

The evolving managed travel distribution chain in 2006 ...

Airlines



GDSs



TMCs



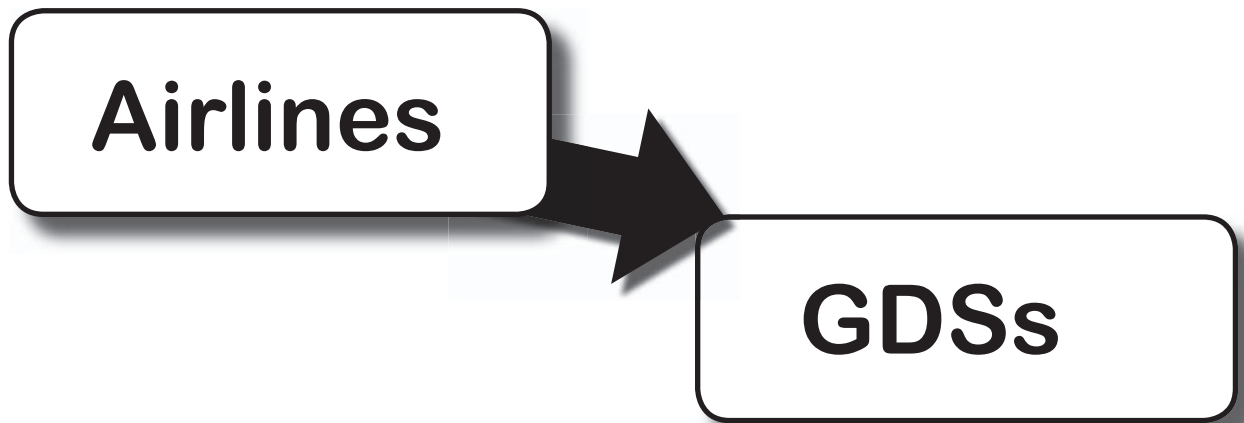
Customers

NEW “FULL CONTENT” DEALS
REDUCE AVERAGE PER-SEGMENT BOOK-
ING FEES PAID BY AIRLINES FROM
ABOUT \$4 TO CLOSER TO \$3

OPTING FOR FULL CONTENT COSTS
AGENCIES ABOUT 80 CENTS OFF THEIR
PER-SEGMENT INCENTIVES FROM GDSs,
PREVIOUSLY RANGING NEAR \$1.50

80 CENTS PER SEGMENT TRANSLATES
TO ROUGHLY \$2 PER TICKET FOR
BUSINESS TRAVEL ... IN THE FALL OF
**2006, TMCs AND CUSTOMERS ARE
ASSESSING INCREASED COSTS**

After GDS charges to airlines increased annually for decades, “Web fare” pressure in 2003 enabled a roughly **12-15 percent** reduction in fees to approximately **\$4 per segment**. In 2006, citing their dire financial situations, low-cost competition and the emergence of so-called GDS alternatives, airlines negotiated those fees down to closer to **\$3**.



This year’s agreements were described as “**full content**,” although the definition of full has been questioned. In the new agreements, GDS companies also secured protections against airline fees imposed on their users and **full access** to negotiated managed travel rates. In some cases, GDS companies also signed airlines to **marketing pacts** with their online outfits.

American Airlines this summer announced \$3.50 segment fees that would mean users of non-preferred channels subsidize its GDS expenses of \$300-\$400 million annually. This forced GDS users to accept the lesser impact of AA's preferred "opt-in" agreements with Galileo, Worldspan and Sabre. AA said the new economics would save it "tens of millions" of dollars annually; the carrier in 2005 had posted a net loss of \$861 million. AA postponed its \$3.50 fee on Amadeus segments, pending talks.

Continental Airlines secured five-year deals with three of four GDSs. It put on hold plans to charge \$3.50 per-segment fees for bookings in Amadeus, pending negotiations, but, like AA, is doing so for bookings in any GDS which are not covered by the new, "opt-in" plans.

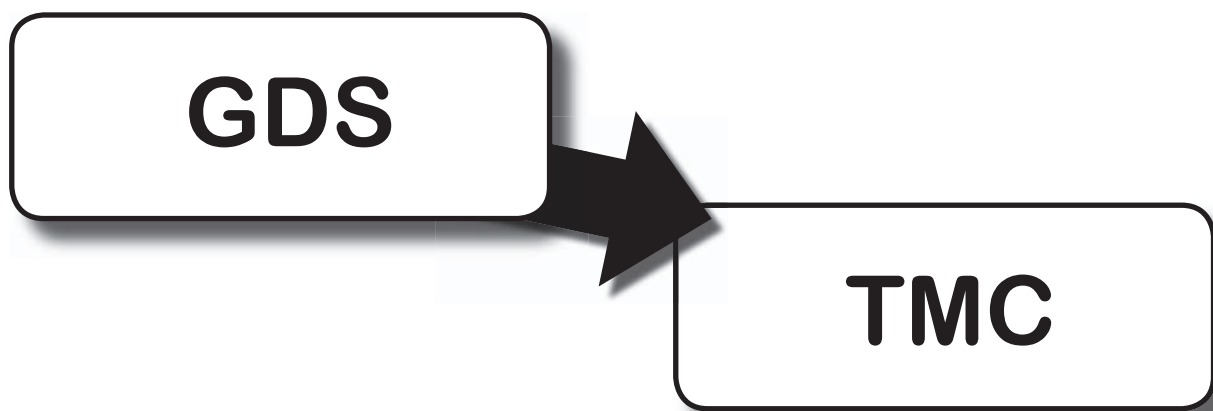
Delta Air Lines signed with Galileo, Sabre and Worldspan for seven years—the longest term of such deals between "legacy" carriers and big GDS firms. Bankrupt Delta's plan to levy \$3.50 per-segment fees on bookings made in Amadeus is on hold, pending ongoing discussions.

Northwest Airlines was vilified in 2004 for its short-lived "shared GDS fee." This year, the bankrupt carrier signed with Galileo, Sabre and Worldspan, and also added \$3.50 segment fees for non-preferred channels. An interim deal is holding off such charges through Amadeus.

United has distribution deals with all GDS firms, but officials declined to say when its agreement with Amadeus expires. United has a separate, long-term information technology services agreement with Amadeus.

Others: **US Airways** has agreements with Amadeus, Galileo, Sabre and Worldspan. **JetBlue** returned to Galileo, Sabre and Worldspan. **AirTran** said first-quarter distribution costs fell roughly 14 percent after it signed new GDS deals. **Southwest** continues to limit its GDS presence to basic participation in Sabre.

With margins squeezed by revenue reductions from discounts on airline pricing, GDSs have turned to the expense many airline officials wanted them to attack: **agency incentives**. Previously around \$1.20 - \$1.70 per segment for most corporate agencies, those incentives effectively took an **80-cent hit**.



Happy to have **full content and protection** against higher airline fees of \$3.50 per segment, most TMCs nonetheless must find a way to cover the **added price of opting in** for full content. For the biggest, this amounts to millions of dollars.

Amadeus plans to announce an “opt-in,” incentive-reducing program, like its competitors, but has yet to offer details. Amadeus has covered or delayed the \$3.50 per-segment fees imposed by certain airlines on its system users. The company had established a marketing pact with **Sabre** whereby major airline content removed from Amadeus could be sourced through Sabre; some airlines said the agreement violated existing contracts. The Madrid-based GDS firm took legal action against certain carriers, describing their \$3.50 fees as potentially causing the “elimination” of its roughly 8 percent U.S. market share.

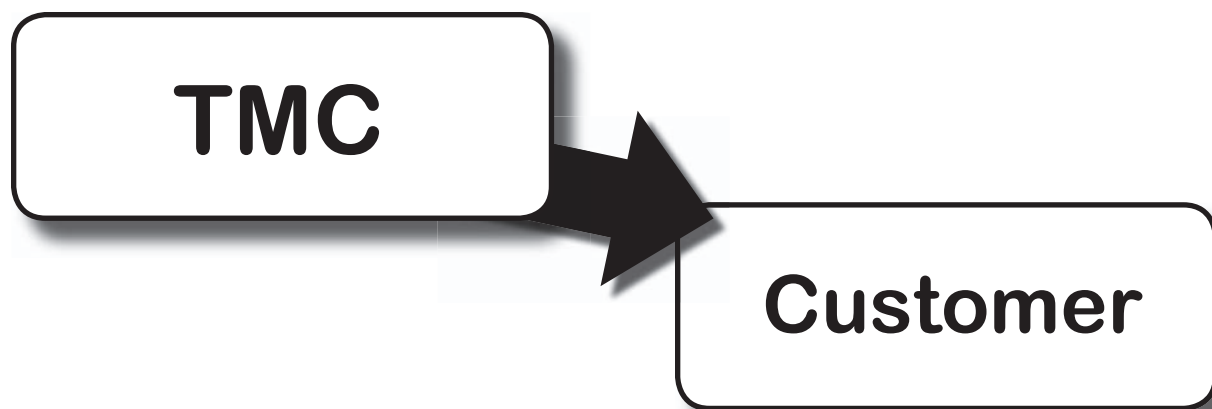
Galileo was the first GDS firm to sign new deals with the entire key group of major U.S. carriers (which excludes **Southwest**). Investors led by the **Blackstone Group** recently bought Galileo parent **Travelport**; previous owner **Cendant** earlier this year expected Galileo to suffer a margin reduction from new airline agreements. Galileo said all of its agency users are participating in its Content Continuity opt-in program.

Sabre led all GDS firms in the creation of today’s opt-in model. The company stated that nearly all of its agency users have opted in to its Efficient Access Solution, as have all relevant carriers. Sabre also has said the changes would not impact its profit expectations.

Worldspan claimed it was following a competitor, presumably **Sabre**, in creating its Super Access model that paid no incentives but offers the whole set of key carriers. After agency users said they would not stand for a program that was not competitive with the market, Worldspan essentially matched **Sabre**’s deal.

“**GDS New Entrants**” including **Farelogix**, **G2 SwitchWorks** and **ITA Software** were named as preferred channels by a number of airlines, but their complete solutions remain in development.

TMC pricing to managed travel customers is sometimes based on disclosed costs and revenue streams. TMCs claim that added costs of about **\$2 per ticket** (80 cents per segment) for full GDS access to airline fares and inventory **threaten TMC profitability**. As with airline commission cuts over the past decade, TMCs are asking clients to pay.



Travel professionals almost unanimously say they need **full access** to fares and inventory from the largest carriers — although GDSs are not a truly full solution. Corporate, government and scholastic organizations now are hearing from some TMCs regarding **added fees** to adjust for new GDS economics.

American Express said it would not have to opt for the new GDS programs, citing its **TravelBahn DS** model which employs a non-traditional arrangement whereby Amex pays the GDS firms rather than the other way around (even though this only applies to a limited set of participating carriers). The TMC and card provider then works out a separate deal with participating carriers. The terms of such agreements have not been disclosed, but it is assumed that the airlines repay Amex for at least part of its GDS costs. Amex also said a “majority” of its clients would not face new GDS-related fees. It did not disclose the reasons why some clients would and some would not be exempt, but *The Beat* reported that one factor is whether the client manages its own technology relationships or lets Amex handle those—the latter resulting in no additional fees for GDS bookings.

Carlson Wagonlit Travel also has its own technology solution, the **Symphonie** suite, which shields existing users from the new GDS fees. For the remainder of its clients, however, the TMC announced a \$2 per-ticket fee to recover the new GDS expense. New Symphonie users would pay \$1 per ticket, CWT said.

Most other TMCs are implementing or at least weighing an approach that resembles CWT’s. **Expedia Corporate Travel** and **Orbitz/Travelport for Business**, for example, also have announced \$2 per-ticket fees. Some TMCs are considering whether to apply the fee across the board in this way or to customize it by account, depending on the account’s usage of those carriers that reduced their GDS costs through participation in the opt-in programs. **HRG North America** has indicated its fees are around, but not exactly, \$2. **BCD Travel** has been relatively quiet on the matter, also citing individual client discussions. BCD had stated that it expected to incur charges for GDS bookings as of Sept. 1.

SOURCES

Assumptions and conclusions are based on general marketplace trends, which have exceptions, as of Oct. 20, 2006. Assistance provided by:

Chrysalis Consulting
The Solutionz Group
Travel Tech Consulting

Figures used in this guide are for illustrative purposes only. Sources included Carlson Wagonlit Travel, Galileo International, the 2002 National Commission to Ensure Consumer Information and Choice in the Airline Industry, Sabre Holdings, United Airlines and Worldspan LP.

ADDITIONAL RESOURCES



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[Mgrs. Brace For New GDS Economics](#) • Aug. 30

[Organizations Educate On GDS Issue](#) • Aug. 9

[AA Reveals GDS Fee](#) • July 12

[Travel Managers Digesting Sabre Deal](#) • June 14



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