

Management for Professionals

Ben Vinod

Mastering the Travel Intermediaries

Origins and Future of Global Distribution
Systems, Travel Management
Companies, and Online Travel Agencies

 Springer

Management for Professionals

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*The people who are crazy enough to think
they can change the world are the ones who
do.*

—Steve Jobs

This book is dedicated to the memory of Dr. James W. Barany, Professor and Associate Head at the School of Industrial Engineering, Purdue University, West Lafayette, Indiana. Professor Barany was passionate about students, and he always found the time in his busy work schedule to provide valuable guidance during his seven decades at Purdue. He was the consummate advisor and mentor who taught me how to succeed in all aspects of life.

To my parents, who encouraged me.

*To my wife, Ann, who has endured my
obsession with the travel industry for over
three decades.*

Foreword

We can't solve today's problems with the mentality that created them.

Albert Einstein (1879-1955)

By way of introduction, I enjoyed the roles of CIO of American Airlines and CEO of what was then called The SABRE Group. Although I have held various other business positions at startups, as a professional Board Director, etc., it is mostly with the AA/SABRE experience in mind during the 70s to 90s that I write this foreword.

What occurred from a technology standpoint during that timeframe was nothing short of incredible as we pushed the then-existing capabilities to the limit in all aspects of technology—whether network, hardware, software, systems architecture, etc.

Our needs grew beyond available offerings from major technology suppliers at the time such as AT&T or IBM. In addition to creating proprietary solutions to automate the various functions of operating an airline and selling American airlines products, we had a dozen or more other large initiatives such as automating travel agencies around the globe or even hosting other airlines in our system as our purview. These activities required ever quicker response times, greater accuracy, and speedier implementations as competitors entered the marketplace. In short, the breadth of our business needs required thousands of concurrent solutions being developed at any one time and pushed the envelope into uncharted territories as we strove to update millions of fares each day in real time or to implement rather risky hardware architecture designs.

As I read the chapter summaries of Ben's book it took me on a walk down memory lane. Having been part of the development of the Sabre system, I was perpetrator of and/or witness to what was captured in his materials.

In retrospect, it was challenging, but also thrilling to be associated with so many "industry firsts" as we referred to them. Whether it was introducing the fully automated AAdvantage loyalty program for our airline customers or providing state-of-the-art robotics for use by our aircraft maintenance professionals, we juggled many balls and often learned as we forged ahead. We learned about the value and importance of timely, accurate data that could be monetized, and we learned that

adopting new development tools and creating a laboratory where end users tested whether our requirements matched their needs could reduce our time to market.

After reading the particulars of what was occurring in the travel industry during the period, I hope you come away with two thoughts. One is associated with innovation and the other is leadership. The complexity of the global travel marketplace, as well as the regulatory challenges and ever-changing technology environment, can't be overstated. Being an intermediary in such a huge, global industry is not for the faint of heart; nor is creating a successful business to provide automation for them. As you wind your way to the final chapters of the book, you will find that the complexity and challenges have not lessened. As a supplier, the question of identifying who the traveler is and what their need is for any particular trip vs what you want to sell them and how you want to portray or differentiate your product only gets more complicated. It is fascinating to hypothesize what role Blockchain, GenAI, NDC, and other solutions will play in the travel industry going forward, as well as how they will interface with the still-existing legacy systems. Hopefully the use of the new tools will make it easier for the traveler to buy and have a great travel experience as a result!

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Fort Worth, TX, USA

Kathy Misunas

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Founder and Principal, Essential Ideas,
New York, NY, USA
September 21, 2023

Foreword

Airline Distribution: Changing Market Structure, Performance, and Conduct

I met Ben Vinod when he was the Senior Vice President and Chief Scientist at Sabre, and I was an Advisor to the C-Suite at Sabre. Based on our discussions at Sabre and through reading his books, I am impressed on the depth and breadth of his insights on the travel industry. Now, in *Mastering the Travel Intermediaries*, Ben discusses in depth the origins and future of Global Distribution Systems, Travel Management Companies, and Online Travel Agencies in the context of some fundamental changes in the distribution space.

While “distribution” is hardly a new concept for airlines or intermediaries, the landscape is changing at a rapid pace for numerous reasons:

1. The rate at which consumers’ demands, expectations, and preferences are changing.
2. The need for airlines to not only improve their financial position, particularly relating to distribution costs, but also develop flexibility and agility to market seats and ancillaries that go beyond the fees for bags, changes to bookings, and the choice of seats.
3. The emergence of powerful technologies (AI/Machine Learning, blockchain, cloud computing, and smart analytics, being just a few) that are empowering consumers to become more demanding and airlines to become more competitive.

Given these changes, what will be a successful distribution strategy in the air travel industry? What products, services, and experiences will different segments of travelers value and what technologies and data would be required to create and deliver this value? Ben offers not only a compelling view of both challenges and opportunities, but also some insights on some solutions that call for airlines and distributors to work together to create mutual value.

My career in the airline industry began at Trans World Airlines in the late sixties in network, fleet, and schedule planning that I still consider as the core product of airlines. And, although I did work for American Airlines from 1985 to 1987 in network/schedule planning and at that time yield management—now revenue management, Ben and my path did not cross. However, our paths did cross when we both worked for Sabre. We spent a lot of time brainstorming on the changing role of technology and the criticality of not only data and analytics, but what travelers really value and, in my opinion, even more important, what they are willing to pay. We now have exponentially more data on customers shopping patterns and behavior (accessible from airlines' websites and from intermediaries) and more computing power that can enable us to benefit from the use of technologies such as ChatGPT and other large language models. New technologies can even take into consideration travelers' experiences. However, such a holistic approach will require, as Ben points out, a realignment of the business models of all three major category of intermediaries—GDSs, OTAs, and TMCs—an alignment that would also require much greater cooperation to achieve mutual benefit.

There are many reasons why the business models of intermediaries need to change, and Ben understands and describes the dynamics of the change. Based on Ben's comprehensive analysis of the dynamics of change in the distribution space, he examines the future of travel distribution and the future of travel intermediaries. We both agree that the intermediaries do provide value-added services (using expertise, technologies, and infrastructure), for both airlines and their customers, given the ongoing complexity of air travel. However, using intermediaries does add costs not only for airlines, but, in some cases, for customers, too. I share Ben's perspectives and I have had numerous discussions with all three types of intermediaries as well as NDC aggregators on the need to adopt a bold new vision where suppliers of travel services produce, market, and deliver relevant products and intermediaries differentiate themselves from suppliers in retailing the products with seamless and frictionless experience. In some ways, both Ben and I have encouraged airlines and intermediaries to look over the horizon, while they deal with the challenges and opportunities of today.

I strongly recommend that practitioners in the airline sector and the distribution sector read this compelling book. It not only provides an incredible understanding of the historical aspects of all aspects of travel distribution and the impact of evolving technologies on the intermediaries, but also the potential strategies for the long-term survival of the intermediaries.

Technology and Business Strategy Advisor
St. Petersburg, FL, USA
October 1, 2023

Nawal Taneja

Preface

This is the third book in the series on marketing planning in the travel industry. While the first two books focused on the origins and advances in pricing and revenue management in the airline and hotel industries, this book is devoted to product distribution and the role of the intermediaries—past, present, and future. There are many types of intermediaries in the travel industry and the focus of this book is on Global Distribution Systems (GDS), Travel Management Companies (TMC), and Online Travel Agencies (OTA).

This book starts with an introduction to travel intermediaries and the role of Thomas Cook, who created the first travel agency. It continues with the early aviation pioneers; Congressman Clyde Kelly, C.R. Smith, Blair Smith, and the many individuals from American Airlines and IBM who influenced and participated in the development of the first airline reservation system. The creation of computerized airline reservation systems led to the creation of global distribution systems (GDS) by the airline community. GDS pioneers Robert Crandall and Max Hopper played critical roles that led to the launch of the first GDS, Sabre, in 1976 by American Airlines, that allowed travel agents to make automated airline bookings for the first time.

The remainder of the book is focused on the evolving business and technology landscape, challenges faced by the GDS, the role of travel management companies and the late entrant OTAs, the new channels that spawned from the Internet in the mid-1990s and grew to dominate hotel bookings, the role of the International Air Transport Association (IATA) with messaging standards for the airline industry and shifting pricing power from the GDS to the airline with the New Distribution Capability (NDC) initiative. Alternate commercial revenue models, the role of digital identity, and the potential impact of emerging technologies like blockchain are reviewed. The book concludes with a forecast of the future state of intermediaries.

Product distribution was already established as a dominant line of business when I joined American Airlines in June 1985. During my years at American Airlines and Sabre, I learned the airline planning and airline operations business followed by

product distribution from supply aggregation and demand generation perspectives. In my role as SVP and Chief Scientist at Sabre (2008–2020), product distribution was a major area of focus along several dimensions such as air shopping algorithms, air shopping cache, air availability cache, air availability proxy, air ancillaries, offer management, advanced data analytics, hotel ranking, agency workflows, performance measurement, and many more. I also had the opportunity to make presentations and interact with several travel management companies, online travel agencies, airlines, and hotel chains at Sabre, customer site visits, and at travel conferences. The knowledge I gained through these experiences is reflected in this book.

I was compelled to write this book because I worked on both the airline side and GDS side of the travel value chain. Air product distribution is not well understood by many in the industry. It is a fiercely debated topic, and like a game of chess, there are several moves, and counter moves today in the product distribution space, especially air. As a management consultant and observer in the travel industry, my goal was to maintain a neutral perspective, compile the emerging trends, and provide my perspectives on product distribution.

This third book was the most challenging to write as I had to take many trips down memory lane when I started working at American Airlines (1985–1999) and later at Sabre (2004–2020) to piece together all the moving parts of the industry transition from a collaborative to contentious relationship between airlines and the intermediaries, to connect the dots into a timeline and describe the business of product distribution in a cohesive and succinct manner.

A special thanks to two established thought leaders in the travel industry, Kathy Misunas and Nawal Taneja, for providing valuable feedback and writing a foreword for this book.

Kathy Misunas of Essential Ideas was the first CEO of The Sabre Group (TSG) and was responsible for bringing together the various information technology groups into a single unit. She also held roles as CIO and SVP at American Airlines and CEO of Reed Travel Group.

Nawal Taneja is a well-known travel industry consultant, strategist, and trusted advisor in global aviation. He is also the author of several books that explore innovative best practices in the airline industry.

A special thanks to Phil Beck, Ross Darrow, and Ann Vinod, who patiently reviewed multiple iterations, offered their suggestions, and constructive feedback as I wrote this book.

Grapevine, TX, USA
October 30, 2023

Ben Vinod

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Chapter 1

An Introduction to Travel Intermediaries



1.1 What Is an Intermediary?

In the travel value chain, there are many types of intermediaries that support travel suppliers by filling critical gaps in supplier business processes. For example, global distribution systems (GDSs), travel management companies (TMCs), and online travel agencies (OTAs) are **intermediaries**, entities that facilitate a transaction between a consumer (traveler) and a travel supplier (like an airline).

Travel intermediaries are middlemen that sit between travel suppliers and consumers and facilitate various types of transactions. Using intermediaries has an added cost to the travel supplier and, in some cases, the customer as well for the value-added services that they render. Intermediaries thrive due to the complexity of travel and take on roles that travel suppliers do not have the bandwidth to manage or outsource as a cost-effective strategy. They leverage a combination of technology and expertise to provide value to customers. Using travel intermediaries has its advantages for both consumers and suppliers. The travel industry has been traditionally characterized by its use of intermediaries.

1.2 Origins

The first intermediary in the travel business was Thomas Cook, an English businessman who founded Thomas Cook & Son, later Thomas Cook Group. This was the first travel agency as we know it today.

Thomas Cook was born in Melbourne, England in 1808. He was a baptist preacher and furniture maker. He was a strong advocate of the temperance movement in Great Britain that emerged in the 1820s and 1830s. He believed that alcohol abuse was one of the major problems in the Georgian era followed by the Victorian era. The temperance movement demanded political and economic reform. At a time