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American Airlines: Distribution to the Rescue?

December 2022

THE FACTS

American Airlines (AA) has announced significant changes to its distribution strategy, which follows on from news in October that it has deals with all three major GDSs to distribute NDC content¹. AA stated that 40% of its legacy GDS EDIFACT content (based upon 2019 booking data) will begin to shift to NDC from April 1st next year, however all the GDSs are expected to provide this NDC content to agency subscribers. AA has also said that this strategy is not designed to drive cost savings.

Separately, American has announced significant changes to its corporate and TMC strategy, as reported recently in The Company Dime². AA is not going to be providing as generous terms to large corporate customers and the large TMCs as it did previously, and it will be focusing more investment on the small and medium enterprise (SME) segment.

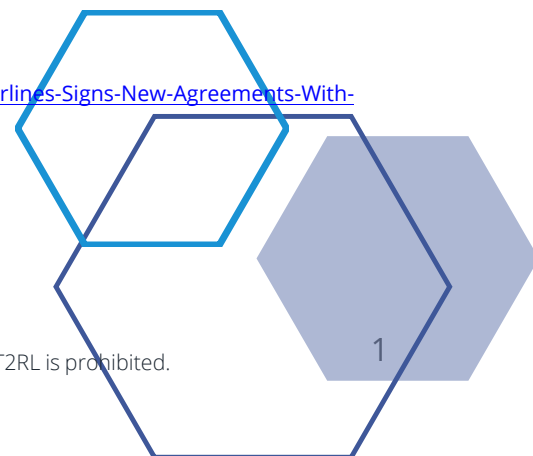
THE ANALYSIS

It appears that American has no plans to penalize agencies that choose to receive NDC content via the GDSs and the concentration on the SME segment reflects the faster recovery of SME travel post-pandemic compared to large corporates.

Unlike some other recent airline distribution strategies, this appears to be one that is actually seeking to mitigate revenue risks, in this case resulting from changes to AA's corporate and TMC strategy. Many other airlines have been prepared to take some short-term revenue risk in order to drive cost savings, perhaps with some potential incremental revenue benefits in the longer term. American's strategy seems to be entirely focused on driving revenue benefits.

¹ <https://news.aa.com/news/news-details/2022/A-Modern-Retailing-Experience-American-Airlines-Signs-New-Agreements-With-All-Three-Major-Global-Distribution-Systems-MKG-OTH-10/default.aspx>

² <https://www.thecompanydime.com/american-airlines-pivot-managed-corporate-travel/>



In particular, AA is shifting emphasis to featuring its core products and pricing in its competitive strategy, and NDC is the best way to get its products on as many shelves as possible. Given what we know, there seem to be limited commercial questions regarding the distribution strategy's potential success. Corporates and TMCs in theory need not shift channels, and it seems there may not be commercial consequences for adopting NDC via the GDSs.

The bigger risks are in technical execution. Amadeus and Travelport are already live with AA NDC, but these are not the primary GDSs for corporate volume in the US. Sabre is going live "*early in 2023*" according to both AA and Sabre, and AA will launch at the same time as some of Sabre's planned enhancements. A key one of these is the ability to support multi-passenger bookings, which is not currently possible.

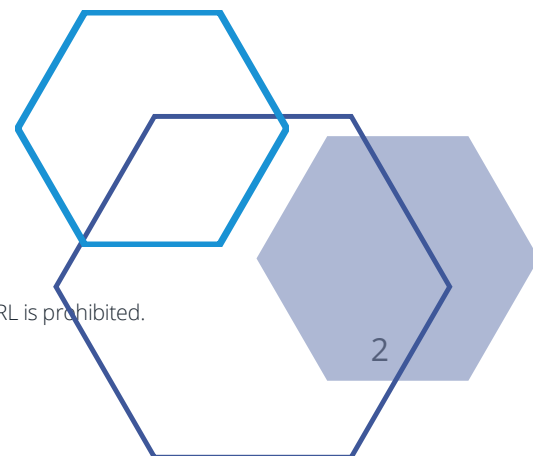
Another major factor is the readiness of the Online Booking Tools (OBTs). AA says many are ready, including Amadeus Cytric and Serko in addition to in-house solutions provided by Spotnana, TripActions, AmTrav, and Kayak for Business. Concur, however only offers a connection via Travelfusion today, which cuts out the TMC if it wishes to use the GDS. We will see how fast Concur and the GDSs can integrate whatever content/functionality is eventually available, in particular via Sabre.

THE SPECULATION

T2RL believes the GDSs are lagging the newer NDC aggregators in terms of the number of NDC-enabled airlines on their platforms, the total number of NDC bookings being made, and the range of NDC capability they provide. There is no doubt the GDSs are improving their capability and onboarding more airlines, but the exact status at each company is hard to determine. AA's changes will be a key test to see if the GDSs are ready for a very significant amount of NDC bookings for the most complex large global agencies.

First View : American Airlines - Distribution to the Rescue?

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This will tell us whether the GDSs retain their preferred provider status to the large global TMCs where they do have very strong relationships, or whether these TMCs and other agencies feel the need to adopt alternative methods of connection, as many leisure agencies have done, at least in certain key markets.

Any delay by Sabre and/or Concur to deliver AA's NDC content to corporate customers could create significant competitive exposure for AA. Both Sabre and Concur are by far the dominant players in their respective portions of the market in the United States. Absence of AA's NDC content in either system could result in AA's prices being significantly higher than its competitors for some period.

On the other hand, if AA is able to navigate the technical risks, we may be on a path where both AA and United have live, fully-functioning NDC connections with the GDSs, while Delta has made no appreciable progress toward NDC. This raises questions about how tempted AA and United may eventually become to use NDC as a competitive weapon to introduce products and/or price points which Delta may not be able to track or adequately compete against.

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