# *Connecting with the customer*

# How airlines must adapt their distribution business model

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# *Executive summary*

**Three global trends are reshaping travel** distribution business models and threaten to weaken the connection between airlines and their customers. These trends are: shifting customer behavior on both retail and business sides, changing dynamics within direct and indirect sales channels, and the rise of digital technologies. The consumer trends involve an increasing use of online channels for search and booking, the use of multiple devices, and the growing popularity of social media. Meanwhile, changing dynamics within direct and indirect sales channels — online travel agents, traditional travel agents, and travel management companies — offer opportunities and pitfalls for airlines.

Airlines can benefit from this only if they undertake three major initiatives within a holistic strategy enabled by technology. They have to transform their travel distribution model in both direct and indirect channels. They must pursue closer partnerships with channel, content, and technology players. Finally, they should enhance internal capabilities (operating model, processes, skills, and technology) to capture the opportunities of the new distribution trends and so become centered on customers in their organizational setup. In particular, airlines need to adeptly manage digital innovation and use these technologies to improve areas of the business, particularly direct channel sales, marketing, cross-selling, and dynamic pricing and inventory management.

# The changing airline customer

Airlines should increase their understanding of how consumer behavior is changing in the retail and corporate sectors.

**Changes in retail travel**

Retail behavior varies significantly across geographies, but four themes prevail globally.

1. The increasing use of online channels for search and booking
2. The use of multiple devices during the research and booking process
3. The growing popularity of social media to share first-hand experiences — and the use of these as objective input in the travel decision-making process
4. The increasing relevance of loyalty programs

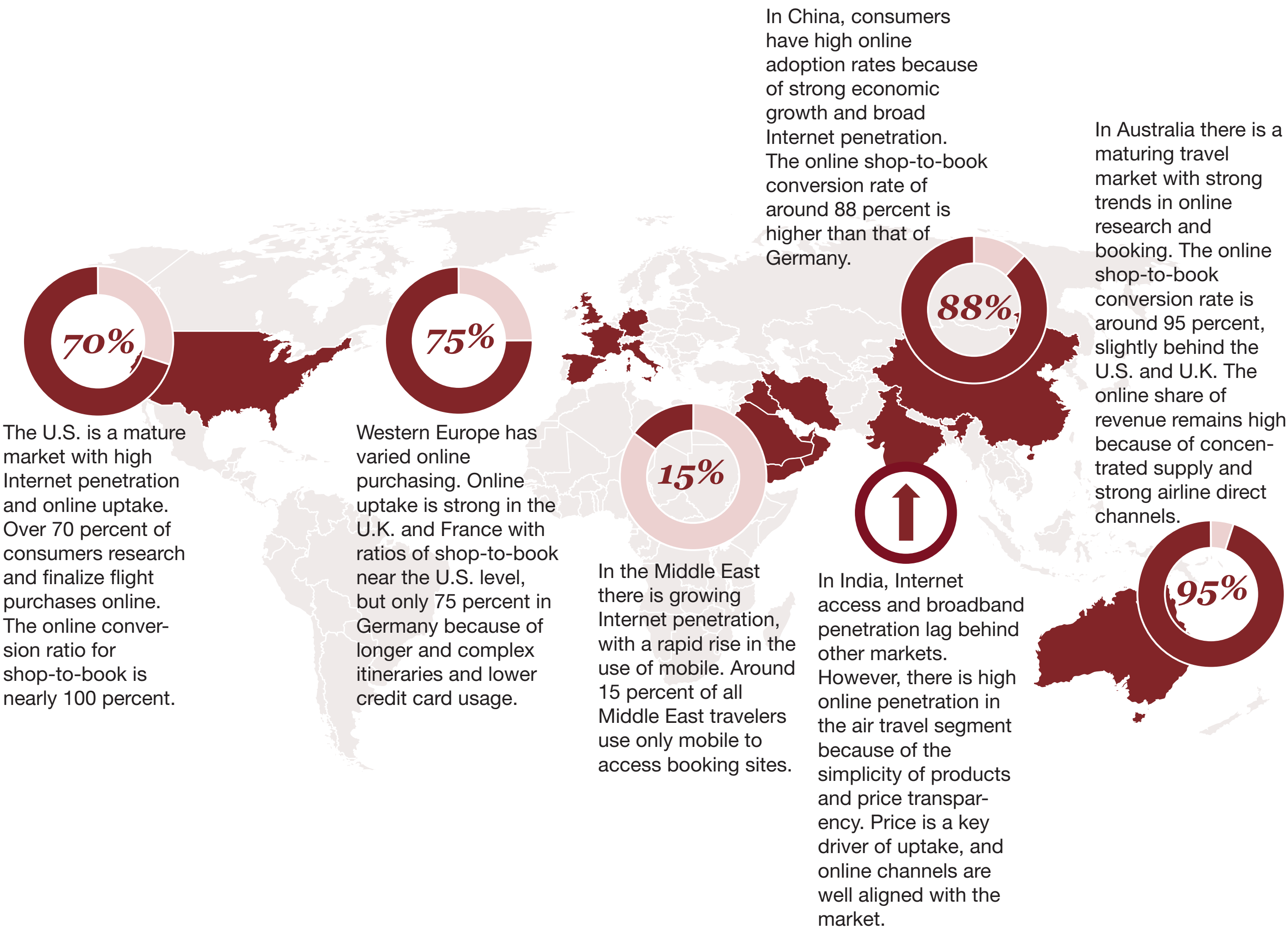
***1. Increasing use of online channels for search and booking***

Within most mature markets, retail consumers typically research airlines, online travel agents (OTAs), and metasearch websites before making purchases online. In these countries, the online shop-to-buy ratio is often above 90 percent. This ratio is lower, though growing, in emerging markets because of market-specific characteristics: lower Internet penetration (e.g., in India), lower credit card adoption rates, issues with online payment security, and less packaging of travel components owing to the relative lack of supplier and online travel agent sophistication (*see Exhibit 1*).

*Airlines should increase their understanding of how consumer behavior is changing in the retail and corporate sectors.*

*Exhibit 1*

**Travel booking and online adoption varies by region**

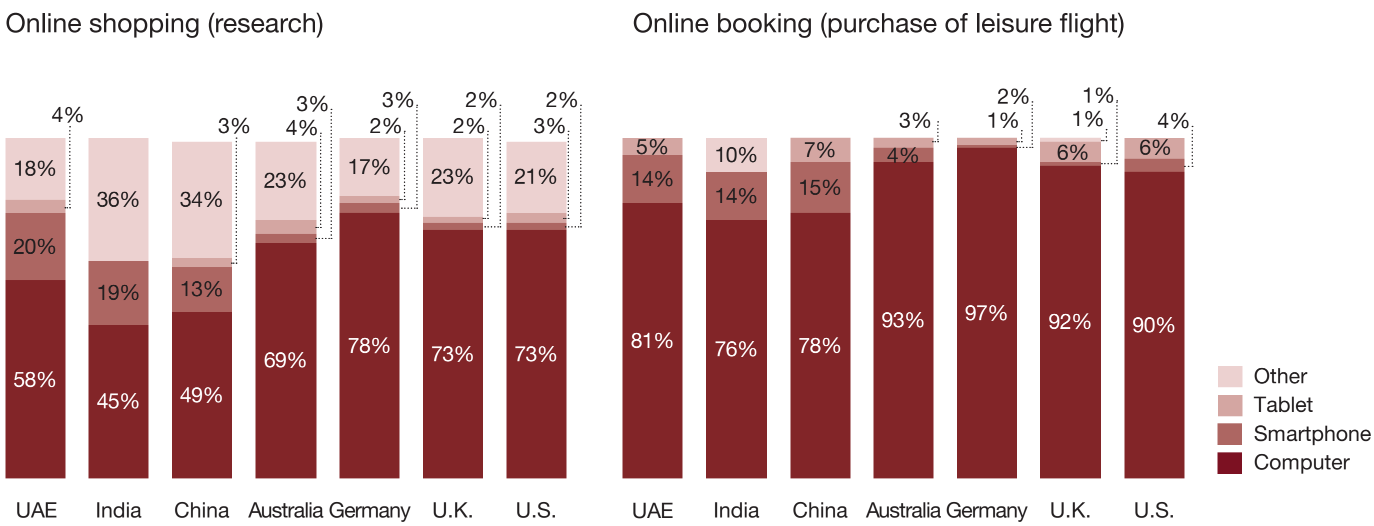



Source: "Search, Shop, Buy: The New Digital Funnel," Phocuswright, June 2015 (http://www.phocuswright.com/Special-Projects/2014/Search-Shop-Buy-The-New-Digital-Funnel); Google, *The MENA Travel Book: 2014 in review*; Strategy& analysis

Mobile is increasingly important, although most online research and booking still typically occurs on the desktop. For example, mobile accounted for 6 percent of airline website gross bookings in the U.S. in 2013, and is expected to grow to 17 percent by 2016.[1] Meanwhile, the use of mobile and tablets for shopping, as opposed to buying, is accelerating even faster in emerging markets — in which the desktop buying wave will mostly be skipped as consumers move straight from offline to mobile/tablets (*see Exhibit 2*).

*Exhibit 2*

**Consumers tend to use tablets and phones, singly or in combination, to research rather than to buy**




Source: Google Consumer Barometer, 2014–15

## *2. Use of multiple devices during the research and booking process*

As mobile gains traction, airlines, OTAs, and metasearch providers such as Expedia and Hipmunk are catering to the increasing numbers of "multi-device travelers" (those who use desktops, smartphones, and tablets) by offering cross-platform features. These allow users to pick up and continue their history and searches across devices and operating systems. Expedia's Scratchpad and Hipmunk's Anywhere connect the same traveler across multiple devices to provide a seamless digital experience. Airlines mostly lag behind in catering for this.

*3. Growing popularity of social media*

There is increasing use of social media to share experiences during trips, mostly via mobile. In emerging markets in particular, where a greater proportion of travelers tends to be young and tech savvy, social networking is especially popular and is mostly via mobile. Seven in 10 Chinese leisure travelers shared a travel experience online in the past 12 months. Online sharing among Brazilians and Russians was also well above more mature markets. People increasingly view this shared content as unbiased travel information they can use to inform their own travel decisions. For this reason, partnerships between social media platforms and travel suppliers will become more common as a way to integrate social media into the sales and service channel. For example, Facebook Messenger allows KLM Dutch Airlines' customers to check in, receive flight updates, and change their travel itineraries from within the app.

*4. Increasing relevance of loyalty programs*

Customers are increasingly using loyalty programs as a means to directly engage with airlines. The interaction has evolved beyond the traditional use of points to earn and redeem seats. Instead, these programs have become platforms for customers to provide the airline with their preferences and to engage with them for a range of benefits beyond seat redemption; for example, lifestyle memberships and rewards from everyday spending through multi-brand coalition loyalty programs. Airlines can benefit from loyalty programs because they reduce the cost to capture customer insights, but only if airline and loyalty program communication is well integrated. In addition, loyalty programs are beneficial because business customers prefer loyalty programs to reduce travel costs, and they are a way of rewarding employees or redeeming non-travel expenses. In response, many airlines now have loyalty offerings for small and medium-sized businesses (SMEs) to create "stickiness" (i.e., customer loyalty) in a highly competitive market segment. Etihad, for example, has launched *Business Connect*, which awards frequent flyer miles to passengers and allows the business to earn loyalty points redeemable for flights, upgrades, or even cash.

*There is increasing use of social media to share experiences during trips, mostly via mobile.*

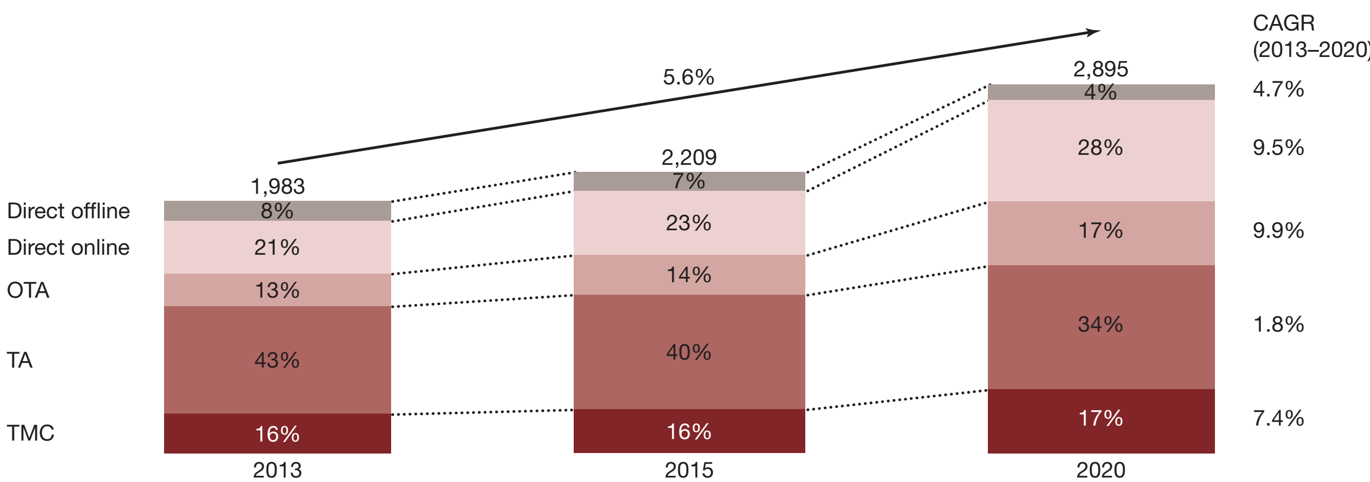
In the corporate market, customers request the same ease of travel as in the retail market. Many businesses (e.g., large corporations) are demanding greater cost efficiency and they are more strictly enforcing their travel policies. Their employees are simultaneously demanding the same ease of use they have become accustomed to for their leisure travel. Travel management companies (TMCs) are responding to these trends by offering solutions that blend policy management, reporting requirements, and ease of use. For example, TMCs are developing front-end mobile applications for approvals, requests, and schedule alerts, and monitoring travel expenses. At the back end, TMCs are using enhanced predictive and reporting capabilities.

# Changing dynamics in sales channels

Besides consumer behavior, a second major trend affecting airline travel distribution models is the changing dynamics within sales channels. Globally, direct (airlines' websites) and indirect (OTA) online channels are forecast to grow the fastest. However, traditional channels continue to occupy important, profitable niches (*see Exhibit 3*).

*Exhibit 3*
**Traditional travel market sales channels are resilient**

Global travel market, by channel (US$ billions, % of total, CAGR %, 2013–2020)




Note: OTA = online travel agencies, TA = travel agencies, TMC = travel management companies.

Source: TechNavio, *Global Business Travel Market 2014-2018*, 2014 (http://www.technavio.com/report/global-business-travel-market-2014-2018); *Global Travel Agencies Market 2015-2019*, 2014 (http://www.technavio.com/report/global-travel-agencies-market-2015-2019); Phocuswright, *Global Online Travel Overview*, Third Edition, 2014 (http://www.phocuswright.com/Travel-Research/Market-Overview-Sizing/Global-Online-Travel-Overview-Third-Edition); Strategy& analysis

***The direct online channel*** is expected to remain the fastest growing in terms of sales and interaction. Leisure customers will use the airlines' proprietary websites whereas businesses, particularly in the SME segment, will use intranet portals to connect directly with airlines. SMEs will also use intermediaries with global distribution systems (GDS) for non-contracted flights. Other intermediaries, such as travel agents (particularly the non-IATA [International Air Transport Association] agents) are increasingly making use of technologies to bypass GDS entirely and connect directly with airlines' inventory systems.

For airlines, direct online sales are usually the lowest-cost channels and an efficient way to gather customer data. Airlines can analyze this information to identify trends and make personalized offers. The low-cost carriers, in particular, are effectively using the direct online channel to increase or cross-sell ancillaries and related products and services, such as a preferred seat (aisle, bulkhead, etc.), meals, baggage, or in-flight communication services. With the basic airline seat becoming an increasingly commoditized product, these ancillaries will become important to drive profitability.

For consumers, the direct channel offers the most comprehensive view of everything an airline offers. This channel also allows a more personalized transaction, where previously set profile information can pre-populate parts of the booking flow (such as meal selections, choice of seats, etc.). Interestingly, a recent study found that consumers "trusted" airline direct sales channels for booking more than they did OTAs and metasearch, often by substantial margins.[2] Airlines have an opportunity to build upon this trust and strengthen the relationship further by offering solutions that personalize travel research and booking across multiple touch points in the direct online channel. However, airlines will achieve this only if they organize their customers' data well enough to provide personalized content that is more valuable to customers than the ease of comparing flight times and prices in the indirect channels.

*Airlines have an opportunity to build upon this trust and strengthen the relationship by offering solutions that personalize travel research and booking across multiple touch points in the direct online channel.*

The future of direct online is more than selling an airline's own content; it is about offering all the content travelers need for their entire journey. If airlines fail to create this kind of seamless travel/customer experience, they will lose direct ownership of their customers. Consumers will turn to alternate channels (e.g., metasearch or OTA sites), and airlines will become mere production engines.

***Indirect channels'*** common use of GDS makes it difficult for airlines to differentiate their products. As a result, consumers' buying decisions are heavily influenced by price, which reinforces the trend toward commoditization. However, the New Distribution Capability (NDC) initiative by IATA is an effort to remedy this problem by offering a new XML-based messaging standard to give travel agents richer content via GDS. This will enable the airlines to make customized offers via travel agents and help bridge the gap between the commoditized information currently available to the agents and the full content available on the airlines' websites.

Given the prevalence of GDS in the industry, airlines are likely to seize on any opportunity to integrate or enhance their ancillary merchandising capability with the GDS. For example, in its partnership with Travelport, Air Canada allows Travelport Agencia™ users access to all of Air Canada's à-la-carte fare and Flight Pass products, as well as product attributes. This includes its cheapest category, Tango fares, which are not available on any other GDS. Interestingly, one major global carrier recently introduced a fee on all bookings made via GDS, a fee not levied on bookings made via the direct channels. Although this policy has led to some short-term pressure on sales, it is expected that other carriers will follow in a move to reduce GDS costs unless other ways can be found to reduce distribution costs to the airlines. If more carriers were to adopt such a strategy more consumers would favor direct channels over indirect channels as they would offer lower fares.

*The future of direct online is more than selling an airline's own content; it is about offering all the content travelers need for their entire journey.*

***Online travel agencies*** will continue to grow organically by moving into less-mature markets, capitalizing on their brand, ease of use, and scalability. Moreover, they will maintain their dominance in the hotel sub-vertical over airlines given the fragmented and complex nature of hotel accommodation. OTAs will also expand through acquisitions. There have been a few recent examples of this type of activity:

- Expedia invested in Orbitz (to build a multibrand portfolio), Travelocity (to expand market share), Wotif (to acquire Asia-Pacific hotel market share), Trivago (to have a metasearch capability in the EU), and Homeaway (to enter the vacation and rental market as a form of indirect competition with the online accommodation channel Airbnb).
- Priceline invested in Open Table (to strengthen its restaurant offering), Ctrip (to gain a foothold in Chinese OTAs), and Kayak (to have a metasearch capability); and the company launched Bookingsuite (a booking and property management system for hotel owners built through the acquisitions of Buuteeq and PriceMatch).

OTAs have other advantages over their competitors. A recent study found that during the research stage, in most countries, consumers favored OTAs as the sites with the best prices over metasearch or suppliers' websites (though, consumers perceive that it is safer to book with the supplier than an OTA). Consumers rated OTAs the highest in terms of both price availability and breadth of options for flights and hotels.

***Traditional travel agencies*** (TTAs) will continue to lose market share at the global level, but they will stay relevant by focusing on offerings with a strong service angle, specialized offerings, and selling third-party ancillaries. This is particularly the case for luxury and cruise travel, a market in which travelers want expertise and a "real person" to look after their specific requirements. Similarly, they will remain relevant in emerging markets such as China, India, and the Middle East, in which many first-time middle class travelers prefer agent-organized groups and a personal relationship with an agent. One other niche is travel retail service to older travelers who are less technology adept or willing to use modern channels.

***Travel management companies*** (TMCs) are expected to remain dominant in the business travel market. However, more consolidation can be expected with the big four — American Express, BCD, Carlson Wagonlit, and HRG — remaining dominant. TMCs are also taking advantage of new technologies to expand their offering and stay relevant in light of changing customer preferences. For example, they are:

- exploiting big data to perform travel policy checks and perform expense management
- promoting traveler efficiency through mobile apps
- integrating and reselling corporate self-booking tools
- expanding dynamic pricing capabilities to maintain margins

For airlines, the TMC channel provides important access to highly profitable corporate customers. Suppliers can exploit the increasing usage of corporate self-booking tools and dynamic pricing to win more business.

***Disruptive distribution models*** are adding more complexity to this distribution landscape and are expected to be the most likely catalysts for change. These models are based on emerging technologies that savvy customers are quick to embrace. For example:

- TripAdvisor is blurring the lines between the classic OTA and destination content providers. It offers a reservation platform, an application to secure advance payments made when booking a homestay, and has announced partnerships with Marriott, Hyatt, and Priceline for its instant hotel booking platform.
- Apple Passbook currently manages a customer's itinerary and may soon integrate with iPay, ADP's mobile payment platform.
- Google's new search product "Destinations on Google" helps discover and plan the next vacation through Google Search on a smartphone. It integrates information about places with Google Flights and Hotel search, and presents available flight and hotel prices instantly.
- Other Google Search products, including Google Flights and Hotel Ads, move users more quickly from intent to action. For example, Google Flights uses an algorithm that trades off price, duration, stop-overs, and even amenities such as baggage fees.
- Airbnb has disrupted the industry by building a marketplace where individual property owners can offer accommodations directly to a wide online audience.

# More digital opportunities

A wave of new digital technologies continues to provide strategic opportunities in the field of airline distribution.

**Marketing**

The lines are blurring between sales channels and marketing platforms (e.g., OTAs). Search engines, social media, crowd sourcing, and mobile are redefining the consumer journey, particularly in the "discover" and "research" phases. Consumers can now book directly from travel metasearch portals that were once strictly for research. Moreover, as the consumer journey becomes more digital and complex, there are more opportunities for suppliers to market across multiple touch points. Emirates, for example, uses Instagram posts that tout premium products and encourage consumers to imagine dream destinations. Finding the right touch points between social media and direct sales channels will be important for airlines.

New digital technologies also allow airlines to reach consumers in real time during their research phase. Airlines can further personalize the travel experience. TAM, for example, used Facebook profiles to personalize inflight magazines placed on the seat of each passenger to celebrate the 35th anniversary of its São Paulo to Milan route. Each cover bore a different passenger's photo and name, in accordance with the seat assignments, and content was geared toward each individual's interests and life experiences. Airlines need to improve their specific destination content and inspirational media if they are to stay relevant in the search/inspiration part of a consumer's travel booking journey.

**Direct channel**

Airlines have a powerful array of digital platforms at their disposal that can help enhance direct revenue channels, while reducing reliance on indirect channels (e.g., GDS, consolidators, and tour operators). On their websites, airlines can change the search paradigms available to consumers from route-based searches to interest-based, theme-based, and map-based search experiences. By improving their landing pages to engage users and capture those directed from search engine pages, metasearch pages, and others, airlines can make the most of the direct channel.

### Cross-selling and up-selling

Emerging technologies also provide a platform for airlines to improve their merchandising capabilities, and to sell additional travel-related products and services (e.g., hotel stays) across both direct and indirect channels with and without GDS connections. This is because passengers are an airline's greatest asset as they can be sold additional airline and non-airline products. These new technologies offer greater flexibility to set up and manage business rules, as well as high-margin ancillary products and more varied fare options. Here again, airlines can personalize offers based on frequent flyer information — such as status, flyer profile, past behavior, and so forth (*see Exhibit 4*).

*Exhibit 4*
**Airlines will benefit from merchandising and personalization capabilities**

| | Standard | Enhanced merchandising (no personalization) | Enhanced merchandising (with personalization) |
|---|---|---|---|
| **Seats** | - Flat charges as filed in ATPCo, e.g., fixed fee for extra legroom, no differentiation on frequent flyer status | - Able to apply different business rules to the ATPCo filed fares, e.g., by type of seat (aisle vs. window), flight, aircraft, booking class, etc. | - Able to vary offer based on passenger frequent flyer status, e.g., waive extra legroom charges, offer upgrades |
| **Bags** | - Flat fee based on number of checked bags. Differentiation based on destination but unable to charge based on booking class/frequent flyer status. | - Able to apply different business rules to ATPCo filed fares | - Able to vary based on passenger profile/preference as primary criteria. Secondary criteria include destination, class, and fare. |
| **Fare up-sell** | - Difficult to display "fare families," combination fare/simplified rules | - Fully supported on condition airline has access to an ancillary platform that can feed requisite data into the system | - Manage fare rules to protect inventory for high-status flyers |
| **Other ancillary** | - Limited ability to offer items not supported by ATPCo | - Able to offer ancillaries, e.g., special lounge, priority boarding, stopover tour packages, "meet and greet" | - Personalized offers and integration with frequent flyer programs so passengers can buy ancillaries with money, points, or both |

Note: GDS = global distribution systems, ATPCo = airline tariff publishing company.

Source: Strategy&

### Dynamic pricing

The ability to analyze big data increasingly allows airlines to predict with a high degree of certainty when a known passenger will be flying next, to where, and what his or her travel preferences are. For example, airlines can use the customer data gathered in airlines' direct channels — e.g., customer segment, seasonality of flight, and flight timing — to make better and more targeted offers to customers. Furthermore, airlines can integrate this tailored pricing with marketing and promotions in real time to optimize bidding. Fully realized, dynamic pricing could usher in a new era of fine-tuned channel distribution strategies.

### Loyalty

Loyalty programs are the main tool for airlines to collect a wide range of customer data. Supported by technology and increasing online penetration, loyalty programs can be the backbone of airlines' customer data centers. Coupled with analytical tools, these programs allow airlines to remain closely engaged with their customers, allowing them to build personalized offers, tailor a marketing campaign to specific profiles, and drive the sale of ancillary products and services. Moreover, with airline partnerships on the rise, harmonized loyalty programs could become a key differentiator in the marketplace.

# *Staying on customers' radar*

To become a benefactor, not a victim, of evolving customer behavior on both retail and business sides, of the changing dynamics within sales channels, and of the rise of digital technologies, airlines need a holistic travel distribution strategy that is underpinned by the smart application of technology. Such a strategy has three main focus areas:

- Transform the travel distribution business model
- Pursue deeper partnerships with channel, content, and technology players
- Enhance internal capabilities (operating model, processes, skills, and technology) to engage effectively with customers to capture the opportunities of the new distribution trends

**Transform the travel distribution business model**

Airlines need to redefine their travel distribution business model for direct and indirect channels by first identifying the key challenges (e.g., load factor, yield, and cost of sales) by cabin, by country, and by channel, and then clearly understanding the travel distribution environment in each country. Armed with this information, they can address gaps in revenue performance and set priorities across direct and indirect channels as well as loyalty programs, in order to use distribution as a targeted tool to overcome weaknesses in their commercial performance.

In any case, airlines need to focus on making the direct channel very attractive for both business and leisure customers. In the leisure segment, airlines need to showcase their products and services, and exploit big data capabilities to deliver personalized and seamless service across multiple platforms and devices. In the SME segment, airlines need to deploy direct connect portals to bypass the GDS and showcase tailored products and fares. Low-cost carriers are usually more advanced in this regard. Therefore traditional carriers that have not yet prioritized their direct online channel sufficiently, or have been hampered by the difficulty of connecting legacy IT systems to state-of-the-art websites, will benefit from improving the value of their online game.

In the various indirect channels, airlines should assume that GDS will remain integral for the foreseeable future given the fragmented nature of intermediaries, the access GDS provides to inventories across multiple suppliers, and the significant investment in GDS many travel players in the industry have made. Thus, airlines should partner with GDS and develop technology solutions that improve their merchandising and personalization capability to cross-sell/up-sell through GDS-enabled indirect channels, and thereby avoid product commoditization. In the managed travel segment for large corporate clients, airlines should partner with travel management companies to deploy corporate self-booking tools. Airlines can use these tools in conjunction with any preferred carrier/tariff agreements with its corporate clients to encourage a preference for the airline and to help enforce corporate travel policies.

Airlines should also use loyalty programs, in both the leisure and business segments, as a distribution tool for targeted offers and as a means of getting to know customers' travel needs exceptionally well. They can use loyalty programs also to avoid commoditization by keeping customers engaged and loyal. Loyalty programs usually work across channels in influencing customer behavior and create "stickiness," but the ability to connect and engage is highest in direct channels.

**Pursue deeper partnerships**

Traditional commercial arrangements between airlines and channel players often lack opportunities to exploit synergies and align strategic objectives. In the future, airlines will need to craft partnerships that differentiate them and help them maintain pricing power and develop a stronger bond with retail and corporate customers. New distribution models will involve strategic partnerships with channel, content, and technology players that purposefully identify and leverage synergies and align objectives. Distribution players can benefit from those partnerships by taking advantage of the airlines' brand awareness and quality in certain markets, as well as access to the airlines' customer base, especially those who are loyal customers.

For example, airlines can form equity partnerships with traditional travel agencies to target niche markets and customer segments in markets such as the Middle East, which remains a high-touch/high-yield leisure market. In other markets such as Germany, Japan, and India, tour operators provide access to a large volume of customers who prefer package travel.

When possible, the airlines should link agents with the airlines' inventory system using direct connect technologies. In addition to reducing GDS costs, this will help bypass low-yield consolidators and allow an airline to showcase its products and services to differentiate itself. These solutions are also being offered by the GDSs themselves; for example, one large technology player in the travel industry has developed a direct connect platform that allows an airline to connect directly with an agent via a portal.

Meanwhile, equity partnerships with TMCs give airlines access to profitable corporate customers. The self-booking tools help enforce corporate travel policies, and dynamic pricing capabilities help establish the airline as a company's preferred choice. In addition, airlines can partner with technology providers to stay abreast of evolving trends and be responsive to new technologies. For example, airlines can leverage technology partnerships to enhance their merchandising capabilities as IATA progresses with its NDC initiative. Through its dedicated ground and travel services business, dnata, Emirates has pursued strategic investments across specialized travel agencies and TMCs. The acquisition of Travel Republic and Gold Medal Travel Group (the latter also offering it access to the OTA Netflights.com, and the travel brand Pure Luxury) has strengthened Emirates' position in key markets and segments.

Airlines can also partner with OTAs to gain access to high-growth customer segments across multiple geographies. Since 2011, AirAsia and Expedia have operated a joint venture aimed at improving AirAsia's distribution reach on Expedia's storefronts. Of course, airlines should carefully plan any partnership decision and base it upon the intent to solve strategic travel distribution issues. The partnership should also be beneficial to both parties.

### Enhance internal capabilities

Only those airlines with sufficient capabilities within this new world of airline travel distribution will be able to seize these opportunities. The others will experience increasing challenges and will find it harder to retain meaningful interaction with their customers outside of the immediate day of travel, and will struggle to maintain sustainable profit margins.

As mentioned before, a range of partnership opportunities exists. However, airlines will need to build, enhance, and retain a significant spectrum of capabilities if they do not want to hand over the key to their customer base to online distribution partners. A capable airline will therefore need the right level of investment in the following capabilities:

- *Customer knowledge*: Integration of all pieces of customer data into a holistic view of the customer, allowing personalized offers, products, and distribution services
- *Commercial capabilities*: Ability to transform customer insights into the appropriate customer products and services — and market them successfully
- *Digital channel capabilities*: Market leading digital offerings, across all direct channels, that link product sales and information with far-reaching access to relevant travel information and preferred social media channels — all characterized by ease of use
- *Loyalty offering*: Attractive, value-adding loyalty offerings that keep customers engaged so that they alter their booking and travel behavior in favor of the airline
- *Technology environment*: A technology landscape that enables the effective use of direct channels without major constraints — which means moving away from the wrong enterprise architecture and old, or inadequate, technology platforms and applications

Of equal importance, however, are the right operating model, organizational setup, and culture. These allow the airline to deploy its capabilities in a holistic, customer-centric, and effective manner. This would be in contrast to too many airlines that have created silos of functional excellence in various parts of the airline that lead to no noticeable benefits for the customer. Success depends upon a:

- *Customer-centric organization*: Historically, marketing, sales, distribution, pricing, data analytics, strategy, IT, and loyalty programs have been separate functions. Often, especially in the case of loyalty programs, they have been different business entities. A closely aligned operating model that is centered on the customer can break functional silos and enable a holistic and well-informed view of the customer as an individual.
- *Coherent customer strategy*: Successful customer-centric businesses operate around a coherent customer-centric strategy that is known to all parts of the organization. This ensures that all of an airline's employees understand their specific contribution to "knowing the customer."
- *Customer-oriented service culture*: Organizations that have managed to remain on the forefront of customer service excellence over extended periods of time possess an inherent desire to delight the customer. For airlines to be visible to their customers, this means that they will use the above-mentioned capabilities to generate customer insights that they will translate into action every day.

# Conclusion

Airlines need to identify the key opportunities and challenges from the new distribution environment, as well as the scope of their own internal capabilities, and put a plan in place to close any gaps and strengthen their travel distribution models. They can benefit from the disruption of travel distribution only if they build these capabilities and execute them in a holistic way with a smart usage of leading technology. In most cases, this will require strong partnerships with channel, content, and technology suppliers. Those airlines that master the new environment will be closer to their customers and will sell more in less competitive, direct channels than ever before. Such proximity to the customer will minimize the risk of dropping off the customers' radar and losing them to the emerging travel distribution disruptors. Instead, the emerging and new travel distribution players will seek partnerships with airlines that succeed at this challenge, while diminishing the other airlines to pure transport providers.

# Endnotes

[1] “U.S. Online Travel Overview, Fourteenth Edition,” Phocuswright, December 2014 (http://www.phocuswright.com/Travel-Research/Market-Overview-Sizing/U-S-Online-Travel-Overview-Fourteenth-Edition).

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