

The Future Of Airline Distribution

The Dawn Of The Info-Consumer

Airlines of the future must be ready to deal with the new distribution landscape: one dominated by powerful consumers. These “info-consumers™” will not be satisfied with traditional guarantees of the lowest fare or time-intensive

searches for last-minute deals.

Instead, they will demand more from airlines in terms of information, shopping experience, content and, most importantly, accessibility to this information. To be successful, airlines will need to become agile information and content distributors.

Executive Summary

Technology evolution over several decades has resulted in a distribution landscape that is increasingly fragmented and replete with new opportunity. Airlines can no longer rely on a static approach to inventory distribution as a conduit to economic vitality — rather they must adopt a dynamic approach that leverages technology appropriately and supports a return to true one-to-one marketing¹ between airlines and their customers.

To do this effectively, airlines will need to devise a plan that is often evolutionary but also sometimes revolutionary in nature.

Focusing on five key practice areas, airlines will positively transform the effectiveness of their distribution strategy to compete given the new reality of the info-consumer.

Mix It Up!

In today's multi-channel distribution environment, the majority of airlines offer content to their customers through a variety of channels. Given the nature of the info-consumer's desire for immediate access to information through a variety of communication vehicles, there is compelling evidence that the multi-channel trend will continue to gain importance. This will be more pronounced years from now when travel shoppers and buyers will receive tailored, dynamic and experiential content — increasing spontaneity in travel buying. Effective airlines will have to master use of emerging technologies and evaluate multiple ways to communicate with customers while also considering the true costs and benefits of each channel.

Moreover, this trend toward multiple distribution methods has given rise to the commoditization of air travel in which many are only interested in price. To counter this, airlines

will continue to unbundle airfare in an effort to merchandise travel products and destinations to regain lost margin as well as differentiate themselves from their competitors.

Get Intimate!

In addition to the right channel mix and merchandising scheme, the ability for an airline to truly understand its customers — who they are, what they want and how to best reach them in a dynamic, interactive sense — will become increasingly important in the not too distant future. Info-consumers are well informed. They have access to endless amounts of information in printed publications and through the media, but especially via the Internet. This enhanced knowledge plays a crucial role in the decisions they make when planning a trip. New advances in data mining and the concept of “federated identity” will enable airlines to take their true knowledge of the info-consumer to the next level.

Stay Connected!

Through the use of social networks, emergence of new distribution media and virtual experience finders, airlines will leverage technological advancements that will serve to deepen the intimacy of the relationship between the airline and customer while serving to maintain information and content relevant to the info-consumer.

Act On It!

Although the future is full of exciting opportunities and technologies, the first step to making this more intimate relationship with the info-consumer a reality is with near-perfect execution on the part of the airline. This also continues to put pressure on the true cost of direct sales as new technologies and trends are tackled by airlines on their own. As carriers become more informed and aware of the diverse combination of travel motivation and personalities of their customer base, they must be vigilant in ensuring that the right message and right product is getting to the

Meet Alex in 2012
The Channel-jumper Info-consumer

Age 36

Likes 5-star Restaurants
Theater
Skiing

Shops Through Corporate Booking Tool
Online Travel Agencies
Social Networking Sites
Smart Phone

Desired Vacation Spots Rome
Dubai
Serengeti
Sydney
Fiji

Cost Conscious Leisure

High-End Leisure

Weekend Getaway

Group / Tour / Package

Unmanaged Business Travel

Managed Corporate

Complex Itinerary

right customer at the right time based on the trip type. This is the foundation of one-to-one marketing, which will be the key for airlines to establish and expand long-term relationships with their customers thus becoming successful and agile information and content distributors.

Imagine Now!

“Imagine now” refers to the opportunity airlines have to think actively about the future based on market attributes they can see today and put into place plans that position them to leap ahead of the curve rather than being reactive to innovation and market developments. Three categories of trends, in particular, are important for airlines to focus on: behavioral, technological and demographic. Behavioral trends include the rise of the info-consumer, increasing social networking activity and the phenomena of trans-global affiliation.

Airlines that seize the opportunity to be at the forefront of the new distribution reality will have the benefit of helping shape the info-consumer’s perception with dynamic and agile information and content through partner distributors. They will have the benefit of helping their customers discover who they are when it comes to travel and, most importantly, what they like. This is evidenced by Travelocity’s “dreaming and planning” innovation called Experience Finder.

Introduction

Meet Alex, The Channel-Jumping, Info-Consumer Traveler Of The Future.

6 a.m. July 30, 2012 — Alex awakened to the sound of his Web television via a personalized message from avatar, a virtual flight attendant for Worldwide Air. After quickly getting ready and with bags in hand, Alex was off, down the elevator and out the lobby of his residence building onto Avenida Paulista. “Que calor! (Hot!),” he thought as he hurried to the light rail transport hub. This was generally the case on a São Paulo, Brazil, summer day. But even so, the heat still took a little getting used to.

As Alex maneuvered through the crowded streets, he remembered to use his PDA to make sure his gate number had not changed — a time saver, especially on mornings such as this one. After arriving at the light rail depot, Alex quickly scanned his baggage using an interactive kiosk, used his biometric card to pass quickly through security and was soon seated on the the Metrô that would take him directly into the terminal at São Paulo-Guarulhos International Airport.

At last, he could relax — and dream about the last part of his journey, a pleasure trip to Rome, Italy. Alex hadn’t planned

To be successful, airlines will need to become agile information and content distributors.

on this excursion, but the night before, while checking in online for his flight and downloading his itinerary, he had been prompted by two video advertisements. The first was an offer from a partner hotel in Rome for an exclusive weekend package, and the second was a note from a locally based Rome travel agent with an offer for a theater and dining experience. Rome was a city that had been one of his most desired destinations for some time. He had shared his profile information and trip plans through the use of a federated identity and a real-simple syndication, or RSS, feed to subscribers of this service. From this information, the hotel knew Alex would potentially enjoy the deal they offered. The travel agent had instantly combined source trip content, packaged a deal for dinner and a show. Alex's "Roman Holiday" was ready. Alex quickly began to seek out more information about the hotel and theater offer. Contacting his friends through a social network, he learned that the hotel was indeed an excellent place to stay, and the theater show and restaurant were rated top notch. Through his favorite mashup service,

Alex learned that the promotional price he received for the hotel was below any quotes from a multitude of other online agencies. He was sold. He would take the offer to extend his trip, use his airline miles to pay for the last segment of air travel and take advantage of the great hotel offer.

The ride on the train went quickly and, a brief time later, Alex arrived at the aeroporto. He departed from the train and moved directly past the service desk and security checkpoint without a single stop. As he entered the boarding area, he was pleasantly surprised to be greeted by the same avatar who had woken him via Web television that morning. The avatar invited Alex to tailor his in-flight services using the boarding area's interactive touch screen. He took this opportunity to purchase an upgraded meal. Alex spent his time during the flight researching cities to visit during his next trip. The onboard virtual trip planner service allowed him to experience a choice of destinations via virtual reality. "Legal! (Cool!)," he thought to himself. For Alex, this was the only way to live!


Alex is an info-consumer. He is in control, wants choices and expects great service. Alex is the channel-jumper™ of the future that will be found around the world.

The Changing Numbers

This widespread availability of data has influenced planning, shopping and purchasing behavior in about 78 percent of online travelers, which roughly translates to about 79 million online travelers or 37 percent of the U.S. adult population. About two-thirds of these travelers make travel reservations online. Equally important is that almost 40 percent of online leisure travelers are still very susceptible to choosing suppliers based on brand awareness.²

Sales statistics from Site59, an industry leader in last-minute technology and content, show that:

- 58.3 percent of consumers book within three days of traveling,
- 4.8 percent of consumers book and travel on the same day,
- 21.2 percent of consumers book one day in advance,
- 18.1percent book two days in advance,
- 14.2 percent book three days in advance.³



The Dawn Of The Info-Consumer And The Channel-Jumper

The story of Alex is just one example of what the future travel and shopping experience will entail. Alex is a sophisticated user of information and technology. This leveraged use of information enables him to be marketed to, shop and receive information from a variety of channels and sources. Alex's experience — one filled with multiple contact points and travel purchases through a variety of channels — may seem a fanciful possibility of the future. But in reality, these changes to the way consumers use information to shop and purchase travel are not that far off.

The emergence and adoption of the Internet for travel commerce in the late 1990s created new opportunities for airlines to potentially drive down distribution costs. With the Internet, consumers gained competency and confidence in using the Web for selecting travel through the availability of abundant information and shopping tools, enabling them to book travel without the aid of an airline representative or travel agent.

But the Internet had the simultaneous effect of creating a more informed and thus, powerful consumer. These info-consumers represent an influential and fundamental shift in power between consumers, the airline and the travel agency acting on their behalf. This would serve to change the distribution of air and travel

forever. For the first time, the consumer had access to multiple points of information and pricing to multiple airlines without the filter of a middleman. Shopping technologies became increasingly sophisticated and further helped drive commoditization of airline products as consumers were able to more easily comparison shop on price and thus become "channel-jumpers."

The trend of airlines transforming to agile information and content distributors is already taking place today, as trendwatching.com reports: "consumers soaking up the entertainment economy are increasingly taking advantage of a burgeoning physical and virtual Web of no-frills airlines, always-on phones and PDAs, affordable hotels, last-minute/find-and-seek Web sites and so on." The independent trend-watching site has dubbed this phenomena "planned spontaneity" and highlights the increasing desire for consumers to have access to the right information when they want it.⁴

As a consequence of this change, airlines face an increasing need for creativity in the way they define and market their product. They require improved access to more-qualified data for target marketing — data such as customer segmentation based on demographic data, trip-type segmentation and travel purpose. These, coupled with a dizzying array of technological and behavioral changes appearing in the marketplace, combine to create both a challenge and an opportunity for airlines trying to develop effective distribution strategies. The challenge is that old ways of thinking about and approaching distribution issues will no longer suffice. The opportunity is that airlines have more avenues than ever before through which to connect with their customers and effectively distribute their product.

Effective airlines will evaluate multiple ways to communicate with customers while also considering the true costs and benefits of each channel.

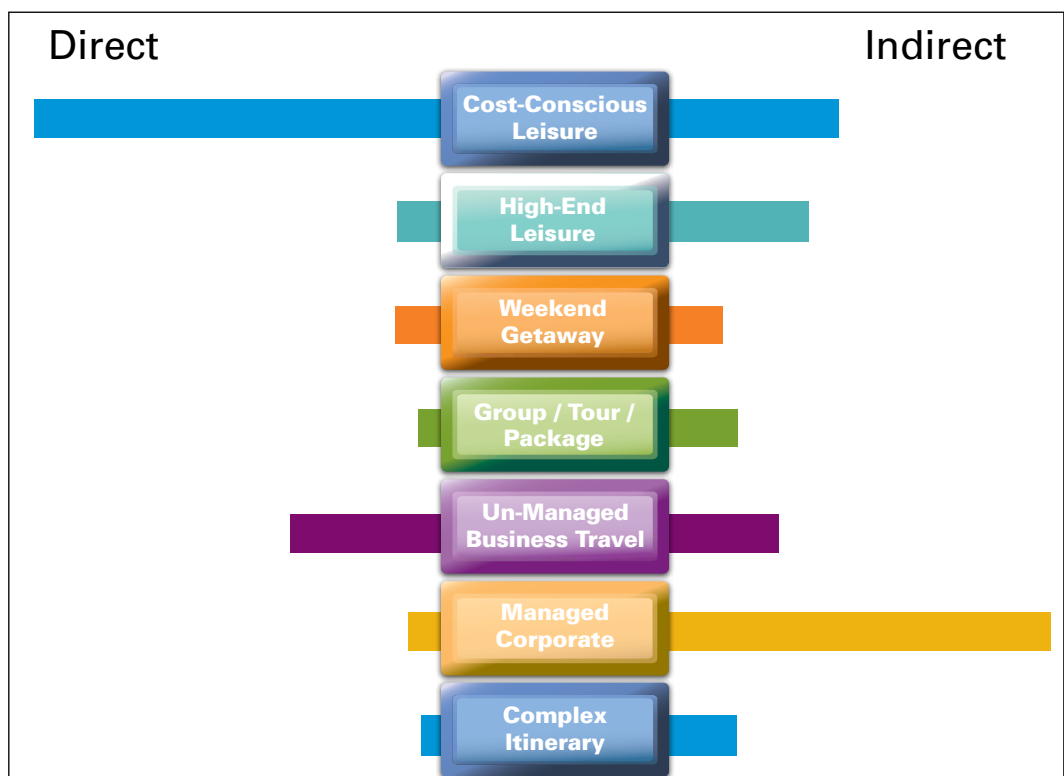
Mix It Up!

Tomorrow's Distribution Reality: A Greater Emphasis On Multi-Channel Mix

In today's multi-channel distribution landscape, the majority of airlines offer content to their customers through a variety of outlets. Given the nature of the info-consumer's desire for immediate access to information through a variety of vehicles, there is compelling evidence that the multi-channel trend will continue to gain importance. Effective airlines will evaluate multiple ways to communicate with customers while also considering the full costs and benefits of each channel. Moreover, they will do this while keeping vigil to the fact that customers will continue to gain in their ability to seek out travel information from a variety of sources.

With numerous factors to evaluate, it is obvious that no one distribution mix will meet the needs of all airlines. Guided by the anticipated results of each airline's target customer strategy, the right channel mix will be influential in reaching the airline's most-profitable consumers without ignoring larger, less-profitable segments that keep the airline's brand relevant in the marketplace and keep airplanes full. The concept of "trip type" helps an airline segment booking types both by their number of occurrences and their contribution to an airline's bottom line. When traveling, the info-consumer will not be defined by one label or type of travel. Instead, the info-consumer will travel at different times for different reasons — for the week, a business trip; for the weekend, a quick getaway. This channel-jumping trend can already be seen today as highlighted by historical air travel purchase data outlined in Figure 1. These bookings come from different sources depending on the trip type. For example, in the scenario in Figure 1, about 70 percent of bookings for cost-conscious leisure trips are made through

Figure 1 The channel-jumping trend is apparent today as highlighted by historical trip-type data.



a direct channel whereas about 90 percent of managed corporate bookings are made using an indirect channel. The length of each bar is relevant to the size of the segment that purchases the type of trip.

Improving Methods For Merchandising

The overall marketplace perception is that the traditional means of pricing an airline ticket is outdated and provides only a single point of comparison across most carriers, thus creating a market that enables consumers to easily substitute one airline product for another. Given this, it is not a far leap of faith to suggest that the same info-consumer will shop for and desire different types of content options given different reasons for travel. The fact is that bookings made for different trip types and purchasing behavior correlate with the

different types of direct and indirect channels. The mere mention of airline ticket pricing today raises many emotions among travelers, few of which are positive. Ask travelers about how tickets are priced, and you will hear words such as “confusing,” “illogical” and “gouging.” While this may have been true for traditional carriers in the past, value-focused airlines have substantially diversified the marketplace, creating a marketing trend that is more about the type of airline products offered and less about the sales channels used for distribution.

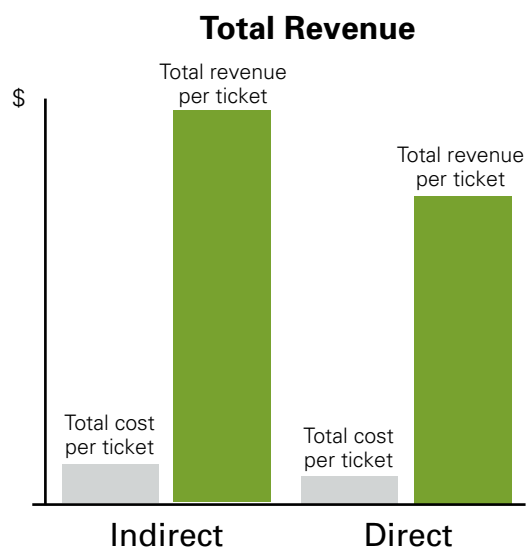
The unbundling of airfares is best described as a means to separate products and capabilities in such a way as to enable an airline to differentiate, brand, market and merchandise its fares and value-add services within its controlled and connected point-of-sale applications. This strategy has created a new “merchandising” concept that can be applied across any point of sale, which offers airlines new and creative ways to connect with the info-consumer by offering more than just the seat at the point of purchase. With merchandising, the

Revenues Versus Costs

One interesting finding for most airlines is that the quality of a distribution channel is not always dependent on its total costs. Once an airline understands the total cost of a channel, it can consider the revenue attained per unit of cost.

This analysis is often eye opening and gives power to the notion that a multi-channel mix will ensure that the airline can reach the info-consumer through multiple avenues while ensuring that the most profitable trip types and channels are also reached.

For example, the figure at the right shows that historically, the average revenue of a ticket sold through the global distribution system is about 30 percent higher than a ticket sold through the direct channel.⁵ Although the cost of distribution is higher on the indirect channel, the yield on that ticket is higher as well. Simply put: the net gain to an airline that understands this reality is a yield-maximizing distribution channel mix.



power to choose related travel products such as in-flight movies, lounge access, limousine service and other complementary luxuries is given to the info-consumer. This provides a better, more comprehensive travel product that reaches more segments and encourages customer up-sell opportunities while producing higher yields for the airline.

Airlines are already taking advantage of the concept of merchandising. Take, for example, the “premium” seating program Midwest Airlines has implemented. The new premium seat selection capability is offered via the carrier’s Web site and airport kiosks during the traveler check-in process. In the future, customers will be able to select premium seats as they make their flight reservations — regardless of whether the ticket is purchased through a travel agent or online.⁶

Australian-based Qantas Airways has implemented a similar program that enables it to differentiate its fares and compete on value rather than on price alone. Other airlines

in Australia and New Zealand have also made the move to using a select number of branded “fare families.” This has enabled carriers to assign attributes to the various fare families, thus enabling differentiated products in a highly competitive market place.⁹

Get Intimate!

Well-informed info-consumers have infinite amounts of information in printed publications, through the media and especially over the Internet, which plays a crucial role in the decisions they make when planning a trip.

However, consumers might at times be overwhelmed with too much information, ironically leading them to recruit the help of a travel agent. This will likely be experiential in nature, using advanced technology to address tailored information with destination expertise. This need might pose yet another opportunity for airlines to get to know their customers and offer options for those requiring a little more help making decisions than those who view themselves as independent consumers.

In either case, info-consumers need to be viewed as unique individuals with specific needs, which help determine the decisions they make about the trips they purchase. Most importantly, the info-consumer wants to know that airlines understand their desires. This individuality drives the need to identify new and creative ways to reach travelers without compromising products, services or price.

Leveraging Customer Data

For an airline to simply know who its info-consumers are — based on what is collected today through loyalty programs — will be largely insufficient down line. Expanding the information collected and thus the intimacy of the relationship will result in creating innovative travel choices that will satisfy the customer’s desire for more tailored travel options.

Non-Ticket Sales: Big Money Opportunity

Based on today’s prices and depending on the size of the airline, the ability to up-sell to higher classes and the sale of ancillary products could deliver incremental value of up to US\$30 million per year to an airline. A recent ATPCO survey estimated the total opportunity value of a global industry solution for the filing and distribution of airline optional services to exceed US\$9 billion in revenue.⁷ In 2006, the four major European low-cost carriers — easyJet, Ryanair, bmi and flybe — reported in excess of US\$600 million from non-ticket sources.⁸

To do this successfully will require more in-depth knowledge of what travelers want as they travel upstream and downstream in the price spectrum. Additionally, a good understanding of the unique attributes of the travel experience desired will be required. As discussed earlier, the trap here is recognizing that the same info-consumers may appear in various segment types and be inconsistent in the types of trips they select or in how they pay attention to brand. These consumers want to create personally branded options from start to finish for every trip, and they want to do it quickly.

One possible solution to this dilemma is through enhanced, automated search capabilities or data mining. Data mining may become the equivalent of today's comprehensive contact lists enhanced with advanced customer relationship management tools that could facilitate more innovative marketing practices. The increase in savvy info-consumers who want to travel "their way" coupled with the emergence of new

markets will compel travel suppliers to collect comprehensive customer data from all points of sale as well as employ analytical tools to interpret that information.

Getting the right product to the right customer at the right time for the right price will not only be a preferred goal of marketers but a necessity for success. Mechanisms critical to understanding not only the customer value but the customer network value enables airlines of all sizes to market appropriately to the info-consumer. With this information, airlines will more effectively sell and cross sell to their targeted audience, offer consistent service, drive loyalty and leverage customer feedback in the development of new and desired products.

An expanded look at the concept of network value is given in the information box at the left.

Sharing Customer Data Through Federated Identity

If the collection and manipulation of multiple streams of data seems daunting, take comfort in knowing that this process doesn't have to happen alone. The task of information gathering on particular likes and dislikes of a given info-consumer will not necessarily be the task of each individual

Understanding The Network Value Of The Info-Consumer

Academic research on social networks and social networking theory by Pedro Domingos of the University of Washington's Computer Science and Engineering Department states that another important aspect of success with these online communities will be predicated on the reality of "the network value of customers."

In his paper, "Mining Social Networks for Viral Marketing," Domingos suggests that not all members of a social network have equal network value — that is that marketing to high network-value members will have disproportional returns compared to marketing to low network-value members.

He states, "Clearly, high connectivity in the network should help, but there are other factors: it is important that the individual like the product, preferably a lot — customers who have high connectivity but dislike a product can have negative network value and marketing to them should be avoided; to have high network value, an individual should influence his acquaintances more (ideally much more) than they influence him; a customer's network value does not end with his immediate acquaintances — those acquaintances in turn influence other people, and so on, recursively until potentially the entire network is reached."¹⁰

Consumer Networks And The Concept of Homophily

Studies such as “Network-Based Marketing: Identifying Likely Adopters via Consumer Networks” by Shawndra Hill at Wharton and Chris Volinsky of AT&T Labs Research describe a concept known as “homophily” in which people who choose to communicate with each other are more likely to be similar to each other. The principle of choice and independence is foundational in the creation of online communities.¹⁴

supplier to collect. Through the use of federated identity, a virtual union or assembled identity of the travelers’ permission-based information (data, behaviors, favorites), pertinent information can be leveraged across the distribution chain by various distinct identity management systems.¹¹ This will enable info-consumers to be treated as unique individuals by multiple suppliers without the need to re-teach these suppliers their personal likes and dislikes. In this future environment where private data is honored, each info-consumer’s “travel personality” could be joined together by use of a common “token,” enabling trip-related suppliers to seamlessly deliver the expected travel experience as one entity.

Stay Connected!

Airlines will need to become more intimate with the info-consumer. But a deeper understanding of the reasons and purchasing habits of the info-consumer will not be sufficient to win. As Nawal K. Taneja, professor and chair of the Department of Aviation at Ohio


State University, suggests, “Customer loyalty is no longer an easy matter given the multiple parties involved in the travel chain and given that the customer now has many independent sources of information. People are now very well informed, and they are not likely to be swayed by external sources.”

To maintain success in the highly competitive world of travel, it will be imperative that airlines keep abreast of technological advancements that may serve to deepen the intimacy of the relationship between the airline and customer while serving to maintain its relevance.¹²

Today’s info-consumer taps into a wide range of communication sources. “Media multiplexity” — a term referred to by Bernard Hogan of the University of Toronto at the 2003 annual meeting of the American Sociological Association — describes a behavior set in which users engage in multi-dimensional communications with their peer groups using more than one of these methods such as on the telephone, PDA or e-mail.¹³ While a “uni-source” marketing tactic may reach the info-consumer, a “multi-source” strategy will greatly increase the chances of travel purchase given the reality of today’s multitude of communication options.

Enhancing Loyalty Through Social Networks

As we have discussed, stronger loyalty starts with a more intimate relationship with the info-consumer. One possible way for an airline to build this relationship is through the concept of “social networking.” Social networks offer a new marketing area, but they are still in their infancy and offer no guarantee of being



anything more than a passing phenomenon. Although the jury is still out on whether these sites will survive the test of time in their current form, social networking offers some compelling insight into how the info-consumer will seek out information in the near future.

Many info-consumers, especially the young and influential “generation Y” customers, prefer friends’ opinions provided via social networking sites versus commercialized brand messaging. These options enable the info-consumer to segment both the type of information they view and with whom they correspond. The info-consumer can choose from a broad population of members to solicit linkage to peer profiles, but those links only become active if the member being solicited reciprocates with an indication of interest. In this manner, relationship credibility and true mutuality is built.

As described in the information box above, it is believed that these sub-communities are far more influential in changing opinions and behavior than traditional aggregations of people created through mechanisms such as customer loyalty programs, brand-affiliation clubs and so on. As a result, the info-consumer who chooses to be part of a social network (or networks) cannot be reached using the same type of marketing techniques as in years gone by.

The thrill-seeker who wants to venture on an African safari cannot be marketed to the same and through the same vehicle as the person

who wants to experience firsthand what it’s like to gamble in the newly acclaimed gaming capital of the world in Macau.¹⁵ This is because the Internet and social networking has given the info-consumer myriad ways to sort and view content that interests them. Likewise, someone who enjoys skiing will be more likely to seek out others who also enjoy the sport or those who have had a great experience recently at their favorite slope. In this way, travel plans will be driven in part by the value the info-consumer feels he is gaining by the additional value the information provides.

Already, suppliers have had the opportunity to capitalize on the phenomena with sites such as SideStep, which launched its Trips tool on Facebook. According to SideStep, “users can invite their friends to go through the trip, then share notes, discuss what happened during the trip and upload photos, among other features.” The result has been the adoption of more than 250,000 users of the application with expected growth of five million by 2009.¹⁶

Social networks connect people at a low cost while also gaining insight to the network’s members, acting as a customer relationship management tool. In addition, as businesses expand globally, social networks make it easier to keep in touch with other contacts around the world. For marketing purposes, they provide an excellent platform in which airlines can connect with potential info-consumers while gaining insight into their likes and dislikes.

If an airline chooses to incorporate social networking into its marketing plan, it can render powerful results. But it is imperative that its social network presence is welcomed and embraced by members — driving the

desired outcome of successfully building a relationship with the info-consumer(s) that are targeted.

Sarah Rotman Epps, Henry Harteveltdt and Brendan McGowan from Forester Research recently summarized consumer characteristics in a social network setting. "A customer wants to know every last possible detail before they'll commit, and they won't settle for less than a perfect fit. Above all, they will expound on negative experiences to virtual friends if the airline falls short of their expectations."¹⁷

Marketing to social network consumers requires added impetus in communication and data efforts. Airlines must drive brand communications to a new level of sophistication and insight that compel these info-consumers to extend their personal circle of trust to include a commercial relationship.

Enhancing Communication With The Customer At And Beyond The Point Of Sale


The necessity of a more evolved and intimate customer relationship won't stop at the point of purchase. Emphasis on the way an airline communicates to the info-consumer before and after a trip will become increasingly important as the info-consumer demands a more complete experience from the travel purchase.

For airlines in particular, it will become increasingly important to promote not only a

positive onboard experience but to also highlight the expected pleasure aspects of the trip once travelers have arrived at their destinations. For the leisure customer, these items could include information on the all-inclusive hotel or the exciting tour that has been planned. For the corporate traveler, pleasure aspects may take on a different form, including pertinent flight and weather information, reliable and timely transportation to and from the airport and even restaurant information.

While social networking may play a role in this, advances in the amount, structure and presentation of information will result in an opportunity for airlines to better equate the value of a trip in an interactive and compelling manner. Likewise, offering pertinent information about the destination before and at the time of travel can help equate that the trip, at least in part, was made possible because of the services provided by the chosen airline. By doing this effectively, airlines can enhance the quality of the info-consumer's experience with the airline and the trip in whole — all equating to stronger loyalty in the long run.

One emerging technology that has the potential to assist airlines with the need to present more relevant information faster is "syndication." Syndication is a family of Web-feed formats used to deliver frequently updated digital content such as blogs, mashups (content from multiple sources displayed on one Web site), news feeds or podcasts.¹⁸ Today, travel content is already being converged into these feeds. The travel suppliers' Web sites and the engines providing information, as well as the point-of-sale Web sites displaying it, reap the benefits of syndicated content. For example, content



syndication enhances a point of distribution or sale by adding value and complementary detail. With a greater depth and immediacy of information, info-consumers can make quicker, yet more qualified, purchase decisions. Likewise, this information stream can continue to provide the info-consumer relevant information at and beyond the point of travel.

Connect Through Enhanced Customer Experiences

Virtual-reality technologies offer airlines an additional opportunity to enhance the amount and way information is presented to the info-consumer. Airlines may offer travel packages to consumers in a social environment, giving them the opportunity to dream about travel. Virtual travel planning tools such as Travelocity's Experience Finder enable info-consumers to create a "total trip" experience from one site as opposed to many sites. The tool enables customers to save items of interest to a wish-list and book individual hotels and activities. By incorporating video, sound, pre-identified activities, insider tips and advice, Experience Finder emotionally engages the end consumer in the prospective trip beginning with the first mouse click. In theory, once the emotional connection has been made with the trip, the purchase price becomes less important. As a result, Travelocity increases the probability that

consumers will have a vested emotional interest in booking and taking the trip, offering opportunities to up sell and cross sell as well.

"This is not a meat-and-potatoes product where the customer has to start with the traditional air and hotel reservation. With Experience Finder, customers get to start with the dessert (i.e. the experience, the main reason they are taking the trip). The customer is empowered to create what they want ...," Harteveltdt said.¹⁹

As an added bonus, a "total trip focus" can also help airlines divert consumer attention from price considerations on only the air segment to the overall pricing and value of a complete trip. This is particularly important in light of the downward yield pressures that airlines face today resulting from the growth of low-cost carriers. By employing a virtual travel planning tool, airlines may be able to reclaim improved margins by pursuing a strategy of price opacity.

Connect With Remote Applications

Mobile marketing makes travel information available through a mobile device such as a PDA. Improvements to the technology of mobile media will give airlines another avenue to reach the info-consumer. Marketing through electronics such as mobile phones will enable the ability to target customers for receipt of custom advertisements or engagement in promotional travel packages. These devices act as another touch point available to connect with the info-consumer. In leading markets such as Europe and some parts of Asia, short message service, or SMS, an unstructured format used for mobile marketing, is already in use.²⁰ Businesses in these countries are

collecting mobile phone numbers and sending requested (or un-requested) content, and customers are generating unstructured requests or orders to airlines, hotels, car companies and travel providers. In addition, travel suppliers are delivering promotional content, such as travel links and rich media ranging from music to mobile games, to drive consumer engagement via standard multimedia message service telephony messaging systems. To gain acceptance of this type of marketing and make it less annoying, airlines may decide to bundle it with convenient features such as mobile check-in and instant updates on departure and arrival information.


Act On It!

Although the future is full of exciting opportunities and technologies, the first step to making this more intimate relationship with the info-consumer a reality is to execute a strategy with near perfection. It seems an obvious point to state the value of effective execution, and yet this is the area in which more great ideas and well-intentioned plans fail than any other. Many times, this is due to the operational demands of day-to-day activity and an absence of available resource to instill discipline around implementation of new ideas.

While it is tempting to think that new strategies can be seamlessly integrated into an organization purely using existing hierarchy and power structures, the reality is that effectiveness of execution multiplies when there is dedicated resource that is managing the process and has widely acknowledged backing from senior leadership. In large part, this is due to the level of uncertainty associated with change but also because of the need to overcome internal cultural barriers that have the potential to undermine adoption. For the purposes of this discussion, no other airline industry example exemplifies this more than the implementation of loyalty programs.

The introduction of the airline loyalty program was intended to provide an opportunity to learn about loyal customers based on the information required to join the program. This data could then be utilized to customize offerings and perhaps execute more robust marketing campaigns that targeted the most-valuable customers. However, since many of the established loyalty programs were built in house, airlines soon learned that their programs did not offer the flexibility to interpret the data and were also very costly to maintain.

These high costs forced airlines to find new sources of revenue and led to partnerships with non-travel suppliers to expand loyalty programs and enable miles to be earned "on the ground." Through these partnerships, members could earn miles through the use of sponsored credit cards such as the American Express Singapore Airlines PPS Club Platinum



Credit Card and the American Airline's AAdvantage MasterCard at grocery stores, gas stations and many other business locations.

It is estimated that 60 percent of miles earned today are accumulated through these channels versus flying. While this new source of revenue is positive for airlines, there is a down side for the "true" frequent flyers. Many times these actual frequent flyers are not accommodated on aircraft because of the increased number of passengers who redeemed miles that were earned on the ground. Airlines are faced with the loss of loyal high-yielding business passengers as a tradeoff for travelers redeeming miles to get a free trip earned with non-flight points.²¹ Here, the disconnect between the intended customer satisfaction-building aspects of the loyalty program and the reality of unintended consequences becomes clear.

Successful strategies are necessary but not sufficient conditions for success. As in the case of loyalty programs, if strategic partnerships and advances in dynamic communication, intended to bolster the ability of airlines to build relationships with info-consumers, are not executed with the utmost of care, they have the potential to cause more hindrance to the customer experience

than good. Airlines that will realize the most gain from putting in place multi-channel distribution strategies, customer insight and expanded communication frameworks are those that will maintain an operational focus on ensuring their plans are being delivered to the marketplace as originally envisioned.

As airlines become more informed and aware of the diverse personalities of their customer base, they must be vigilant in ensuring that the right message and right product is getting to the right customer at the right time. The emergence of channel-jumping info-consumers who are less brand loyal will require almost spontaneous convergence of tailor-made content to capture a buyer — even for the commodity of an airline seat or destination decision. This is the foundation of one-to-one marketing, which will be the key for airlines to establish and expand long-term relationships with their customers thus becoming successful and agile information and content distributors.

Imagine Now!

This white paper is sprinkled with references to "today" and "tomorrow" since sometimes defining the line between the two is a challenge. The reason for it is that several of the most important trends shaping the evolving distribution landscape of tomorrow are already visible today. The reality of the info-consumer is here, as is the need for a multi-channel mix. "Imagine now" refers to the opportunity airlines have to think actively about the future based on market attributes

they can see today and put into place plans that position them to leap ahead of the curve rather than being reactive to innovation and market developments.

Three categories of trends, in particular, are important for airlines to focus on: behavioral, technological and demographic. Behavioral trends include the rise of the info-consumer, increasing social networking activity and the phenomena of trans-global affiliation. Technological trends, many of which have been discussed here, appear in the marketplace at an ever increasing rate. Demographic trends including population growth within specific regions such as Asia result in shifting demand growth between global regions, as do changes in domestic demand shifts of the aging populations within mature North American and European markets.*

Airlines that seize the opportunity to be at the forefront of the new distribution reality will have the benefit of helping shape the

info-consumer's view of a dynamic and agile information and content distributor. They will have the benefit of helping their customers discover "who they are" when it comes to travel and, most importantly, what they like. This will then open the door for airlines to focus on helping the info-consumer discover new opportunities that may be unarticulated but meaningful for them.

The key is that the info-consumer, when presented with enough information deemed pertinent, behaves rationally and is compelled to buy. An example of this is provided by the recommendation feature available on several Web sites that take advantage of advanced CRM. Based on past purchase behavior, these sites are able to match individuals with the profiles of others who have made similar purchases and, in doing so, become able to provide recommendations on other opportunities that may be attractive to the consumer but may not have been considered before. All of this leads to a more meaningful and productive relationship with the info-consumer in which both the customer and the airline come out ahead.

Conclusion

The air distribution landscape has undergone dramatic change during the past 50 years. From humble beginnings that predate electronic commerce to the GDS and the eventual rise of the Internet as a means for direct distribution, airlines have faced increasing challenges and opportunities in determining optimal ways to distribute their seat inventories. In the beginning, alternatives were few, and arriving at a distribution strategy was fairly straightforward. Through the years, the growth of distribution options made the distribution strategy more complex yet also much more powerful.

Airlines find themselves today at a crossroads where they will either be hindered or helped by the effectiveness of their chosen distribution strategy and communication plan. As can be gleaned by the story of the future traveler, Alex, there are exciting but challenging changes ahead for the ways in which airlines communicate

and connect with the channel-jumping info-consumer of the future. Airlines are increasingly best served by taking a broad and holistic view of the marketplace. Both direct and indirect distribution have a place in an airline's thinking, in varying ratios according to an airline's growth strategy and marketplace requirements. Likewise, a long hard look into the way an airline communicates and listens to the info-consumer will become increasingly important as new technologies become more mainstream.

Airlines can position themselves to capitalize on the evolving landscape by focusing on the five practice areas outlined:

1. Mix It Up!
2. Get Intimate!
3. Stay Connected!
4. Act On It!
5. Imagine Now!

By doing so, they will provide more value for their customers and improve their financial performance, positioning themselves for long-term success.

Credits

Author: Benjamin Mussler

Contributors: Sandra Meekins

Parag Sanghvi

Gordon Locke

Chris Wilding

Editors: Stephani Hawkins

Scott Hunt

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Appendix A

Shifting Global Demographics In Focus

Today, population growth, urbanization and globalization are opening doors to new travel markets and customers that desire new products and services. In addition, emerging economies are playing an important role in making travel possible for people who previously did not have the resources to take a short business trip or travel for leisure. It is estimated that the global economy will nearly double by 2025 with the most dramatic change occurring in China, East Asia and India.²² Two identified demographic areas will play an important part in airline distribution through 2025 — the Asian population and the global population of youth between the ages of 15 and 29.

Changes In Asia

More than ever before, people are willing to travel to Asia and Europe because they have access to information for planning and, more importantly, higher levels of disposable income. It is estimated that by 2025, the global population will grow to roughly 7.9 billion people with more than 85 percent of this population living in developing countries, mainly in Asia.²³

During the past few years, the Asian population, particularly China and India, has increased its tourist travel to Europe. It is expected that this trend will continue to increase as more and more people are willing and able to travel outside their country and geographic region. While this sudden surge in tourism from Asian travelers is a welcome change, it also poses some challenges

for Europe. High levels of service and infrastructure must be maintained for this fairly new traveling population, and national tourism boards must take responsibility for finding new ways to reach these markets by advertising in ways that are relevant to travelers. Additionally, while the European travel, transportation and hospitality industries take advantage of the influx in Asian travel, they must also continue to provide high levels of products and services to uphold future tourism revenues from these highly resourceful countries.²⁴

The Youth Segment

It is expected that the youth segment — consisting of youth between the ages of 15 and 29 — will drive many of the consumer trends through 2025. In 2002, this group of approximately 1.6 billion people comprised about 25 percent of the global population. In China alone, 560 million people are 29 years of age or younger. This demographic group is already demonstrating signs of shaping new global values, tastes in fashion, music and consumer products — quite similar to the way the “baby boomers” drove change in the United States during the ‘50s and ‘60s.²⁵

Characteristic of today’s youth, the majority delay getting married and live with their parents for a longer period of time. These actions provide them with more disposable income for leisure consumption, much of which can be used for travel. And even though they are less prone to save money today, the youth segment’s long-term earning potential will help create a new generation of avid travelers.

In addition, as life expectancy continues to rise, there will be a growing customer segment demanding leisure products and services primarily in Europe and North America. Due to recent health trends, the youth segment will be healthier, more active, and have more time and money to spend on travel. The youth of today along with emerging technologies such as inexpensive wireless communications will in large part define how travel will be purchased in the future.

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Worldwide Headquarters
Sabre Airline Solutions
3150 Sabre Drive
Southlake, Texas 76092 USA

Please contact our nearest
regional office for more
information:

Asia / Pacific
Tel: +65 6215 9500
E-mail: contact.apac@sabre.com

Europe, Middle East, Africa
Tel: +44 208 538 8539
E-mail: emea.contact@sabre.com

The Americas
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