Global Distribution Systems in Travel Industry: Effective Marketing Tool or an Avoidable and Expensive Medium

SANTHOSH KUMAR K.
Research Scholar
Vels University, Chennai, India
santhoshkk@gmail.com

ABSTRACT

Global Distribution Systems are the giants who transport the airline, hotel, car, cruise and other inventory from the vendor to the travel agent or to the OTA (online travel agency). It have been considered to be a costly medium and the controversy continues whether they bring value to the vendors or just remain as a mammoth in terms of the expenses it beings to the vendors. While this controversy continues, the author here tries to bring out the various aspects revolving around the industry and checks whether it is an effective marketing tool or an expensive medium

Key words: *Airline Distribution, Airline Inventory, GDS (Global Distribution Systems), Travel Industry*

1. Introduction

Global Distribution Systems (GDS) have been serving the industry ever since it went global and helped the vendors reach from one corner to the other. Vendors ranging from Airline, hotels, cars, cruises, operas etc enjoyed its service over the years. Global distribution systems helped these vendors grow multi fold. From one part of the world the global distribution systems takes the inventory of the vendors across the world. Still, the controversy is surrounded on the fees they charge for their service which is getting them termed as an expensive medium or an in effective medium. While the controversy continues, various researches and other publications in the field, gives their unbiased opinion about the current status. Objective of this paper is to understand whether the global distribution systems have served the purpose and has done justice to the industry. This paper is based on secondary data published by various established sources in the travel industry.

2. GDS-Earlier Stages

It was in 1964, the first computerized reservation system in the world took shape which was the outcome of a conversation aboard American airlines flight, between Mr Smith, the CEO of American Airlines and Mr Smith, an engineer at IBM. The conversation lead to the birth of SABRE – Semi Automated Business Reservation Environment, the first reservation system in the world which was primarily to cater to the needs of the internal reservation requirements of the airlines.

Later, the airlines realized that deployment of systems right at the travel agency locations could lead to delivery of accurate fares, schedules and availability of the airlines, thereby capturing the bookings directly from the source. This way, the airlines were able to dominate or influence the distribution channel while on the other hand; the travel agents had a better booking tool with them.

Towards the middle of 1980, the scenario changed when the e commerce arena started budding. The computerized reservation systems grew into a much more complex system which started distributing varied information with a larger reach around the globe and started knowing as global distribution systems. The enhancements in the communication standards lead to the global distribution systems being able to get more airlines under one platform. The travel agents were then able to get access to inventory of not just the owner airlines but all participant airlines on the global distribution systems. The content became richer and stronger – travel agents were able to get information at their finger tips fare comparison on various airlines as well as instant seat confirmations on participant airlines. (Europen Technology and Travel Services Association (ETTSA), 2010)

3. GDS-Later Stages

When the airlines found that global distribution systems were a better medium to reach the customers, they filed their entire inventory and distributed it globally. Airline inventory were available globally – be it a regional airline or otherwise for which the global

distribution systems charged a distribution fees on airlines. Airlines had no worry at all in distributing their inventory for example, airline flying in North America could be sold by a travel agent in Adelaide, Australia without even knowing what the airline looks like or what kind of a service they provide to customers. The reach was beyond comparison.

Global Distribution Systems grew in such a large extent that they have become a primary medium of inventory distribution for all travel suppliers, be it airline, hotel, car or anyone. Almost 500+ airlines exist in the world and majority of them distribute their inventory Global distribution systems not only have a vast content for the travel industry, they cater to the various requirements of the travel agency customers as well. They have become the most liked medium to access the travel inventory by the travel agencies because of the various technological advancements they brought into the world. In June 2008, the International Air Transport Association moved to 100% electronic ticketing which brought as whopping savings of US$ 3 billion per year (International Air Transport Association)

4. GDS-An Established Link

When the global aviation industry grew, the growth reflected on the global distribution systems as well. They were growing like hand and glove – complimenting each other. "If the transaction value enabled by the GDS industry went to a single company, it would rank third on the Fortune 500 list, behind only Wal-Mart and Exxon Mobil," says Arthur Sackler, executive director of the Interactive

Travel Services Association. Today, the transactions powered by the global distribution companies are the life blood of this industry which involves, the travel agents, tour operators, airlines, hotels cars and every participant member in these systems. Today most of the travel vendor inventory gets distributed through the global distribution systems which are the favorite medium of access by the travel agents or the tour operators who actually sell these to the end customers.

Global distribution systems have grown over the years. They have been in the trade for years which made them masters in understanding the market requirements. From time to time they introduced ways and means to help the travel agency users who basically use the reservation systems, the most, to sell the airlines, cars hotels cruises etc. Variety of products were introduced to help the customers like product to store frequent traveller details, prompt to user for any missing items to be included in the booking, option to store negotiated fare content from the airline and call it where ever it is required. All these products were built with the view of catering to the easy access of airlines. The global distribution systems have been investing heavily to bring latest technology in distribution from time to time helping the airlines to reach their customers around the globe and increase their revenue. For example: The merchandising and sales of optional services.

5. The Internet Age or Role of Technology

When the internet boom started off, the airlines had their own websites through which they started distributing their own inventory. This was one of the threats faced by the global distribution systems. When the direct passengers were directly reached out by the various vendors directly, it became a sort of threat to the intermediaries like global distribution systems which lead to a decrease in the volume of transactions processed by them.

The low cost carriers, who took birth in the recent years, found that it was a better way to distribute their inventory through their website rather than ending up paying a distribution fees to the global distribution systems. The end effect was that the passenger or the seller of an airline had few chances of comparison of fares and routings. Had these airlines been participants in the global distribution systems, the users could have made a comparison without spending time with the help of few commands. This option was narrowed down when the airlines decided to go online directly.

It would be interesting to note at this point that even when the low cost airlines were enjoying their direct presence over the web, some airlines realized the real potential that they were missing out while they stayed away from the global distribution systems. "Our re-entry into GDSs in 2007 has supported our growth in the corporate market, as business customers are more likely to book through a GDS, and while the cost of sales through this channel is higher than throughout website, the average fare purchased via this channel is at least 17% higher, justifying the increased distribution costs. As a result, we now participate in all four major GDSs and four major OTAs. We

continue to evaluate opportunities to broaden our distribution channels based on a profitable cost yield ratio. Our distribution mix creates significant cost savings and enables us to build loyalty through increased customer interaction" says Jet Blue Airways, a American based low cost airlines. (Jet Blue, 2008).

The value of global distribution systems and the hassles involved in the direct distribution process is realized by vendors and hence there was another low cost carrier RAK Airways who moved into the global distribution systems platform. RAK Airways is the national airline of Ras Al Khaimah, one of the seven states of United Arab Emirates.

The first global distribution system they joined was Travel port global distribution systems and while joining them. CEO of RAK Airways Mr John Brayfordsaid "Travel port's extensive global network complements our ambitious expansion plans and this agreement will really help serve RAK Airways' future distribution needs. (RAK Airways, 2012)

With the intension of bringing down the cost of distribution, there were couple of companies who took birth – G2 Switch works and Farelogix. They did not take the market into storms as they expected since they underestimated the complexity of airline content and the entire travel distribution system. These new entrants commonly known as GNE (GLOBAL DISTRIBUTION SYSTEMS New Entrants) have lack of standardization with airline infrastructure. They might have a smaller role to play in the field of distribution

but definitely not a competition for the already existing global distribution systems. The GNEs have been in the field for some time by now, which has not brought any significant change in the way the distribution channel works, the global distribution systems still remain as a preferred medium of distribution.

Global distribution systems hold and maintain main frame servers which ensure 99.99% uptime to ensure that the information reaches the end customer on time, every time. It is critical that the information gets disseminated across the globe – a downtime during night in the U.S would mean that the users in Asia would get affected by such outage and vice versa. It is a herculean task that these players take on behalf of the airlines. According to a study conducted by the Aberdeen Group in 2008 it was found that a delay of just one second can make an impact in page views by 11% and conversions by 7%. (Aberdeen Group, 2008) This shows the importance of maintaining high end servers which in itself is a costly affair. This has been openly recognized by some of the airlines as well. "Over many years, Travel port has responded to Lufthansa with great efficiency on both the product and support levels. Our commercial partnership with this GDS provider gives us flexibility, solid connections and accurate transactions amongst our global retail network." says Lufthansa, the National airlines of Germany (Travelport, 2012)

6. Failure of GNE (Global Distribution Systems New Entrants)

Fare Logix was one company which came up with a big bang to provide cheaper

distribution in the airline field. The way they came, the airlines looked at them with a greater expectation which did not last long.

Even now fare logix as a solution provider has not been able to establish as a competitor to the global distribution systems. Fare logix or G2 Switch works for that matter has not been able to make any mark in the trade till date.

According to Mr Mike Koetting, Executive Vice President, Carlson Wagonlit Travel Global Supplier Management, who was named one of "The 25 Most inûuential Executives of the Business Travel Industry, 2006" by Business Travel News, a leading industry publication in North America. "We believe it is in TMCs' and our clients' best interest for all airlines to participate fully in GDSs: taking content out of GDSs creates ineûciency in the marketplace. For the moment, no single alternative system can provide the full range of content and services we ûnd in GDSs, and integrating many alternative systems would involve considerable technology costs. Airlines are developing their own commercial Websites, but they currently cannot provide the same array of important pre- and post-trip services as GDSs. In addition, a number of GDS New Entrants (GNEs) have appeared, offering lower-cost connections to airline content. While these suppliers have been successful to a certain degree, they are limited by not offering access to hotel, rail or car content. They are therefore useful as a partial solution but cannot alone replace the traditional GDSs. In North America, for example, the *CWT Symphonies* stem allows us to work with

GNE G2 Switch works for some of our air transactions (Carlson Wagonlit Travel, 2007).

7. Future of Global Distribution Companies

With the threats posed by the direct distribution channels or the direct connect, there are many questions raised from various quarters about the existence of Global Distribution Systems. To avoid the global distribution systems companies, airlines tried to withhold some special lower fares from these systems. Airlines have tried passing on the global distribution systems charges to the users. In 2008 Lufthansa German Airlines, one of the key share holders of Amadeus global distribution system (11.5% shares) imposed a fee of $6.60 per booking created by the user. This did not last long when the Amadeus global distribution system signed a full content agreement with Lufthansa. Similar was the case between Travel port global distribution systems and American Airlines. Ultimately when an airline decides to stay away from the participation of these global distribution systems, they realize that they lose out in the race. The dynamic connections created by the global distribution system companies are one of the prime attractions for the travel management companies who sell the high value, high revenue classes on these airlines. With the emergence of various airline websites, definitely there has been a reduction in the volume of transactions that take place through the global distribution systems.

In 2008, Jet Blue airlines, a low cost air realized the importance of being on the

distribution systems where in they said the high value business customers are likely to get his bookings made through a travel management company who would depend on the global distribution systems. The averages fare purchased via a global distribution system is 17% higher but still such an increased cost justifies the distribution cost.

It is to be noted that these global distribution systems companies have been updating to the latest technology to lead and reach the corners around the world with their latest products. To understand how huge are they, below is a statistics of one of the global distribution systems called Travel port.

i.   67,000 travel agency subscribers

ii.   350 airlines, including more than 50 low-cost carriers (LCC)

iii.   89,000 hotel properties from 310 chains

iv.   30,000 car rental locations from 25 providers

v.   12 major domestic and international rail networks

vi.   3500 employees worldwide

vii.   Providing services in 30 languages

viii.   99.98 percent core system uptime

ix.   6 billion+ stored airfares

x.   Up to 1.8 billion unique travel-related messages processed daily

xi.   77 million daily searches for air, car and hotel availability

xii.   Less than three seconds in average system response times

xiii.   4,500+ processing servers and eight IBM mainframes

xiv.   40bn messages per month, averaging 17,000+ per second during peak periods

xv.   Over 6000 servers and 10 mainframes

xvi.   100+ firewalls, 30,000 device backups/month, 3,000 security patch updates applied/month

Looking at the above statistics, and we consider similar kind of capabilities that may exist with other global distribution system companies in the world, we would realize, what kind of a technology that have implemented over the years by concentrating in their sphere of work. To build up such big infrastructures, it is evident that they are aware of their future and is ready to shape up as per the changing market dynamics.

8. Conclusion

The global distribution systems have adjusted to the various market conditions by adapting to the changing requirements in the travel world. They have demonstrated their capability over the years with various "first of its kind" technological implementations. (PhocusWright, 2009) The global distribution systems companies have also established their own kind of sphere of influence by acquiring the biggest of the online travel agencies who has a major say in the travel world. For example Orbitz is owned by Travel port while Expedia is owned by Sabre. These two are the major online travel agencies in the world and through these divisions the global distribution systems have been able to control major share of business. Also since

global distribution systems are the most preferred medium of booking for the travel management companies, the airlines cannot deny this major volume of business also.

Global distribution systems even today play a major role in corporate travel as well as leisure travel business. They work as an aide for the travel agencies to sell the airline inventory which the so called direct connection option which by passes the global distribution systems cannot offer today and so is why the global distribution systems still hold a good amount of market share even though various airlines have their individual websites and they promote them to the core.

When airlines say that they incur a cost attached to the global distribution systems, they do not realize that the amount of money that they spend by maintaining their own website, implement latest technology etc would also cost them equal or more amount of money. Their core area of business not being distribution, they may end up spending more for what they actually require. This is where the global distribution systems have to be considered as a marketing tool. The cost attached to the global distribution system participation should be seen as a marketing cost rather than a heavy unwanted expense. Global distribution systems companies currently have their technological capabilities which should be utilized by the airlines to their benefit. The global distribution system companies should never be treated as an unwanted expense, but should be seen as an additional source of income which could help them increase their revenue from various parts of the world. The Global distribution systems companies still hold a strong position that can innovate and adapt the never ending changes

and requirements of the industry. Future is unpredictable for any industry and hence tomorrow would web 2.0 or its brothers or sisters would pose much severe threat to travel distribution is yet to be seen. How travel distribution takes shape in future is yet to be known.

This paper is intended to check the advantages that currently offered by global distribution systems companies for its vendors and this is based on the secondary data collected from various sources and the limitation faced was that no airline CEO or high level executives were reachable for a possible interview to get primary information from them. So is the case with the global distribution systems – all information were taken from the published sources. This article is open for further study based on primary data which may reveal much more details.

Reference

Aberdeen Group. (2008). Customers are won or lost in one second. Boston: *Aberdeen Group.*

Carlson Wagonlit Travel. (2007). The Great GDS Debates. New York: *Carlson Wagonlit Travel.*

Europen Technology and Travel Services Association (ETTSA) (2010). Technology and independent distribution in the European travel industry. New York: Phocus Wright.

International Air Transport Association.(n.d.). Simplifying the business: IATA. Retrieved November 09, 2012, from IATA Corporate website:

Jet Blue. (2008). *Annual Report.* Long Island.