

# **Travel Distribution**

**The end of the world as we know it?**

**Graham Floater**  
**LSE Enterprise, London School of Economics**

# Background to the LSE report

## WHY NOW?

- Report commissioned by Amadeus IT Group
- Why now? On the cusp of a retail revolution spilling over into travel

## SCOPE

- Main industry players in travel distribution value chain
- Global geographical coverage
- 3 key travel suppliers: airlines, hotels and car hire

## OBJECTIVES

- Identify key disruptive factors and drivers likely to shape the industry
- Identify key opportunities and business models that could emerge
- Support an industry-wide debate on the future of travel distribution

# Background to the report

## **Independence**

- Undertaken by an independent team of researchers at the LSE.
- Provides objective synthesis and analysis.

## **Limitations of the analysis**

- Provides potential pathways for travel distribution into the future.
- Raises questions around disruptions and trends, calls for industry-wide debate.
- Does not provide predictions about which pathways will be chosen.

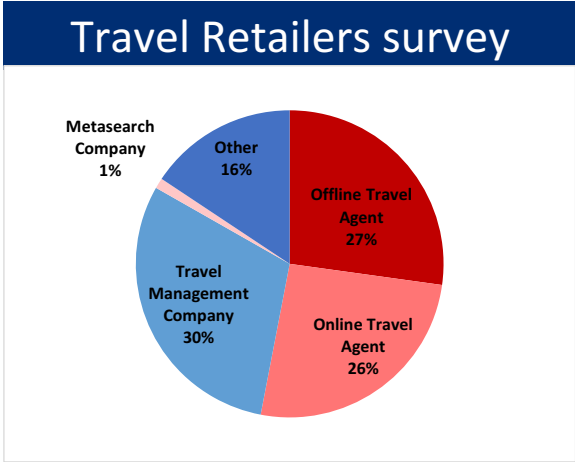
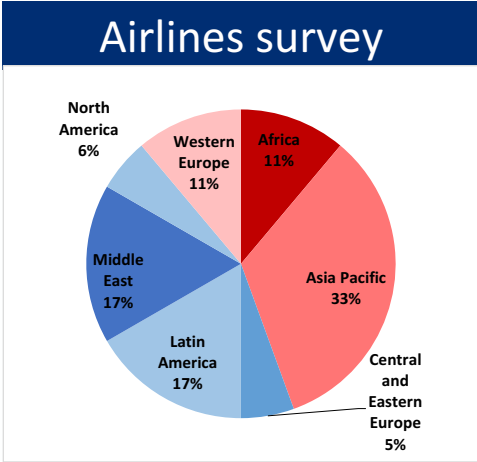
# Methods

A mixed method approach was undertaken for the report

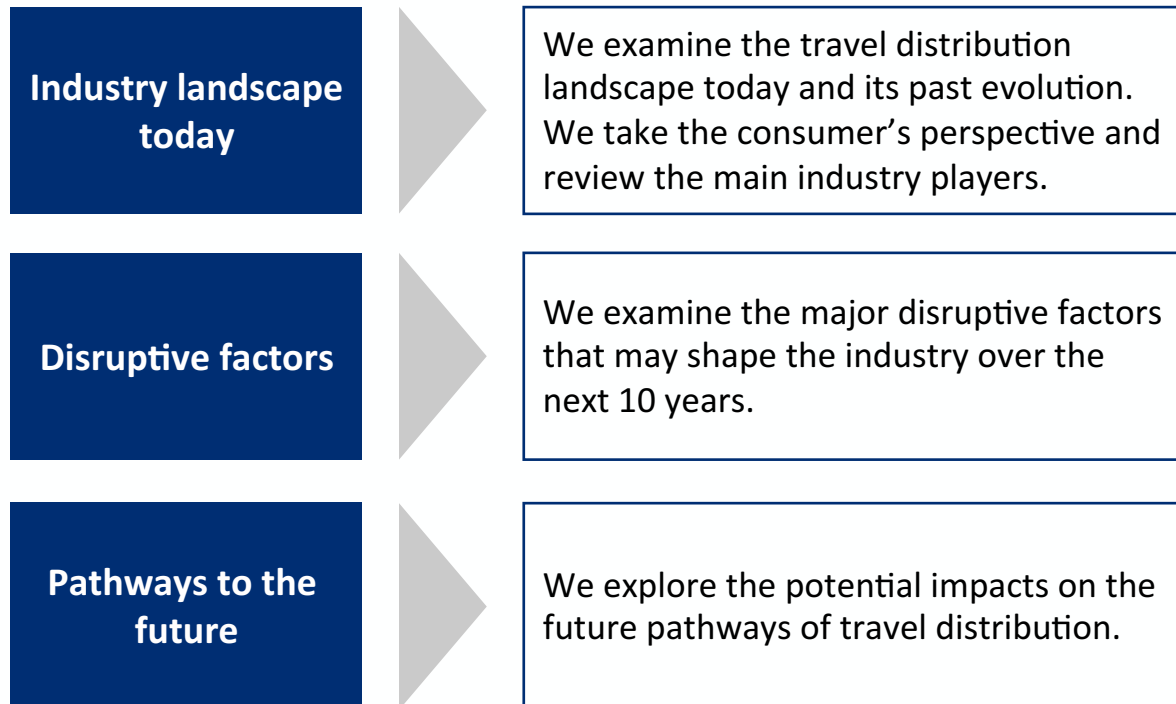
Interviews with 37 industry leaders & experts

Literature review & analysis (1410 sources)

Survey of 18 airlines  
Survey of 377 travel retailers



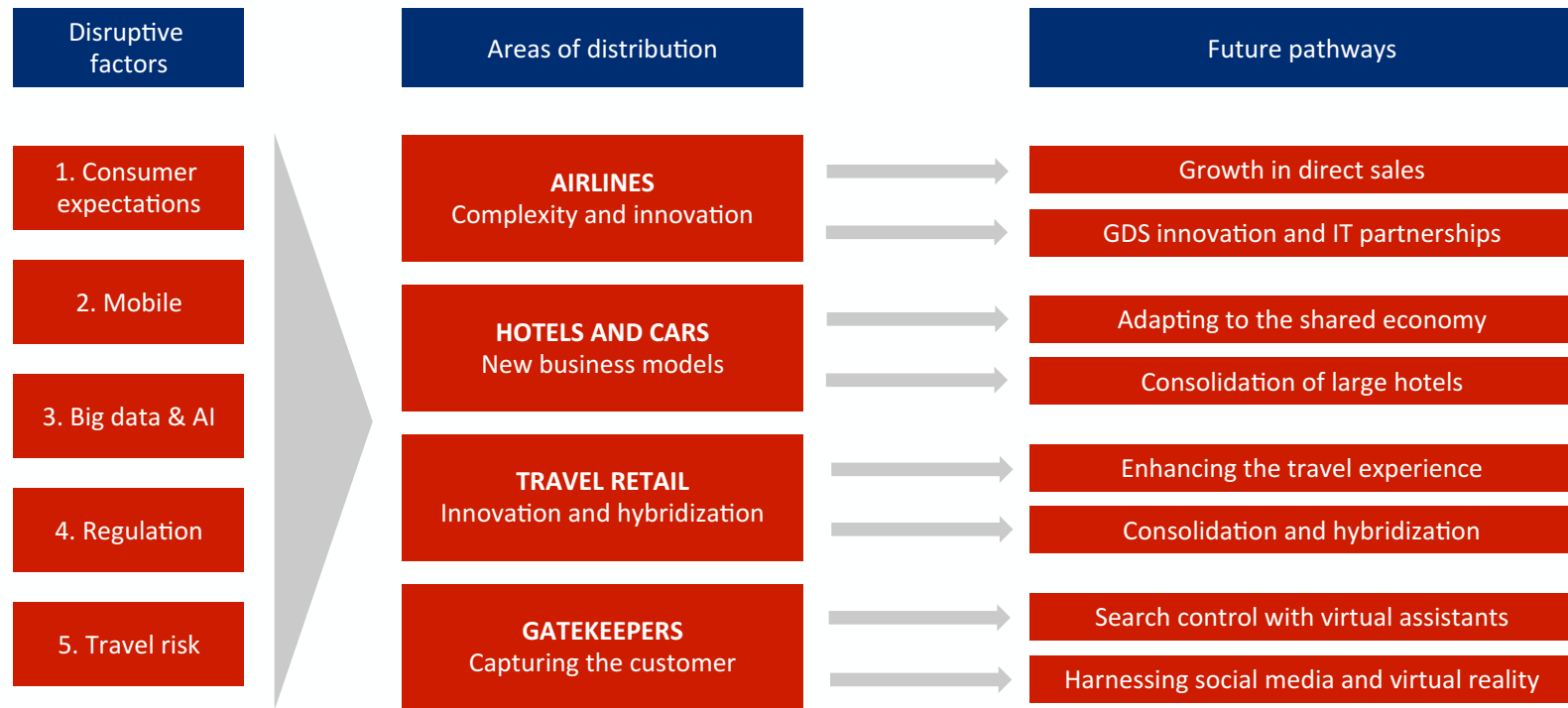
# Structure of the report



## Industry players

- Suppliers (airlines, hotels, car hire)
- Aggregators and Global Distribution Systems (GDS)
- Travel agents
- Metasearchers
- Gatekeepers

# Overview of findings



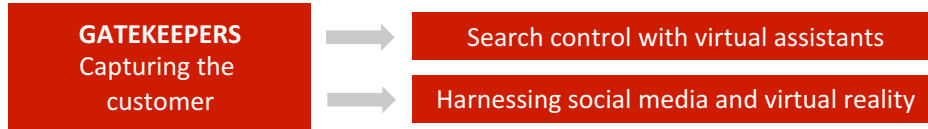
# 1. Consumer expectations

- Consumer expectations will spill over from retail into travel distribution.
- Millennials and younger generations will not accept traditional travel services – expectations are instantaneous.
- Different perspectives in airline travel distribution are likely to lead to pathways developing in parallel over the short to medium term.
- This could lead to constraints on enhancing the traveller experience, with a period of complexity and potential confusion for the consumer.

*“Everyone looks at their part of the industry from their own point of view and doesn’t necessarily look at the consumer. The travel industry could learn a lot from retail in terms of opening up and what’s the best solution for consumers.”*

**Kenny Jacobs, Chief Marketing Officer, Ryanair**

## 2. Capturing the consumer – the rise of the gatekeepers



- Gatekeepers – Google, Facebook, Microsoft, Amazon and Apple - control the acquisition of millions of consumers every day.
- Already disrupting travel distribution through the advertising model.
- This power is likely to continue to grow.
- Regulatory constraints to non-neutrality?

*“In the longer term, Google's negotiating power will continue to grow.”*

Emmanuelle Gaillard, VP Distribution, Air France

*“Google knows the consumer better than anyone else. That’s their unique advantage.”*

Kenny Jacobs, Chief Marketing Officer, Ryanair



## 2. Capturing the consumer – the rise of the gatekeepers

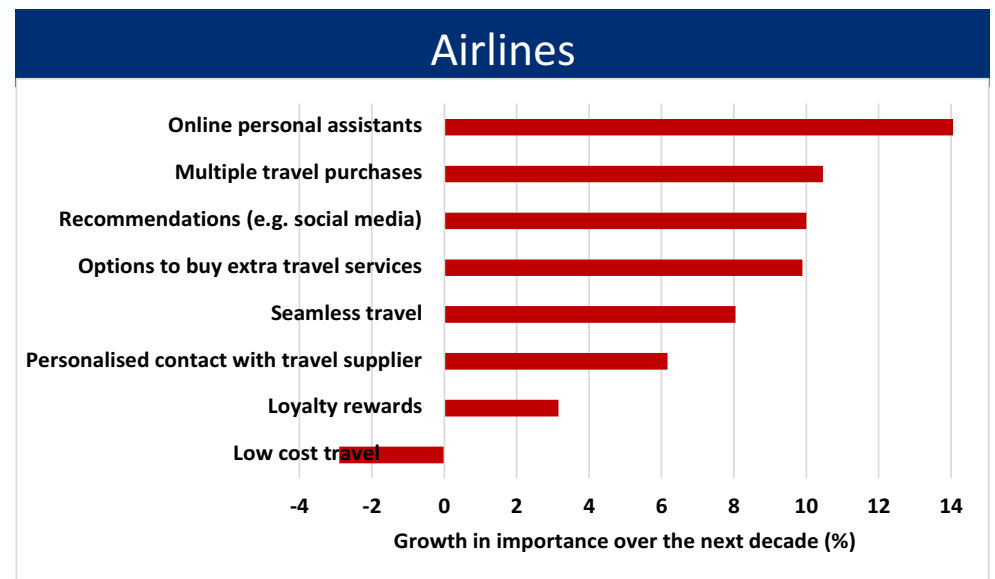
Virtual assistants, frictionless payments, social media and messaging will revolutionise retail over the next few years

### Virtual assistants

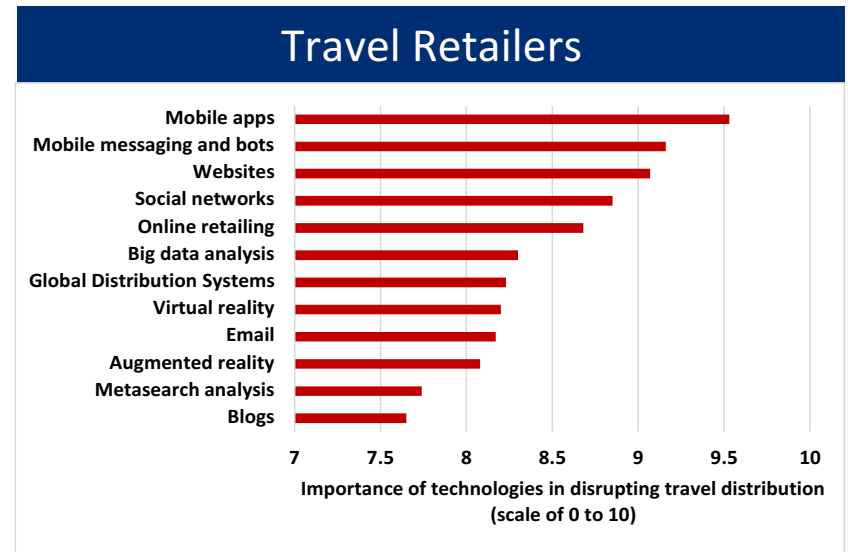
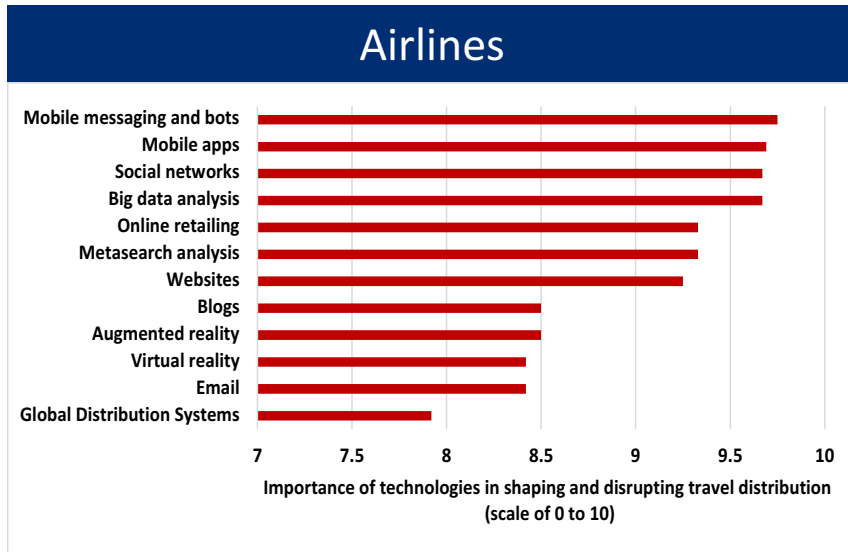
- Virtual assistants and bots will revolutionise retail
- Siri (Apple), Google Now, Cortana (Microsoft)
- X.ai's Amy schedules business meetings, compose emails

### Virtual reality and social media

- Sony, Facebook and Google investing in VR
- > 2 million hours of Facebook VR video watched
- > 50 VR games launched
- Touch controllers being developed
- Augmented reality, e.g. Pokemon Go

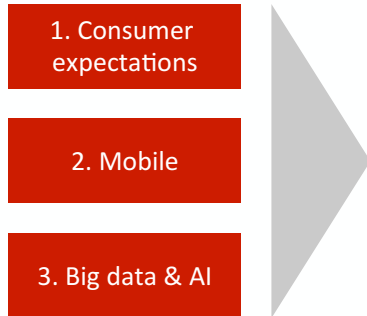


### 3. Technology



Airlines and travel retailers agree on the importance of many technologies in disrupting distribution. But different opinions on metasearch and GDS.

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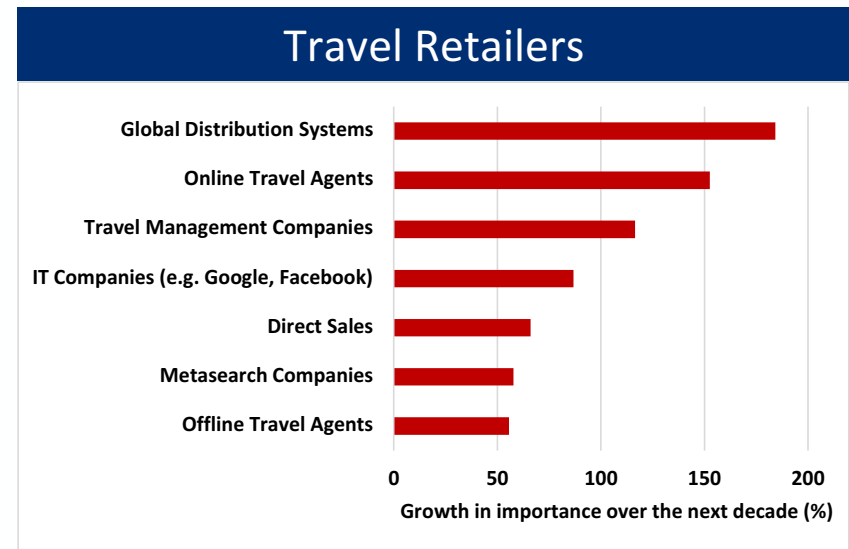
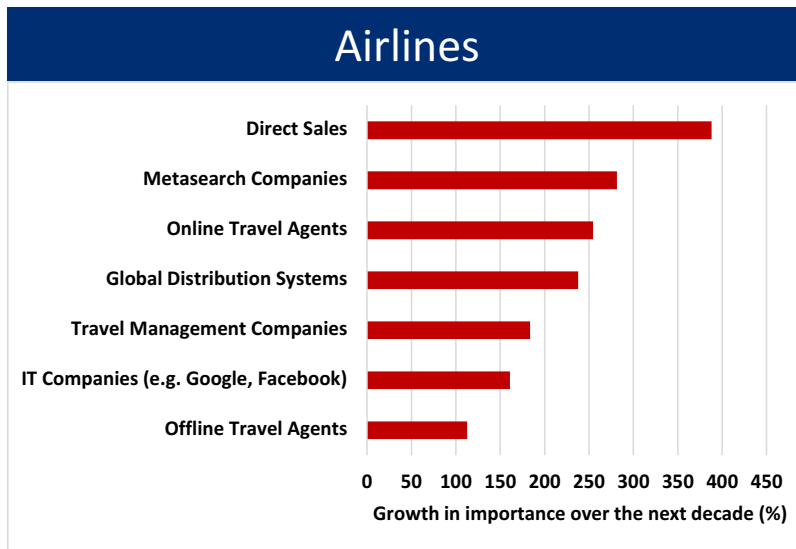


- Big data and artificial intelligence (AI) are key disruptive factors shaping travel distribution.
- Artificial intelligence could have impacts on the travel industry that go beyond search and booking.
- Mobile creating “micro-moment” searching and booking, leading to increased “look to book” ratio, with associated cost impacts on systems. But also opportunities for aggregators to provide more rapid services.

*“Progress is accelerating thanks to profound advances in machine learning and AI. I believe we are at a seminal moment.”*

Sundar Pichai, CEO, Google

## 4. Distribution – complexity, innovation and partnerships



Airlines and travel agents have different views on the relative growth in importance of direct sales, GDS and metasearch over the next decade

## 4. Distribution – complexity, innovation and partnerships



- Diversity of distribution methods may change in proportion in different markets, but complexity and variation will remain.
- Direct sales of larger carriers likely to grow in the short term.
- But differentiation will lead to greater complexity. Also, potential regulatory constraints on airline oligopolies and non-neutrality.
- Innovate or die - GDSs will need to meet new technology challenges stemming from complexity and differentiation.
- Distribution business models need to evolve to encompass more shared innovation, culture of experimentation, industry alliances to grasp the opportunities fully.

*“The old GDS business model doesn’t fit the new world – as airlines sell a wider range of products it will have to change.”*

**Keith Wallis,**  
Director of Global Product Distribution,  
Air Canada

*“GDS is an important part of the value chain at scale. To take that disparate data requires significant computing power: that aggregation happens largely with GDS.”*

**Greg Schulze,**  
Senior VP Commercial Strategy and Services,  
Expedia

Is the travel distribution industry prepared for the consumer revolution, and how will players forge new partnerships of innovation in response?

## 5. Mega meta OTAs



- Several industry experts predict the rise of mega meta-OTA hybrids over the next 10 years.
- The larger OTAs are gaining influence throughout the distribution chain - likely to negotiate better content and better conditions, whilst still receiving a commission.
- Pure metasearchers are likely to face increased competition from gatekeepers (e.g. Google)

*“Our brands give us access to tremendous amounts of travel data, and the secret to our longevity is our ability to turn that data into consumer value in real-time.”*

**Greg Schulze**  
Senior VP Commercial Strategy and Services,  
Expedia

# Conclusions

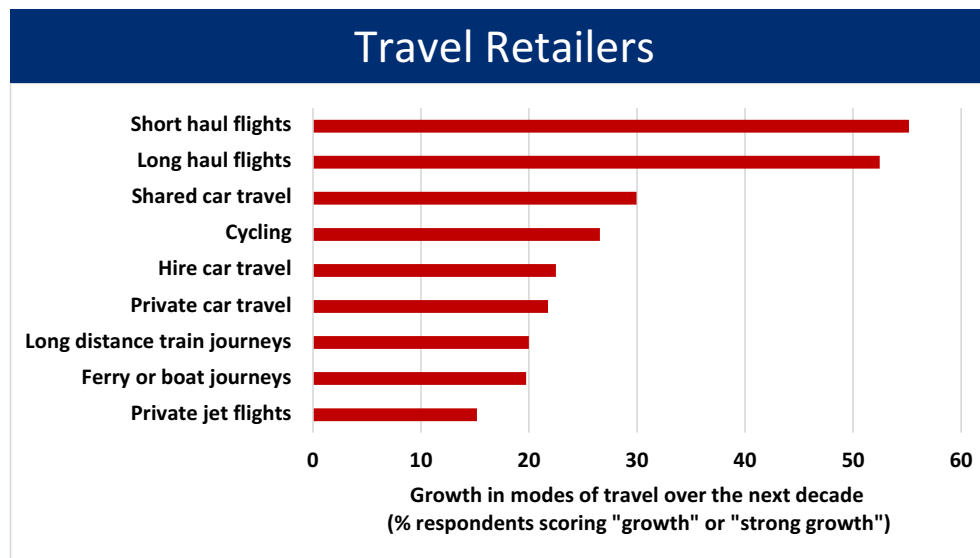
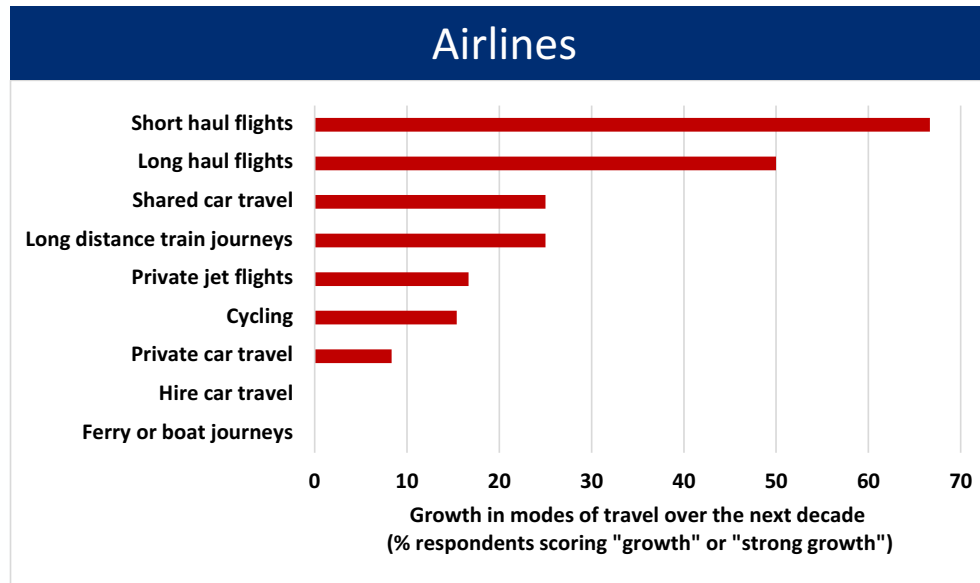
The travel distribution industry underestimates the speed and scale of the consumer revolution. The industry will need to respond rapidly and collaboratively.

- **Responding to consumer expectations.** The industry will need to respond to consumer expectations spilling over from retail, with collaborations for aggregating, processing and harnessing big data. Otherwise, the explosion of complexity could translate into consumer confusion and lost opportunities.
- **Responding to the rise of gatekeepers.** As the power of gatekeepers to acquire billions of consumers continues to grow, industry players will need to consider how to collaborate with them. Virtual assistants, payment technologies and virtual reality will strengthen their power. Regulators may also play a more prominent role.
- **Preparing for the rise of mega meta-OTAs.** The size and power of mega meta-OTAs are likely to continue growing. Their influence will penetrate deeper into the distribution chain, with the ability to negotiate better content and conditions, while still receiving commissions.
- **Harnessing technology.** The travel distribution industry is rapidly becoming a technology industry. Business models will need a more strategic approach that recognises the value creation of different technologies across the industry.
- **Integrating travel distribution.** To avoid consumer confusion and lost opportunities, industry collaborations need to go beyond bilateral partnerships and contractual relationships. Business models will need to encompass more shared innovation, experimentation and cross-industry alliances.
- **Adapting to sharing economy platforms.** The sharing economy will continue to create new markets and erode market share of suppliers and intermediaries. The industry will need to adapt to this changing market and monitor the impact of competition rulings in different regions as regulators play catch-up.

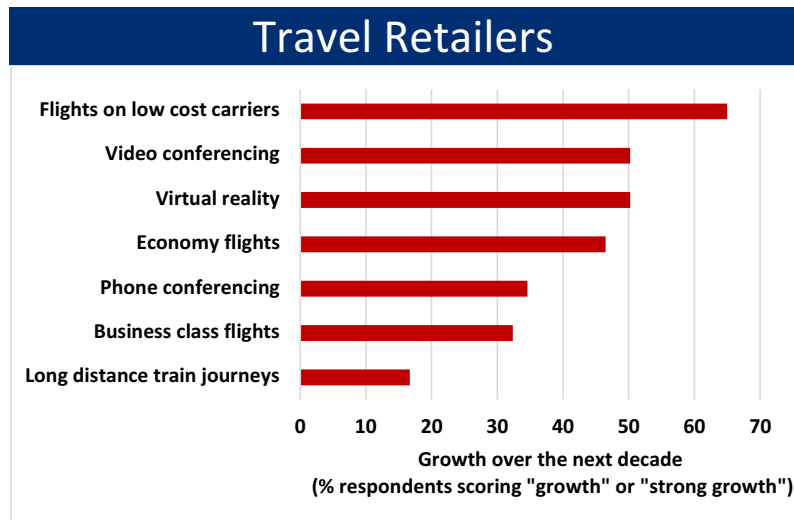
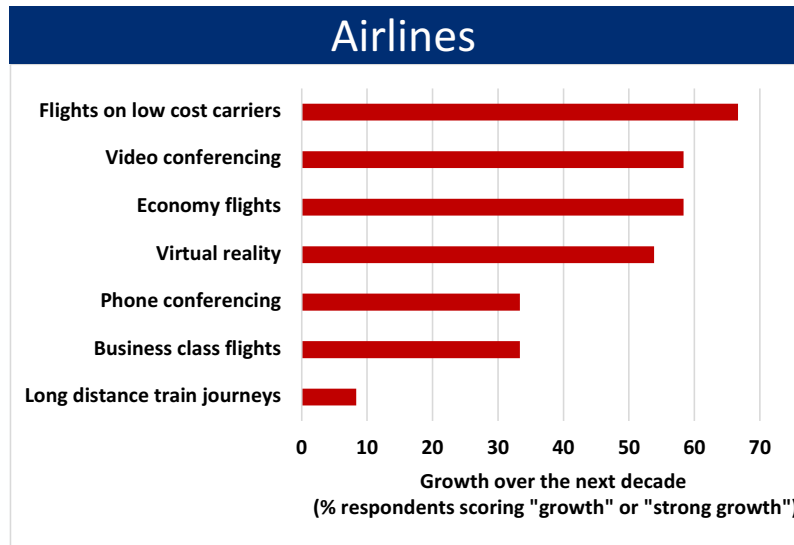
## **Annex: Additional slides**



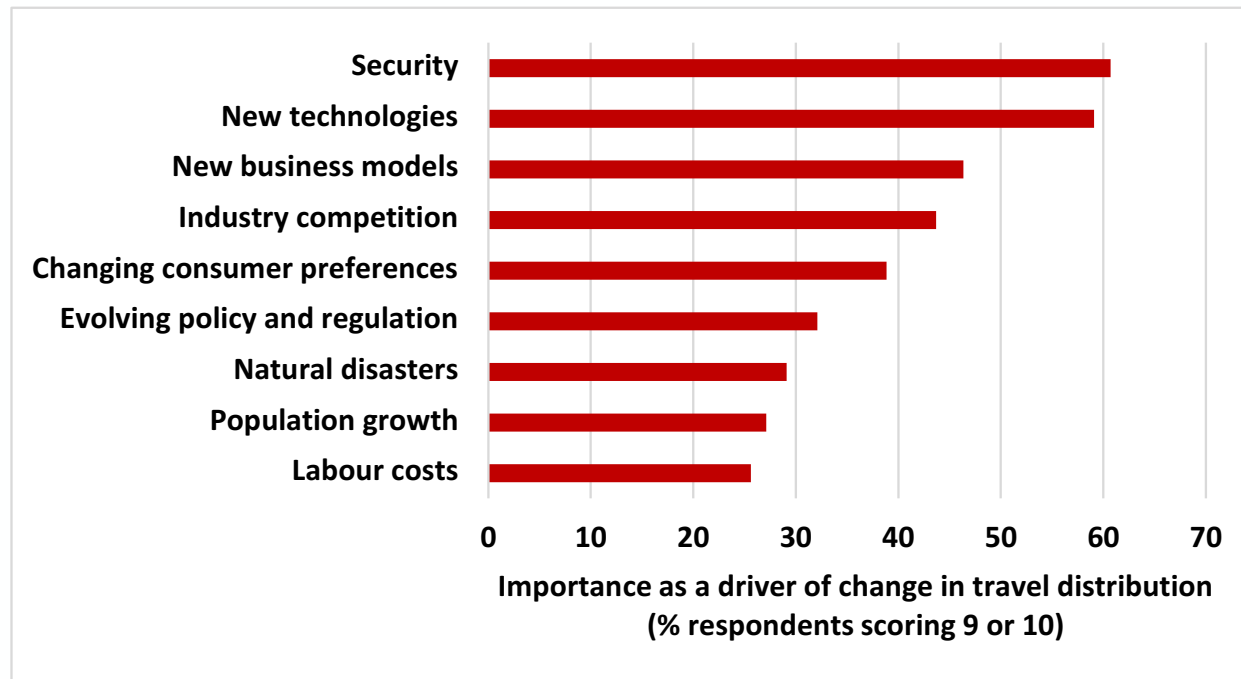
# How will people travel in the future?



# How will people meet in the future?



# What are the disruptive factors and drivers of change in travel distribution?



Source: LSE survey of 377 travel retailers, 2016