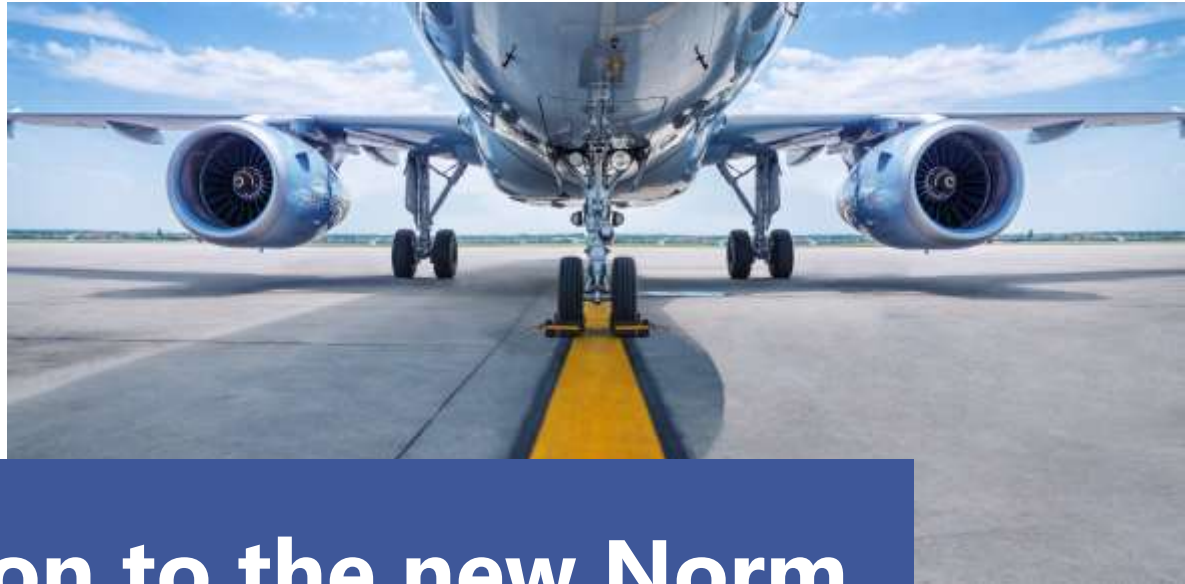




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# Transition to the new Norm - T2RL's Outlook

December 2020



## INTRODUCTION

This is the third edition of T2RL's analysis on the market recovery for the airline industry during and after the COVID-19 pandemic. T2RL will update this document on a quarterly basis as new information and developments become apparent.

## EDITORIAL

The most significant piece of news the world has heard in the last month is the announcement of three viable vaccines. Although early days, the rollout has begun in certain markets to vaccinate the population against contracting COVID-19. Whilst it will be some time before we see a vaccine in all countries, for airlines this must seem like the light at the end of tunnel. On the day the first vaccine was announced airline share prices rose dramatically. IAG and Easyjet saw a rise of 25-35% in one day, showing eagerly awaited market positivity. While larger airline groups have, albeit limited, cash reserves to last into the middle or end of next year, smaller airlines will be desperately needing to start flying on full schedules as soon as possible. Redundancy payments, over-hedging losses on fuel price and currency exchanges as well as the obvious drop in revenue have left most of the industry in dire straits.

Nevertheless, T2RL data show that only 29 airlines have ceased operations since the start of the pandemic, in comparison to 45 for the full year 2019, a very low number given the circumstances. This is probably due to a combination of prolonged government support, extended furlough schemes and severe cost cutting on the part of the airlines. Additionally, 59 airlines still remain grounded in comparison to 112 airlines in our August report. In normal times we expect that any airline whose services remain suspended for more than a few months is unlikely to return to operations. The special circumstances of the pandemic mean that this period may be extended but we still expect a majority of those airlines that are currently suspended will not return in their current form.

At the time of writing the US and Latin America are still witnessing extreme high levels of infections, with most of Europe now also in a 'second-wave', experiencing market lockdowns, heightened travel restrictions and strict quarantine measures.

There is evidence however that there is significant pent-up demand in the market and when government restrictions are lifted travel is expected to return at least temporarily in



the leisure segment. IAG reported an instant increase in bookings when the air corridor from UK to the Canaries was opened in October.<sup>1</sup>

Markets heavily reliant on tourism will also be expecting government to better support airlines moving forward. Hawaiian Airlines<sup>2</sup> has worked with the state government to allow passengers to forego the two-week quarantine through partnering with a certified testing company and offering COVID testing options depending on city of departure. Many airlines are lobbying for pre-departure testing combined with testing on arrival to encourage travel and forego lengthy quarantine policies. From 15<sup>th</sup> December the UK will start its 'Test to Release' scheme to allow travellers who test negative to forego quarantine after five days.<sup>3</sup>

As we near the end of 2020 we have made a detailed projection of whole year passenger numbers that shows 1.86 billion passengers boarded in the full year. This is 60% down on the 2019 number but it will still not reflect the full impact of the pandemic as most airlines had a relatively normal first quarter.

We predicted that domestic air travel would be the first to recover and this has been proven in some markets. In particular, domestic schedules in China are already near to their levels of 2019. T2RL data predicts total passenger numbers for December in China are down by around 14% on the same period last year.<sup>4</sup> In other markets the recovery is a lot slower.

Although there is finally some positive news with regard to the pandemic, airlines still have a long road of recovery ahead of them and we still expect to see severe contraction amongst airlines and their partners like travel agencies, GDSs and technology providers. If the end of 2020 was when the virus at least started to come under control, 2021 will be the year where we expect to see the full economic fallout of the pandemic take place. The next few years will continue to be a period of Darwinian selection for all segments of the industry.

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<sup>1</sup> <https://www.iairgroup.com/~media/Files/I/IAG/press-releases/english/2020/Interim%20Management%20Statement%20for%20nine%20months%20to%20September%2030%202020.pdf>  
To note that from 12<sup>th</sup> December this air corridor has now been closed again, with consequent implications for cancellations and refunds.

<sup>2</sup> <https://www.hawaiianairlines.com/covid-test-options/>

<sup>3</sup> <https://www.gov.uk/guidance/coronavirus-covid-19-test-to-release-for-international-travel>

<sup>4</sup> <https://www.t2rl.net/airline/covid19traffic>

## RECOMMENDATIONS

Despite the crisis, there have been some major positives achieved in the last year. In what is normally a notoriously slow market to adopt new practices, airlines have moved quicker than ever in adapting to new ways of working and have been a lot more willing to take risks as they have little to lose in trying. Red tape has been cut, silos have been overcome and generally the adoption of a 'get it done' attitude has taken hold in the industry.

In the area of IT airlines have generally moved quickly in renegotiating contracts with providers, in particular the following points need to be addressed:

- **Minimum spend clauses** - Costly lock-ins to minimum spends need to be addressed. Airlines should not be paying fees for services that are not being consumed.
- Likewise, airlines that have subscribed to bundled services should take a close look at their contracts and conduct a thorough audit of all subscribed IT tools to see if there are any services which are not being used or are a duplication of other applications. These can also be used as a pawn for renegotiation.
- **GDS fees** - With limited traffic being sold via the GDS channel, now is the time to renegotiate distribution contracts, especially with regard to domestic traffic. T2RL forecasts that it will be some time, if ever, before the indirect market reaches the same levels as 2019.
- **Full content agreements** – The current situation calls for flexibility. Being tied into full content agreements that enforce fare parity across all channels can be unnecessarily restrictive. Airlines need to be able to react quickly to the market environment and full content agreements are another unnecessary burden.
- IT providers are in the best position to partner with airlines and foster a much more flexible way of operating. Through sharing the risk and reward, airlines can minimise the current impact and protect themselves for potential future market reoccurrences provided that the right business outcome contract is negotiated.
- Moving forward airlines will need to better plan for risk. Reoccurrences of the pandemic or further outbreaks will spur the need to be extra diligent in contracting – force majeure, material adverse effect provisions and business continuity clauses will need to be addressed. This in turn will lead to more costs associated with contracting in general.

Traditional areas for airlines to reduce overheads include outsourcing the likes of servers and network architecture and moving to more cloud-based infrastructures. Vendors need to work with airlines to assure that flexibility and agility of new developments and control of data are still possible through building a partnership on a solid, transparent contract.

Airlines also need to be aware of vendor risk when outsourcing key components, with many IT providers also currently under financial pressure, airlines need to be assured that vendors will still be around when demand picks up again.

With changing market needs leading to potential changes to business models, airlines will need to work with vendors that match their new objectives. Less complex business models will need a less complex IT solution.

Other specific capabilities airlines should be looking into include:

- Demand forecasting. Current revenue management solutions which have traditionally focused on using historical data to map future demand are no longer relevant in today's market. New ways of demand forecasting are now needed.
- Dynamic Scheduling. In order to manage volatile market conditions airlines need flexible tools to manage schedule building and changes.
- Reaccommodation. Tools to make it easier and cost effective for airlines to manage reaccommodation will be needed in the short to mid-term.
- Ability to take greater advantage of direct distribution, this has effects on a number of areas within an airline's digital portfolio;
  - o Self-service tools for areas such as check-in, bag drop and boarding
  - o Streamlined online servicing to manage exchanges and refunds
  - o Acceptance of diverse payment methods
  - o General mobile capabilities to keep in touch with customers
  - o Dynamic packaging as a possible area of opportunity.

Now is the time to adapt, be flexible and agile.

## THE MARKET FOR AIRLINE SERVICES

Just as the events of 11 September 2001 drove major changes in the approach to security in airlines and airports we are seeing signs that the current pandemic is leading to new requirements being placed on the industry. In particular the vast use of testing will certainly become the norm for the foreseeable future. The launch of 'COVID-free travel corridors' for certain international routes is becoming more prevalent. Singapore and Hong Kong are in the process of establishing a two-way Air Travel Bubble (ATB) to allow travel between both city-states without quarantine, dependent on travellers testing negative for COVID-19. Delta and KLM will be offering testing for certain Atlanta to Amsterdam flights<sup>5</sup> where only passengers with negative test results will be accepted on board.

It is also very likely that governments will require airlines to collect more data on passengers. Qantas CEO, Alan Joyce, said that 'international air travellers will in future need

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<sup>5</sup>[https://www.avitrader.com/2020/12/07/delta-and-klm-to-offer-covid-tested-flights-from-atlanta-to-amsterdam/?utm\\_source=mailpoet&utm\\_medium=email&utm\\_campaign=Lufthansa+will+have+shed+27%2C000+jobs+by+year+end+%E2%80%93+cuts+expected+in+2021](https://www.avitrader.com/2020/12/07/delta-and-klm-to-offer-covid-tested-flights-from-atlanta-to-amsterdam/?utm_source=mailpoet&utm_medium=email&utm_campaign=Lufthansa+will+have+shed+27%2C000+jobs+by+year+end+%E2%80%93+cuts+expected+in+2021)

to prove they have been vaccinated against Covid-19 in order to board Qantas flights' stating the move would be "a necessity" when vaccines are available.<sup>6</sup>

This in turn will place a burden on airlines, travel agents and GDSs to enable such data collection at the time of booking. The requirement is likely to be complicated by the lack of consistency between governments on the nature and extent of new bio-security measures.

## The Immediate Future

Following on from our previous papers we predicted that domestic markets would be the first to bounce back and certain domestic markets are now showing good recovery. International routes however are still heavily constrained by government action to close borders which is slowing down their reopening. We are now seeing four main strategies emerging across markets and governments in dealing with the virus and which have immediate effects on travel;

- *Vaccine reliant markets* – markets now relying predominantly on a vaccine where cultural and economic influences have meant other strategies have fallen by the wayside. Examples of these markets include the US, UK and certain European countries.
  - o Impact on travel:
    - Due to the urgency of the need for a vaccine we can expect borders to these markets for inbound travel to be fully opened with restrictions lifted before other regions. Although there are still uncertainties with regard to the longevity of the vaccine, availability and willingness of populations to be vaccinated.
- *COVID-free markets* – markets that have opted for a totally COVID-free approach, reliant on closed borders, strict testing on arrival, quarantine and vigorous contact tracing, for example Australia and New Zealand.
  - o Impact on travel:
    - Inbound travel is expected to be restricted for quite some time until the population is widely vaccinated. Qantas has just announced that its international flights will not start until mid-late 2021<sup>7</sup> and when international travel does start travellers will need to prove they have been vaccinated.<sup>8</sup>
    - In the short-term, focus will be put on travel corridors with other 'COVID-free' locations, although markets following this strategy are being understandably cautious.

<sup>6</sup> <https://www.bbc.co.uk/news/world-australia-55048438>

<sup>7</sup> <https://www.traveldailymedia.com/qantas-international-travel-will-not-resume-until-july-2021/>

<sup>8</sup> <https://www.bbc.co.uk/news/world-australia-55048438>

- *Testing focused* – markets that have put in place mass testing and contact tracing with isolation and quarantine when outbreaks become apparent, for example, China, Korea and Japan.
  - Impact on travel:
    - Markets following this strategy are taking cautious measures to ease quarantine and open borders dependant on negative test results, particularly to encourage business travel and in the case of Japan in time to hold the delayed 2020 Olympic games in the summer of 2021. Singapore and Hong Kong are on the verge of launching an ATB (air traffic bubble) although recent plans have delayed this to post-2020 following a surge of cases in Hong Kong<sup>9</sup>. Japan also announced the waiving of quarantine for 'qualified' business travellers who have had overseas trips of one week or less<sup>10</sup>.
    - In the short-term, focus has been put on domestic travel. China's domestic market is near to 2019 levels already and Japan has launched a GoTo campaign to subsidise domestic travel with up to 35% discounts being offered to Japanese home-tourists for hotels and tours<sup>11</sup>
- *Developing markets* - markets with large populations where resources are limited to vaccinate whole populations and where infections are high, for example India and Brazil.
  - Impact on travel:
    - Inbound travel will take a lot longer to recover as it will be dependent on international visitors being vaccinated much the same as yellow fever vaccinations are required for entry into certain countries. Although the rate of infections and the ability to be vaccinated will deter certain travellers there will still be a limited market demand for certain segments.

In the meantime, and no matter which route is taken by governments, restrictions on inbound travel such as testing on departure and/or arrival, quarantine periods, contact tracing and eventually medical passports will be essential for all markets.

Airlines have been executing dramatic staff reductions in recent months, with many also still taking advantage of extended furlough schemes until the first quarter of 2021. With 60% less demand we are clearly seeing overcapacity in the market and many airlines are starting to look at reinventing their business models to suit the change in demand. At the T2RL conference last month Avianca CEO, Anko van der Werff stated how after coming out of administration the airline intends to streamline its offer to a more low-cost strategy. It appears that British Airways anticipates a reduction in demand for its business class seats

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<sup>9</sup> <https://www.cnn.com/2020/12/01/singapore-and-hong-kong-push-back-their-travel-bubble-again-this-time-beyond-2020.html>

<sup>10</sup> <https://asia.nikkei.com/Spotlight/Coronavirus/Japan-waives-14-day-quarantine-after-business-trips>

<sup>11</sup> <https://www.traveldailymedia.com/japan-spring-reopening-2021/>



and even went as far as to sell off crockery, glassware and blankets used in the cabin to raise cash for items that are now surplus to demand.<sup>12</sup>

T2RL continues to believe there will be little business travel in the next few months. Most corporate travel insurance will not provide cover while the outbreak is still categorised as a pandemic, which according to the WHO could be over 'within 2 years'<sup>13</sup>. Companies have a duty of care to their employees and would have significant legal exposure if they were to require them to travel. Many government restrictions are also limiting corporate travel in the short term although some markets are starting to cautiously ease restrictions for certain business travel.

We expect to see the peak of economic strain in the next year or two as many SMEs and some corporates are likely to move into administration and bankruptcy as the repercussions of economic shut-downs drive failure of their business models and government aid comes to an end. Many corporates have already put in place 'no-travel' policies in order to save on costs. Additionally, many office staff have been working from home for quite some time and have become accustomed to readily available video conferencing, meaning a lot of travel for meetings is now deemed unessential. Similar restrictions also apply to personal travel, however interest in leisure travel has gained some traction. Pent-up demand in particular for the VFR segment (visit friends and relatives) increases as people spend extended periods away from family. Nevertheless, actual demand for vacation travel is still comparatively low because of restrictions on destinations, quarantine regulations and nervousness of potential travellers.

## 12-24 months

The seeds for change in this time scale are already in place and we have a high degree of confidence in our expectations. The most recent updates to our projections and analysis may be found at [www.t2rl.net/airline/covid19](http://www.t2rl.net/airline/covid19) where we track developments including passenger numbers and traffic projections.

As government support in many countries will probably come to an end at this point the number of active airlines will diminish both through bankruptcy and liquidation and through mergers. The WHO has stated it hopes that an end to the pandemic will be formally declared during this period. Vaccine rollout should also be widely available particularly in developed markets relying heavily on international travel. Both these points will lead to a resurgence in demand for international travel, however strict conditions will

<sup>12</sup> <https://www.businesstraveller.com/business-travel/2020/11/23/british-airways-launches-sale-of-aircraft-dinnerware-and-trolleys/>

<sup>13</sup> <https://www.bbc.co.uk/news/world-53870798>





still be in place with regard to medical passports, testing and contact tracing. We also still expect to see some form of social distancing and mask wearing especially in crowded areas such as airports as people have become more conscious of the benefits of these practices.

## 2-3 years

As we look to longer time scales confidence in our forecasts reduces somewhat. Once we look more than a year out it is essential that we remain alert to changes in base cases that will have impact in late 2021 and into 2022.

We expect to see fewer airlines in the market and therefore less competition. Schedules will continue to be restricted compared to pre-pandemic levels. Flight prices may start to increase as a consequence of reduced competition and increased operational costs. The surviving carriers will be looking hard at their business processes as they move towards the new normal. These are our expectations but there is a great deal of room for further shocks to push the industry in directions that are not yet apparent. Fuel prices will increase from the current very depressed levels although they will probably be volatile as markets start reopening.

Conversely there may also be the emergence of start-ups due to the excess supply of cheap aeroplanes on the market, a return of some level of demand and less debt for those airlines to compete with already established players.

Bio-security standards that are created during the initial reopening will be standardised and enforced across the industry. This could take the form of virus checks at all ports, and vaccine certificates added to PNRs for inclusion in transmission of passenger details to destination immigration and government agencies. Based on experience after 9/11 we expect that some new processes will be put in place due to political pressures regardless of any evidence base for their effectiveness. Once implemented it will be almost impossible to remove them so airlines and airports are likely to have costs imposed for a very extended period.

We expect any uptick in personal travel will wear off from the start of 2022 as the global recession starts to hit hard and prices are increased. Corporate travel starts to pick up slightly as businesses resume international trade and services, although we do not expect it to reach anywhere near last year's level of demand for several years at least. Recession, downsizing, new habits and ways of working will now be ingrained into society and the value vs. reward calculus will suppress demand for business travel.

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## Beyond 3 Years

Beyond three years we should be seeing a new normal state of affairs. Certainly the changes prompted by the immediate crisis should be well established. However three years is plenty of time for new crises to emerge and any prediction beyond start of 2024 should be seen as no more than a possibility.

There will be fewer airlines and those that remain are unlikely to have recovered to pre-crisis status. IAG Believes that it will be “at least 2023” before there is a return to 2019 passenger levels<sup>14</sup>. Networks will be much reduced compared to today and those passengers with true global requirements are likely to need to do business with multiple carriers. Interline itineraries, whether traditional or virtual will be unavoidable.

One option that has been floated in some circles is that in markets with strong domestic airlines international travel may be handed over to a single dedicated carrier owned by a consortium of the domestic airlines. This idea was first proposed in the USA after the second world war and would have entailed the domestic airlines at the time taking equity in Pan Am and feeding its services at international gateways. On the whole we think this is an unlikely path for the industry to follow. It could only apply to a handful of markets and governance issues would be very challenging. On the other hand we are entering uncharted waters and this is a radical idea that could solve some problems, albeit at the cost of introducing substantial new ones.

The big question in this time scale is the extent to which demand will return. Assuming that the vaccine is made available world-wide and that general economic recovery continues with no more major shocks we expect demand to be in the range of 80-100% of 2019 levels by the end of 2024. If we are correct in our expectations of fewer airlines serving that demand the surviving carriers should have returned to a reasonably strong economic situation.

## DEVELOPMENTS IN AIRLINE DISTRIBUTION

### The Immediate Future

As predicted we have seen more of a shift towards direct bookings as the return of domestic traffic is more prevalent than international, and the corporate market, that historically books via indirect channels, remains depressed. In 2019 T2RL reported a 50/50

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<sup>14</sup>[https://www.iagroup.com/~/\\_media/Files/I/IAG/press-releases/english/2020/Interim%20Management%20Statement%20for%20nine%20months%20to%20September%2030%202020.pdf](https://www.iagroup.com/~/_media/Files/I/IAG/press-releases/english/2020/Interim%20Management%20Statement%20for%20nine%20months%20to%20September%2030%202020.pdf)

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split<sup>15</sup> for the sale of seats via direct and indirect channels. We expect this will lean more towards a 70/30 split within the immediate future.

The ability of travel agencies to hold on to their share of the market will depend in part on their business practices. Customers will seek reassurance from dealing with a familiar brand and 'COVID-care' insurance policies are now the norm.

All three of the western GDSs are under huge pressure with revenue having practically dried up. Amadeus reported -89.3% in its travel agency air bookings for Q3 2020, although with a slightly more favourable decline in revenue, at -85.3%.<sup>16</sup> Sabre also saw negative revenue for the same quarter<sup>17</sup>. To some extent this is offset by not having to pay any travel agency incentives but they also have largely inelastic fixed costs in staff, data centres and networks. Even before the COVID-19 crisis Travelport was the most vulnerable of the three as it was mainly dependent on the traditional booking fee revenue stream while its main competitors both have other substantial lines of business. However those other revenue streams have also diminished significantly so for the time being all three GDSs are in essentially the same boat.

TravelSky is supported by the Chinese state and in any case the recovery has started in China and seems on track.

Only Travelport appears to be very exposed. It does not have cash reserves at the same level as Amadeus and it does not have strategic importance to a national government. The sale of [eNett](#) at the start of 2020 looks very challenging following the recent court case with Wex to pull out of the \$1.7 billion shared deal. A full trial is expected to take place later next year but Wex has already won a preliminary ruling which states that the 'industry' in question applies to the wider payments industry and that there is not in fact a specific 'travel payments industry'<sup>18</sup>. The deal would have given Travelport's [private equity owners](#) an immediate return and would have been a driver for the \$4.4 billion buyout that was finalised in May 2019 but the sale is now looking less and less likely.

## 12-24 Months

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<sup>15</sup> <https://www.t2rl.net/distribution/>

<sup>16</sup> <https://corporate.amadeus.com/documents/en/investors/2020/quarterly-results/q3-2020/q3-2020-results-presentation.pdf>

<sup>17</sup> <https://investors.sabre.com/static-files/05e2603e-8057-448c-b50d-e1df6753a4a4>

<sup>18</sup> <https://www.lexology.com/library/detail.aspx?g=cf80993a-74f0-40fe-8d96-f5d7bdd9bcec>



As markets start to open up again and government aid in many markets comes to an end we expect to see retrenchment in the travel agency business. In this time scale there is unlikely to be sufficient demand to sustain the current number of travel agency outlets. Small and medium sized agencies are likely to consolidate by mergers and failures while large multi-branch businesses will be undertaking a significant number of planned branch closures as has been previously reported.

We do not see the GDS business coming back strongly in this time scale. Any growth in airline traffic is likely to be based on direct sales. All three western GDSs will be in survival mode and we have already seen layoffs, cost cutting plans and perhaps we will now see the sale of non-core assets where feasible.

## 2-3 Years

We expect a continued increase in direct bookings due to simple point to point routes as this is the most flexible channel for airlines to stimulate demand. Indirect traffic may see a slight increase in demand as corporate travel starts again with new processes needed for duty of care.

There will be demand for significant new technology to accommodate regulations and processes for travellers to have tests or vaccine certificates added to bookings or at check in. Travel agents may be deeply involved in processing these. Some operators will adapt quickly but others may be overrun by the technology requirements. We may see travel agencies switching to GDS providers that are more effective in automating and simplifying them. This would ensure a simpler model for agents to operate than a direct connect.

We expect to see fewer travel agencies in the market due to bankruptcies and lower demand. Online travel agencies will be under pressure due to the fall in leisure demand and will be competing more than ever with the airline direct channels. Those airlines with a strong domestic market and technological capability may have the ability to encroach on OTA territory. In effect a small number of airlines have an opportunity to become the 'OTA' in their home markets.

We expect to see larger travel agencies due to consolidation, with increased purchasing power. This will create pressure for increased GDS incentives which will in turn lead to GDSs attempting to increase airline booking fees. If this happens it will provide further motivation for airlines to drive business to their direct channels and create a feedback loop that further pressurises the GDSs. Amadeus and Sabre can compensate for this by enhancing their airline IT offerings, Amadeus is already heavily promoting its NDC [X]



program to airlines as a way to remain in control of being the one-stop shop for air content<sup>19</sup>.

We may even see the traditional GDS market stabilise around two players with a focus on technology rather than distribution services.

## Beyond 3 Years

If airlines are successful in selling their domestic and even simpler international routes in direct channels they will have the ability to demand lower domestic GDS fees or even to take domestic content out of the GDS altogether as Air India has done for its domestic travel sellers<sup>20</sup>. Indirect bookings will look a lot more expensive than direct due to increased GDS fees being passed onto the traveller, putting further pressure on the remaining travel agencies.

We expect that by this time GDS full content agreements will have largely disappeared. If the remaining GDSs all have airline IT businesses we should see more contracts that package PSS and distribution under a single agreement. This in turn will put more pressure on the smaller individual PSS providers. Airlines should become less sensitive to the channel in which they sell their product and able to take a more holistic view of marketing and distribution.

## TECHNOLOGY CHANGES

### The Immediate Future

Airlines are retrenching wherever they can. Information from airlines around the world is that technology staff are being laid off or furloughed. As a result, the majority of IT projects are on hold or cancelled completely. Only those projects with immediate return are being pushed forward.

Many airlines have been renegotiating their IT contracts for more favourable conditions with lengthier periods. For IT vendors that already hold a majority of the market this is good news, for challengers this makes it more difficult to win new contracts.

Airlines will also need to start planning for the long-term. We expect to see an increase in the need for IT outsourcing as airlines search for ways to reduce fixed overheads and meet new business objectives with simpler business models. With many airlines having

<sup>19</sup> <https://amadeus.com/en/insights/blog/ndc-x-2020-half-year-update>

<sup>20</sup> <https://amadeus.com/en/insights/press-release/amadeus-air-india-new-distribution-agreement>



streamlined their human resources, now could well be a good opportunity to transition to more digital practices but this also comes with conflict in the need to cut IT spend. The demonstration of ROI on IT investment will be more important than ever.

Demand forecasting tools will be popular as airlines look to replace usual revenue management tools and practices to better predict demand for routes.

## 12-24 Months

With airlines shifting fixed costs to variable we can expect an uplift in cloud-based technology as they aim to reduce fixed costs on servers and other infrastructure. Some are taking a more agile approach to projects as they try to increase flexibility and speed up testing processes, releasing IT developments earlier than usual and undertaking development in an agile manner.

Airlines may also need to source IT that meets their new business objectives. This may include a more streamlined set of services with less complexity than they had before, with less need for all the bells and whistles that some of the larger vendors were providing. Vendors will also need to take this into account for new developments and potentially 'down-sizing' their offering to airlines.

Airlines also need to plan for changes to vendor business models. IT vendors have also been hit hard by the crisis and will be looking to move towards more fixed income rather than variable passenger boarded fees to safeguard themselves in the future. Additionally, and linked to this, we may see the growth of insurance companies with risk assessment business associated to fixed/variable rates.

As direct distribution will still be a key focus, self-service for travellers at the airport and other processes such as online servicing will be essential.

## 2-3 Years

There is potential for those airlines that had invested in NDC pre-COVID-19 to resume using those networks, if those agencies still exist and are able to support them. There will be great pressure on the NDC aggregators in the market and we are likely to see consolidation amongst them. Traffic will be focused around direct channels of which the airline.com will be by far the most significant due to the need for flexibility and control. The larger OTAs are more than capable of setting up and most already have set up direct connects with airlines without using NDC.

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A more direct market will also drive the need for more self-service tools likely to be linked to travellers' mobiles. Airlines will need less complexity in their IT to match a simpler model but as their own networks will no doubt have been reduced, they will need to be able to partner easily with other airlines. Virtual interlining or other simpler forms of interlining may see an increased demand.

## Beyond 3 Years

Direct channels will be strong and due to increased GDS fees and fewer TMCs in the market airlines could start to take advantage of direct connects. These may use NDC but other APIs are available and may be easier to implement.

The growth of direct sales and a more "LCC-like" approach to business may generate interest in the same issues that prompted the development of ONE Order. However, it is likely that the disruption over the next few years will shift the requirements for ONE Order and require a complete rethink of its implementation.



*Travel Technology Research Ltd, trading as T2RL is an independent research and consulting company that specialises in the market place for airline IT systems. Based on data gathered and analysed since the year 2000 it has defined and tracked classifications of airlines and their IT providers. Its research is used by airlines to enable them to make informed choices of systems and vendors and by the vendors to help them develop products that best meet the current and future needs of the airline industry. For further information, visit our website at [www.t2rl.com](http://www.t2rl.com).*