# New Distribution Capability

**IATA, Sébastien Touraine**

*Traveltrend Seminar - NBTA*
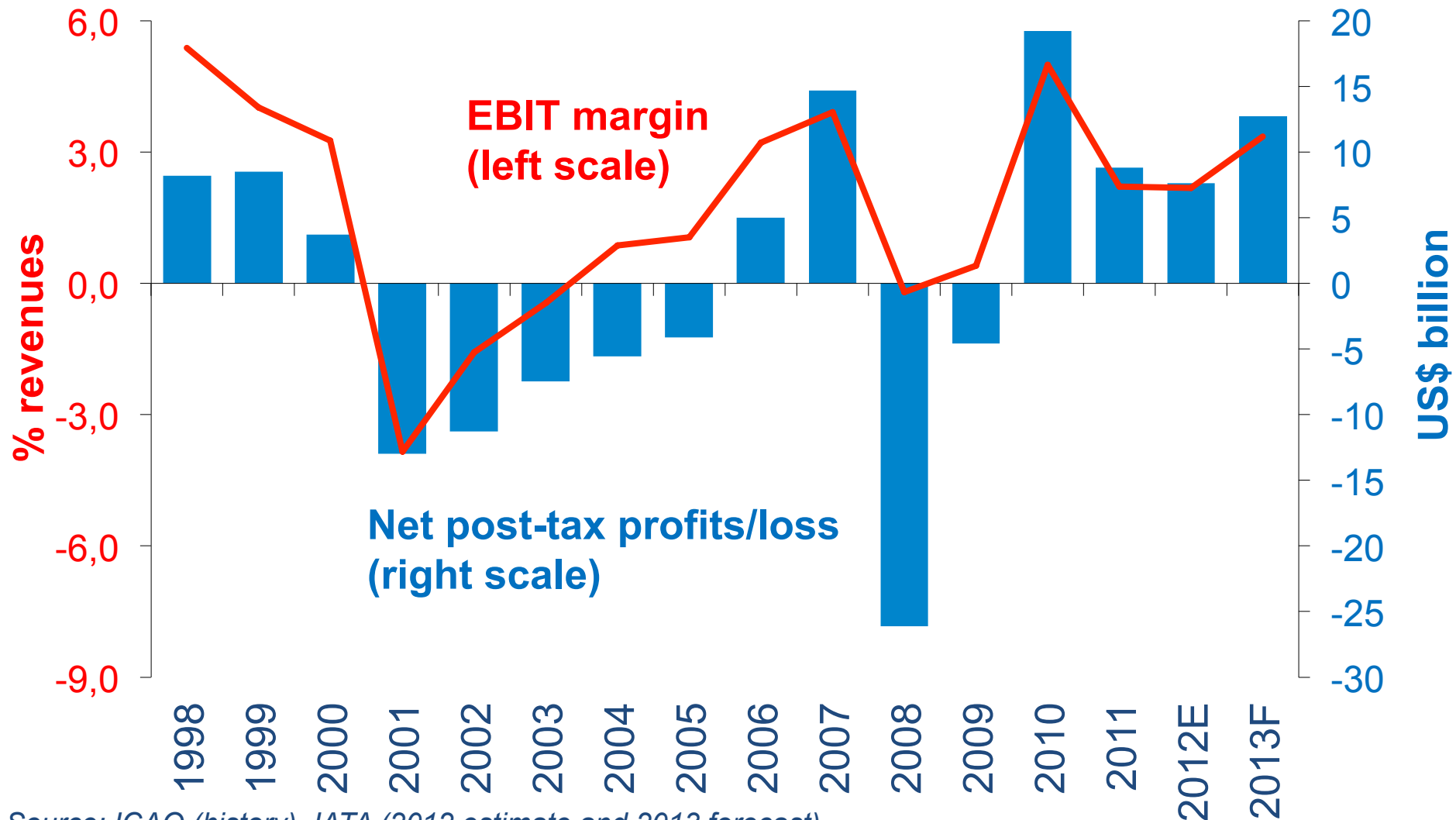*2. September 2013 – OSLO*

**To represent, lead and serve the airline industry**

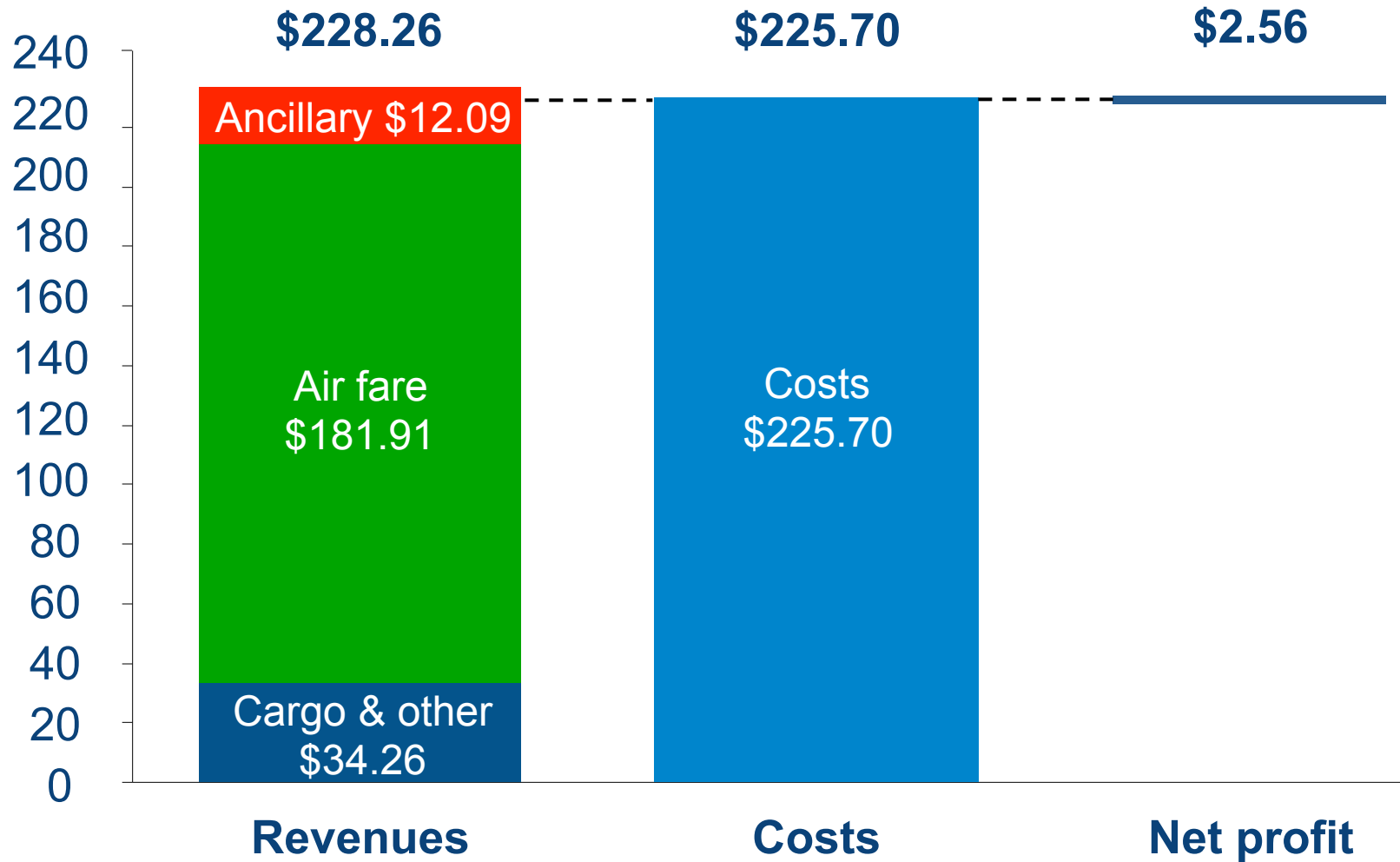# Outlook for profitability is improving slowly

### Global commercial airline profitability



EBIT margin (left scale)

Net post-tax profits/loss (right scale)

*Source: ICAO (history), IATA (2012 estimate and 2013 forecast)*

# Last year profits were $2.56 per passenger

## 2012 worldwide airline financial results per departing passenger



$228.26 — Revenues
- Ancillary $12.09
- Air fare $181.91
- Cargo & other $34.26

$225.70 — Costs
- Costs $225.70

$2.56 — Net profit

*Sources: Ancillary revenues from Idea Works 2012 estimate, other data IATA. Costs include operating items and debt interest.*

# Travel expanding but cargo is going nowhere

## Air freight and passenger volumes
### (Seasonally Adjusted)
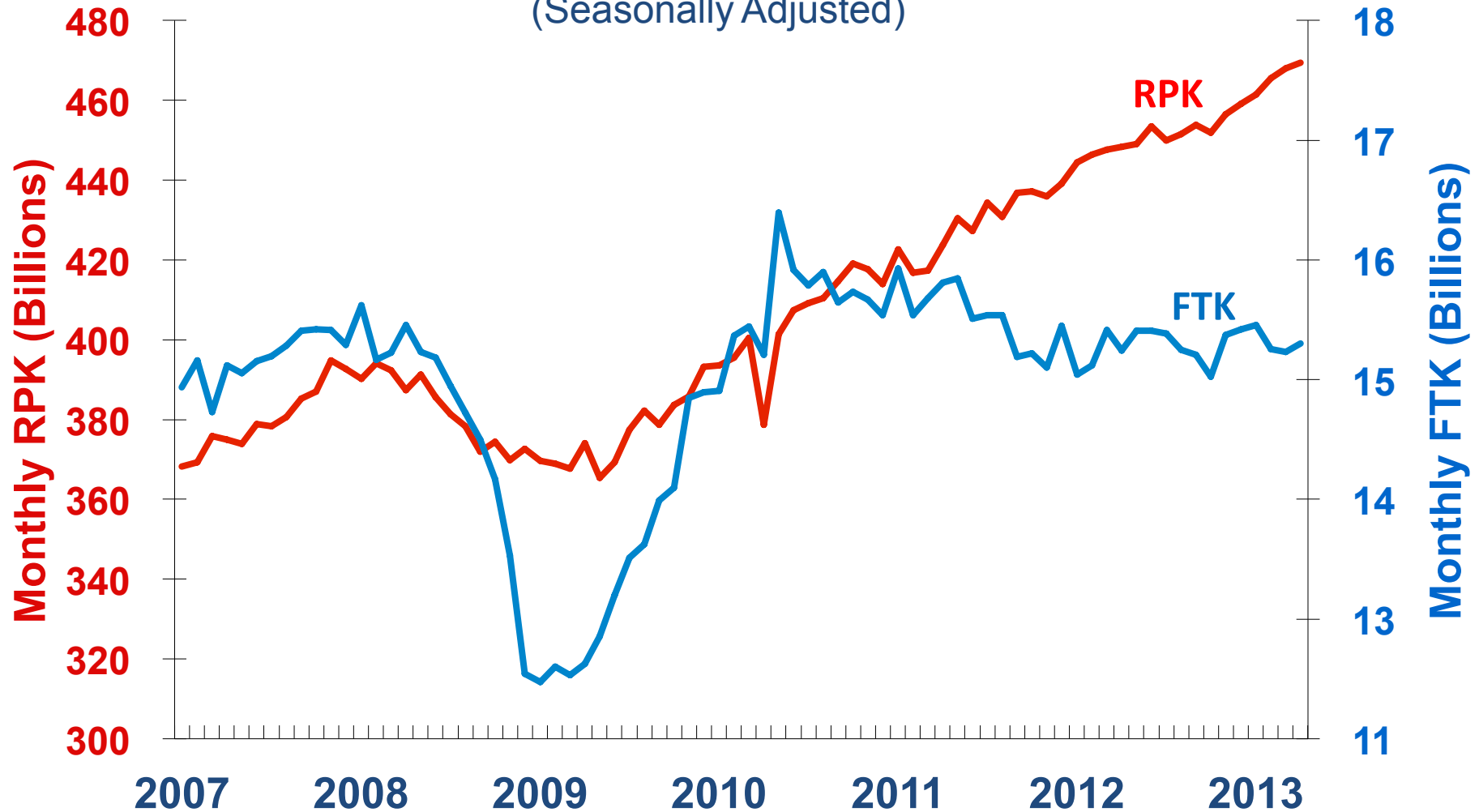


*Source: IATA*

3 billions Pax in 2012 to 3.6 in 2016 (+5.3% annual growth expected)

# New Distribution Capability (NDC)

↗ **Modernization** of 40-year-old data exchange standards for ticket distribution developed before Internet was invented

↗ IATA was created 60 years ago to **set industry standards** that facilitate safe and efficient air travel, e.g. E-Ticketing

↗ IATA-led industry **collaborative** initiative to build an open Internet-based data exchange standard for use in distribution engaging airlines, travel agents, distribution systems providers, IT companies
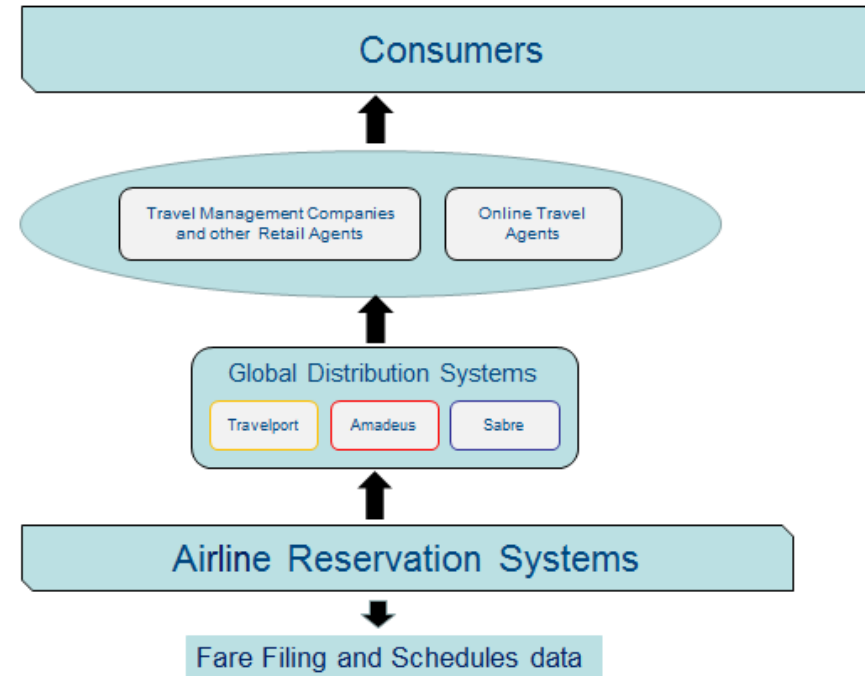
# Airlines had e-commerce before internet

- Network connecting 35,000+ agents with 400+ carriers
- Supported by IATA standards
- All fares, schedules, availabilities were displayed on one 'green screen'

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** AMADEUS AVAILABILITY - AN ** IST ISTANBUL.TR           152 MO 10JUN 0000
1    T5 468  CR YR              FRA 1 IST I  0800    1150    0*757        2:50
2LH:UA3720  C4 D4 Y4 B4 M4 H4 Q0 /FRA 1 IST I  0915    1300    0.321   TR  2:45
            V0 W0 S0 T0 K0 L0 G0
3    LH3460  C9 D9 Y9 B9 M9 H9 Q1 /FRA 1 IST I  0915    1300    E0/321      2:45
            V9 S0
4    TK1588  J4 C4 Y4 B4 H4 K4 M4  FRA 1 IST I  1145    1540    0.313       2:55
            S4 N4 Q4 T4 L4 V4 X4 W4 G4 E
5LH:UA3802  C4 D4 Y4 B4 M4 H4 Q4 /FRA 1 IST I  1320    1705    0.321   TR  2:45
            V4 W4 S0 T0 K0 L0 G0
6    LH3496  C9 D9 Y9 B9 M9 H9 Q8 /FRA 1 IST I  1320    1705    E0/321      2:45
            V9 S0
7    TK1590  J4 C4 Y4 B4 H4 K4 M4  FRA 1 IST I  1825    2220    0.734       2:55
            S4 N4 Q4 T4 L4 V4 X4 W4 G4 E
```

# Today's Indirect Channel for Air Travel Distribution

- **Airlines** file fares and schedules with 3rd parties
- **GDSs** package and push offers based on third party data bases (price/ frequencies)
- **Agents** submit travelers' requests using GDS
- Airlines last to know who has purchased airline ticket
- Distribution capability constrained by GDS level of innovation

Consumers

Travel Management Companies and other Retail Agents | Online Travel Agents

Global Distribution Systems

Travelport | Amadeus | Sabre

Airline Reservation Systems

Fare Filing and Schedules data

# What's the problem today?

↗ **Travel agent distribution technology** based on pre-Internet data transmission standards and technologies (TELETYPE and EDIFACT)

   ◆ Very limited capability to support transmission of robust/complex airline offers

   ◆ Inflexible standards for any new applications

↗ **Airline website technology** based on new data standards (XML) and  internet technology

   ◆ Very robust – can support complete airline offers

   ◆ Airlines and external developers can build applications quickly to meet industry needs

This creates an information and product gap between the airline website and the travel agent channel

1 **Travel dates** — 2 **Outbound** — 3 Return flight — 4 Options — 5 Personal data — 6 Confirmation

**Outbound flight: Geneva - Cape Town**
Thu. 20.06.2013 +/- 3 days

> Compare products

| Prices for 1 adult from CHF **627.-** | Economy Saver | Economy | Economy Flex | Business | Business Flex | First Class |
|---|---|---|---|---|---|---|

➕ Mon. 17.06.2013 from CHF 627.-

➕ Tue. 18.06.2013 from CHF 627.-

➕ Wed. 19.06.2013 from CHF 627.-

➖ Thu. 20.06.2013 from CHF 627.-

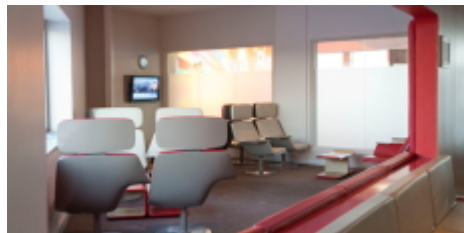| Flight | Economy Saver | Economy | Economy Flex | Business | Business Flex | First Class |
|---|---|---|---|---|---|---|
| 20:55 GVA - 21:45 ZRH ⮞ LX 2819 Operated by SWISS<br>22:45 ZRH - 09:10 +1 JNB ⮞ LX 288 Operated by SWISS<br>12:00 JNB - 14:10 CPT ⮞ LX 4134* Operated by SOUTH AFRICAN AIRWAYS | ◉ CHF 627 | ○ CHF 827 | ○ CHF 1'252 | ○ CHF 2'836 | ○ CHF 3'680 | -- |







**Your options at a glance**

| | Economy Saver | Economy | Economy Flex | Business | Business Flex | First Class |
|---|---|---|---|---|---|---|
| **Rebooking[1]** | change fee CHF 200 | change fee CHF 200 | free | change fee CHF 200 | free | - |
| **Refund per direction[2]** | not possible (Valid for the whole ticket) | Refund fee CHF 150 (Subject to selection of return flight) | Refund fee CHF 150 (Subject to selection of return flight) | Refund fee CHF 200 (Subject to selection of return flight) | possible (Subject to selection of return flight) | - |
| **Checked baggage[3]** | included | included | included | included | included | included |
| **Hand baggage[4]** | 1 x 8 kg | 1 x 8 kg | 1 x 8 kg | 2 x 8 kg | 2 x 8 kg | 2 x 8 kg |
| **Priority check-in[5]** | ✗ | ✗ | ✗ | ✓ | ✓ | ✓ |
| **Lounge access[6]** | ✗ | ✗ | ✗ | ✓ | ✓ | ✓ |
| **Miles & More[7]** | 50% - 100% | 100% | 150% | 150% | 200% | 300% |
| **Miles, dom. flights[8]** | 125 - 500 | 500 - 1000 | 750 | 1500 | 1500 | |
| **Mileage Upgrade Eligible[9]** | undefined | ✓ | ✓ | ✓ | ✓ | n/a |
| **Hold my booking[10]** | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ |

# Information shown on an online travel site today

↗ Search by citypair and date

↗ Compare on price or time

↗ Limited product information

**Matching Results: 4 of 186** Reset filters

Sort by: Price  Departure Time  Shortest Flight

No booking fees  +  FREE Price Assurance  ■ Flight details

**$858**.53
Total cost

**Select**

| Leave | Wed, Mar 20 | Total time: 1hr 36min |
|---|---|---|
| Depart 6:50 AM | Washington DC, DC , United States Reagan Airport (DCA) | Terminal A | Air Canada 7651 Economy | Canadair 487 mi | 1hr 36min |
| Arrive 8:26 AM | Montreal, QC , Canada Pierre Elliott Trudeau Airport (YUL) | Seat map |

Flight 7651 Operated by AIR CANADA EXPRESS - JAZZ

| Return | Fri, Mar 22 | Total time: 1hr 45min |
|---|---|---|
| Depart 2:15 PM | Montreal, QC , Canada Pierre Elliott Trudeau Airport (YUL) | Air Canada 7652 Economy | Canadair 487 mi | 1hr 45min |
| Arrive 4:00 PM | Washington DC, DC , United States Reagan Airport (DCA) | Terminal A | Seat map |

Flight 7652 Operated by AIR CANADA EXPRESS - JAZZ

# NDC is about giving travel agents the capability to close this gap

- Airlines offer a rich customer-centric shopping experience on their own websites

- Want travel agents to have similar capabilities
  - Using XML to support rich content
  - Offer the passenger the opportunity to buy ancillary services
  - Make all the offers in real time

- Customers should be able to have a consistent shopping experience, wherever they shop for travel
  - Ability to buy additional products and services
  - Ability to be recognized and receive personalized offers, or shop anonymously

# Value proposition for travel agents

↗ **Broader access to airline products:** one stop access to ancillaries and other airline services will enable agent innovation and potential new revenue streams

↗ **Better service for clients**: ability to present broader value added to clients via customized offers - if the customer chooses to be identified

↗ **Increased relevance** in comparing complex product offers

↗ **More productivity** when dealing with complex offers

↗ **Significant** reduction in ADMs (Agent Debit Memos)

# Value proposition for customers

↗ **More complete product offers,** rich content, ability for customers to select product features they value

↗ **Product comparison**, fare & schedule and ancillaries

↗ **More transparency**, instant price updates including ancillaries

↗ **Unique** airline products featured, **buy-up opportunities**

↗ More **ability to get personalized offers** based on your preferences <u>if you choose to do so</u>

# NDC: a short video

# So where are we today?

- **October, 2012,** Resolution 787, the foundation Resolution supporting a New Distribution Capability (NDC) was formally approved by the IATA Passenger Services Conference (PSC).

- **In March 2013**, IATA filed an application for approval of Resolution 787 to the United States Department of Transportation (DOT).

- **In May 2013**, IATA released the first set of NDC XML schemas, which constitute one of the building blocks of NDC.

- **In June 2013,** IATA members unanimously reaffirm their support to the NDC initiative.

- **In June 2013,** IATA Welcomes Comments on NDC Resolution, Urges United States Department of Transportation (DOT) Approval with Conditions

- The NDC project has entered a pilot phase in order to validate and enhance the NDC business requirements and schemas.

# 5 myths about NDC ?

↗ **Will NDC result in more price transparency for consumers?**

- ♦ Yes, Travelers will be able to see and compare all of an airlines' product offerings not just the base fare

↗ **Will NDC result in lower prices for consumers?**

- ♦ Yes, increased competition usually results in lower prices or greater value

↗ **Will NDC enhance comparison shopping?**

- ♦ Yes, consumers will be able to comparison shop among airlines just as they do today and travel agents will be able to compare all of an airline's products

↗ **Will NDC preserve passengers' privacy rights?**

- ♦ Yes, customers will not have to provide any more information to receive an offer than they do today (whether they are an adult or child)
- ♦ Customers have the **option** to receive personalized offers by identifying themselves
- ♦ Airlines, travel agents, system providers have to meet requirements of privacy regulations

↗ **Is NDC mandatory and binding?**

- ♦ The market will decide whether to implement NDC
- ♦ IATA will continue to support legacy pre-internet standards as long as needed

# So to sum up:

## NDC is Collaborative

↗ IATA-led **collaborative** industry initiative defining a new messaging standard between airlines and travel agents, involving GDS and IT providers

## NDC is Pro-Consumer

↗ Enabling greater transparency and choice for consumers when shopping for air travel

## NDC is Pro-Competition

↗ Enabling comparison between more products and more airlines, closing the gap in product availability between direct and indirect channels

## NDC is Rich content

↗ Enabling promotion of unique products & clear visibility of products features

## NDC is More Productivity

↗ Enabling easy access to full product information

# NDC: More Dialogue - More Information



**#AirlineNDC**: NDC hash-tag to support the overall communication goals of NDC and also to alert people to new blog posts.



Dynamic news and comment on **NDC Blog**!

**www.ndc-blog.iata.org**



The **NDC web page on iata.org is** frequently updated
**www.iata.org/ndc**

Stay tuned!