

T2RLENGAGE

2022

Connecting Airline Technology & Distribution for Performance

Key Takeaways

28 - 30 September 2022



Key Takeaways

T2RL has highlighted three key takeaways from T2REngage 2022

1. Change is Happening

During the three days of case studies, keynotes, panel sessions, round tables and workshops it became apparent that change was certainly afoot. Since the industry was hit by the Covid pandemic, airlines are showing a greater appetite for risk and willingness to embrace change. The sessions and discussions demonstrated a wide range of concrete examples of where this change is occurring;

› Dynamic Pricing

Whereas before Covid there were very few airlines that had rolled out dynamic pricing, post-Covid we are now seeing actual implementations. On Day 1, Air Serbia spoke about how they are implementing machine learning capabilities to dynamically price ancillaries. Virgin Australia also stated they have plans in this area. Cory Garner highlighted a T2RL study which was undertaken earlier in the year where 83% of airlines surveyed said they were planning to dynamically price their fares in the next 2 years.

The panel session; Dynamic Pricing – A race to the finish line? also touched on some of the challenges and limitations to implement these capabilities. During its session on Day 2, PROS also touched on the next step in the cycle; 'The journey from dynamic pricing to dynamic offers'.

› NDC as a Priority

NDC is now a distribution priority for the majority of larger airlines and the discussions throughout the conference certainly accepted NDC as the 'norm'. On Day 2 Rogier Van Enk, SVP Customer Engagement at Finnair, spoke about its goal to move to 100% NDC by 2025. He remarked, they 'are going to learn along the way and know it won't be easy.' He highlighted several reasons behind moving to 100% NDC, particularly its focus on self-service. During

the past couple of years call centres have been overwhelmed with servicing requests. Airlines need to invest in self-servicing and make servicing more digital which is now commonly expected from the traveller and also reduces costs on the airline side. Finnair also believes there is a lot of money being left on the table in terms of ancillary revenue. Customers that book on its website are more likely to book ancillaries than if they booked via the trade.

Rogier noted, 'start where you can, do what you can and the rest will get solved.' For most airlines, interline does not account for a huge proportion of sales, 'so let's concentrate on the 90%,' he said.

› NDC GDS Deals

The industry saw a flurry of NDC GDS deals taking place towards the end of last year. These are now slowly turning into implementations. Sabre announced on Day 1 during its session; The future is open: Accelerating towards retail modernisation, that it now has 6,000 PCCs live with NDC connections, with airlines such as Finnair in pilot and the Lufthansa Group in production. It is hoped that once the GDSs have implemented NDC fully amongst all their travel agencies then NDC volumes will increase significantly. Cory Garner stated that T2RL estimates that current NDC volumes account for around 4% of total passengers boarded.

› Offer and Order

The shift from the traditional PSS stack to offer and order management principles based on ONE Order standards is beginning. On Day 2, during the panel session; What impact will the adoption of ONE Order have on your business? the panel discussed the benefits of moving to an order system with Alf Sagen from Flyr, the world's first '100% native ONE Order airline,' detailing that it was, 'largely about freedom, using modern technology and [the] ability to start from a clean sheet.'

During a fireside chat, Jost Daft from the Lufthansa Group described its target

of wanting to achieve 100% offers and orders by 2030 for all eight airlines within the group. And it actually wants to achieve this goal even sooner. He said it was a 'super big challenge but it's the time to do it.' He also pointed out that not all questions have been answered yet, especially with regard to how it deals with its partner airlines around world.

The Lufthansa Group will be looking at implementing a completely new technology stack that will sit in parallel to its old one. The reason for this is that it sees its current technology has reached the end of its life cycle.

Its aim will be to keep the old and new world separate by building connections between the two, as Jost put it, '[we] want no pollution of the new world.'

Jost also actively invited airlines to "join us on this endeavour, an industry initiative." Settlement will still be a big challenge and will require supplier collaboration.

It is important to note that certain airlines and vendors in the LCC space already have systems based upon the concept of offers and orders and this was reiterated by IBS through its session with Jet Airways; Powering the relaunch of an iconic airline for the digital era.

› Commercial models are changing

More and more airlines are choosing to move away from signing full content agreements with the GDSs. On Day 2 during the session; From solid foundations to high performance retailing – the Copa Airlines story, the audience heard from Julio Toro at Copa Airlines who relayed the story about how it left its full content agreements earlier in the month and how this has opened up discussions internally. Although there was a risk involved, doing this has given Copa the freedom to discuss different options internally that it would not have been able to do before. Julio said, 'the day we came out of full content was the first day of the rest of our lives.'

On Day 1, Cory Garner also predicted that we are going to see more and

more of the wholesale model, with aggregators and GDSs competing more on technology through NDC rather than on content.

» New technologies

The two major new technologies that were discussed during the three days were AI and Blockchain.

On Day 1 the panel session; Blockchain: Real world use cases and future aspirations gave some of the vendors in this space the opportunity to highlight some of the benefits they believe this technology brings to the industry.

Whereas blockchain is certainly still in its infancy within the industry, it was clear from the case studies and keynotes that many airlines are now using AI in production, specifically in the area of revenue management. As Kartik Yellepeddi, Head of Machine Learning and AI Strategy at FLYR Labs claimed, '[it] made 31 million predictions' for one of its customers during the past year.

The panel session on Day 2; Predicting the unpredictable highlighted some of the challenges airlines need to think about when rolling out AI technology. In particular in the area of measuring success, sensitivity testing and the role of the analyst.

» Demand for Travel

The changeable environment is obviously making it very difficult to predict demand and forecast as was discussed in the panel; Predicting the unpredictable. The shift from corporate to leisure travel may also be more permanent than was originally thought. On Day 3, the panel Flying away from Covid: The new corporate traveller discussed some of the challenges facing corporate travel sellers today. In particular, as each airline is in a different place with regards to NDC standards, TMCs will have to pick who to work with carefully. They will need to assess how much work is involved. The sooner NDC is streamlined across multiple carriers, the more business can go through direct connections.



2. The Transition needs to be managed carefully

This change, obviously brings its own challenges but it also brings a lot of opportunity. Neil Glynn gave an Analyst's View on Day 1 of the conference where he highlighted that in the past the failure to achieve structural change has always been a recurrent theme in the industry. However, as Richard Clarke pointed out in the T2RL Market Update on Day 1, 'we're at the beginning of a transition.' This transition will need to be managed carefully.

As Neil Glynn said, 'decisions made have been bold but execution will need to be even bolder.'

Transition needs Investment

Transitioning from a legacy world to ONE Order principles and maintaining both systems is obviously going to need investment. As Neil Glynn pointed out 'nobody is flush for cash at the moment,' but, 'there is a continued acceleration in R&D spend from the larger players.'

There is a very high risk associated to migrating a legacy airline to ONE Order principles. Airlines will need to calculate the business case and have a very strong process in place for implementation. This was discussed on Day 2 in the panel; What impact will the adoption of ONE Order have on your business?

The panellists discussed cost efficiencies such as eliminating EMDs and giving the customer more possibilities to self-serve but all in all they agreed that it is impossible to estimate the potential revenue uplift.

As was noted by Greg Gilchrist from Sabre, 'there will be some airlines that won't make it because they are unable to invest or won't take the risk to invest'.

Transition in Cost

On Day 1, Richard Clarke pointed out that the proportion of costs per passenger boarded as a proportion of total airline commercial system costs could change. The current cost of a NDC API has increased dramatically since it was introduced, meaning efficiencies have already been lost in this area. Currently, the majority of costs for a full-service carrier are allocated to an airline's inventory system. In the future, T2RL believes that this cost will shift more towards the offer management system and the DCS, while the order management proportion will decrease.

Deliver or fulfil

The next challenge will be how to manage the delivery and settlement parts of the chain. This was a theme that was discussed across many of the panels throughout the three days.

As the industry progresses within the area of offer and order, delivery suddenly becomes critical. If the airline is transitioning to a system where it is able to sell more products in a more flexible manner but is unable to 'deliver' or 'fulfil' on those products then there is no point.

In an airport environment this becomes even more critical as the main goal of airport systems and staff is operating the flight, not selling. As was discussed on the panel; What impact will the adoption of ONE Order have on your business? Amazon is a great retailing company but it is also the greatest fulfilment company in the world. Fulfilment needs to be a priority. The delivery of an airline's products and services needs to be quick and easy. As well as a move to order based commercial environments the industry also needs to focus on modernisation in the area of departure control systems. Today, there are not many 'modern' providers available on the market.





3. Intelligent Contracting will be Key

Having a thorough grasp of supplier contracts and the permissions and constraints within them will be critical.

Larger network of intermediaries and sellers (not resellers)

T2RL is now tracking over 30 different aggregators in the market. As the market matures and airlines increase the number of direct connections to intermediaries and sellers, they will need to manage more and more of these individual relationships.

Cory Garner and Nigel Howard presented a session on Day 2 of the conference detailing; The Forgotten Present: Distribution relationship blind spots can cost you dearly. The session highlighted that a lot of institutional knowledge is leaving the industry, leading to a misinterpretation of distribution contracts and clauses.

As was highlighted in the session, 'never use the word reseller when you refer to travel agencies.' When the ownership of inventory is turned over to a 'reseller' the original owner of that inventory loses all control over it. Agents and airlines have a different relationship. Airlines need to keep a close relationship with agencies to ensure they understand who has access to their content and fundamentally how it is sold. It is important to remember that the primary relationship is with the travel agency while the GDS and airline relationship is secondary.

› Contracting through the transition

One of the recurring key points made throughout the conference was that the industry is at the start of a transition. Airlines will need to make sure that they have the right contracts in place with their incumbent vendors to ensure that they will be able to transition to new technologies and commercial models in the future. They will need to be wary of any new wording or new clauses within current contracts and the implications they may have for their future plans.

On Day 1 during the T2RL Market Update, Richard Clarke highlighted that the contracting and commercial processes for technology need to be able to handle the transition process. An airline must be able to feasibly run its current systems alongside additional systems to be able to manage the transition successfully.

› New ways of using data

Airlines are sourcing new data and are also finding new ways of using their existing data. On Day 1 the panel; How payment data and technology can be used to increase conversion rates discussed how airlines see a multitude of

data points run through their payment flows which can allow them to place the right payment type in front of the right person and therefore improve conversion rates.

As well as dealing with new forms of data, a multi-platform strategy means there are multiple systems and providers dealing with an airline's data. Airlines need to ensure they perform risk assessments of their agreements with vendors to help safeguard their data.

As was discussed in Cory and Nigel's session, it is also acceptable for an airline to expect its data, for example data on its website, to be proprietary. The redistribution of an airline's fares to OTAs and metasearchers can lead to problems. Once an OTA puts the airline's fares on a metasearch engine the airline loses control over that booking. The OTA will own the booking and this can also lead to a cost in distribution fees for the airline to the GDS, which can be expensive. The airline will need to ensure that it has 'good' terms in place to define this data, express permitted uses and protect its interests.

» New technologies

New technologies like AI and blockchain will need better understanding to make sure that risk and cost are under control.

As was discussed during the round table; Procurement and Contracting Strategies for Artificial Intelligence and Other Emerging Technologies, new technologies will need better understanding to produce new contracts. During the discussions it was very apparent that there are diverse views and differences with regard to what AI actually is. Some areas that will need to be determined within contracts include the privacy of data, where the data is coming from, understanding the answers from algorithms, machine learning bias and measuring outcomes.

