

Collaboration, personalization and creating value – is your distribution strategy prepared for the road to recovery?

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Distribution within the airline industry always was and continues to be a complex topic involving many different players. This includes airlines, travel agents, other intermediaries, metasearch engines and, as more recent entrants, tech giants and native digital companies with high retail expertise.

To survive in this environment the focus for most airlines is on personalization of their offers. However, this is only achievable if the offer is more than a commodity. Collaboration and data exchange among the players, especially a data loop back to the airline must be enabled.

IATA's NDC (New Distribution Capability) can be mentioned here as a key enabler, since it is "helping airlines and agencies shift travelers flight purchase decision from commodity to a more value-focused process".¹ This includes capabilities to better present (personalize) and learn (gather data) about the own offer.

Nevertheless, the mindset to collaborate becomes key for all players involved, in order to offer the customer an improved and consistent retail experience on any chosen channel, by addressing their shift in behavior now and in the future. Only this way the customer will have a frictionless interaction with all channels and players. This customer-centric approach must be the goal for any industry player with the target to maximize the value of the product offered to the customer and to optimize the own revenue streams and reduce costs.

The COVID-19 pandemic has influenced and accelerated the need to adapt the distribution strategy towards a more collaborative model. Customers now more than ever before are highly influenced in their purchasing decision by factors like flexibility, transparency and availability of information regarding regulations and restrictions. Data about what they need and choose becomes more important than ever before.

Focus on collaboration with the traditional and emerging key players to allow data exchange

The distribution landscape is constantly changing and involves many key players. Legacy partners like Travel Agencies relying mainly on Global Distribution Systems (GDS) and metasearch engines allowing the customer to compare multiple offers. But there are also emerging tech giants and digital native companies who are joining the field of travel distribution.

The launch of NDC and One Order by IATA enables these players to exchange data in a more efficient and transparent way, allowing airlines to offer a wide range of unbundled products to their customers. Through more rich content everyone is benefiting – especially the customer². NDC and One Order is not only utilized by Online Travel Agencies (OTAs) but also by metasearch engines, who want to provide the airline with an airline store-front on their website (e.g. Skyscanner). This allows the customer to have the same experience as booking directly through the airline's website. However, in 2019 only 8% of sales were powered by an NDC³. Now is the time for all players to understand the benefit of data exchange enabled by NDC and a high focus should be placed on implementing NDC. Of course, implementing NDC also comes at a cost, not only requiring

¹ <https://www.iata.org/contentassets/6de4dce5f38b45ce82b0db42acd23d1c/ndc-report-v6-online.pdf>

² https://www.researchgate.net/publication/340487068_IMPACT_OF_THE_NEW_DISTRIBUTION_CAPABILITY_NDC_STANDARD_ON_FUTURE_AIRLINE_DISTRIBUTION_-_A_CRITICAL_ANALYSIS

³ <https://www.iata.org/contentassets/6de4dce5f38b45ce82b0db42acd23d1c/ndc-leaderboard-information-pack.pdf>

investment but also time and resources, which is a sensitive topic during COVID-19. However, the implementation of NDC has the goal to increase control and revenue, enhance the experience and reduce the cost long-term. The business case behind NDC remains strong as the goals remain admirable and needed across the industry. The strong need to modernize the airline distribution infrastructure should encourage distribution players to consider continuing to invest in NDC.

Moreover, new players are entering the travel retail environment. With tech giants like Amazon and Google entering the travel retail market the collaboration is more important than ever. They bring vast resources and big-data reservoirs and can change the way customers book trips. What they do not hold is the inventory. This is where the airline steps in. By partnering, airlines can gain foothold in new markets and can generate access to even more data. This partnership will require sharing inventory and capabilities in order to be able to offer complementary products.

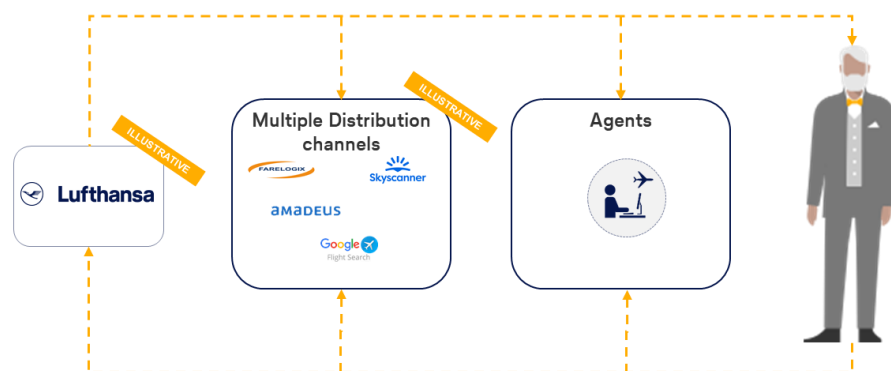
Facing the current crisis due to the COVID-19 pandemic the frictionless exchange of data has increased in importance. The customer is even more influenced in his purchasing decision by the availability of information and this information has to be available on all channels. Ranging from restrictions and regulations to flexibility in rebooking and cancellations. It is now time to ensure a working data exchange between all players.

Are you doing everything to collaborate and enable this data exchange?

Build on personalization through gathering data from different sources

Data exchange is not a one-way street. Sharing your information and data with other players is only one part. In order to personalize offers to your customers you need their information. A data exchange in both directions is necessary to facilitate personalization. To reach this goal you need to be customer-centric and enable the emergence of travel ecosystems, which will support collaboration and the sharing of data. By receiving detailed information about the customer beforehand it will be possible to offer the right product, bundled or unbundled, depending on the customer's needs and wants.

Data exchange with all **players** in the distribution environment – including the **customer** – enabling the **data exchange loop**



Each stage of the journey, starting with the initial search up until selling ancillaries shortly before the flight, needs to be leveraged in order to satisfy and, even more, delight the customer while reinforcing the brand, even if the sale is not made through your own direct channel.

It is about providing the customer with the ability to book through their preferred channel, but not having any disadvantages if this is not your direct channel. Customers love to have the choice and want to compare.

In order to be truly successful in distribution you have to ensure that the customer receives the experience he wants, no matter on which channel. Furthermore, you have to rely on the other players to a certain extent. What

would you give to have the data reservoirs of e.g. Amazon and Google? Or starting with the more detailed customer information a Travel Agency has, but does not share with you when booking through the GDS? The ability of being able to personalize offers is directly influenced by the capability of data gathering from all possible sources, and being a true 'master' of data collection.

During the COVID-19 pandemic more ancillaries and product attributes have been added to the long list, e.g. 'Bring me home' by Lufthansa, empty middle-seat, disinfection products – only to name a few. Customers are positively influenced by this in their purchasing decision; however, not all customer book directly. Therefore, the importance of showing these differentiators is steadily growing so as to not lose customers to competitors who can show all aspects of the product on all channels.

Are you doing everything to attract customers through personalization on all possible channels?

Create value with a win-win situation for all players involved by enabling a data loop between you, distribution channels and your customer

Of course, priorities currently lie upon the own costs, revenues and sales. However, through a successful distribution strategy, by empowering data exchange and close collaboration, there is the possibility to create a win-win situation - for all players involved.

Selling products through GDS comes with a high cost for the airline. This has for example led to the introduction of the Distribution Cost Charge (DCC) by Lufthansa in 2015 and other airlines following this DCC model. DCC adds a certain amount to the price for a ticket issued through GDS. The goal was to achieve a decrease in bookings through GDS due to higher prices and thereby achieve an increase in direct bookings and bookings in Travel Agencies (TAs) using the NDC model, where the tickets can be purchased for a lower price. Industry wide however, as research shows, even in 2020 channels utilizing GDS are expected to still by far be the biggest sales channels, TAs accounting for 34 %, TMCs (Travel Management Companies) for 17% and OTAs for 17% ⁴. Only by focusing on direct channels (NDC being included) and thereby having a data loop, a higher conversion rate will be achieved and a higher willingness to pay by the customer can be exploited.

From 2013 to 2020 there was an increase from 21% to 28% in direct bookings⁵, which highlights the importance of direct channels and the own website. Especially during the pandemic, the shift towards online channels has increased significantly, which can be explained by their nature of being "contactless" and the overall tendency to use more digital and self-service oriented offerings. Nevertheless, the continuous and strong collaboration is a key point to consider when thinking and assessing the distribution strategy.

The customer should be seen as a partner in this whole journey as the goal of all players should be to have a richer and more rewarding journey experience, enabled through the use of big data. Through this the customer can benefit from the win-win situation.

Are you creating value for customers, partners and yourself by working together?

Time to react now to ensure a successful distribution strategy of the future

Here comes the question for you: were you able to answer all above questions with a strong and definite 'yes'? If this is the case you are on the right track on the road to recovery.

If this, however, is not the case it is time to act now!

⁴ Sources: <https://www.technavio.com/report/global-travel-agencies-market-2015-2019>, <https://www.phocuswright.com/Travel-Research/Market-Overview-Sizing/Global-Online-Travel-Overview-Third-Edition>, own analysis

⁵ Sources: <https://www.statista.com/statistics/889461/airline-travel-passenger-revenue-by-sales-channel-worldwide/>, <https://www.iata.org/contentassets/6de4dce5f38b45ce82b0db42acd23d1c/ndc-future-airline-distribution-report.pdf>



Being in the middle of a global pandemic it is of highest priority to ensure that your strategies in place will successfully guide you through the crisis. By taking a closer look at your current distribution strategies, focusing especially on the above-mentioned points of collaboration, personalization through data exchange and value creation, you have the chance to come out of this crisis with an improved and promising strategy for the future. Asking yourself critically if your current strategy will fulfill the needs of the future, and all changes we will face due to the pandemic, is the first step to master the road to recovery. Furthermore, challenge your current strategy and all measures being taken to identify if all of these are still relevant and promising in the future. What seemed to be value-adding last year might have changed due to the current circumstances and now is the time to identify any non-promising measures.

Information sharing and data exchange through collaboration as well as communication with all involved parties is key to success, now more than ever. And remember, we are all in this together.

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<https://www.lhconsulting.com/insights/news/>
