

The evolution of air distribution: how will it impact your travel programme?

An ACTE Corporate Travel Study

October 2018



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Foreword

For decades, the corporate travel booking process has operated in basically the same way. While the system worked in simpler times, it's needed to be updated for quite some time. We could be closing in on drastic change.

Six years ago, the International Air Transport Association (IATA) started talking about New Distribution Capability (NDC). The idea: offers could be personalised for specific travellers, helping them to be more efficient. Companies would benefit from cleaner reporting on their total airline spend, and airlines would have greater flexibility with pricing options.

With IATA close to unveiling its proposed NDC tool, we wanted to ask what corporate buyers think about the programme.

Our research shows 64% of respondents believe NDC will improve the booking experience; just over half believe it will aid in contract talks with airlines.

On the other hand, a significant number of global travel managers remain sceptical: 90% fear lower functionality; 89% believe unbundling could mean higher costs; 88% worry about less fare transparency, 87% about compliance; and 77% are concerned about duty of care.

Given your apprehension about what could be the new norm in airline bookings, we thought it would be helpful to share your concerns with IATA. They have addressed them in a couple of places in the paper, so keep an eye out.

As for ACTE, we will continue in our leadership role in bringing together all parties for debate, dialogue and beta programmes on industry items. Change is hard, and transition can be difficult, which is why it is essential that stakeholders keep communicating.

Greeley Koch
Executive Director, ACTE



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Introduction

Air distribution changes bring challenges and opportunities – we must work together to create the best outcomes for our clients.

As air distribution evolves, key for all of us in the supply chain is keeping clients' needs at the core of everything we do – protecting them from the risks of fragmentation and helping them meet duty of care obligations by keeping travellers visible.

Modern business travellers expect their corporate shopping experience to reflect the consumer environment. They expect access to the widest possible array of personalised travel content, available consistently across different channels and platforms. Changes to distribution – including the New Distribution Capability – reflect wider economic and social shifts, driven by digitisation, that have transformed the way consumers shop for all kinds of goods and services.

We believe air distribution models should support certain core principles: widest possible choice, transparency and consistency, cost efficiency, and enabling seamless service that makes travellers feel safe and supported.

However, it is clear that fragmentation arising from changes such as NDC could put these principles – all of them pillars of managed travel – at risk. As shown in this paper, travel managers have concerns about reduced fare transparency, increased cost and a diminished ability to deliver traveller service. With these uncertainties in mind, we are taking a more active role, and working with other parties, to restore confidence in the distribution environment, while meeting both supplier needs and client expectations.

Delivering this will require cooperation across the industry, including conversations about how we could work together to make NDC deliver value. This paper, informed by insights from more than 200 ACTE travel buyer members worldwide, is part of that process.

Mike Qualantone

EVP, Global Supplier Relations
American Express Global Business Travel

Air distribution today

The established air distribution model for corporate travel, centred on the online booking tool, is challenged by changes to airline business models and the growth of airline ancillaries. As a result, travel managers are losing visibility into the total airline spend.

At first glance, the Global Distribution System (GDS) centred air distribution model appears to be strong: in most corporations the online booking tool (OBT) remains the number one source of electronic airline content. A large majority (93%) of travel managers say it is where most airline content is booked by travellers. Just 5% say travellers use airline websites, metasearch engines or airline direct connect services.

However, while OBT adoption remains high there appears to be a technology gap between what travellers need for a good travel experience and what the tools offer. As a result, many are going to other sources. Almost half (49%) of respondents say travellers buy out-of-policy ancillaries from airline websites “some of the time.” Another 23% say travellers use metasearch engines to buy out-of-policy add-ons. Underlining the extent of the technology gap, a significant 14% of travel managers say travellers “never” use the OBT to buy add-ons like seat select and baggage fees.

Invisible ancillaries

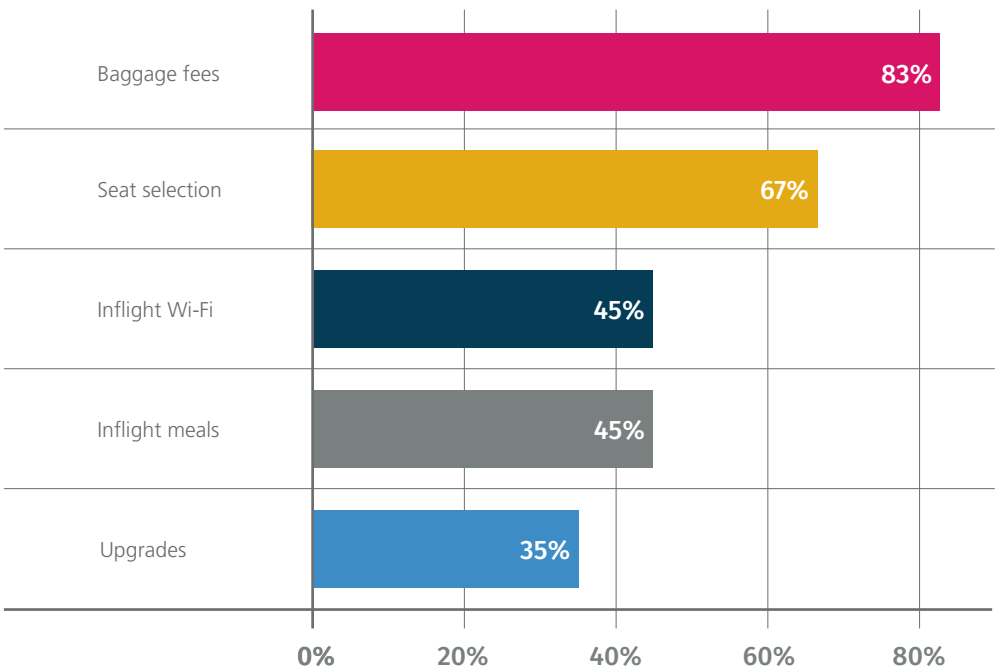
Leakage from the OBT is a direct consequence of airline unbundling. Items that used to be included – and make an important contribution to the traveller experience – now have to be paid for as ancillary costs, and there are indications that corporations do not have visibility over these costs. On average, just under half (48%) of travel managers are not monitoring traveller spend on ancillary items. Where corporations do track ancillary costs, they tend to rely on data from corporate card and T&E systems.

“There is a sense that the tools do a perfect job today – they don’t. Ten years ago, the traveller experience was basically the same across carriers. Everyone sold the same kind of seat and you got a bag and a meal included in your fare. Now, the experience can be so different – and you can’t see that on the tool.”

Global travel sourcing manager, North America



Fig 1 Top 5 traveller add-ons: percentage of travel managers reporting traveller use of ancillaries.



Next steps for air distribution

The New Distribution Capability (NDC) standard could transform the way airlines distribute content. Some travel managers see advantages – but they have serious concerns about how NDC could impact their programmes.

NDC was introduced by airline industry body IATA in 2012, and aims to set new technology standards for connections between airlines and distribution channels. The intended objective of NDC is to modernise air distribution, giving airlines flexibility over their distribution and enabling them to create personalised offers for individual customers.

Using the NDC standard, an airline can make content available to anyone using its Application Programming Interface (API) connection – and anyone, including aggregators and the GDSs, can consume content via NDC. In other words, it is “channel agnostic.” Of concern in the industry is how Direct Connect is often conflated with NDC. However, the two things are different. NDC is a technology standard for APIs while Direct Connect is a distribution strategy, referring to individual airline connections with agencies.

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“For the business travel community, NDC represents a tremendous opportunity to modernise the travel management landscape by making all airline product and service information available to corporate buyers, yet still applying the same controls as today. This reduces the need for out-of-policy bookings, and enables travellers to view and compare air transport options and relevant fares.”

**Yanik Hoyles, Director,
NDC Program, IATA**



The travel manager view on NDC

According to the research carried out for this report, travel managers view the arrival of NDC as a mixed blessing. Many (64%) respondents believe NDC will have a positive impact on the traveller booking experience. A slim majority (56%) think NDC will support when they come to negotiate contracts with airline partners. These travel managers may believe NDC will offer them extra data about air volumes they can use for leverage.

Expense reporting is another area where travel managers think NDC could make a positive difference to the travel programme: just over half (53%) say the impact will be positive. These respondents believe NDC could help them address the hole in their programme caused by invisible add-ons.

However, the positive expectations are outweighed by strong concerns over the potential impact of NDC on travel programmes and the overall traveller experience. The majority of travel managers fear the fragmentation that would accompany the standard, as travellers could go off-programme to book flights, will threaten key pillars of managed travel including cost control (89%), policy compliance (87%) and duty of care (77%).

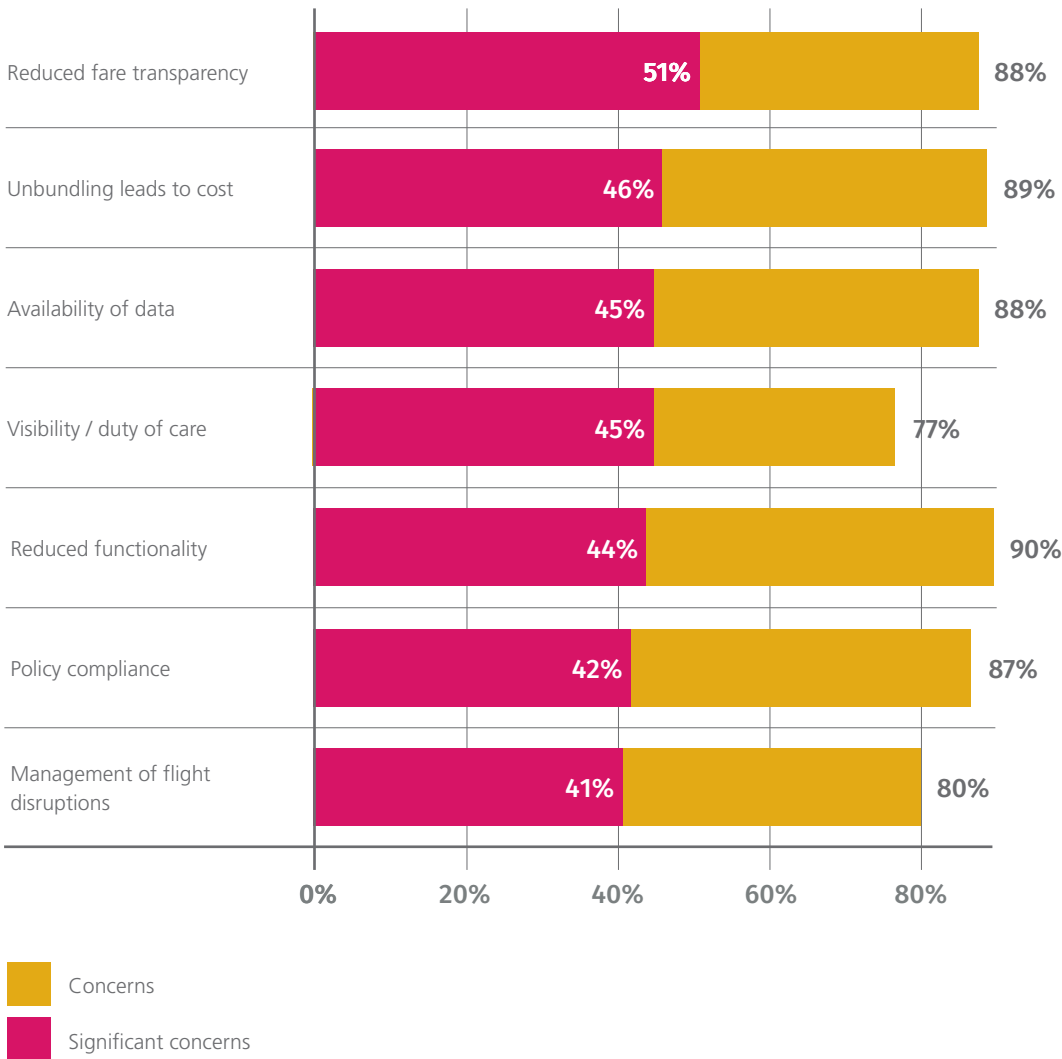
Many travel managers believe the arrival of NDC could make it harder for them to perform their roles effectively: 88% believe it will restrict access to the data needed to run their programme. Four out of five (80%) believe NDC will make it harder to manage flight disruptions, because more flight bookings could be made outside the OBT environment.

Most significant of all, over half (51%) have significant concerns that NDC will mean airlines creating offers that are less transparent than today.

“If there is no transparency it will be hard to compare rates, and travellers will get creative – which might result in out of policy reservations.”

Office Supplier & Travel Coordinator, Europe

Fig 2 Travel managers concerned NDC could damage key pillars of their programme.



The NDC knowledge gap

Despite so much talk about NDC (New Distribution Capability) within the industry, many travel managers feel in the dark about the issue.

Almost a quarter (23%) of travel managers say they are “not at all” confident in their understanding of NDC and what it means for their programme. A further 58% say they are only “somewhat” confident in their understanding.

Comments about NDC, collected as part of the research for this report, indicate scepticism among travel managers about the changes in air distribution and frustration that their voices are not being heard.

“[NDC] is as confusing as blockchain!”

“I’ve heard lots of noise, but really don’t know what it is.”

“The story seems to vary greatly, depending on who is telling it.”

“I do not see the principal purpose of NDC is to benefit us as corporate partners but rather to give the airlines additional advantage in maximising their revenue.”

“NDC – unless it is a consolidated display – will only show our travellers ONE airline pricing and not a “shop” for the best fare. For us, NDC will simply make it more difficult for our travellers to discern what pricing options exist and eventually drive up our travel costs.”

“Every airline seems to be at a different stage and different level. When we start asking the sales team technical questions there is a [knowledge] gap.”

Travel manager comments from online survey.

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“For some the journey has already begun, but for the very large majority there is still a significant need for education.

As a starting point, there is a need for a simple, clear and consistent communication on NDC: What it is, what it is not, how it can benefit the corporate buyer.”

Yanik Hoyles, Director, NDC Program, IATA

Preparing for change

Travel managers are already seeing unmanaged spend on airline ancillaries impact their programmes – and they're looking ahead with some trepidation to the impact of NDC. But what are they actually doing to prepare for approaching changes in air distribution?

Travel policy is the most powerful lever available to travel managers, allowing them to steer traveller behaviour, control cost and keep travellers productive, safe and happy. However, only a minority of travel managers has made amendments to this key tool in response to changes in fares and air distribution.

As noted, traveller use of air ancillaries is a real and present issue for travel managers: air fare unbundling means travellers often buy add-on services to maintain the quality of their travel experience. Underlining the importance of visibility on these costs, the majority of travel managers (68%) have responded by adjusting policy or modifying rules for reimbursement. However, just 29% have used policy to define which carriers their travellers can use – and over a third (39%) have no plans to do so.

Booking channels is another area where travel managers might respond to changes in distribution, for example, by allowing travellers to book flights across more channels. Here, however, just one in 10 travel managers has taken action – and 44% have no plans to act.

"We have opened up reimbursement for wi-fi, baggage, and lounge access. We're talking about expanding to cover costs for aisle/window seats but probably not for more leg room seats."

Travel manager comment, online survey



Preparing for change

Technology is at the heart of the changes to air distribution: already, a technology gap appears to mean travellers do not use their OBTs to buy ancillaries. To take advantage of NDC-enabled tools in the future, travel managers will need to work with their technology partners to identify what developments are needed.

For now, it seems most travel managers intend to stick with their current technology setup until they have a stronger understanding of what NDC means for their programmes. Almost two-thirds (63%) say they are not exploring any tools or platforms additional to the OBT. Several travel managers said it was too early for them to consider investing in solutions: they needed to know more before they make any decisions.

For travel managers who have decided to investigate additional technology options, the number one choice is airline direct connect (26%), followed by third-party online solutions including metasearch engines, online travel agents and Google (12%).

“We aren’t there yet but will probably look into alternative solutions when we have a better picture.”

Travel manager comment, online survey

Fig 3 Travel managers are not rushing to accommodate distribution changes in policy or programme.

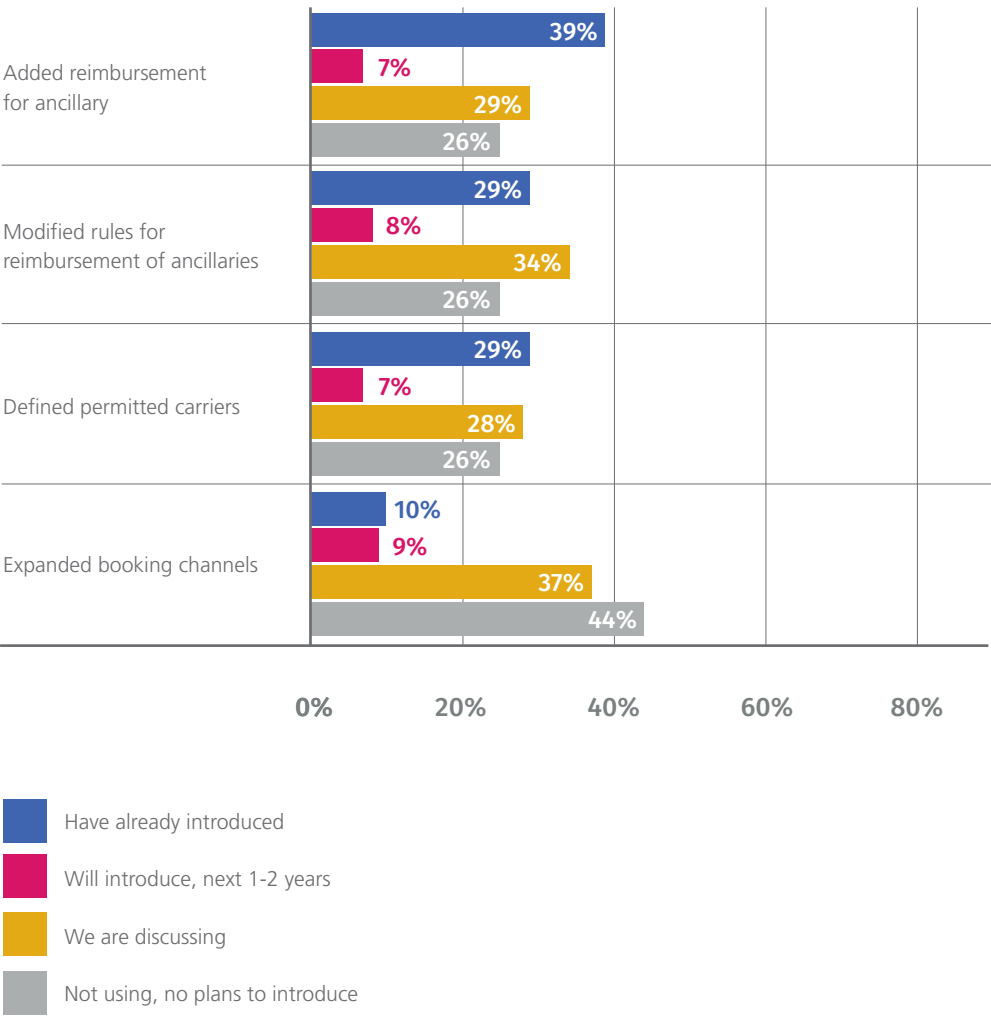
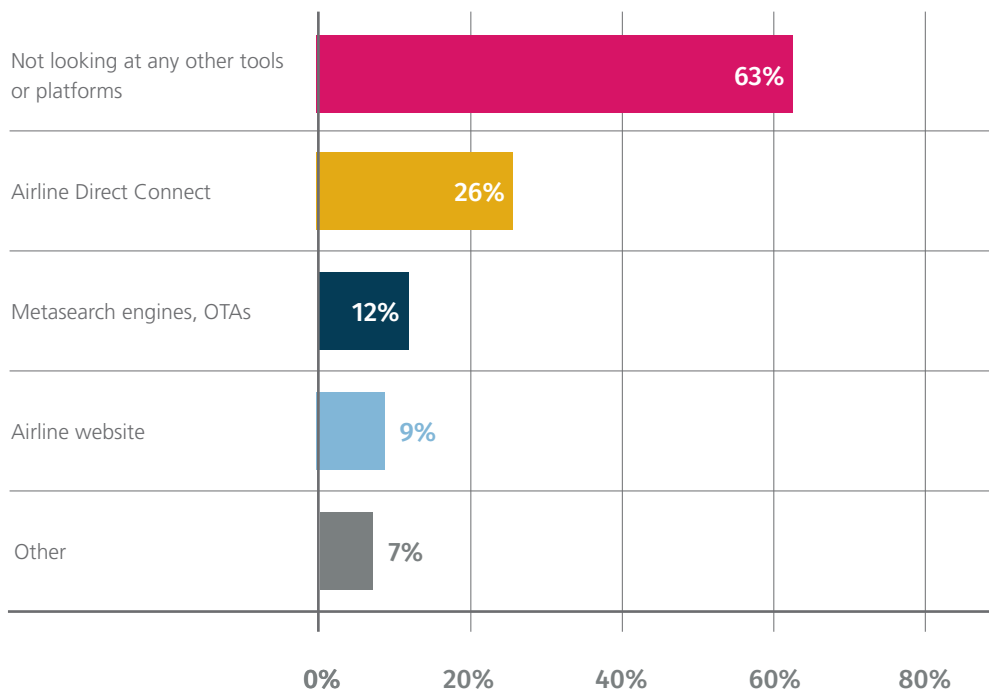


Fig 4 Few travel managers today are looking beyond the OBT.



Notes:

Respondents could select more than one alternative tool / platform.

Finding your way forward

As technology and traveller behaviour evolves and the airline industry adjusts its commercial model, the way corporations buy travel could change. For travel managers, this presents a considerable challenge, with immediate and long-term implications.

Today, travel managers are getting to grips with the emergence of new channels and the non-GDS ancillary content. These trends already impact how travellers book air and can therefore impact their well-managed programmes.

Looking ahead, NDC could mean a big change in the way airlines distribute their fares. The implications for corporate travel are not known – but travel managers fear the new standard will threaten key pillars of their travel programmes. The number one issue: the likelihood of greatly reduced visibility over fare classes, inventory levels and price points as airlines shift from public fares to offers. Without transparency, how can travel managers be sure travellers are getting the best available deals?

Five considerations

The evolution of air distribution concludes with five considerations for travel managers, focusing on areas where they can act today to address the cost visibility and traveller experience issues revealed in this research. But travel managers also need to understand what changes in air distribution, most notably NDC, will mean for their programme in the longer term. Air distribution is evolving in front of their eyes, and travel managers should be engaging with suppliers and partners now to help maintain their programme.

- 🔍 **Review your policy on airline ancillaries:** travellers are going off policy to add content they need for an acceptable travel experience. Travel managers should examine policies in relations to the purchase of ancillaries. Ask: what should be permitted? Does the current policy meet your travellers' needs? If you adjust policy, would the changes apply across all airlines? And how would you inform travellers about the policy adjustments?
- 🔍 **Close the OBT technology gap:** as noted, travellers are going outside the programme to buy ancillaries that are not available on the OBT. This content may be available on the GDS today, but your booking technology platform cannot handle it. Talk to your OBT provider and travel management company (TMC) about what they can do in the short term to close the technology gap and get these ancillaries onto your OBT.
- 🔍 **Don't wait for NDC to track ancillary costs:** almost half of money spent on airline ancillaries is invisible and, therefore, unmanaged. It's important travel managers identify where this leakage exists. Without fully understanding how much travellers spend on ancillaries outside of policy, travel managers cannot plan or have meaningful conversations with their airline partners about solving this problem. In itself, NDC is not going to provide answers to these questions. Corporate card providers and T&E systems already provide a degree of visibility on ancillary spend: ask your suppliers how they can give you a more complete picture on these costs. Looking internally, your colleagues in finance may be able to help you identify where expenses are incurred and put tracking in place



if needed.

🔍 **Start working with your partners now to prepare for NDC:** dealing with air ancillaries today is giving travel managers a taste of the issues around fragmentation, visibility and traveller experience they expect to face under NDC. These are big complex issues and travel managers should ask their partners, including their TMC and preferred airline partners. They should explain how they are working with the GDSs, OBTs and others to ensure that changes in the way content is delivered add value to your travellers and your programme. This includes ensuring your NDC solutions are scalable and enable content, ancillaries and offers across all airlines.

🔍 **Make your voice heard:** NDC is evolving right now. You could influence how it might be applied by getting involved with industry associations and use industry events as an opportunity to lobby the supply chain (TMCs, the GDS, airlines and other players like technology providers) to define how NDC will add value to corporate travel customers.

“NDC is coming – so you need to be part of the change!”

Global travel sourcing manager, North America



The more you know, the more you do

The majority of travel managers is uncertain about NDC and its implications. There is a need for the industry to provide clarity to travel buyers and reassure them that changes to air distribution meet their needs.

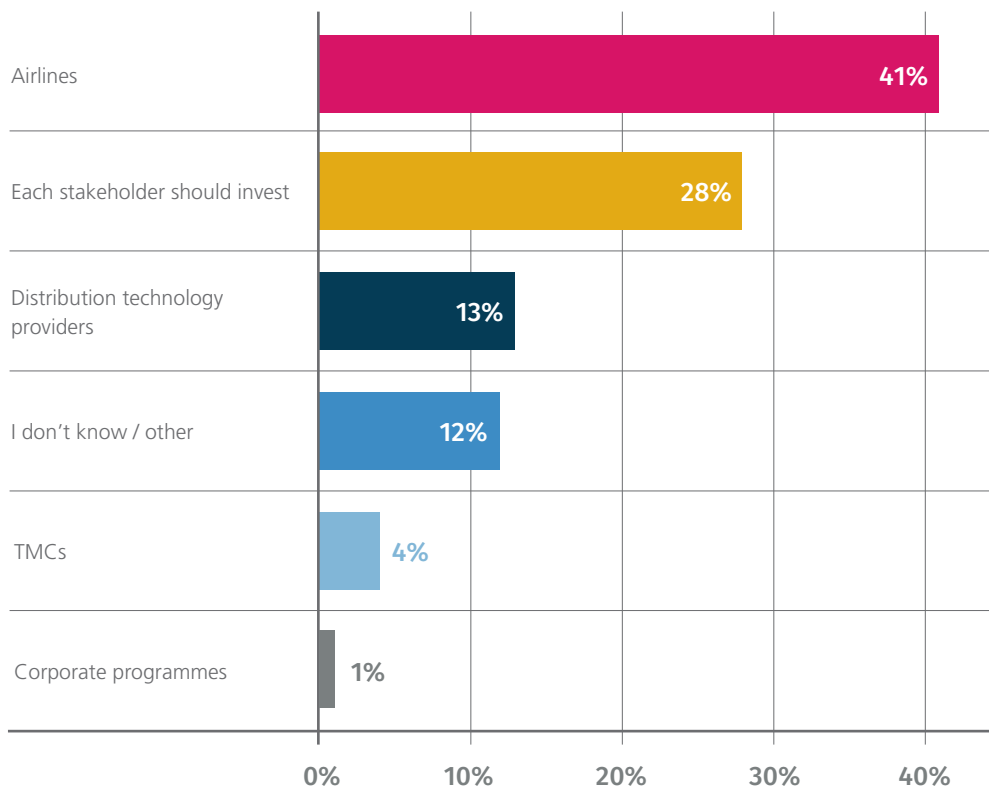
That said, travel managers don't need to wait for the industry. There are things they can do now to improve their knowledge about the changes in air distribution – for example, talk with peers and participate in industry events. The research suggests that travel managers who are more confident in their knowledge about NDC are more likely to be taking practical steps today to help them prepare for future change. These travel managers are adjusting policy on ancillary to support traveller experience and investigating new booking channels and technologies.

In times of uncertainty and change, the more knowledge you can acquire by engaging with your suppliers, partners and industry peers, the readier you will be to handle that change and maintain your programme.

“Everything is changing: how you get your TV content, how we buy our groceries or do our banking. We have to embrace change and make sure travellers can get a comparable experience when they buy through the managed programme. Very quickly our tools will become completely archaic and travellers will book elsewhere.”

Global category manager, Europe

Fig 5 Who should pay for NDC implementation?

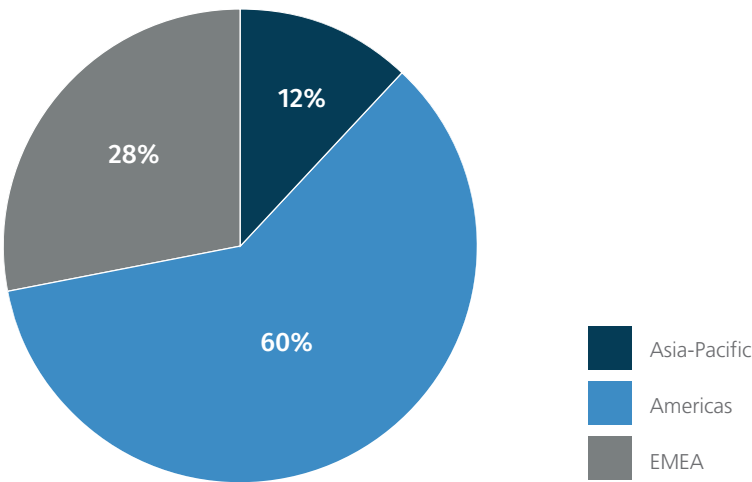


About this ACTE Corporate Travel Study

ACTE surveyed 218 corporate travel buyers around the globe between May and June 2018 via an online poll. The survey was complemented by a number of telephone interviews with ACTE members.

Quotes from travel managers who took part in the research are included throughout the copy.

Fig 6 Respondent's location.





About ACTE Global

ACTE Global (Association of Corporate Travel Executives) has a 30-year reputation for leading the way corporate travel is conducted. As a global association comprised of executive-level members in more than 100 countries, ACTE pioneers educational and technological advances that make business travel productive, cost-effective and straightforward. ACTE advocacy and initiatives continue to support impactful changes in safety and security, privacy, duty of care and compliance along with traveller productivity that supports global commerce.

To learn more about ACTE Corporate Travel Studies, visit www.acte.org.

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American Express Global Business Travel (GBT) is the world's leading business partner for managed travel. We help companies and their employees prosper by making sure travelers are present where and when it matters. We keep global business moving with the powerful backing of 16,000 travel professionals in more than 140 countries. Companies of all sizes, and in all places, rely on GBT to provide travel management services, organize meetings and events, and deliver business travel consulting.

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