

# 2006 White Paper Series: Alternative Distribution

## Executive Summary



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## EXECUTIVE SUMMARY

The distribution landscape has changed significantly over the past ten years. It used to be so simple to draw a diagram that showed how a supplier placed its product for sale, and ultimately transacted business, through the main distribution channels of a call center, a GDS, a tour operator or directly with the property.

Today, the picture has become much more complex. There are multitudes of ways a consumer can book a travel product, distribute a travel product and strategize. And there are multitudes of strategies to manage channels effectively.

Furthermore, the cost to distribute travel products has continued to escalate without an increase in the value the distribution channel offers to the supplier. Costs for all suppliers have increased without a comparable increase in profits. The increase is most evident in the airline travel sector. Full service air carriers are trying to compete with low-cost carriers who often predominantly distribute their products directly versus the traditional way, through a GDS.<sup>1</sup> They are seeking lower cost alternative distribution and searching for alternatives to the higher cost traditional GDS models. Travel is a significant part of global commerce and is often the second largest expense item for a company. Companies are searching for ways to drive travel costs lower, even if it requires supporting new internal direct-to supplier technology initiatives.

With all of the significant changes, it stands to reason that the business models of the past are becoming less and less relevant in meeting the needs of the industry today. Unfortunately, the business models have been slow to respond to the new distribution landscape and needs. Alternative distribution of travel products has been on the increase, in part due to the lack of change in the economic model by the traditional channels. There are many electronic alternatives now available to compete with the GDS such as Expedia, Orbitz, Pegasus direct, supplier-direct and others.

The GDS new entrants (GNEs) have offered what seems to be a real alternative to the GDS that may materialize in the not too distant future. Many airlines have publicly stated their intent to do business with the GNEs, such as G2 Switch Works, ITA Software (ITA) and Farelogix.

<sup>1</sup> Forrester Research estimates low-cost airlines sell more than 50% of their tickets via their own Web sites. JetBlue Airways, for example, sold 79% of its tickets through its JetBlue.com Web site in Q3 2006 (source: Company reports). In contrast, Forrester estimates network airlines like United sell just 20% of their tickets through their own Web sites.

More than any other factor, what seems to be driving this is the need to reduce pricing or the cost of distribution. Many of the airlines have now signed long-term content deals with the GDSs because the GDSs have cut their costs by 12% or more.

Hotels have also been impacted by increasing GDS costs. While GDS companies have a very efficient distribution model for hotels, the cost of bookings has been steadily increasing each year. Additionally, hotels are being asked to manage significantly more transaction volume on their own Central Reservation System (CRS)s, requiring more hardware and processing power than ever before. They have been asked to provide more access to available inventory, yet the booking fees have increased instead of decreased, for this level of partnership with the GDS. There are benefits other than cost that have resulted from additional alternative distribution opportunities. Tiffany Topcik, president of HEDNA and vice president hotel and supplier

relations for ABC Corporate Services, said that she believes the entrance of new alternatives for distribution has driven improvements in all distribution channels. *“The benefits are that all of the technologies supporting distribution continue to improve and become more creative to allow suppliers to talk to their intermediary and distribution partners more effectively. Ultimately, this will increase customer satisfaction and reduce the cost of bringing product to market.”*

The benefits of distribution in the traditional GDS are still very significant to the majority of travel suppliers, hoteliers included. Most large mega-agencies still depend upon one or more of the GDSs to conduct business, as do the majority of corporations. Distribution of hotels in the GDS is more efficient than ever before thanks to the automation efforts over the past several years, often driven by HEDNA.

And GDS companies are definitely making efforts to increase both the revenue from and the efficiency of their distribution of hotels. Chuck Thackston, product portfolio manager with Worldspan, commented *“Worldspan is working closely with hotels and other suppliers to optimize the value obtainable through each channel of distribution we enable. Worldspan continues to work directly with hotel companies to understand their business objectives – such as increased ADR and increased RevPAR – and create strategies to enable them to obtain their objectives. We seek to maximize hotel companies’ objectives by connecting the supply to the demand through every channel that is effective. The latest tools for hotel distribution outlined in recent Worldspan press releases are an example of continued forward moves on behalf of our hotel customers.”*

Some industry experts believe that what is happening should not be called “alternative” distribution at all, but rather should be stated as evolving or enhanced distribution. Trip Davis, president and CEO of TRX, Inc., stated *“I think there is evolving distribution in any industry, along so many different lines – technology, economy, relationships, inventory, access. There are so many ways of looking at it in the travel industry. Perhaps a different word for ‘alternative’ would be new or changing or enhanced, much like ITA and G2 have been categorized as new entrants. It is like the introduction of a new competitor in any other game – it is just competition. New entrants simply change the dynamics of the supply and distribution chain.”*

Throughout this paper, the world of alternative distribution will be explored. The purpose of this paper is to define and illustrate the process flow of alternative distribution to enable hoteliers to both understand it more comprehensively and to optimize revenue opportunities from all distribution sources available.

In writing this paper, many influential industry executives were interviewed. Their input and perspective has been truly invaluable. The executives are:

Rock Blanco CTO, Atlas Travel

Christine Brosnahan Vice President Distribution and Reservations Services,  
Carlson Hotels Worldwide

Trip Davis CEO and President, TRX  
Christine DeZarn Travelport Supplier Business Development, Travelport, Inc.

Peter Ehlke Principle Systems Engineer, Pegasus Solutions, Inc.

Keith Harrison Director, Hotel Supply Operations, Galileo by Travelport

Peter Hazel Vice President of Distribution Services, Pegasus Solutions, Inc.

Henry Harteveldt Vice President & Principal Analyst, Travel Research, Forrester Research

Dennis Law CIO, Pegasus Solutions, Inc.

Ellen Lee Vice President and Co-Founder, G2 Switch Works

Alan Minton Vice President of Marketing, Cornerstone Information Systems

John Owen Director of Strategic Accounts, Pegasus Solutions, Inc.

Roland Tanner Executive Vice President, Lanyon Inc.

Chuck Thackston Product Portfolio Manager, Worldspan

Dee Thomas Product Director, Distribution Services, Pegasus Solutions, Inc.

Tiffany Topcik Vice President Hotel and Supplier Relations, ABC Corporate Services and President, HEDNA

Kay Urban President & CEO, Amadeus North America

HEDNA and the Solutionz Group partnered to educate the hotel industry on a series of topics throughout 2005/2006. This paper is the sixth in the white paper series.

HEDNA is a not-for-profit trade association whose worldwide membership includes over 200 of the most influential companies in the hotel industry. The association was established in 1992 to further the electronic distribution of hotels throughout the world. For more information regarding HEDNA, please visit [www.hedna.org](http://www.hedna.org).

The Solutionz Group is a business development and strategic consulting group, headquartered in Tampa, Florida, with offices around the world. Caryl Helsel and Kathleen Cullen, authors of the white paper series, are network consultants with Solutionz and are hospitality industry veterans, as well as past president and vice president of HEDNA respectively. For more information on Solutionz, please visit [www.solutionz.com](http://www.solutionz.com).