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Accelerate your airline's transition to retailing with offers and orders

Six critical areas to address; a three-phased approach

Slow but steady progress

Today, airlines create and manage their offers using traditional fare and ancillary filings with booking class-based inventory controls. Customers are typically grouped as leisure or business travelers based on flight attributes, and an appropriate fare is offered. This approach has sufficed for traditional channels such as legacy GDS distribution with ATPCO-based fare filings.

But as the industry looks to modernize its retailing and back-end capabilities, only a handful of progressive airlines have begun the transition to distributing their dynamically created offers using NDC. Fewer airlines have started looking at ONE Order to simplify the fulfillment of customer-centric retailing that includes all the services an airline's customer might need for their journey.

While the benefits are mostly well understood, why is the journey to retailing with offers and orders taking the industry so long? Shy progress to date warrants a closer look at why the pace of delivering on expected outcomes has been so slow.

Defining key terms

Before delving more deeply into the challenges, a clear definition of offers and orders is important.

What is an offer?

An offer is a proposal to sell a specific set of products or services under specific conditions for a certain price. Unlike today's world, where intermediaries construct an anonymous offer, this offer is packaged by the airline and may or may not be personalized for the requestor based upon knowledge of the customer and the current context of travel. Each offer may contain one or more dynamically priced air and non-air products but will have a unique identifier and a single price for all products included in the offer.

What is an order?

An order is a uniquely identified record of the agreement between two parties to receive products and services under specified terms and conditions. An order supports the sale of a flexible range of airline products and services that are not necessarily journey or travel-based (e.g., subscription services). An order will contain one or more order items and may support non-homogeneity; each passenger in the order may hold different order items at different prices, for example.

Offers can easily be turned into orders once purchased by a customer, as the products and the price together make up the indivisible offer that was constructed by the airline. And with the airline constructing the offer, Debit Memos due to travel agent pricing errors will become a headache of the past.

Why transition to a world of offers and orders

Today's travelers report frustrations at almost all stages of their travel journey, from shopping, booking, and payment to pre-, during, and post-travel touchpoints. Many of the challenges arise from limitations within existing business processes and technologies.

Consumer expectations have evolved across all facets of modern life as they've become accustomed to intuitive and value-added retailing. People now expect technology-driven, self-served, and personalized shopping experiences. Accordingly, travel providers must pivot towards simplified, scalable, and end-to-end solutions that deliver highly personalized travel experiences across the journey and touchpoints.

The future world of offers and orders will free airlines from the limitations of today's standards and systems. Airlines will be able to sell and service a much broader range of new and personalized NDC-enabled offers to drive incremental revenue while also adding value for their customers. When combined with the cost savings and service level enhancements that can be realized through more efficient management of orders, the business case for change becomes unquestionable. In a 2019 study, McKinsey estimated up to $40bn in new revenue opportunities annually across the airline industry as a result of this transition.

In addition to opening new growth opportunities, the offer and order model provides more flexibility over what can be sold, how offers are retailed and managing back-end processes. Simplified partner integration, real-time updates, and streamlined settlement processes allow for a more open and standards-based ecosystem, removing legacy complexity and ultimately better serving both the customer and the industry. End-result? Increased customer satisfaction, value-based differentiation in a crowded and historically commodity-based marketplace, and revenue potential for airlines and their partners.

Six critical areas that must be addressed to successfully transition to retailing with offers and orders

Despite slow progress to date, airlines and their partners can influence the pace of adoption and pull other willing airlines into the new world of retailing. Accelerating progress is more realistic if airlines begin by focusing the scope of dynamic offers on their NDC and direct sales channels. To do so, six critical areas must be addressed:

1

RBDs

Most airlines today rely on static pricing, which uses a limited number of price points tied to the Reservation Booking Designators (RBD) filed through ATPCO. While the original thinking assumed that evolving to dynamic offers required eliminating RBDs, which would entail a massive change, it is now apparent this is not the case. RBDs may no longer be used during the price creation process but kept to support the fulfillment of offers during a transition phase.

2

Data

Airlines have an abundance of structured and unstructured data that typically reside in silos. To support a more customer-centric approach to offer creation, airlines should consider consolidating and centralizing all customer data to:

- Draw inferences and actionable insights
- Better segment and personalize offers, and
- Deliver more relevant offers, leading to an improved customer experience

Once the industry moves to orders, these will become critical data sources.

3

Continuous Pricing

Some airlines have started to introduce continuous pricing, offering more granular price points than the traditional twenty-six. Lufthansa Group was amongst the first airlines to serve continuous priced offers on their direct and NDC channels in 2020 and immediately saw an increased revenue and conversion rate. However, with the constraint and heavy reliance the industry currently has on ATPCO filed fares and RBDs, there are comparatively few successful initiatives that involve true continuous pricing across all sales channels. Removing the dependency on RBDs allows airlines to look at opportunities to create more fine-grained priced offers, initially on direct channels, transitioning eventually across all channels.

4

NDC-enabled retailing

Ancillary services represent significant revenue, margin, personalization, and risk reduction opportunities for airlines. However, these are often managed through isolated IT systems, meaning airlines cannot take a holistic customer and revenue view. Breaking free from legacy technology constraints will help deploy strategies that consider how offer optimization can impact business, revenue, and the customer experience.

According to McKinsey, better segmentation of customers to create more personalized and relevant offers can increase an airline's revenues between 5% to 15%. However, because of the way most airlines are currently structured, segmentation expertise typically only resides in their marketing departments, not those involved in offer generation. Furthermore, while technology is currently available for offer-based segmentation to feed all airline channels, airlines are at different levels of digital maturity in terms of technology adoption.

For airlines to become true retailers, they must be able to integrate and manage providers of a broad range of air and non-air products that enhance traveler journeys and the airline retail offer. Payment, servicing, fulfillment, and brand alignment are all important considerations in this regard.

5

Order and back-office simplification

Only a few of the most advanced airlines in their journey to dynamic offer creation and distribution have started looking at order management to simplify back-office processes. This simplification will enable the full benefits of retailing for those airlines.

ONE Order looks to replace legacy documents, such as PNRs, eTickets, and EMDs, with orders that will house all necessary data within a single record. Legacy business processes can be optimized as they are migrated to the order from the legacy documents.

The resulting IT infrastructure will be much simplified with the removal of legacy systems, such as the PSS and the eTicketing servers, interline and revenue accounting simplification, and the ability to easily optimize the airline payment infrastructure.

6

Senior level commitment and organizational realignment

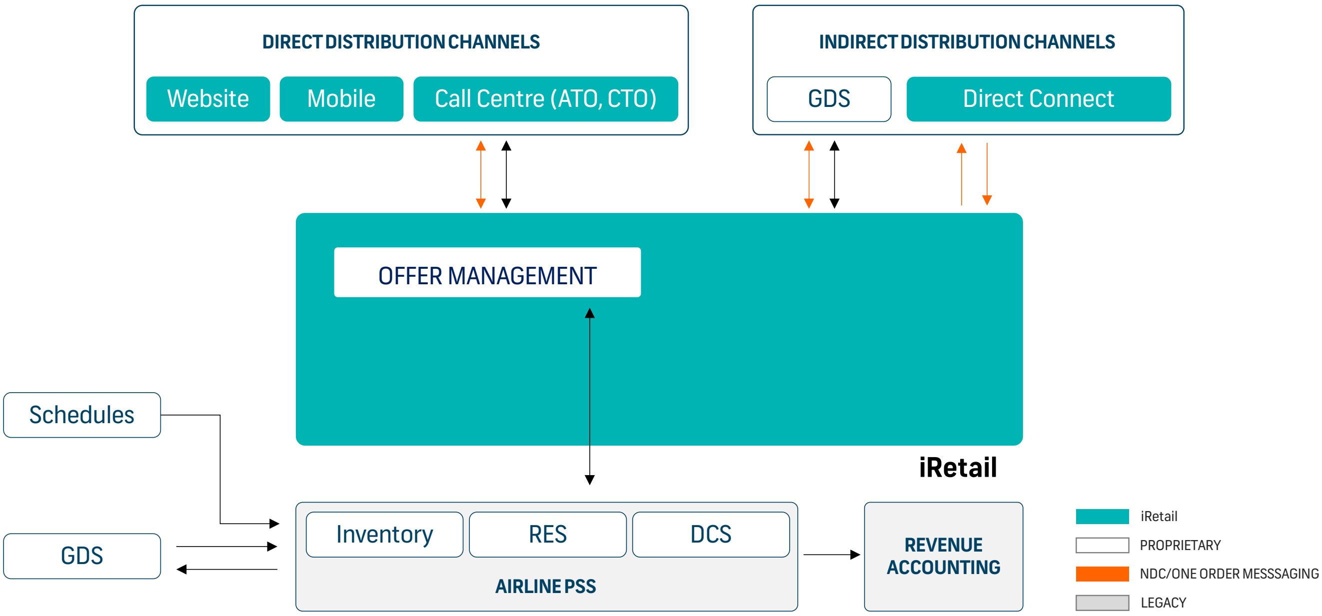
Part of the slow shift to offers and orders is due to the industry itself moving slowly. Airlines must be able to manage big technology projects and be willing to transform. There must be C-level support for the transformation and the required organizational changes. Most airlines have lost skilled resources and the ability to run a project of such scale due to the pandemic.

Furthermore, airlines typically have very traditional organizational structures that have existed for decades. Very few airlines have adapted and optimized their structures to focus on sales, channels, products, the customer experience, and technology enablement to become modern retailers. Airlines will require skillsets that understand retail, digital strategies, and the customer experience in the new world.

A three-phased approach to the end-objective

The travel industry's current systems landscape is complex and layered. Legacy systems, processes, standards, and mindsets influence the industry's slow evolution to retailing with offers and orders. The end objective is clear, but the path forward to addressing the six critical areas that need to change is challenging. To accelerate the industry's journey, airlines can consider a three-phased approach to shift to a new world of retailing with offers and orders.

1. Offer Management's interim state



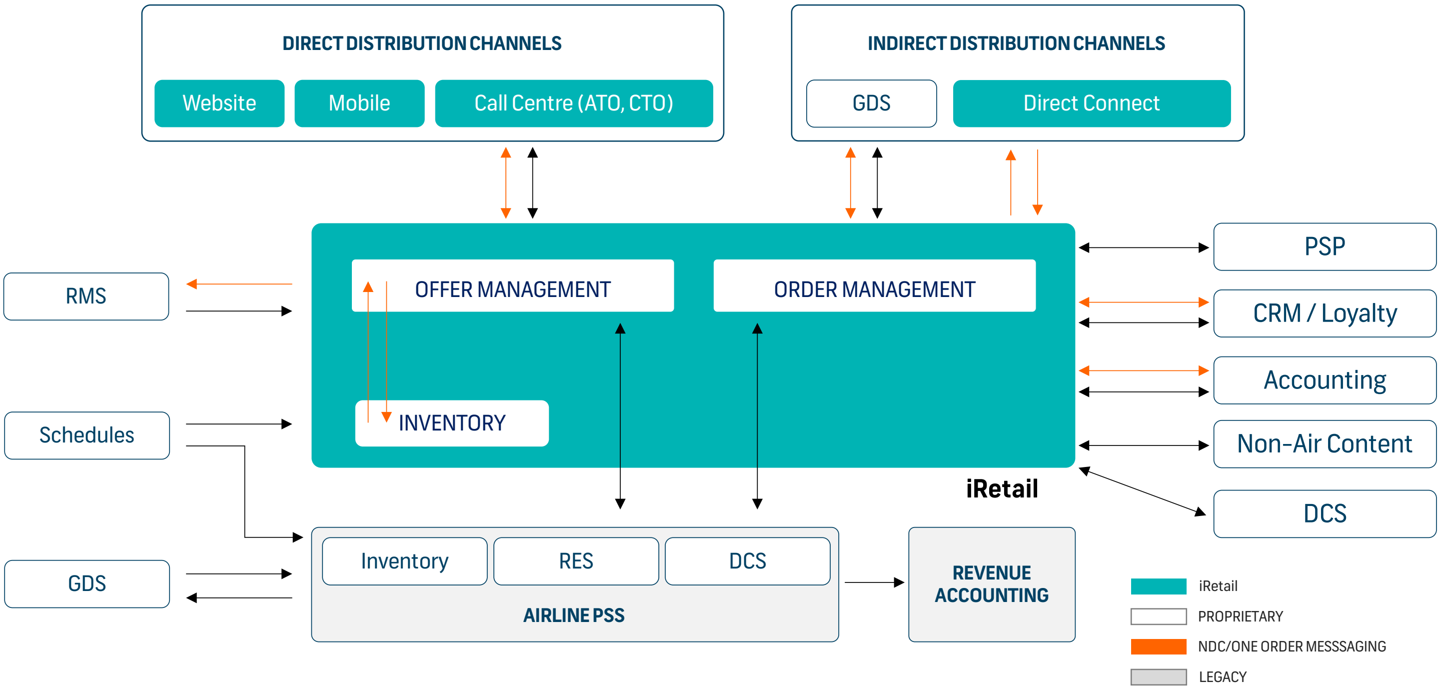
Airlines today are severely constrained in their ability to innovate in the selection of products they offer to their customers. The Offer Management phase will provide airlines with this capability while also ensuring these products can be sold, serviced, and fulfilled using systems and processes that are currently in place.

Real-time personalization of both products and pricing is possible in this phase, ensuring relevant products are returned to the user based on the context of travel.

To ensure legacy processes requiring RBDs continue to operate in this transition phase, the dynamically calculated price will be marked up or discounted based on the closest RBD fare, allowing all legacy processes on the PSS to continue to operate as they do today.

Airlines should see improvements in the customer experience and an uplift in revenue during this transition phase.

2. Order Management's interim state



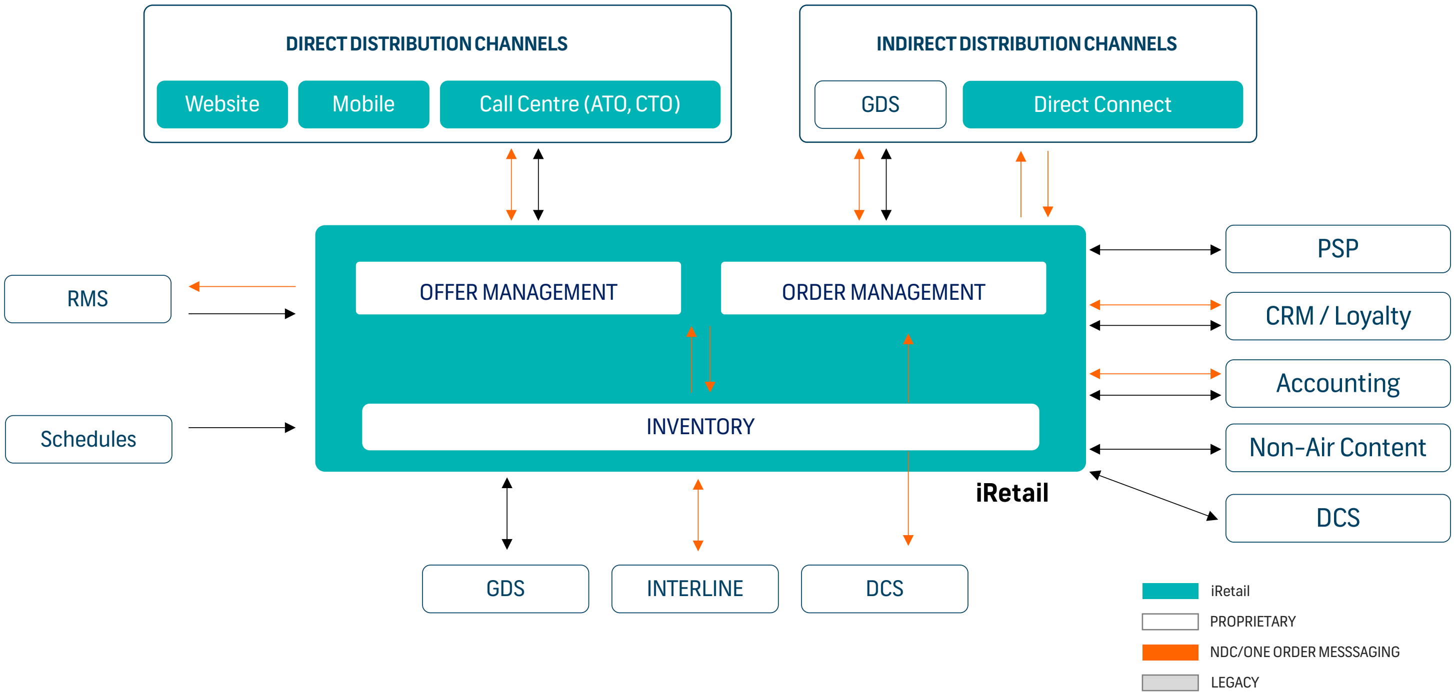
The transition to the order end state will most likely happen in two phases, with airlines having to initially support both traditional and new systems during this transition phase. This phase should be as short as possible to avoid extra effort and risk. Still, it must be sufficiently long to ensure that all required legacy processes have been evaluated and either moved and optimized in the new platform or removed altogether.

In the interim state, airlines place full control of inventory and order creation for a subset of flights into the new platform, removing the inventory for these flights entirely from the legacy platform.

Legacy processes will be assessed and either removed if no longer required, moved across to the new environment as-is, or optimized to ensure more efficient operation in the new platform. This phase will be used to validate the ability of the new world of offers and orders to handle all of the airline's business needs.

In parallel, existing processes will continue to operate as-is for the remainder of the flights, not under the control of the new retail platform. Over time, more and more control and inventory will be migrated onto the new platform, and eventually, we will arrive at the IATA ONE Order end state.

3. Offer and Order Management end state



This end state will allow airlines to sunset their legacy PSS, with all the capabilities having been migrated to the new offer and order-based platform. The Order Management System (OMS) will manage all partner interactions, and all updates will be done directly to the order itself. The OMS will become the single source of truth for all services contained within the order and for all parties responsible for delivering these services to the airline customer.

With everything now contained within the order, PNRs, EMDs, and eTickets will no longer be required. This much simplified and modernized IT landscape will allow easier integration of new products, suppliers, and partners to support the modern retail needs of both the airline and its increasingly digital customer base.

Achieving the industry's end-objective

Reports of accelerated NDC adoption in the direct and intermediated channels have increased recently. While this is excellent news, it remains a small starting point with low volumes for the industry. It's clear that airlines and their distribution partners are at very different levels of maturity in their journey to enabling digital travel retail. The industry must continue to create a sense of urgency to accelerate offer and order management's deployment. Much of the focus to date has been on offer management. However, the full benefits of the travel retail revolution will be reached only when order management is fully running.

At the end of the tunnel, increased revenues and cost savings await, along with enhanced traveler experiences. Collaboration between parties is key to overcoming internal and industry obstacles and keep beating the drum on this industry journey.

The good news is that a step-by-step approach can be used and validation performed along the way to minimize business disruption to airlines and their partners. Once the end-state has been reached, a simplification of processes and IT infrastructure will establish a more open and extensible ecosystem where airlines and their partners can holistically meet their customers' travel needs.

About iRetail

iRetail is a transformative platform for personalized retailing across channels and traveler touchpoints, throughout the journey.

Centralizing business, market, and customer data through a single source, iRetail enables airlines to dynamically package and flexibly price air and non-air offers. The platform expands traveler engagement and revenue-generation opportunities for airlines by facilitating quick and seamless partner integration.

iRetail´s advanced Machine Learning capabilities and analytics drive customer insights and business performance improvements, while simplified back-end processes unlock fulfillment, servicing, and reporting efficiencies.

Retail - your way - and set the pace of the industry with next-gen offer and order management capabilities.

Empowering airlines for a new world

Have you ever had to scrap a promising idea because your technology simply couldn't support it or would be too expensive and time-consuming to adapt?

Are you incurring hefty costs being handcuffed to rigid solutions and patchwork integrations that cause more headwinds than tailwinds?

If so, you're not alone. And most likely restrained by the legacy systems that are so ubiquitous across the travel industry. At IBS Software, we believe technology should drive your business forward by unleashing its full potential. Not hold it back. And that's why leading airlines worldwide partner with us, from passenger services and loyalty management to flight and crew operations and air cargo. Why throttle back when your airline should be accelerating forward?

Find out how our SaaS portfolio breaks down industry silos and drives profitable growth for airlines through increased agility, innovation, and collaboration.

Conditions change quickly – can you?

Engage, grow, and adapt with IBS Software.