innovate

INTRODUCTION

INNOVATE 2015

The BTN Group's Innovate 2015 Conference for the Advancement of Business Travel offered business travel executives the opportunity to articulate priorities and recommendations about five of the biggest challenges facing corporate travel buyers and suppliers:

- Advancing Actionable Intelligence
- Alternative Payment Practices
- The Future of Travel Buying
- The Promise of a Unified Mobile Travel App
- Building a Better Distribution System

The BTN Group worked first with its Advisory Board and then with a dedicated Steering Committee to identify the focus topics for 2015. *Business Travel News* editors then recruited a group of leading business travel professionals to participate in independent task forces that could identify specific concerns and posit new ideas for moving the practice, the tools and the objectives of business travel management into the future. Think Tank sessions held during the Innovate 2015 Conference served to validate concerns and flesh out innovation concepts.

IN FOCUS FOR THIS PAPER
BUILDING A BETTER DISTRIBUTION SYSTEM

BUILDING A BETTER DISTRIBUTION SYSTEM

BY JAY BOEHMER

When we talk about distribution, we talk about content, economics, shopping, searching, servicing, data, revenue management and the pace of technological innovation. We also talk about global distribution systems, which for decades have sat at the center of the buying and selling of travel services. Not all associations with the latter have been positive in recent years. Yet, alternatives may be even less so.

INNOVATE TASK FORCE
Building A Better Distribution System

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In a word association exercise among BTN's Innovate Think Tank participants—mostly buyers, but also tech providers, agencies, consultants, suppliers and GDSs—the phrase 'global distribution system' elicited a range of responses: antique, sophisticated, old, overpriced, huge, mafia, complex, broken, transparent, misunderstood, costly—to name a few.

In sum, it became evident that the evolving needs of key stakeholders—travel buyers, travelers, travel management companies and suppliers—are not fully fulfilled by the current distribution complex.

Why Now?

A number of catalysts are prompting a conversation on distribution: Concur's TripLink and open-booking philosophies question where a managed travel transaction should occur; the Lufthansa Group's GDS surcharge exposes supplier tension and dares buyers to shoulder the cost for value they receive; IATA's New Distribution Capability spotlights the pre-Internet communication methods still used in distribution; Uber and Airbnb show how disruptive actors can create new travel marketplaces; hotel companies such as Marriott demonstrate that giving travelers free Wi-Fi for booking directly supports a notion that travelers can get something better outside of entrenched corporate channels. All of these expose vulnerabilities in corporate travel distribution.

Beyond those, content fragmentation persists. Some 'low-cost' carriers, international regional airline operators, independent hotels and plenty of other travel-related suppliers don't participate in GDSs. Also missing is a lot of ancillary content from airlines and others.

GDSs have made great strides securing more content, but plenty of consumable travel services still are not resident in the channel. Further, the content needs of buyers and suppliers have changed, especially as suppliers differentiate their products and rethink how they sell.

How Did We Get Here?

The GDSs began as airline-specific transaction processors. It eventually morphed into the distribution command center for travel agencies, which became highly accomplished sellers of airfare products. "If you have a sales channel that generates 80 percent of your sales, they have a lot of power—and money," an industry consultant said of the early days when travel agencies took root and dominated travel selling. That was well before the rise of ecommerce democratized shopping and buying and gave rise to disintermediation.

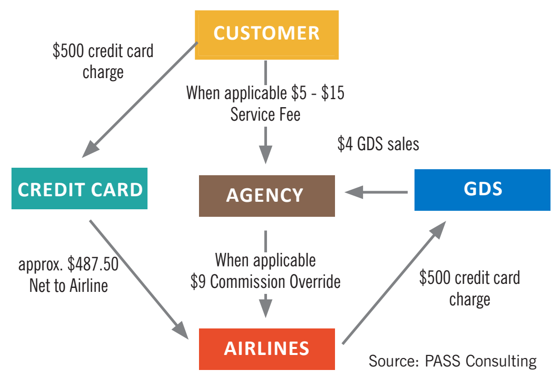
> Some viewed the GDS as outdated and slow to keep pace with modern modes of selling, marketing, displaying and retailing goods and services. Others suggested that the GDS "enables commodity-driven selling" and emphasizes price over other product attributes.

Even so, the current economic model is rooted in that history. While plenty of things have changed—airline commissions, for example, were cut and then virtually eliminated in the U.S.— legacy leftovers in remuneration remain, and it's a tangled web.

It's hard to talk about any facet of business without touching on economics. The same is true of distribution. Asked who should pay for the distribution of travel services, roughly half of a few dozen Think Tank participants said suppliers should pay; about a quarter said buyers and another quarter responded TMCs.

"The cash flow makes sense on a one-to-one basis," said the consultant, but as a system, it makes less sense. Buyers viewed the current compensation model as suboptimal, and not the one the industry would build from scratch today.

AIRLINE INCENTIVE MODEL



Source: PASS Consulting

Yet, they also are aware of how they, as buyers, benefit. Said one: "That model funds TMC incentives. If those go away, costs get passed to us."

Another buyer viewed the funding of distribution this way: "We have to pay. Whether we pay now or later, directly or indirectly, the buyer has to pay."

What Should Distribution Do?

One GDS representative described the GDS as "a stack of services," and on a fundamental level, participants agreed that distribution should—and GDSs currently do—enable the following:

- **Supplier Access**—Allowing providers of travel services to sell, market and distribute their services.

- **Aggregation**—Centralizing and exposing travel options to buyers.

- **Shopping & Buying Capabilities**—Allowing travelers, agents, online booking tools and other buyers of travel to sort and consume travel content.

One intermediary called the GDS "the most comprehensive marketplace." It doesn't hurt that the GDSs pay agencies to use their systems by way of volume-based incentives.

- **Post-booking Requirements**—GDSs support or directly facilitate such tasks as fulfillment, post-ticketing servicing, corporate policy application, exchanges, changes, data capture, reporting and accounting.

Participants also identified four primary stakeholders in corporate travel distribution, but determined that each received uneven value from the GDS:

- **Suppliers**—Airlines, rental car firms, hotel operators, ground transportation providers and others that sell or provide travel services.

- **Intermediaries**—Global distribution systems, travel management companies/agents, online booking tools and technology providers that provide travel services and help to connect suppliers with buyers.

- **Corporate Entities**—Travel managers, procurement professionals, human resources personnel, budget holders and others within managed travel organizations.

- **Travelers & Admins**—The bookers and end consumers of travel.

Asked to designate which entity derives the greatest value from the global distribution system, straw poll results suggested travelers derive the least, with a 7 percent aggregate share of value. Suppliers derived the most, with 46 percent share of the value derived, followed by intermediaries, namely travel agencies, with 36 percent. Corporate buyers derived just 11 percent of the total value from global distribution systems.

BUYER PERSPECTIVE: GDS Requirements & Deficiencies

Given that Task Force participants largely consisted of travel buyers, this stakeholder's requirements were especially pronounced. Buyers' needs centered on complete and relevant travel content for air, car, hotel and other travel suppliers; comparison-shopping, marketplace transparency, data, negotiated content distribution, duty-of-care support and infrastructure and profile management.

Buyers said they also require a service model that includes post-booking services (likely provided by the TMC). In addition, they require multi-channel access, including online, offline and mobile; automation; value-added content, including photos, product information, traveler reviews and amenity data; and, finally, they need corporate-driven business logic for policy support and control over content and displays.

Many of these needs are broadly satisfied by the current system. Yet, buyers highlighted pain points, too. Content fragmentation loomed large, along with an outdated financial incentive model that rewards TMCs for steering bookings through the GDS in ways that do not always benefit the corporation. Persistent manual processes were a lingering issue, as well as data control and ownership issues.

Meanwhile, buyers were divided on the value of "personalization" or "individualization" facilitated at the GDS level. Some liked the idea of their companies and travelers being "known" by sellers to facilitate customized offers, tailored suggestions and relevant content based on who they are. However, at least one buyer was wary: "If we give suppliers too much info, they'll just use it for evil. In that sense, distribution protects us. I just want the GDS to show me the lowest fare. You don't need to know anything about me to offer me the best fare."

TRAVELER PERSPECTIVE:
GDS Requirements & Deficiencies

Even if it's only indirectly, travelers also interface with the current distribution complex. They do not use a green screen to transact travel, but their travel agent, if used, probably does. Further, the tools they touch within the corporation—online booking tools, for example—tap into the current distribution infrastructure. Travelers ostensibly want many of the same things as buyers, including aggregation, comparison-shopping and access to a wide range of travel content.

One buyer said the GDSs satisfies the vast majority of their distribution needs, is in the best position to evolve to meet future needs and should even charge more for what it provides.

Several points emerged, however, that went beyond those: Some travelers want recognition—for example, frequent flyer status acknowledgement when booking. On the back end, they want support to ease the flow of transaction data into expense reports. They want ease when it comes to changing and exchanging purchases. The question remained, though, how much travelers must rely on the GDS to facilitate these. They don't care about the GDS, don't know it exists and just want full access to travel content and ease of use in all channels and touch points.

INTERMEDIARY PERSPECTIVE:
GDS Requirements & Deficiencies

Intermediaries, especially travel management companies, but also online booking tools, were essentially built on top of the GDSs. For agencies, the GDS is a critical component of business process and a backbone of operations.

The GDS provides them travel content, aggregated shopping and many of the same benefits discussed for buyers and travelers. One intermediary called the GDS "the most comprehensive marketplace." It doesn't hurt that the GDSs pay agencies to use their systems by way of volume-based incentives. Many of the intermediaries' needs not yet fulfilled are similar to those cited for buyers. Beyond those, agents who interface directly with GDS desktops wanted better tools and information to do their jobs. Agencies also needed complete travel content: fragmented content does little to support their mission to be a one-stop shop for travelers and corporate clients.

SUPPLIER PERSPECTIVE:
GDS Requirements & Deficiencies

More than anything, suppliers want access to buyers of their goods and services. One participant called the GDS "a shelf." Another pointed out, it's better than just a shelf, since it puts supplier offerings in front of high-yielding customers. The distribution system of today supports other requirements beyond marketing and selling for suppliers. For example, GDSs churn out significant data that helps suppliers understand market trends. GDSs support an infrastructure that offloads the burden of transaction processing, outsources fulfillment and passes some post-booking traveler services to intermediaries.

Yet, one persistent complaint among suppliers is cost, and suppliers often view the GDS as a high-cost channel. Also lacking: several viewed the GDS as outdated and slow to keep pace with modern modes of selling, marketing, displaying and retailing goods and services. Another suggested the GDS "enables commodity-driven selling" and emphasizes price over other product attributes.

Where Do We Go Now?

Months of discussion among Task Force members and two days of vigorous Think Tank debate did not establish a fully formed blueprint to construct the perfect distribution system. Yet, a rough sketch emerges when considering the wants, needs and current deficiencies for stakeholders. While corporate travel buyers agreed on many of the elements they want of a better distribution system, it wasn't clear what shape that takes. They aren't even unanimous as to whether the GDS sits in the center of distribution. The following exchanges outline potential paths forward:

- **Complacency Rules The Market**—One exchange suggested complacency in the marketplace, with one buyer asking, "Why hasn't anyone in the world come up with something better [than the GDSs]?" Another answered that the GDS just wasn't broken quite enough to fix.

- **GDSs Evolve & Charge More**—One buyer said the GDS offering satisfies the vast majority of their distribution needs, is in the best position to evolve to meet future needs and should even charge more for what it provides. One suggested: "Let's enhance the GDS as aggregators and make them better."

- **The Super Agent**—Another buyer promoted the concept of a "super agent" that consolidates all sorts of data, contextually aware and relevant at the point of sale and beyond—not just airline schedules and price, but all the information that could help drive an informed decision.

- **Direct Connect For All**—Another advocated for "one massive direct connect," a system that consumes application programming interfaces from suppliers of travel and other services, though GDSs could be viewed in this manner.

- **Alternate Players Seize The Moment**—Some said TMCs or booking tools were in a position to enhance their role. A few want to see an Amazon.com for corporate travel: an easy-to-use marketplace. One buyer put it plainly: "We need to fulfill all traveler needs in one simple shop."

Whether the GDSs retain their role as that one shop, a more perfect system emerges or the industry lives with a distribution complex that isn't quite broken enough to fix, it's hard to ignore that few stakeholders are wholly satisfied.

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