

**Understanding the Current Air Travel Distribution Debate
A Guide for Corporate Travel Professionals**

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**By the NBTA Data Protection Committee
Special Task Force on Business Travel Distribution**

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Executive Summary

In 2003, the U.S. Department of Transportation (DOT) announced the deregulation of the Global Distribution Systems (GDS) used by travel management companies (TMC), airlines, hotels, car rental and ground transportation companies to distribute inventory to customers. Following deregulation, the U.S. network airlines and GDSs entered into a series of separate agreements, known as DCA-3 or full content agreements, to distribute inventory. With the sunset of DCA-3 agreements this year, the distribution system has been thrown into disarray as airlines and GDS develop new rules and pricing structures and enter into new agreements governing what inventory will be included in each GDS and at what cost.

NBTA is presenting this white paper to frame the discussion of the real issues that surround managing travel in a deregulated environment and offer guidance on what we feel are vital issues facing our industry today.

Deregulation of the GDS

NBTA believes in a free market system and believes that the economics of the marketplace will produce products that will meet the needs of both its Direct (travel manager) and Allied (supplier) members. With that understood, NBTA embraces and encourages taking costs out of the distribution system. NBTA, however, does not believe taking costs out of one part of the distribution system and putting them into another is wise or healthy for any of the important sectors of the travel industry.

Under a regulated environment, the GDSs, which were originally owned by airlines, often paid TMCs and large corporations incentives to utilize one GDS system over another. However, this financial arrangement disguised the true cost of creating, maintaining and operating a GDS and contributed to the idea that a travel department could actually be a profit center. Much like commission rebates, popular in the early days of a deregulated airline industry, GDS management became a source (often hidden) of profit for TMCs and large corporations.

NBTA Direct Members must understand and prepare their corporate senior management to accept the new market reality that the many benefits (i.e. a single portal to vast amounts of vendor inventory, policy enforcement, management reporting, cost effective online tools, etc.) derived from the GDS, come with a cost. This cost can be managed directly by some large corporations with significant travel expenditures. However, it may not make sense for most small and midsize companies to incur the costs and risks of a direct GDS relationship. These companies are much better served working through a third party, such as a TMC, which is able to spread the cost and risk of managing GDS relationships over its entire customer base.

NBTA recommends that Direct Members review the new costs presented by the TMCs to make sure that they accurately reflect the financial impact of adjusted incentive compensation from the GDS. TMC fees should represent the cost of effectively managing the systems plus a fair margin, and should not continue as a repository of hidden revenues. If a TMC manages its systems efficiently it should be rewarded, but NBTA members should be aware that this is a revenue stream for these companies that should be openly discussed during contract negotiations.

Disintermediation of Air Travel Distribution

Much has been made by industry observers of the desire of airlines to increase revenue by disintermediating distribution systems that allow corporations and TMCs to manage displays. Airlines continually state this is not the case and their only desire is to create alternative distribution channels to lower costs. Profit motives dictate that all travel vendors want to sell product, be it rooms, airline seats, car rental or ground transportation at the highest cost a customer will pay, which may or may not be the lowest cost in the market place. Profit motive also dictates that vendors desire to build brand loyalty in order to maximize profit and the effectiveness of their marketing efforts. With regard to disintermediation of distribution, airlines

have argued that it is about cost containment and that alternatives to GDS distribution exist at a lower price.

On the other hand, travel managers are motivated by the business goals of their companies, which include controlling travel costs. Cost containment motive dictates that managed travel programs work with distribution intermediaries to effectively control inventory access and product presentation to a company's travelers, and to maximize compliance. At this time, airlines are not able or not willing to provide direct connect technology that includes all channels that a managed travel program needs to effectively manage travel costs. Until all inventories can be displayed through alternative direct connect technology, any attempt to bypass existing GDS technology will be perceived by most travel managers as a half-measure.

GDS New Entrants (GNE)

While there has been much touting of alternative systems such as ITA Software and G2/Switchworks, an off-the-shelf solution that fully integrates all content is not available at present or in the near future. Currently, full content through GNE solutions must be customer built, programmed and maintained, which makes this an expensive endeavor. For a company to invest in a GNE solution, there must be a determination that the benefits will outweigh those costs.

The real issues facing NBTA members

1. Access to full content inventory

- Managed travel programs need easy access to full content inventory, a method of giving preference to contract vendors and a way to measure performance that is easy and cost efficient to all concerned.

2. Management of data

- Managed travel programs need easy access to what has been sold for contract measurement, negotiation, and company audit requirements. This is particularly important for Sarbanes-Oxley compliance in publicly traded companies.

3. Data privacy controls

- NBTA Direct Members need to know that traveler data is secure.

4. Ownership of Data

- NBTA Direct Members need to deal with vendors who acknowledge the data and information obtained from their accounts belongs to **the customer** and not a third party.

5. Removing costs from the entire distribution system to the benefit of all

Recommendations to the various constituencies involved

To Direct Members

- Prepare your senior management for the fact that distribution of inventory is not free and has never been free (just without cost to you), and that the cost of distribution must be managed and budgeted.
- If your provider is not giving you a fair product at a fair price, find one that will.
- Treat distribution costs as a manageable expense and manage this cost actively, not passively.
- Demand that vendors acknowledge you own your data and you control access to the travelers in your program.

To TMC Members

- Present true costs and benefits of the GDS and any alternatives to travel managers and help them determine the best solution for their travel program.
- Stop relying on hidden revenue sources of any type.
- Acknowledge that your customer data is owned and controlled by the customer.

To Airline Members

- The GDSs represent a universally recognized, efficient and secure method to present and access full content inventory. Most travel managers and corporations consider the GDS to be a safe repository of traveler profiles. The GDSs, while they are expensive, offer tools that make data management and the reporting required for corporate volume agreements easy for corporations and reliable for vendors.
- Airlines should also understand that:
 - Current alternative distribution methods are not likely to easily pass corporate data security requirements.
 - Current alternative distribution methods will produce data, vital to contract performance measurement that is diluted and polluted, making true performance impossible to accurately measure. Like it or not even the flawed MIDT data and ARC data are checks and balances in the current environment.
 - Current alternative distribution methods do not have the ability to provide full content in a single source.
- Charge what you think is fair, remembering the market place – not you – will ultimately decide the price point.
- Get the facts on the table and involve everyone in the process, including the end user.
- Using the travel media to expose the issues facing the industry today is an excellent idea, however the parties should negotiate in private not in public.
- Understand that if your corporate customers are forced into a multi inventory system increasing their data collection costs, it is likely the free marketing information received in your monthly, quarterly or annual customer contract performance reports is likely to no longer be provided to you without cost.
- Proposing fees that have not been fully explained and clearly identified, or are not auditable by the end user, the corporate customer, is not a productive solution to the current GDS pricing conundrum.
- While we understand the importance of reducing your distribution costs, it cannot be done fully at the expense of TMCs or ultimately your corporate customers.

To GDS and GNE Members

- The GDS and its ability to provide full content travel inventory is a current key component of a well managed travel program.
- The GDS is the vehicle that allows managed travel programs to access inventory and report sales. The GDS is not the owner of the data, just the custodian.
- Using the travel media to expose the issues facing the industry today is an excellent idea, however the parties should negotiate in private not in public.
- Too many travel managers have agency or airline backgrounds to trust how prices are presented. This is a new world and old pricing models no longer apply, but industry professionals know they were lucrative to the “intermediaries” who managed your product in a regulated environment. We strongly recommend a net pricing structure so true costs are recognized and understood.
- Provide a clear definition of “full content” so that buyers may know what they are opting for, either in or out.
- Inventory can and will be accessed in the highest-value manner, and the best products will survive.