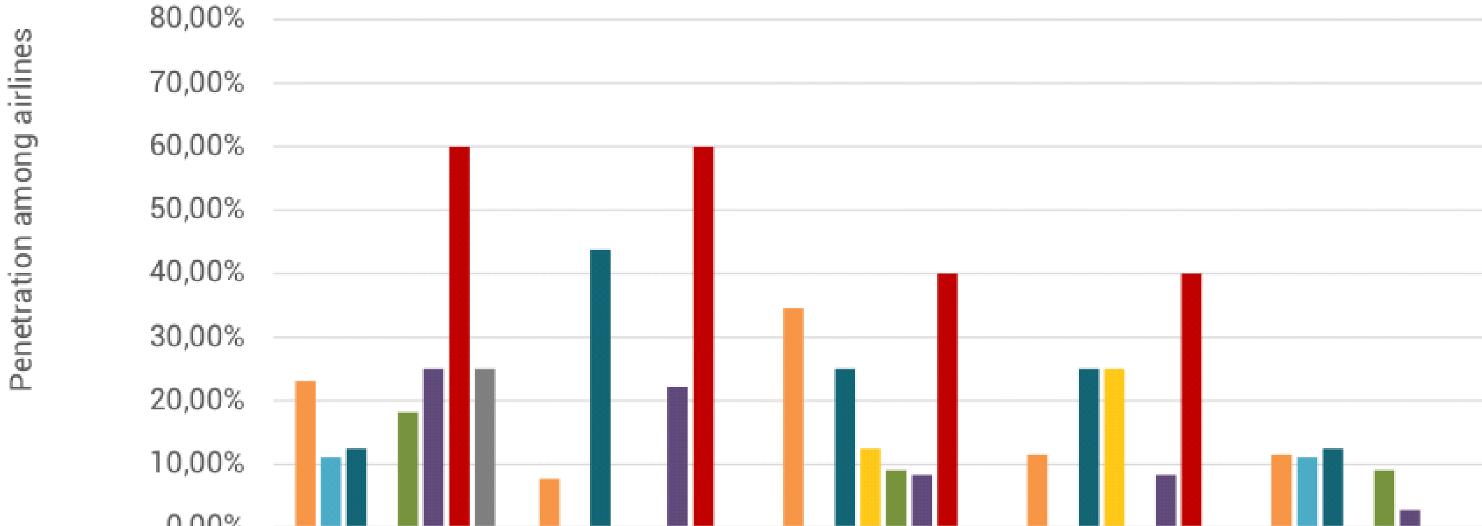
Apps: Low penetration features per region



	Ancillary promotion	Airport guidance	Entertainment	Push notifications	Baggage tracking
Western Europe	23,08%	7,69%	34,62%	11,54%	11,54%
Eastern Europe	11,11%	0,00%	0,00%	0,00%	11,11%
North America	12,50%	43,75%	25,00%	25,00%	12,50%
Latin America	0,00%	0,00%	12,50%	25,00%	0,00%
Middle-East	18,18%	0,00%	9,09%	0,00%	9,09%
Asia	25,00%	22,22%	8,33%	8,33%	2,78%
Oceania/Pacific	60,00%	60,00%	40,00%	40,00%	0,00%
Africa	25,00%	0,00%	0,00%	0,00%	0,00%

Source: Cranfield, Vermeij, 2014. Survey of top 200 airlines worldwide, and survey of 200 passengers

Main feature usage on mobile apps by passengers

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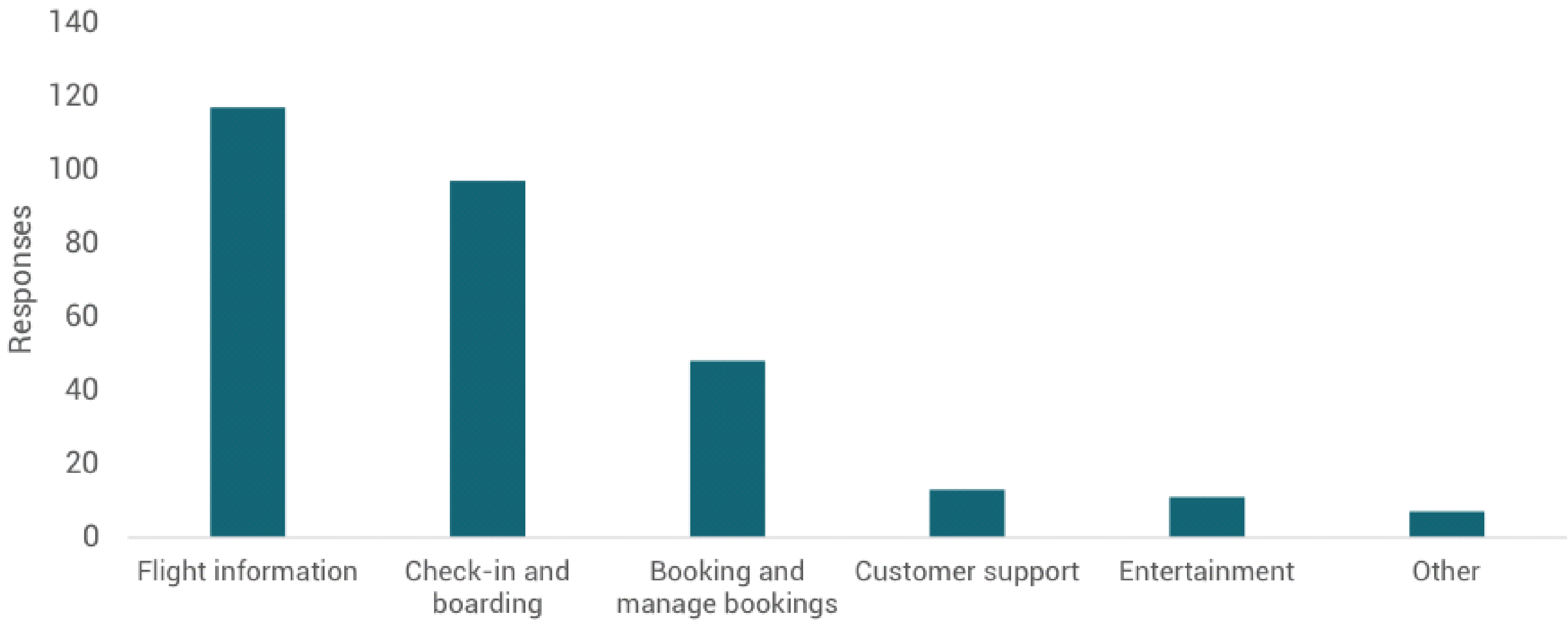

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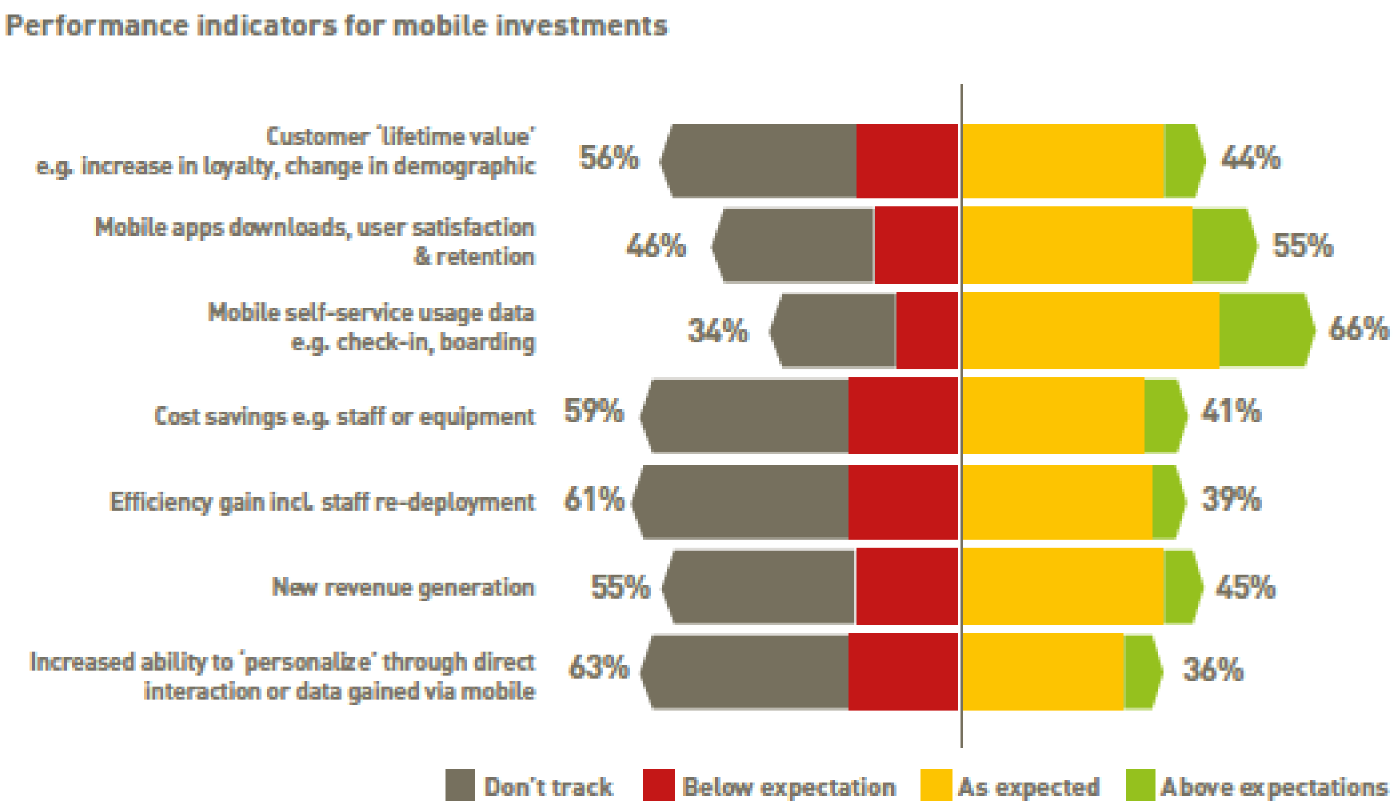
Airline view of investment in apps



Thank you!