FIRST VIEW
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Qantas Moves the Goalposts – A Bit

THE FACTS

On 27 November 2024 Qantas announced changes to its distribution arrangements that will come into force in July next year.

THE ANALYSIS

Like many other airlines around the world Qantas has been addressing the changing distribution environment for some time. Its new model does not provide any radical departures from what has gone before over the last decade. Rather it collects together a set of arrangements and presents them as a coherent picture. On the whole it offers a range of options that broadly reflect the cost of providing them.

Leaving aside any commission or incentive deal with travel sellers, airlines perceive that there are three tiers of distribution cost in the intermediated channel. Traditional GDS bookings based on EDIFACT and AIRIMP standards are the most expensive. New Distribution Capability (NDC) bookings via the GDS occupy a middle cost tier as the GDSs should be prepared to charge a lower fee for these. NDC bookings via Direct Connect and potentially via the new aggregators come at no external cost to the airline, other than what the airline agrees to pay directly to the agency. This is what is sometimes known as the "wholesale model".

This is reflected in three of the four pillars of the scheme announced by Qantas. EDIFACT bookings will attract a relatively high surcharge, GDS NDC bookings a lower one and those bookings where the airline can negotiate a distribution incentive directly with the agency will not be surcharged at all. Furthermore the surcharges will vary by point of sale in EDIFACT although the NDC surcharge is the same amount globally once exchange rates are taken into account. One might say that this is completely uncontroversial. Just as airlines have generally unbundled their flight products such that only customers who need to check a bag must pay for the privilege, only travel sellers that choose to use high cost channels will pay surcharges. However very few airlines have implemented this approach so far.

There is a fourth pillar to the Qantas structure and that is the so-called "Premium NDC" arrangement. This will only be available to invited travel sellers who will have access to all Qantas NDC content and pay no surcharges. No information has yet been provided about how an agent will qualify for this level of service but clearly it creates a useful negotiating lever for the airline when it is discussing agency incentives and targets. On the other hand, the larger global agencies will no doubt be looking for some compensation if they have to build a direct connection or pay their chosen aggregator (whether GDS or otherwise), rather than receiving incentives from GDSs.

In concept Qantas is following a similar course to the major European groups which have also surcharged GDS NDC bookings, as has LATAM in South America. A common factor between the airlines that have followed this path is that they are large players with large home markets which gives them a more balanced bargaining power with GDSs than the majority of airlines. Without that scale it is unlikely that they would have been able to negotiate the freedom to apply surcharges to GDS NDC bookings and not to those using other aggregators such as TravelFusion or Air Gateway. This position is in sharp contrast to the situation in the USA where GDS surcharges are extremely rare and non-existent for NDC bookings.

Reaction to the Qantas announcement has followed predictable lines. Commentators who are generally anti-airline and anti-NDC say it will be a disaster and will have to be rolled back before it even takes effect. Others with a more airline orientation say that this is logical next step in airline distribution strategies. T2RL's view is that this type of model is unsurprising while there are still difficult commercial relationships between large airlines, GDSs and large agencies.

THE SPECULATION

The world of airline distribution goes through cycles. From the 1970s to the 1990s there was a complex patchwork environment with multi-access systems in some markets, proto-GDSs with complex co-host arrangements in others and many agents still making bookings on the phone. From the early 1990s to the mid 2000s the environment stabilised, mainly due to GDS regulation, and there was a fairly standard model for all airlines. The following decade saw GDS deregulation, the growth of LCCs and rapid growth of the online direct channel, resulting in the GDSs losing market share. Since the announcement of NDC in 2012 the market has become still more complex, although it took several years for NDC to achieve meaningful penetration.

There are three main approaches we see from airlines on distribution market. Many are trying to reduce their cost of GDS distribution as they implement NDC, at least to offset the cost of the NDC API and the shopping process that was previously provided by the GDS in EDIFACT. However, they are not motivated or able to push for the level of change as the likes of Lufthansa or Qantas. Some airlines appear comfortable with their current distribution costs and are purely using NDC to bring new content and capabilities to market – United and Delta would be examples here. Others are seeking to recoup their distribution costs, or at least get the freedom to negotiate these directly with agencies. Whether that is by explicit surcharges or by differential pricing in different channels remains to be seen. These are usually the large airlines that we have discussed above or certain LCCs and hybrid carriers that do not depend much on GDS distribution. There is probably room for all these approaches and no doubt variations will arise. The market will be volatile and will support a range of models that will fight it out on commercial grounds.

T2RL Travel Technology Research Ltd, is an independent sourcing and research company that specializes in airline technology and distribution. Based on data since the year 2000 it has tracked industry trends for airlines as well as their IT providers, distribution partners, and customers. All parties use its research to make informed business decisions to meet current and future needs. For further information, visit our website at www.t2rl.com.