

REPORT
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AHEAD OF THE GAME

As low-cost airlines gravitate towards hybrid models and network carriers go in the opposite direction and unbundle their products, they are finding that their reservation systems are struggling to keep up

As the low-cost sector comes of age many carriers are broadening their business models to add features such as customer loyalty programmes, global distribution systems and baggage transfer services into the mix. This evolution to hybrid business models is gaining momentum as economic shockwaves continue to reverberate across world markets. In fact, airlines of all hues are fine-tuning their businesses to take advantage of any potential new revenue opportunities – even full-service carriers are unbundling products, introducing point-to-point routing and directly distributed, ticketless travel.

But implementing these strategy changes is complicated because reservation systems built for the ticketless, low-cost model were not designed for the complexities of codesharing and interlining, GDS and e-ticketing. Equally for those with ticketed, full-service business models, introducing simple fares, selling hold baggage, refreshments and entertainment services individually, offering minimal fare combinability and no codesharing/interlining is not easily supported by GDS suppliers, or is costly to implement on their complex reservation systems.

All the major reservation platform suppliers are ramping up the flexibility in their systems, with new features set to roll out this year, but there are unlikely to be complete out-of-the-box hybrid solutions any time soon. In the meantime, many hybrid airlines are forced



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Chief commercial officer, Norwegian

to come up with in-house workarounds to fill the system gaps, with some patching together elements of more than one system to provide the functionality they need.

This is a scenario fraught with shortcomings. Yet some airlines are not only innovating with technology and processes to achieve viable solutions for their specific business models, they are also influencing future development of reservation systems for the wider market.

The lack of an out-of-the-box hybrid reservation system is particularly acute for low-cost players which have grown into hybrids with the addition of new business streams, and for smaller airlines looking for growth opportunities in the hybrid space.

“For some airlines it is a show-stopper,” says Gerd Pontius, executive director and founder of aviation consultancy Prologis. “Although they have decided to develop the business to a hybrid business model, they cannot do it because of a lack of functionality in their systems.”

The costs associated with moving to a hybrid business model can be high. “On average our customers who have 30-40 aircraft invest €500,000 [\$662,075] to €1 million per year implementing products on their own to do workarounds and fill the gaps between standards,” says Pontius.

These workarounds also require updating every time the reservation system supplier issues an upgrade. “Very often the cost of updating is as high as the initial implementation of the product and it has caused a lot of pain, which is why airlines are so concerned.”

SITA chief executive Francesco Violante adds: “Often the workarounds erode a significant amount of the revenues that they had anticipated from new business because of the inefficiencies introduced by these ad hoc processes.” In addition, some of the costs of evolving to a hybrid model are not immediately apparent.



Photo: Reuters

Potentially there are some significant changes to back-end processes and delays to cash flow when payments on tickets do not come into the business straight away. "If you think about the low-cost carrier that's been around five to seven years and grown appreciably in size, they are a big business," says Amadeus director of IT sales Paul Heighway. "But they probably don't have the expertise within this business that knows about other distribution models and how these work."

DO IT YOURSELF

Air France-KLM group leisure carrier Transavia has created a reservations system to meet the needs of its mix of charter operators booking both charter and direct seats, and individual passengers booking both charter and direct seats, by working with Navitaire on the seated service and Germany's Quintes-

sence Consultancy on the charter business (plus Amadeus Ticketless Access for travel agent distribution).

The airline has built its own interfaces to move seats between the direct seat and charter systems, and then combine both types of passenger into yet another system on the day of operation.

The downsides are that this also makes it difficult for Transavia to use its reservations solution as a multi-airline system – sister company Transavia France (which has a different airline code) also uses it to keep down costs – and features are duplicated across the systems.

"The infrastructure you get is very complex and that creates the challenge," says Transavia commercial director Willem Hondius, adding: "The disadvantage is you need much more interfaces of systems than you would like."

On the upside, Transavia has built a portal for its tour operator business partners to access their seats to change names, creating automated links to the back-office processes, with less mistakes. "They are very happy with this solution, which creates a loyalty from them to us and it saves costs in terms of processing," says Hondius.

"We are also able to introduce check-in for charter passengers through this portal. IT helps us to give more products and services to tour operators which they can bring forward to their passengers and that's important for us to create that loyalty to business partners."

Despite this advantage, Transavia is not wedded to providing its own workarounds and is open to alternatives. "If a vendor comes up with a total solution, most probably we would switch," says Hondius. "We are forced to work this way but we're not happy with it, it's not the best solution."

Some larger carriers with a low-cost heritage are changing reservation systems, but this is not easy as David Harvey, general manager information technology at Virgin Blue, readily admitted eight months or so into an exercise that was originally scheduled to take four. "We are trying to grapple with the shortcomings of out-of-the box low-cost solutions and the inflexibility of the legacy solutions," he says.

OPTIONAL EXTRAS

Virgin Blue has already added bells and whistles, such as menu pricing, different charges for optional services and a loyalty programme, to its existing Navitaire Open Skies (ticketless) reservations system and uses Amadeus for interlining capability across its short-haul network. "It's all part of the creep up from the leisure market to the corporate market and having multi-channel services," observes Harvey.

After eight years, growing from two to 65 aircraft, Virgin Blue acknowledges that its system has limited gateways compared to a new-generation system with lots of open integration points to move data in and out. And the workarounds are also showing their age. "A typical challenge is things are built to suit a particular purpose in time and we are not thinking about whether that is suited to purpose in a couple of years' time," says Harvey.

So what is Virgin Blue looking for in a new reservation system? Equally important to selling tickets is the ability to handle passengers

FUTURE CHALLENGES: THE SUPPLIERS' VIEW

As business models across the low-cost and full-service spectrum continue to converge, Amadeus is building up the capabilities of its system to deal with unbundling of products in any channel, not just the web. From the low-cost perspective, this year it expects to add in the ability for airlines with ticketless products to seamlessly issue tickets as they need to on the same platform.

Giving airlines the ability to differentiate themselves in how their product is listed is a big issue still to be solved, says Amadeus director of IT sales Paul Heighway. "A lot of work is happening on the product distribution side to allow all the information to be provided across all the distribution channels."

Providing differentiation opportunities for airlines is also high on the agenda for Travelport, and vice-president of airline business development Kevin Ficco says new tools coming down the line will include point-of-sale and merchandising tools plus new payment options. In addition, Travelport's interlining hub is being expanded to accommodate other types of connections such as interlining through check-in.

THIRD-GENERATION PRODUCTS

Navitaire will be rolling out a third-generation product with interline check-in, codesharing and GDS in 2009. Managing director John Dabkowski says: "A lot of airlines are hunkering down on anything that can reduce their costs very quickly without impacting on clients, and they are looking for very short payback periods on anything that captures incremental revenue."

Agility to take on characteristics of any business model and develop revenue from ancillary services will be the name of the game going forward for low-costs, hybrids and full-service carriers alike.

With this in mind, SITA is developing its Horizon suite to include interfaces for hybrid operation, increased self-service passenger processing and improved customer servicing and ancillary capabilities.

The critical issue will be how to support ancillary revenues in a simplistic manner so that revenue gains are not wiped out by the fulfilment of processes and exception processes. "Some airlines have been shocked to learn that passengers were paying upfront for a service that was on average costing them more than they were charging after they looked at their fully loaded costs," says SITA chief executive Francesco Violante, adding: "As distribution and partnering issues are solved, more focus will be placed on the value of timely information."

as they flow through the airport and the ability to recognise tiers of passengers, says Harvey. "Having a system that allows preferential seating while delivering on the sales promise is the thing for new world carriers."

Harvey also has a weather eye on V Australia, Virgin Blue's recently launched long-haul carrier on a (ticketed) Amadeus platform, and the potential future challenge if, over time, these airlines need to come together and integrate their respective ticketless and ticketed solutions.

In Canada, Westjet's route to a new reservation system and bringing together ticketless and ticketed sales has been bumpy. After writing down C\$31.9 million (\$26.4 million) in 2007 when it ditched attempts to develop and implement a tailor-made aiRes solution, Westjet pulled together an interim combination of Navitaire's upgraded Open Skies, with Amadeus providing an e-ticket solution and Mercator the interlining revenue accounting capability.

It all went relatively smoothly, according to Westjet executive vice-president for commercial distribution Hugh Dunleavy, as "a lot of these processes we outsourced to them and we didn't have to implement infrastructure in-house".

Now to support the airline's plans to introduce multi-fare pricing, a loyalty programme, plus building a codesharing partnership with Southwest Airlines in addition to the one it already has with Taiwan's China Airlines, Westjet is turning to Sabre's SabreSonic system. The vast majority of sales will continue to be ticketless, but Dunleavy forecasts that over the next five years 10-15% of the airline's business will be ticketed (see related story on page 16).

"Eight-five to 90% will still be in the traditional ticketless environment and we want to make sure it is as straightforward as possible, so we don't add in complexity," he says.

The best way to do this and the changes that will be needed to the reservation environment is a work in progress with the Sabre team. "They are trying to work out how they filter information through the system so it works out when a ticketless solution and when a ticket is required," he explains.

IN-HOUSE INNOVATION

Other carriers like Norwegian Air Shuttle, TUI Fly and Mandala Airlines will always either have requirements outside the usual range of reservation system features or the need to implement features more quickly than the reservation platform suppliers can provide. For them, the critical issue is to have reservation platforms that will support their in-house innovation.

Norwegian worked with Amadeus on the development of the Pioneer system, becoming a launch customer. It took a lot of time and

resources, according to chief commercial officer Daniel Skjeldam, but the airline came out of it with a very flexible system, which supports a number of its criteria for expanding the business model.

"One of the things we found necessary is full access to Amadeus GDS, because in the Scandinavian market that is a very important distribution system – 15-20% of our sales are through Amadeus, and the yield is higher than through the web," he says.

Norwegian's own IT department's role has built additional functionality into the reservations platform. "The whole purchase processing was developed in-house, including seating, luggage, reservation, direct-to-gate possibilities. We are now setting up a biometric solution so people can check-in and board via a fingerprint, as well as solutions tailor made for cell phones," says Skjeldam.

"We will need these things faster than the likes of Amadeus are able to supply," he observes. "Our approach is to have the environment in-house so we can work with things on top of the reservations system and can get it how we need it ourselves."

As part of tourism group TUI Travel, holiday carrier TUI Fly shares a close business relationship and business processes with

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sister holiday company TUI Germany, so it has taken advantage of the open architecture of Navitaire's New Skies system to add functionality to suit the distribution world in which it operates, such as a work flow application to automate internal handling of group booking enquiries via the internet.

However, some TUI Fly innovation is also influencing Navitaire's product development. For example, TUI Fly's requirement to handle special service requests (SSRs) more efficiently to maximise revenue.

"We developed the idea of doing a points-based belly inventory system where a bicycle is worth five points and a golf bag is worth two and we calculate the available SSRs offered to customers on the points scheme," explains head of e-commerce and distribution platforms Ingo Schölzel. "This is something Navitaire has picked up on and is going to put into the product, which a lot of new start-ups are keen to get."

Regional limitations of low internet and credit card penetration, but high levels of mobile phone ownership have driven Indonesian carrier Mandala Airlines to take an

innovative approach to its reservation and payment systems. A year or so ago the airline was manually ticketing on a cash-only basis. Chief executive Warwick Brady says a key element of the business turnaround was to make it easy for customers to book and pay.

The airline teamed up with Navitaire New Skies, plus banks and other service providers and their software houses, to come up with a solution to support basic e-reservations on a book and hold structure. The GDS format for travel agents has been replicated on a web-based screen and Mandala customised its site to be very "skinny" so it is easier to book.

"We feel the Navitaire system provided a Rolls-Royce booking engine and we had to do a lot of work at the front end to make sure we get no revenue blockage," says Brady. That work has resulted in direct customers using the banking networks' automated teller machines to pay Mandala and print out their tickets, with 40% of payments now going through this system.

Another 20% of payments come from travel agents who have "virtual" accounts at their banks that automatically allocate money into a credit shell, allowing them to book tickets against these funds. Agents can also send SMS messages to their banks in order to top



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FRANCESCO VIOLANTE
Chief executive, SITA

up their accounts. Mandala has also set up a WAP booking engine with mobile phone carrier Indosat. Currently this just allows customers to book, but a facility that allows people to load cash into an "end wallet" to pay for their

tickets has been trialled and, subject to Indosat receiving regulatory approval, looks set to roll out in the second quarter of this year.

Mandala is not immune to problems updating the workarounds added to the reservations system. "As soon as they [Navitaire] update their system we have to run around and update our system. We very much avoid doing updates," confesses Brady. "In the last update we lost ATM payment for 12 hours when we ran around fixing it."

The big bonus is that ATMs are a much cheaper way of getting paid in countries where credit card payments are expensive to process. They could also offer advantages in other parts of the world, for instance in the US, where cash flow difficulties have forced airlines into administration.

"We think we will probably see airlines develop payment systems that might exclude credit cards," predicts Brady. "Because credit cards are more expensive and if banks are holding back on credit cards, airlines will be forced to find other solutions to release that liquidity." ■



Read our earlier feature on whether reservations platform technology can deliver:
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