

2015



PROLOGIS

Experts in Aviation Consultancy

New Distribution Capability – NDC

Increased Diversity in Distribution: What is the Market's Opinion on the New Data Transmission Standard?

Authors:

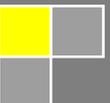
Hanna Schaal
Senior Consultant
schaal@prologis.aero

Dennis Schrage
Senior Consultant
schrage@prologis.aero

Judith Kloeg
Consultant
kloeg@prologis.aero

Copyright © 2015 PROLOGIS AG

All rights reserved. This study or any portion thereof may not be reproduced or used in any manner whatsoever without the express written permission of the publisher except for the use of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law.



Executive Summary

Nothing is as constant as change. Anyone who is involved with distribution in the aviation industry knows that this aphorism is definitely true for this sector. As of September 2015, Lufthansa Group, for instance, will be introducing an additional fee for all flights with Lufthansa, SWISS and Austrian Airlines that are booked through one of the Global Distribution Systems (GDS). This is a prime example of how airlines are expediting direct distribution, i.e. bookings through their own websites or APPs. At the same time, the importance of chargeable Ancillary Services, like seat reservations or (extra) luggage, is increasing for both legacy airlines and low-cost-carriers (LCCs). However, especially within the channels of indirect distribution, the technical requirements do not suffice to offer and sell these Ancillaries. It is very often simply not possible to display Rich Content and differentiate between products.

For three years, the IATA (International Air Transport Association), that represents 250 airlines worldwide, has been working on the project New Distribution Capability (NDC). The new data standard is said to be more flexible and dynamic than, for example, the older EDIFACT (Electronic Data Interchange For Administration, Commerce and Transport), that stems back to the 1980s. NDC is expected to increase the possibilities in distribution significantly.

Yet the opinions on NDC vary greatly. Should stakeholders, such as travel agencies and the providers of reservation systems, really “fear bad things”? Or is it rather a chance to bring new products into the market and obtain new information? In late 2014, the British online industry website Tnooz.com published a survey amongst nearly 200 “travel buyers”: 17% of them claim to support NDC, while 20% reject the new data standard. The overwhelming majority, 63%, are undecided: They stated that they do not possess enough information to form an opinion.

What exactly is NDC? What do the stakeholders think about it? In what way are they already working on compatible solutions? PROLOGIS, an international aviation consultancy with more than 50 clients in over 30 countries, has been tracking the ongoing NDC developments for quite some time and is in intensive dialog with the various involved parties. With this study, PROLOGIS provides answers to open questions of the stakeholders. By conducting a comprehensive market survey, PROLOGIS looked into how airlines, travel agencies, tour operators, consolidators, metasearchers as well as providers of distribution and travel technologies view the topic of NDC and what they expect from the new standard.

One of the key findings: NDC is a very important topic for the industry. According to the survey, 87% of all participants consider it to be relevant or very relevant for the industry. 74% expect the new standard to assert itself in the market within the next ten years.

However, it also became evident that many questions remain open and that the level of insecurity is very high. IATA currently offers pilot projects that help airlines and other stakeholders to gain experience with NDC. By the end of 2015, the number of companies involved is expected to reach 24, which would be a doubling of the number of participants in 2013 and 2014. However, when you consider that there are more than 400 airlines worldwide, this also means that only 6% are playing an active role.

As a result, there is great anxiety in the industry: The interviewees believe that airlines and travel intermediaries will be faced with “*significant*” and “*massive*” expenses for the development of new systems. 57% of the airline representatives PROLOGIS spoke to expect that their system landscape will become more complex – at least for the time being. However, when asked about concrete risks and challenges for their own organization, 41% were stuck for an answer: Many have simply not yet dealt with NDC. 45% gave no reply to the question of whether the implementation of NDC could be worthwhile financially. Only 37% stated that they are already working on internal NDC developments. Based on the discussions with many different market participants, PROLOGIS has drawn the conclusion that the NDC concepts depend heavily on the respective organization’s business model; hitherto, various fields of application have been reviewed.

It is unclear if and when NDC will actually be implemented. Nonetheless, the IATA project has already contributed to issues such as product differentiation, personalization and – generally speaking – “*merchandising*” being driven forward within the industry. Alexander von Koslowski, Vice President of DER Touristik Online GmbH, refers to “*the replacement of the traditional IATA distribution*” as a whole: “*In this respect, NDC is obviously just one piece in the mosaic, but it is a very, very important one.*”

We would like to say a sincere thank-you to all those who made this survey possible: First of all, to the airline representatives, the distribution partners and service providers that supported us with their valuable knowledge and precious time. Ms. Jennifer Lachman, a journalist, helped us by redacting our findings and translating the German study version into English.

We hope that the results and insights of this study paint a clear picture of the current NDC initiative and answer the questions of those involved and affected by it. Our aim is to contribute our part so that the new standard can develop into a significant cornerstone for the economic success of airlines and their partners.

Hamburg, July 2015

The authors of this study:

- Ms. Hanna Schaal, Senior Consultant (schaal@prologis.aero)
- Mr. Dennis Schrage, Senior Consultant (schrage@prologis.aero)
- Ms. Judith Kloeg, Consultant (kloeg@prologis.aero)