FIRST VIEW
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Modern Distribution is Gathering Pace

THE FACTS

In an interview published in The Beat on January 26th Jenni Suomela, Vice President of Global Sales at Finnair, said that 70% of its passengers are now booking through "modern" channels, compared to 40% before the Covid-19 pandemic. On the previous day, in its earnings call, American Airlines had stated that its equivalent figure was 80%.

THE ANALYSIS

After a decade of slow progress it is increasingly clear that airlines around the world have been convinced that their future plans depend on the adoption of modern distribution technologies. In this context "modern" refers to channels that allow a greater degree of sophistication in the offers made to customers than is possible using EDIFACT and Teletype formats. In practice it means direct sales on the web and mobile devices, and indirect sales using an Applications Programming Interface (API). Although some airlines, especially low-cost carriers are using proprietary APIs, for most network airlines the API of choice is NDC.

Airlines see benefits from a move to modern channels in terms of both costs and revenue. Revenue may be improved by the adoption of dynamic and continuous pricing that is severely limited in EDIFACT channels, as well as the increased opportunities for upsell and ancillary sales that come with enriched NDC offers. Costs may be saved directly in the form of GDS fees avoided although this is offset by the cost of providing the API and associated technology, as well as the cost of supporting NDC sellers. With these benefits available the challenge faced by airlines is how to get their travel seller partners to adopt the new technologies.

In general there are three avenues available to encourage NDC adoption. These are direct financial adjustments (surcharges and incentive payments), content withdrawal from legacy channels and content enhancement via NDC. These options have been taken up in different proportions by airlines around the world with some regional variations. In Europe all the major airline groups have adopted surcharges on legacy booking technology along with some withdrawal of the lowest fares from EDIFACT channels. The European groups have also implemented some form of continuous or dynamic pricing, and all of them have spoken publicly about significant levels of NDC adoption, although this is generally lower in offline than online channels. Other airlines already active with surcharges and NDC content differentiation in Europe include Finnair, SAS, LOT and Aegean.

In North America the emphasis has been less uniform. So far only two airlines, Air Canada and Hawaiian, have adopted surcharges while some have implemented direct financial incentives to agents making NDC bookings. These include American as far back as 2017, and Air Canada more recently. American and United have both withdrawn their lowest fares from legacy channels although American has been significantly more aggressive with this tactic. Hawaiian has removed inter island fares from EDIFACT channels, and it has stated that more than half of its indirect bookings have moved to NDC over the past two years. This is the fastest rate of NDC adoption that we are aware of, capitalising on the high leisure travel profile of Hawaiian's customer base. Few airlines have yet implemented the sort of content enhancements that NDC could offer although United's stealthy adoption of continuous pricing in its modern channels is probably a sign of things to come, and both American and United have some corporate bundles available. In other regions of the world airlines are also implementing NDC with varying degrees of use of the three strategies for adoption. For example Singapore Airlines, Emirates, Qantas, Kenya Airways, Avianca and LATAM are leading the way in their local markets.

T2RL's view is that there is no single formula for encouraging the take-up of modern channels. Each airline will need to find its own course depending on its market positioning, its technology capability and its competitive environment. Finnair's and American's progress shows that surcharges, incentives and content withdrawal all have their place. We would however be very happy to see content enhancement become a more significant factor in the next phase of growth.

THE SPECULATION

T2RL expects that the pace of NDC roll out will increase significantly in 2024. GDSs will grow in importance as aggregators of NDC, especially as smaller and medium sized airlines increasingly look to distribute NDC content away from their home markets. So far, the airlines mentioned above have achieved NDC adoption without a significant number of bookings via the GDSs, however both the number of GDS NDC deals and the number of implementations seem to be accelerating. Amadeus stated at IATA WPS in October that NDC adoption as a proportion of all GDS bookings was then in the mid-single digits and was doubling every month.

As more airlines finalise their implementations of NDC technology and renegotiate distribution deals to permit content changes and surcharges, we expect to see them adopting a combination of the three approaches in proportions that align with their overall marketing strategies. Content withdrawal and dynamic pricing appear to be the strategies that have driven the most significant adoption so far. Providing sellers have a viable, efficient means of selling and servicing bookings via NDC, resistance to its adoption will gradually fade. Progress is being made although there is still work to do in some areas, particularly for offline TMC bookings. For many agencies this will mean NDC via the GDS is the channel of choice and we expect to see acceleration on that front.

During the rest of 2024 T2RL anticipates distribution strategy announcements from many more airlines that have been watching and learning from the early adopters. We will see if any significant variation and innovation in approaches to encouraging adoption start to emerge, or if this pattern of combining the three levers of NDC adoption solidifies as the new norm.

As airlines position themselves for the move to Offers and Orders we expect to see more emphasis placed on content enhancement. Airlines will make products, services and packages available in their modern channels that simply could not be offered using legacy processes. In the final analysis this is the strategy that can provide benefits to everyone in the booking flow from the consumer to the airline and all points in between.

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