



**Airline Distribution in a World after COVID-19**  
Oystin Partners

# AIRLINE DISTRIBUTION – CONTINUATION OF THE PARADIGM SHIFT?

## Managing Airline Distribution Through Turbulent Times

To say that COVID-19 has significantly impacted the airline industry is an understatement – it is a singular turning point in the industry’s long and turbulent history. From a commercial perspective it is likely to shape customer needs, their channels of choice, perception of value and price, and the dynamics between airlines and their distribution partners, to name a few. What can airlines do to take advantage of the opportunities that come with these changes, while mitigating their risks?

To answer this question, it is useful to understand the journey that airline distribution was on before COVID-19 disrupted the industry – a journey that can be described as being motivated by four objectives, the emphasis of each varying dependent on an airline’s unique needs and priorities.

## Four Drivers Of Change In Distribution

### Gain distribution freedoms

- Exit traditional GDS full content agreements
- Differentiate content by channel
- Advance commercial models to include content as an airline asset
- Optimise channel revenue versus cost
- Decouple innovation from GDS willingness/ability to invest in new technology

### Achieve more flexible GDS agreements

- Exit full content at airline’s time of choosing
- Enable airline to lead or quickly follow competitors
- Shift dynamics between airline and GDS
- Clarify role and definition of GDS
- Support variety of models: various levels, private channel, wholesale model

### Enable product & servicing innovation

- Use NDC offer/order scheme instead of traditional fare filing
- Move towards personalised offers
- Tailor content to specific customers (e.g. corporates, FF) or agencies
- Embark to become true retailer
- Pursue new, creative partnerships across the travel spectrum (e.g. with other travel suppliers like cruise lines, hotels, retailers)

### Reduce or recover distribution cost

- Absorb cost of full content exit via surcharge
- Steer volumes towards lower cost channels
- Gain better ability to incentivise and reward distribution partners in line with their performance

## COVID-19 Forcing a Reassessment

With the singular impact of COVID-19 on industry volumes, airlines were forced to reassess all initiatives, including their distribution strategies. Some decided to put these initiatives on hold, while others continued on their prior path and even decided to accelerate it.

We can see two potential views forming:

### “A crisis is a terrible thing to waste”

*The COVID-19 driven drop in demand creates an opportunity to fundamentally shift model and absorb cost increases (from exiting full content) at lower volumes – airlines have a unique opportunity to redefine distribution*

### “Avoid additional headwinds”

*The struggle to regrow revenue requires that all channels remain fully open as every passenger counts – and agencies play a central role in the restart phase*

# PLOTTING A FLIGHT PATH THROUGH TURBULENT WEATHER

## Today's Key Questions In Airline Distribution

To properly form a view on which approach will serve them best, airlines are asking themselves a number of questions:

1. How are market dynamics and customer behaviours changing?
2. How can distribution support the massive changes airlines are currently thinking about?
3. How has the pandemic impacted distribution as a priority and priorities in distribution?
4. How can distribution deal with significantly increased uncertainty about where the industry is headed and how its' dynamics are changing?

### 1. How are market dynamics and customer behaviours changing?

- The key areas that airlines should consider include
  - The rate and mix at which demand will recover – e.g. will leisure ramp up before corporate?
  - Competitor actions around capacity, pricing, and their distribution set up
  - The balance between international and domestic routes
  - Changes to customers' channel preferences – e.g. are they more or less likely to book direct?
  - Changes to customers' price sensitivity and product and servicing needs?
- The outlook on these items will have a significant impact on an airline's distribution strategy. For example, in an environment with significant excess capacity, price reductions may result and put significant pressure on maximizing revenues. In this case airlines may decide to remain as competitive as possible across all channels and defer exiting full content and introducing a surcharge
- Alternatively, if leisure customers lead the recovery and – based on their experience during COVID – they prefer to book directly with the airline, then a channel differentiation strategy might make sense where the airline's best and cheapest content is reserved for its' direct channels

### CHANGING AIRLINE COMMERCIAL PRIORITIES IN RESPONSE TO CHANGING CUSTOMER BEHAVIOUR



#### Knowing the Customer

- Engage with customers without intermediary whenever possible
- Access all customer data directly
- Anticipate what customers are looking for and where



#### Personalization of offers

- Develop differentiating offers fully based on segment or individual customer needs
- Improve value and competitive difference provided to customer
- Leverage upsell potentials



#### Control over offer and order creation and distribution

- Control all components of the offer/order and how the customer sees them
- Control offer/order distribution and distribution cost

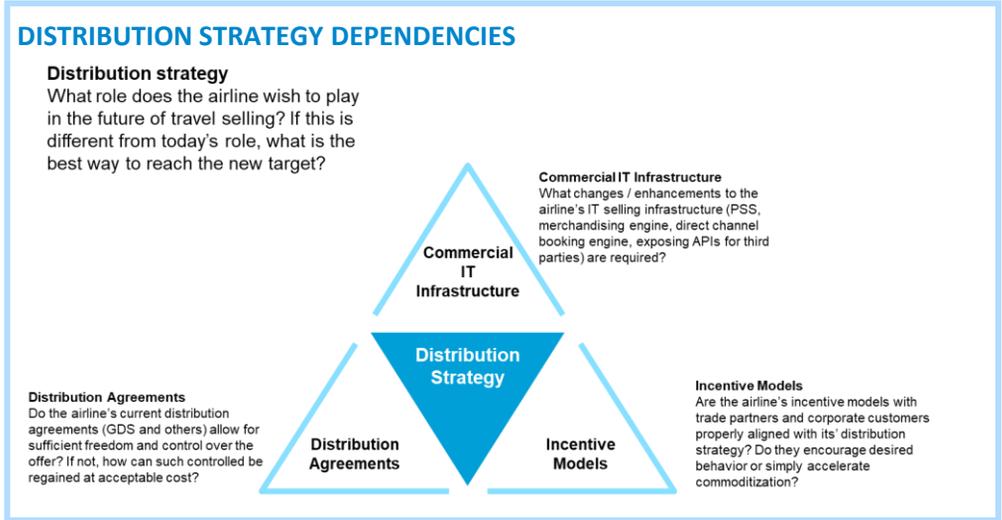
1. Encourage booking in airline owned channels through best content and seamless experience
2. For indirect sales, encourage use of authenticated shopping and richer comms standards – find new commercial models to differentiate within indirect channels
3. Keep distribution cost under control and better align them with yields
4. Ensure strategy and execution reflect changing regulatory requirements around data privacy

# PLOTTING A FLIGHT PATH THROUGH TURBULENT WEATHER

## 2. How can distribution support the massive changes airlines are currently thinking about?

We are currently seeing another push for simplified airline operations, cost reductions, and elimination of complexities. Where airlines are recalibrating their business model, distribution can play a central role. Looking at both traditional (e.g. airline.com and GDS/agency) and future (e.g. NDC direct connects) distribution channels, the airline can actively steer particular channels. For example, AA recently introduced additional fare brands containing customized bundles only available via NDC and BA added fare brands available for sale only via travel agents.

Likewise, airlines accelerating new pricing capabilities like Dynamic Pricing may find that NDC APIs are far more capable to support this than traditional fare filing methods. So, it is important that distribution is well coordinated with a carrier's pricing, revenue management and customer product strategies.



## 3. How has the pandemic impacted distribution as a priority and priorities in distribution?

A key impact of COVID-19 will be that airlines are finding themselves competing for fewer customers with significantly reduced airline resources – at least until a full recovery has occurred. This will require taking a hard look at priorities to determine where to focus. For distribution changes, in particular the move to a more “active” distribution with direct connect capability, this requires a validation of the expected benefits of such a move. A bold “build it and they will come” move may have been possible in 2019, but that is no longer a given. At the same time, “fast follower” airlines will stand to benefit from broader adoption of new models and NDC standards driven by large carrier groups. Cost, risks and timelines are certainly decreasing, while the variety of enabling commercial models is increasing. Lufthansa's evolved setup shown below can serve as a guideline of available commercial models.

### LUFTHANSA OPENS UP TO NDC DISTRIBUTION VIA THE GDS (PASSTHROUGH) – ON LUFTANSA'S TERMS

#### Lufthansa's distribution tiers prior to new Sabre deal



- Access to Gold tier only via airline owned channels (airline.com/app/offices)
- No surcharge
- Best content



- Best agency content including NDC
- No surcharge
- Accessible via Direct Connect, Non-GDS aggregators, and agency portal
- **Not accessible via GDS**



- Limited standard content
- No access to NDC content
- Consistent surcharge

#### Lufthansa's distribution tiers after new Sabre deal



- Access to Gold tier only via airline owned channels (airline.com/app/offices)
- No surcharge
- Best content



- Content agreed between LH and agent
- No surcharge
- Accessible via Direct Connect, Non-GDS aggregators, and agency portal **or Sabre engaged by travel agencies as an aggregator**



- Public NDC content
- **Reduced surcharge**
- **Accessible to opted-in Sabre travel agents**



- Limited standard content
- No access to NDC content
- Consistent surcharge

If the airline is unlikely to capture significant short-term upside (the “freedom dividend”) from changing the model, then it is unlikely that the required investments in technology and resources can be justified meaning model change may best be deferred.

# TRUST OUR EXPERIENCE AND CUSTOMIZED APPROACH

## 4. How to deal with significantly increased uncertainty about where the industry is headed and how its’ dynamics are changing?

The airline industry has always been one of high volatility and significant uncertainty, impacted by both external and internal “shocks”. COVID-19 however is the first and only event in its’ long history that has basically grounded the entire industry for a significant period of time. During this period customers not only have adjusted to traveling less and conducting their business virtually, they also have seen a number of examples of repeated travel warnings and stops. Even as effective vaccines become more widely available in 2021, it is likely that the industry will be faced with several years of uncertainty.

- Who will be traveling for what purpose and where in the future?
- How will they decide who to fly with and how to book?
- What will happen to the excess capacity in terms of equipment, crews, slots, etc?
- What will be the new pricing equilibrium and reasonable load factors?
- Which partners (airline, agency, technology) and business models will success, which will fail?

No one has a crystal ball on this. Ultimately airlines need to decide how best to deal with the spectrum of outcomes they may face and how to create the required flexibility to succeed under most of them. Importantly, airlines also need to be clear in which areas they want to lead the pack and where it is better for them to follow a wait-and-see approach. The continued period of uncertainty should therefore be viewed as both carrying risks, but also opportunities.

### Why Oystin Partners?

We offer a full set of end-to-end capabilities to accompany airlines on their distribution journey.



# OYSTIN PARTNERS – WHO WE ARE

## What we bring to the table

By linking Oystin Partners' strategy and implementation services and our unique expertise in distribution strategy development and GDS negotiations, we are the **leading industry experts in airline distribution**. We have developed this competency over the past 15 years by delivering a steady stream of projects in this area, continuously supporting airlines in customizing and innovating their distribution strategy.

### Our Promise – Your Benefits

- ✓ Holistic Analysis of the **Distribution Requirements and Capabilities**
- ✓ **Benchmarking** with Peer Competitors and **Trend Analysis** (eg. NDC and alternative GDS commercials)
- ✓ **Customized Distribution Strategy Development** based on priorities and competitive environment
- ✓ **Qualitative and Quantitative Strategy Evaluation** using ticket level data models and war gaming
- ✓ **Implementation support** after approval of strategy

### Our Customers



Lufthansa



### Our Thought Leaders



#### Dr. Felix Dannegger

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- Intellectually honest, candid and trusted advisor
- Rigorously analytical mindset
- Attention to detail and strong work ethos
- More than 20 years aviation consulting experience
- Lead consultant behind many transformational airline distribution strategies



#### Rainer Bauer

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- Practical strategist, balancing big picture thinking with execution focus
- Deep expertise airline partner management and negotiations for business and IT
- 8 years executive responsibilities in distribution and IT at Qantas Group – covering both mainline and Jetstar (LCC)
- More than 10 years in consulting – focus on strategy, sales, distribution, PSS and Retail IT partner selection and management

Our diverse and international team is made up entirely of experienced distribution consultants. Depending on the requirements we will configure a team with strategy, negotiation, quantitative modelling, cost recovery, term sheet, contract drafting, change management, and project management expertise.

### Let's Work Together

**Airline distribution is on your mind?** The next step is easy. Contact us to schedule a hassle-free, no commitment consultation. We want to hear about your unique **distribution balancing act** and offer our expert insights to you. We promise to bring our experience to bear for your organization.