Oystin Advisory's

Distribution Insights 2022

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Another turbulent year for the aviation industry with accelerating developments in airline distribution.

01 Introduction

This document contains a selection of important developments in travel distribution all over the world from the perspective of an independent advisor.

Disintermediation.

New ways of content aggregation and content sourcing.

Airlines aiming to become retailers.

All of these are fundamental components of the strategic shift in travel distribution we observed throughout the year.

This document provides a summary of what we as an independent advisory believe was important for travel distribution in 2022. Some of these developments we helped shape, others we took note of as observers.

02 Airlines

THE EVOLUTION IS ACCELERATING

Distribution remained high on the priority list for many airlines despite and throughout the pandemic. This year, airlines like LATAM, Lufthansa, SAS, Avianca, Copa, Hawaiian, and others introduced significant changes in their distribution set-up. More details concerning the airlines listed on the map can be found on the following following pages.

SELECTION OF AIRLINE TOPICS

NEW MODELS: DUAL-PIPE & WHOLESALE

- SAS refurbishes the wholesale model
- Lufthansa Group establishes a game changer model and differentiates its surcharge by GDS

FULL CONTENT EXITS

More carriers all over the world leave Full Content

- Avianca, July 2022
- Hawaiian Airlines, August 2022
- Copa Airlines, September 2022
- LATAM Airlines, announced for May 2023

OTHER DEVELOPMENTS OF NOTE

- American Airlines achieves more flexibility in GDS agreements
- Delta finalizes the implementation of its value-based pricing
- Qantas implements differentiation between NDC and EDIFACT
- Emirates reaches new Amadeus agreement and apparently abolishes its GDS sucharge

2.1 Europe

From content freedom to dual-pipe models

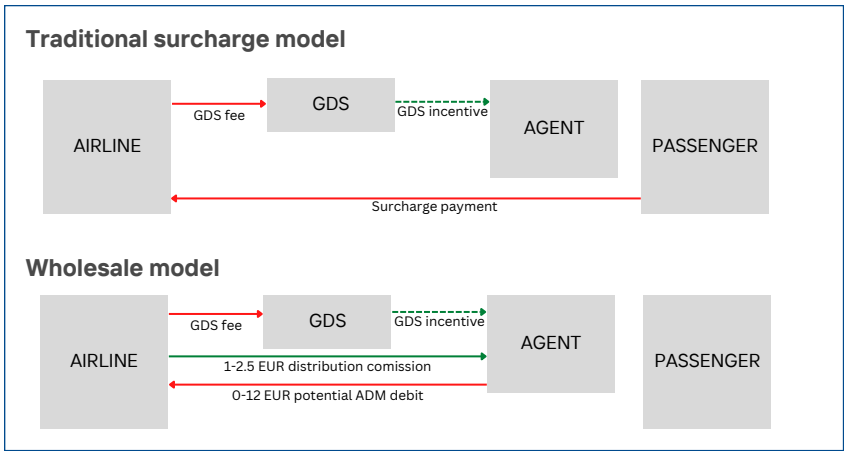
MINDSET CHANGE IN DISTRIBUTION?

Seven years ago, Lufthansa Group radically changed its approach to airline distribution by exiting the GDS Full Content Agreements and implementing a surcharge. Over the years, European carriers with high shares of GDS distribution have followed this path to increase freedoms. Now, years later, Lufthansa Group and AF/KLM executives have brought another mindset shift into play: "It needs the *coalition of the willing* to further push retailing capabilities", including GDS and aggregators. Arguably, this is a stance that may be easier to take after having significantly reduced GDS dependence.

EUROPEAN AIRLINES EXITING FULL CONTENT

SAS AND THE WHOLESALE MODEL

In October, Scandinavian Airlines announced their mandatory "Distribution Commission" to take effect for Scandinavian agents on 1 March 2023. The program initially offers a commission between 1.00 EUR and 2.50 EUR per fare component to then offset those amounts with any (GDS) booking fees the airline is invoiced for agents' bookings (between 0 and 12 EUR per net ticketed segment according to SAS). If the resulting "commission" value turns negative, SAS will debit the agent via a single monthly ADM. So, for most agents using GDS to make bookings, SAS' "distribution commission" is a euphemism for "GDS cost recovery", or a GDS surcharge payable by travel agents. That is, unless travel agents successfully negotiate a wholesale model with GDS, where the agent, rather than the airline, pays the GDS bill.



NEWS CORNER

Ryanair: In November, Ryanair signed a deal with Amadeus, presumably to increase access to business travellers via GDS. Ryanair had previously distributed via all three major GDS temporarily - let's see how this new connection will play out.

AF/KLM: While the GDS surcharge applies for leisure travel, AFKLM once again postponed the surcharge for TMCs to the end of Q1 2023 due to limitations in their NDC development.

Finnair: Having signed agreements with Amadeus and Sabre to distribute NDC content, Finnair continued its journey to exclusively distribute via NDC by 2025. In mid-December, Finnair also said it was embarking on its transition from legacy PSS to offer&order with Amadeus.

From an airline's point of view, SAS' program seems fair and equitable, attempting to create a level playing field between GDS, NDC aggregators, and other technology providers. Further, it encourages travel agents to use innovative, cost-efficient providers.

On the "challenges" side of the evaluation, it is questionable how popular this "upfront commission" will be with agents, particularly since it is regionally limited to Scandinavia. So while SAS will be happy to pick up the considerably higher per-ticket GDS bill of a US agent, Scandinavian travel agencies will have to pay up. Also, lawyers at Amadeus, Sabre, and Travelport will likely be reviewing the compatibility of the SAS announcement with the nondiscrimination obligations in the GDS agreements.

2023 will tell if this is an "announce first, negotiate later" strategy, or whether SAS actually has the contractual freedoms to implement this.

2.1 Lufthansa's Dual Pipe+ Model Case Study

An airline solving its distribution game

THE JOURNEY CONTINUES

Lufthansa Group (LHG) is recognised as a distribution maverick in terms of distribution freedom, cost recovery, and NDC adoption. Over the past 7 years, LHG has reduced the share of EDIFACT bookings from 75% to less than 25%.

This year, LHG revealed another game-changing move and introduced a model providing travel agents with three options to access LHG content via the GDS. This "dual pipe+" model contains two technological channels through which content can be accessed via the GDS, the classic EDIFACT channel and NDC. For NDC content, two commercial agreements are available.

We at Oystin are proud to be supporting Lufthansa Group on its exciting journey.

CHALLENGES

Given the most recent model change of Lufthansa Group, key challenges for other airlines looking to adopt this model will likely be:

1. **Agreements with all GDS**
   Due to the traditional parity clauses even within GDS base agreements, airlines will have to negotiate new agreements with substantial commercial implications, likely only achievable when having a strong stance versus the GDS.

2. **Active channel management**
   The strategy as implemented by LHG requires active channel management across direct and indirect channels, ensuring the freedoms within contracts are leveraged sufficiently.

3. **Change management and organisational scale-up**
   LHG distribution went from being a cost center in the sales organisation with a single-digit number of employees to a fourty+ strong team, versed in distribution tech and commercials, integrated into the influential RM organisation.

KEY STEPS

- **2015**: FCA exit and implementation of surcharge on all GDS bookings
- **2017**: Removal of "light" fare in GDS channel
- **2018**: Launch of NDC Platform with content differentiation to GDS
- **2020**: NDC deal with Sabre, introduction of dynamic pricing
- **2021**: NDC deal with Travelport
- **2022**: Dual pipe with all GDS
  - NDC deal with Amadeus
  - Differentiation of surcharge on EDIFACT bookings by GDS
  - Implementation of a reduced DCC surcharge for GDS based NDC public. Differentiation of amounts by GDS to come later.

LHG NDC MODELS AT A GLANCE

Here's what's new - with content differentiation between channels and surcharge differentiation between GDS, LHG has implemented a one of a kind model allowing for full freedom and transparent cost recovery. LHG says that DCC amounts for NDC will be identical across GDS during the inital NDC rollout and amounts will be differentiated later

CHANNEL	NDC BILATERAL	NDC PUBLIC	EDIFACT
Content differentiation			
NDC offers	Smart Offers	Base Offers	No
Continuous pricing	Yes	Yes	No
Eco light fares	Yes	No	No
Business Saver fares	Yes	No	No
Ancillaries	Reduced price	Full price	Full price
Additional Serivces	Yes	Yes	No
Surcharges			
Amadeus	None	*EUR 8.00 initially*	EUR 17.50
Sabre	None	*EUR 8.00 initially*	EUR 19.50
Travelport	None	*EUR 8.00 initially*	EUR 23.0

2.2 North America

In discovery of improved conditions in- and outside of court

AA REACHING 'CONTENT FLEXIBILITY' WITHOUT SURCHARGE

Instead of surcharging EDIFACT bookings, AA reached agreements with the three major GDS in which they will be differentiating content between technologies, so that roughly 40% of tickets which used to be sold via EDIFACT will only be available via NDC come April 2023.

Apart from not implementing a surcharge, the following quote of an AA executive to 'the BEAT' is interesting: 'Looking to the future, in 2024 and beyond, travel retailers will receive their content commitment from American as part of their commercial agreement,' and indicates a more direct content commitment between the airline and the agent, very similar to what Lufthansa has implemented. Additionally, the agreement also allows American to offer more and better content on its website than it's obliged to give to travel agencies, however AA has hinted that it will use AA.com exclusive content sparingly. Initial reactions from travel agents were mixed at best, due to the short lead time requiring them to jump onto the NDC bandwagon and since the idea of making some content available on AA.com only has never been popular with the trade.

AA ATTEMPTS TO STOP DELTA AND SABRE, BEFORE RECONSIDERING

- **May 21**: Value-based agreement between DL and 1S
- **Jun 21:** AA sues 1S for biased search results based on the DL deal
- **Aug 21**: Corresponding agreement between DL and 1G
- **Oct 21:** Court denies AAs' request to stop 1S from using its New Airline Storefront display in GDS
- **Nov 21**: Corresponding agreement between DL and 1A
- **Nov 22:** Court dismisses case at the request of 1S and AA

DELTA AND SABRE'S VALUE BASED PRICING

Delta successfully managed to move away from a commoditised flat fee pricing model in the GDS by signing a new agreement last year. In this new agreement with Sabre, the GDS fees are based on the value of the ticket booked. While the typical flat fee model provides a very limited incentive for the GDS to innovate and improve the display of products and services, Delta aims to achieve a higher average value per booking by incentivising the GDS with a correlating booking fee.

Similar value-based agreements were signed shortly after with the two other GDS, Amadeus and Travelport. After the announcement of the agreement, AA sued Sabre claiming biased search results and incentive discrimination. As this year is coming to an end, the claim from June 2021 was dismissed by the court at the request of American and Sabre recently, presumably as part of the new distribution deal between American and Sabre.

While the model was initially perceived as a potential disruption of the way airlines work with the GDS when it became public, it has become quiet around the topic of value-based GDS fees for now.

LEGAL CORNER: A TALE OF NON-DISCRIMINATION?

Sabre filed a breach of contract lawsuit against Hawaiian Airlines in the US District Court for the Southern District of New York this year. Sabre alleges that Hawaiian is intentionally and materially breaching its distribution agreement by a) withholding inter-island fares from Sabre and b) by imposing a USD7 surcharge for Hawaiian content booked in the US.

Recently, Hawaiian has asked the court to dismiss the breach-of-contract lawsuit, arguing that Sabre didn't not explicitly state which violation Hawaiian is allegedly committing and that the language of their contract makes clear the airline was not in breach.

The case is reminiscent of the 2015 litigation between Sabre and Lufthansa after the airline imposed its GDS surcharge. Presumably, Sabre is contending that NDC aggregators participating in Hawaiians' NDC solution HA Connect are in scope of Hawaiian's parity and nondiscrimination obligations. After postponing the implementation from the originally planned April 22, the surcharge went live on the 31st of May 22.

2.3 Central and South America

The region's pioneers on their way to content freedom

LATAM PREPARES FOR ANOTHER BIG LEAP

LATAM Airlines has announced a distribution model change from May 2023. Fresh out of Chapter 11, LATAM seems to be aiming for the next step change in distribution, reminiscent of what Copa and Hawaiian have implemented this year.
Only last year, in March 2021, LATAM rejected their GDS agreements with Amadeus under Chapter 11; but had since signed another agreement.
With its latest announcement, GDS guaranteed Full Content at LATAM would appear to be at "end of life", with content differentiation between NDC and Legacy, as well as a cost recovery for GDS bookings apparently in the works.

AVIANCA'S ROCKY ROAD TO DUAL PIPE

Nov 21: Avianca's distribution director at an industry conference announces plans to implement a GDS surcharge to: "help us drive more traffic to NDC and new technology"

End Nov 21: An announcement states that as of April 2022, agents will be able to access all content via the AviancaDirect platform using NDC technology or via the GDS using their EDIFACT connection in an "Opt-In" model. Agencies using a GDS Opt-Out model will only be able to access limited content at an "over cost" (no amount stated)

Dec 22: Amadeus and Avianca sign new technology and distribution agreement including PSS and NDC

Feb 22: Announcement that from August 2022 onwards, NDC will enable agents to avoid a surcharge of $8 USD per segment and will provide access to fares XS and S, which are not available via EDIFACT

Jul 22: Sabre and Avianca sign a three-year agreement to also provide agencies access to NDC offers

Today: Avianca FAQ mentions that agencies can still find inventory on GDS but with different conditions based on the market however without mention of a surcharge

Compared to other carriers exiting Full Content, the Avianca model and its communication approach have led to some confusion and bewilderment within the industry. Avianca now seems to have arrived at a dual-pipe model with NDC content available through the GDS at different commercial conditions than for EDIFACT content.

COPA AIRLINES EXECUTES WELL TIMED FULL CONTENT EXIT

True to its operational reputation, Copa Airlines has stuck to its clearly defined strategy and executed an "on time" change in its distribution model. After offering agencies the possibility to connect Copa's NDC platform "Copa Connect" in January 2021, Copa implemented a surcharge for remaining GDS bookings of 12 USD per one-way in September 2022.
With its clear communication and reliable timelines even during the COVID19 pandemic, Copa marks a great example of an airline which developed and spotlessly executed a strategy to modernise distribution.

TIMELINE

Jan 21: Copa Connect in production

Aug 21: NDC level 4 certification

Jul 22: Announcement of GDS surcharge

Sep 22: Start of GDS surcharge

2.4 Asia Pacific & Middle East

Between agreement renewals and dual pipes

FOCUS ON NDC AND CAUTION IN DISTRIBUTION SET UPS

In the Middle East and Asia Pacific, we continue to observe a focus on driving NDC, broadly by airlines reaching respective agreements with GDS and aggregators. While airlines in Europe and the Americas are continuously exploring distribution set-ups outside of Full Content agreements, Qantas and Emirates appear to be the innovators of the ME/APAC regions.

EMIRATES SETS UP DUAL PIPE WITH ALL GDS

This year, Emirates signed a deal with Amadeus removing the surcharge from all Amadeus bookings. The deal further includes NDC content. With this deal, Emirates reaches new distribution agreements with all three GDS.

After setting up its distribution platform "Emirates Gateway" in 2020, Emirates dropped out of Full Content and introduced a 12-25 USD GDS surcharge. In a next step, Emirates renegotiated new GDS agreements which seem to allow the respective GDS to avoid the surcharge.

During this process, Emirates temporarily dropped out of Sabre between June and October 2021, when a reconciliation and a new deal was announced, also including NDC.

EMIRATES DISTRIBUTION JOURNEY

Jul 2021	Jul 2021	Oct 2021	Jan 2022
GDS surcharge introduction	New Travelport agreement, no distribution via Sabre	New Sabre agreement	New Amadeus agreement

NEWS CORNER

Cathay Pacific signed deal with Amadeus, strengthening their relationship on NDC. Amadeus wants to make Cathay NDC content available to its agents within 2022.

Qatar Airways continued rolling out its NDC content by signing a deal with Sabre this year, after having granted Amadeus access to its NDC content last year.

Vietnam Airlines extended its GDS distribution agreement with Sabre, which also provides its PSS. The announcement does not mention NDC.

US-Bangla, the private Bangladeshi carrier entered into its first GDS agreements with Travelport in order to pursue its growth targets.

Malaysian Airlines renewed its extensive contracts with Amadeus, including PSS, distribution agreements, and NDC solutions.

QANTAS TO PUSH NDC CONTENT VIA ESTABLISHED DISTRIBUTION PLATFORM

Back in 2019, Qantas established its Qantas Channel to access the NDC based Qantas Distribution Platform, differentiating content bookable for travel agencies with a "Qantas Channel" agreement and those agencies opting not to join the channel. Compared to other market models, surcharge and content differentiation did not apply on a distribution channel level (e.g., GDS channel), but to all agencies outside of the Qantas Channel.

Late this year, Qantas announced another layer of content differentiation, where Qantas wants to share the benefits of NDC by offering the content at lower price points via their Qantas Distribution Platform. Qantas is aiming at increasing NDC adoption regardless of technology provider and incentivising providers to increase their speed on implementing NDC solutions.

QANTAS CHANNEL

- **2019**: Go live of Qantas-Channel, including a GDS private channel allowing surcharging and content restriction towards out of channel agencies
- **2019**: Agreements with all GDS to take part in Qantas Channel (surcharge only on "out of channel" agents)
- **2022**: Differentiation of NDC content at better price points

03 Take on distributors: GDS and aggregators

GLOBAL AVERAGE GDS BOOKING FEES

Our team has analyzed the Amadeus and Sabre Q2 2022 earnings reports and compared the average booking fee per net segment:

AMADEUS

5.17 USD[1]

Sabre

5.35 USD

Additionally, our team simulated the average net segment fees differentiated by full content and base agreements.

Based on our data and modeling, the average GDS surcharge is 8.40 USD per net segment. Assuming that carriers that have implemented surcharges aim to cover 70-80% of GDS cost, and that about 20-30% of net bookings are currently transacted outside of full content commitments leads to the following average GDS cost:

FULL CONTENT

2.50-4.00 USD[2]

BASE

10.50-12.00 USD[3]

[1] at USD and EUR exchange rate parity
[2] assuming 70%-80% of net segments are booked under full content agreements
[3] assumed 20-30% of net segments are booked under base agreements with surcharges covering 70-80% of GDS cost

THE CONSTANT BATTLE OVER INCENTIVES

The ball started rolling when Delta Air Lines and the Sabre unveiled their value-based pricing model for GDS bookings last year. Now Travelport released a new "Subscriber agreement and conditions" in early September. Both models signal an end to the time when incentives for GDS bookings were distributed to travel agencies according to a "one size fits all" principle. For the GDS, these new models are certainly an achievement. Relative profit margins are increasing because less money is being passed from the airline to the travel agents. In addition, the GDS becomes more commercially competitive for airlines with NDC aggregators, where incentive payments are mostly made directly by the airline to the travel agent anyway. Even airlines should be happy with this development, as more influence, if not control, over incentive payments goes to the airline.

This development shows the constant battle over incentives and fees between travel suppliers, aggregators, and travel sellers. This time around, the current dynamics would appear to be at the expense of the travel sellers, which will increasingly have to get by without the former GDS incentive and will have to compensate by higher incentive payments by the airlines and/or service fees from their customers.

THE TRAVELPORT DILEMMA

There has been quite a bit of troubling news for Travelport this year: Lufthansa slapped it with the highest Distribution Cost Charge for legacy bookings, Copa Airlines temporarily dropped out and Travelport was conspicuously missing in Avianca's and Finnair's NDC announcements. It appears that some airlines have come to the conclusion that Travelport has become a lower priority or even optional for their distribution reach.

But this could also be a case of "be careful what you wish for". If a sustainably weakened Travelport really were to start hemorrhaging subscribers looking for a wider range of content elsewhere, a reduction to two globally operating GDS could be in the cards. And for airlines, a scenario with only two GDS would likely not be a kinder, gentler world.

WIND OF CHANGE FOR NEW AGGREGATORS?

After years of enthusiasm supported by funding rounds and high growth rates for new aggregators, it seems like the curve may be flattening.

In September, a couple of voices on LinkedIn shared that NDC aggregator Duffel had to make staff cuts of 20%, potentially adjusting to economic circumstances, as many tech companies this year have announced substantial cuts. Another hypothesis is that new aggregators are coming under pressure as the GDS are becoming increasingly successful competitors for NDC aggregation services, having invested heavily in NDC capabilities and having often secured more favorable commercial terms with the airlines for NDC content and conditions.

04 Learnings and success factors

Consistency is key

In order to set themselves up for the future of retailing and to level the playing field in distribution, an increasing number of airlines have taken difficult decisions in their distribution journey to pursue long-term goals. This has meant keeping a clear focus on those distribution priorities, even throughout challenging conversations with technology and trade partners.

Technological progress requires commercial evolution

With evolved distribution set-ups, NDC can finally begin to deliver added value to passengers, which had been promised for the better part of 10 years. For airlines, this often means substantial investments in technology. However, in order to leverage envisioned revenue benefits, outdated commercial relationships need to be adapted to support future-proof distribution strategies.

Travel agents need content sourcing strategies

The new distribution models developed by airlines put massive pressure on travel agencies to develop robust content-sourcing strategies. Long gone are the times, when agencies approached the GDS to receive full content plus an incentive for making a booking. Instead, travel agencies now need to speak to airlines, GDS, NDC aggregators, and others, to negotiate access to content from a number of sources, while adapting their revenue stream expectations to the new realities.

Success favours the prepared

The steps and commercial decisions which need to be taken in order to successfully negotiate and subsequently leverage contractual freedoms are often challenging. Hence, preparation is key. This holds true for GDS negotiations as well as the set-up and confidence in internal technical and oragnisational capabilities.

Joint efforts required to serve customer needs

Given the significant changes in technology and commercial models, it can't be up to one party to redefine airline distribution. Rather, a new way for airlines, technology providers, and customers to interact is needed. This is fostered by a change of mindset implementing industry standards and engaging in meaningful negotiations aimed at offering better products to remain competitive as an industry.

05 Our take: What's going to stick?

1 SURCHARGES AROUND THE WORLD

Brought into the spotlight as "Distribution Cost Charge" (DCC) by LHG in 2015, the concept has made its way from Europe (AFKLM, IAG) to regions like APAC (QF) and the Middle East (EK). Reaching the Americas (HA, AV, CM) this year, we're sure it will end up turning into a global phenomenon.

2 IT'S NO LONGER GDS VS NDC

With the GDS preparing to distribute NDC content at scale, airlines are preparing by implementing sophisticated models enabling holistic distribution via different channels and technologies, also including the GDS as NDC aggregators.

3 WE'RE IN THE SECOND WAVE ALREADY

After the large, predominantly European, carriers started to actively distribute and manage their content, mid-sized carriers like Copa, Hawaiian and Avianca are also successfully moving to a retail-oriented mindset. We predict that more mid-sized to smaller airlines will follow, scrambling not to get left behind.

THANK YOU FOR TRAVELING WITH US!

To keep you updated on whether our predictions stick and what is next on the horizon of airline distribution:

- Follow us on LinkedIn
- Or, get in touch to subscribe to our newsletter to get informed about White Papers and other industry publications

You may find our contact details at the bottom of the page.

We wish you a great start into 2023!

ABOUT OYSTIN

Airlines all over the world trust us with their distribution challenges and work with our team of experts to transform their distribution game.

60+ Distribution Assignments Completed

10+ Full Content Exits Prepared

120+ GDS Agreements Negotiated

200+ GDS Agreements Analysed

5 Continents

travel in motion oystin

This year, we have joined forces with Travel in Motion to drive airline retailing and airline commercial strategies to the next level. Our unique partnership combines the two leading IT distribution and distribution business consultancies to leverage best-in-class value for the aviation community.

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