Eastman's "Off-The-Wall Comment(s)" ©

"If It Ain't Broken, Continue to Improve It!" … says the headline on the BTC News Wire last month[1]. Kevin Mitchell, writing on behalf of the Business Travel Coalition, questions the travel technology sophistication of British Airways' Richard Tams speaking to a group in Abu Dhabi that week. In his reflections on Mr. Tams, Mr. Mitchell asked readers to view the Business Travel Coalition, Inc. Blog. And two weeks earlier on May 7, 2011, BTC News Wire released an article "How Hidden Fees Can Increase Managed Travel Cost"; also authored by Mr. Mitchell. Both of these releases seek to sustain a distribution paradigm that is failing.

Let me preface these comments by saying that I know Kevin Mitchell casually … have met and talked with him a number of times. He is personable, astute, and highly focused. Unfortunately, the focus of his effort … and those of BTC … are skewed and often distorted by invalid assumptions and incorrect analysis. This "Off-the-Wall Comment" attempts to address some of these issues.

In the black text below, are excerpts from Kevin's comments in the Blog.

From BTC Blog May 21, 2011[2]

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According to Travel Weekly UK, head of UK & Ireland sales at British Airways (BA) Richard Tams … referred to the current travel distribution system model as "broken." Of course, this has become almost fashionable to say, and in some circles, a litmus test of one's presumed travel technology sophistication … saying the distribution model is broken actually accentuates a certain benightedness with respect to the value of the GDS-centric distribution model. … As the graphic immediately below depicts[Ed note: Graph is depicted to the right], thousands of suppliers with billions of prices and schedule options provide their offerings, in disparate data formats, through the "front doors" of the GDSs. …

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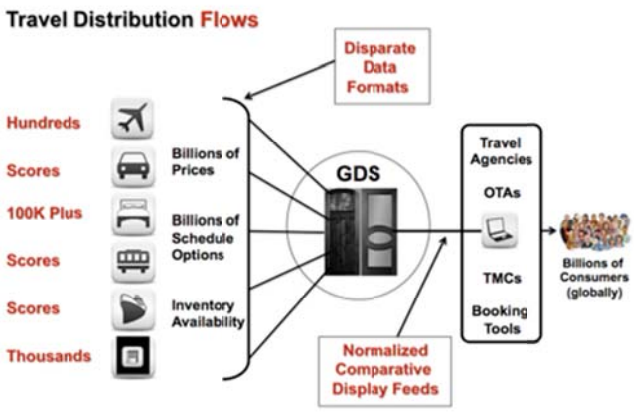

So for starters, let's address what Mr. Mitchell depicts above. To the left of his diagram are travel service providers. In the diagram, all of those offerings channel to the right in his diagram … through the GDSs where GDSs "normalize" the data and re-distribute that information to travel agencies, online travel agencies, and travel management companies; and by implication, all sorts of booking tools. This is an accurate diagram – *that also depicts why the current structure IS broken and is no longer relevant.* This diagram only tells a small part of the story; and a diminishing part at that!

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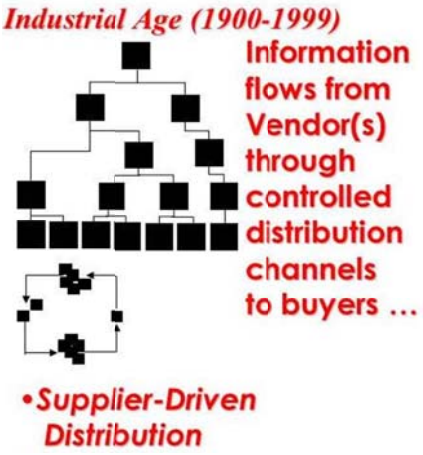
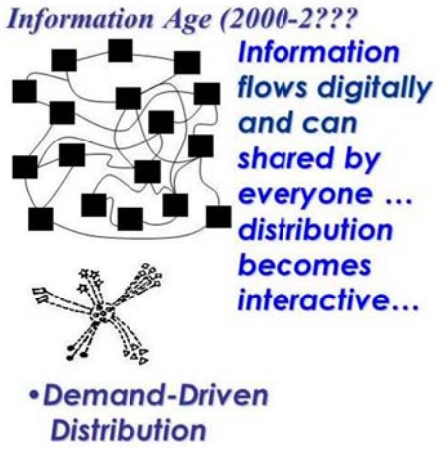
[1] BTC News Wire, "If It Ain't Broken, Continue to Improve It!", Thursday, May 19, 2011- Business Travel Coalition, www.businesstravelcoalition.com

[2] http://www.businesstravelcoalition.com/blog/

Note that the flow of data is unidirectional … that is, it only flows one way! In Mr. Mitchell's diagram, it is depicted as flowing to the right. When the airlines first automated their inventory systems in the 1960's, unidirectional data flow was the most modern business model known to man. Information was controlled by the suppliers; and it could only flow from the producers to possible buyers. This is a hierarchal business model from the Industrial Age as depicted to the left. When the airline industry first created this early version of e-commerce, the technology and business models of the day required that the supplier (airlines) control the inventory and distribute that inventory through distributors (CRSs then, now called GDSs) to retail agents who then serviced the customer. To make the process work, the airlines offered four basic choices – first, business, coach, or economy fares. Equally important, airlines products, routes, and fares were regulated by the government. Choice was limited by what the airline offered and payments was made via a closed loop financial settlement process as depicted in the lower left part of the diagram … where airlines (top of little diagram) distributed through GDSs (arrow to left side) … to agents (arrow to bottom) that collected the money and then settled financially with ATC (arrow bottom to right … ATC subsequently became ARC or BSP) who then reconciled with the airlines (arrow back to top). It was a closed-loop supplier-driven distribution system that served the industry and travelers well … in its time.



That was then. But we live in today. And the flow of digital information today has changed greatly. As depicted below, the data flows digitally to through networks or point-to-point channels bi-directionally. A message sent can have a related reply returned (not unlike the common e-mail message of today). Data can be and is shared by everyone and it is interactive. It allows buyers to interact directly with vendors; or with intermediaries (including distributors and retail outlets). This new means of communication is changing the world of e-commerce from the channel-controlled distribution model depicted above *AND* in Mr. Mitchell's diagram – to a demand-driven distribution model where buyers and travelers are interactive participants in the creation of the travel package needed. As depicted in the small diagram in the lower left, buyers of products are at the center of the of a node from which they reach-out to the different vendors in person or digitally to package and financially pay for purchases that fit their specific needs. This is substantially different than the closed-loop model depicted in the lower left of the hierarchal business model of the 1960s'. Breadth-of-digital-reach allows buyers to select from diverse resources and to custom tailor their buying to fit their buying preferences. They are no longer constrained by the closed-loop structure of the hierarchal model. The demand-driven model is already reflected is the digital world of Amazon.Com, eBay, and most consumer as well as



business-to-business shopping as we enter the second decade of the 21st Century. It is the world of e-commerce and m-commerce (mobile phones and tablets). Yet BTC, Mitchell, and its advocates would like us to believe that the legacy supplier-driven unidirectional product selection model depicted in the diagram reflects the real world. As demonstrated, it does not.

Still, considering the probability that there remains a need for some channel-direct distribution of airline product, it is essential to recognize that the digital message protocols used to transmit the digital information in the GDS environment and structures – as well as most of the business processes incorporated in these systems -- *will not and cannot support bi-direction digital communication.* It is a technical impossibility. The communication protocol structures, the message "conversion and translating" mechanisms, and the very core resources of these legacy airline and core GDS distribution protocols need to be transformed into modern-day systems.

Further, there is an even bigger hurdle if one is to sustain the channel-direct distribution model. It relates to the difference between the unidirectional legacy business model of the GDSs and the bi-directional business model of the Internet. In the legacy model, information about product offerings flow down (or across, as depicted by Mitchell's BTC diagram) the distribution channel. When a purchase is made, that piece of the inventory is removed from availability. With the exception of an airline seat, when an element of inventory is sold (i.e. a hotel room or car rental is booked), that message is sent to the vendor – and from that time on, the booking and anything related to that booking remains solely and only in the vendors inventory system. There is no interactive communication structure to enable a hotel or a car rental firm or any other travel vendor using the GDS system as a sales channel to tell the travel agent or the traveler that there has been a change in his reservation.

In fact, the only reason that changes to an airline reservation are available is that the GDSs were originally airline inventory systems and they all use that little closed-loop settlement process depicted in the lower left of the hierarchal information flow of the 1960's era. If the traveler is upgraded or turned down upon arrival at the hotel or car rental outlet … there is no channel of communication back to the booking agent or even the buyer through the booking channel.

If such information comes at all, it must come from some other communication channel. The GDS structures have no mechanism for communicating back to buyers or travelers changes that subsequently take place in the traveler's itinerary – good or bad. This is particularly true of the financial (i.e. commissions earned, lost, upgraded or downgraded) aspects of a transaction. In that regard, Mr. Mitchell's system is not broken; it simply does not exist!

The move away from these unidirectional and closed-channel distribution platforms is the driving force behind the decision of airlines like Lufthansa, American Airlines, and others to move from the old airline hosting platforms to new solutions like Altea and Jetstream. These newer hosting platforms are and will be designed to respond to buyer and traveler demands and expectations for customized travel packaging; packaging that even today may or may not include a meal, baggage handling service, preferred seating choices, early boarding privileges, trip-specific or even flight-specific club participation, etc., etc., etc.

And none of those issues address the need to recognize buyers or travelers at the time of booking to provide pre-packaged tailoring of service offerings; a necessary element of sustaining loyalty purchasing.

The current unidirectional and closed channel travel distribution systems are simply unable to perform these functions. And due to their core underlying architectural structures, they cannot be modified cost-effectively to enable that to happen. While some systems, both airline and GDSs have added tiered overlay solutions on top of these legacy platforms in an effort to meet current needs, these solutions can only be temporary. There is simply no way to generate a viable ROI (Return on Investment) using overlaid solutions or in attempting to remake the old systems. The must be … and will be replaced!

With the technical aspects addressed, it's even more important to address the current societal transformation that is taking place. It would appear that we humans are undergoing a major change in the way humans organize work for the benefit of the whole … and how people form themselves into working groups. It's happened maybe six times throughout the history of man[3]. Each transformation has had a fairly long boom period followed by a crash; then a difficult and turbulent struggle as "… the new ways to of organizing emerge and the old ways, supported by established elites, fail" Whitney-Smith points out.

"In the short term, it's always better to be a part of the old way because their wealth has already been assured and there is no reason to innovate; but the masses of non-elite have nothing to lose and reorganize to take advantage of the new capabilities that are evolving around them," says Whitney-Smith. The two most recent times revolved around the invention of the printing press and the electric (as opposed to electronic) information revolution that accompanied trains, telegraph, and telephone. She notes that throughout history, "the timeframe has gotten shorter" for the transition to take place.

It's important to understand that an information revolution isn't always associated with information technology. It is about how information "works" in a culture. Whitney-Smith makes the point that the 6th revolution in which we're living started out with the "mainframe phase" during which established institutions adopted computers as a management tool. The airline inventory systems and the current GDS distribution structures were in the forefront of that adoption.

"We're just starting to see the organizational innovation of the second phase emerge," Whitney-Smith says. "These new companies take the Internet for granted. They are designed by a generation that had access to computers from childhood. Businesses that are less bound by old forms of hierarchical authority, such as Facebook (where any engineer can modify any part of Facebook's code base), are thriving. So are companies with massive line worker input such as the "open management" companies …," she says[4].

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[3] Historian Elin Whitney-Smith as quoted in "A Long-Wave Theory on Today's Digital Revolution"; an Strategy+Business essay by Art Kleiner, May 20, 2011

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This thinking is echoed in "The Connected Generation Comes of Age."[5] "Members of the 'Connected Generation' all have cell phones and they use them more for texting than for voice conversations", the story points out. "While preceding generations also share these technologies …, the 'Connected Generation' has a common "connected mindset" that sets them apart …." The story goes on to point out that in parts of Asia, voice has already dropped to 20% of the telephone network traffic; the rest is data.

The ubiquitous nature of access to and use of information is virtually flattening the way that people and groups organize to serve each other. It is restructuring the way people meet the expectations and demands or needs of one another. The 7X24 connectivity and instantaneous need to respond to the expectations of each other person means that it will necessary for most people, if not all, to blend work and non-work time. And travel and travel planning, whether for business, non-business, or mixed needs … will need to reflect these new needs in both real-time living and customer service responses.

In the face of the increasing demand-driven needs the traditional organization will become flat. Friedrich, Peterson, and Koster[6] argue that …"the traditional hierarchical structures will give way to self-organized, agile 'communities of interest.' Ad hoc teams of contractors will assemble around a tiny corporate core on a project-by-project basis." Similarly, travel and travel packaging … air, hotel, ground, car, etc. … will coalesce around the traveler on a trip-by-trip need basis.

It almost goes without saying again, the current uni-directional GDS distribution architecture, structures, and protocols simply prohibit the kind of digital interaction that the emerging business and traveling world must have. It is not possible to, in Mr. Mitchell's words, "… to continue to improve it." The entire platform must be … and is being … rebuilt!

That the "rebuilding process" has started can be seen in the very points that BTC makes in its "How Hidden Airline Fees Can Increase Managed Travel Costs[7]." Key elements of each point in that BTC News Wire are in black below.

<< Some 60% of consumers, and virtually all managed travel programs, purchase their air tickets through the travel agency and TMC (travel management company) sales channel where airlines participate but yet do not share their optional service fees. >>

A mere 15 years ago, the only source for that information was the referenced sales channel and there "optional service fees" did not exist. In today's information world, the information is available BUT the referenced sales channels lack the technology and messaging data structures to cost-effectively re-transmit the information to buyers prior to travel, to travel managers in the buying or negotiating process, or to accounting systems capable of consolidating such information with other linked travel expenses.

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[5] "The Connected General Comes of Age", Trends e-Magazine, April 2011, Page 4-8
[6] "The Rise of Generation C" by Roman Friedrich, Michael Peterson, and Alex Koster. © 2011 by Booz & Company, Inc. as referenced in Strategy+Business, Spring 2011
[7] "How Hidden Airline Fees Can Increase Managed Travel Cost" by Kevin Mitchell, BTC News Wire, May 7, 2011

<< … travelers cannot compare the full cost of air travel across carriers. >>

The hierarchal business structures of 60-years past provided all-inclusive packaging for air travel. An airline seat came with a meal, pillows, baggage handling, seat assignment, etc. But not everybody needs a meal or pillows or to check baggage. To optimize pricing for those who did not want certain services, airlines have "unbundled" many aspects of the airline seat travel product. But the unidirectional sales channel technology cannot deal with the disparity of pricing even if it were to be mandated by law. It would be cost prohibitive. Thus, for those who have the need to compare specific item-for-item pricing across carriers, it will be necessary to build technology that is capable of that. And in fact, that is necessary today if one wants to compare the air travel costs of many low-cost carriers with equivalent costs of the carriers using the legacy systems. The era of being able to compare carrier-to-carrier pricing and transaction fees is gone; and it will only be replaced by customized programs or consumer apps that service specific business functions or personal needs.

<< … extra efforts by TMCs to find, explain, and purchase these optional services leads to higher transaction fees for corporations. >>

This is true only because the process has NOT been automated. It has not been automated because the cost of attempting to automate the process within the existing legacy airline and GDS architectures and structures will drive the transaction costs disproportionately higher – far beyond the current labor cost required to do the process manually for those companies that think this is important. The high cost is because such an undertaking would require all of the airlines and the GDSs to completely re-architect the unidirectional and hierarchal structures of the current legacy/GDS distribution systems. Present solutions to address the need to inform travelers and buyers are overlaid platforms running on different technology platforms; and there is no cost-effective or accurate means of integrating the technologies of the new information platforms with the legacy platforms. Such links must all be done by software translators, interpreters, and archived reference tables requiring intensive human oversight and management (i.e. not cheap and prone to human error).

<< Corporations no longer have access to a growing portion of content (fees), including rebundled packages … >>

This, of course, is poppycock! That information IS available … via Internet. The reason corporations (and their TMCs) do not have access to this content is that they have failed to transform their own travel technology platforms into bi-directional information systems! Of particular interest is that MOST of these corporations have made that transition for the vast bulk of their operating, manufacturing, accounting, human resource planning, and even their own distribution systems! The BTC claim here is nothing more than the "established elite" insisting that the world not be changed!

<< With hidden fees – mostly untrackable – travelers have opportunities to spend money outside of corporate travel policy parameters increasing costs for their employers. >>

More poppycock! Every significant corporation large enough to have a legitimate travel management program has its own internal expense accounting system that will isolate, trap, and identify offenders. What BTC appears to claim is that travel agents (and/or travel managers) using the unidirectional information systems of the GDSs, are unable see and/or manage these fees using the 60-year-old legacy technology systems. Since most corporate expense systems are running on contemporary technology platforms, this claim seems to make the argument for new technology that can better integrate the information with existing corporate business systems rather than adding more "bailing-wire" to the existing unidirectional channels already unable to cope.

<< The overall hidden fee problem leaves travel departments with incomplete data to prove they have met airline contractual obligations and to effectively negotiate new agreements; … >>

Any corporation in this era lacking the back-office expense accounting platform from which to generate the data needed to comply with airline contractual obligations and/or effectively negotiate new agreements … ought not to be in business. BTC is trying to use 1960's business models and processes to compete in the 21st Century! This is a "control" issue. There was a time when travel management systems were dependent on the data delivered via the GDS back-office systems because corporate front-office accounting systems were not yet capable of tracking itemized expenses. But that era is long-gone for any major sustaining business.

There is a legitimate issue with respect to ancillary service fees in that travel managers are unable to see these fees via the legacy technology platforms using the current GDS systems. In some cases, that's not the fault of the GDSs, but the inability of the message protocols to manage the information. Thus, travel managers must depend on data sourced from pre-travel or expense reports. There is nothing to preclude travel managers from obtaining relevant fee information from alternative sources other than it removes the "mystique" from managing travel and makes travel purchasing just another "purchasing function."

<< Some airlines apparently seek to use required marketplace access to fee information as a lever to flip the economic model where in TMCs pay airlines for this content and corporate travel program reimburse TMCs for this cost. In effect, virtually all airlines' product merchandising and distribution cost could be borne by the customer, with the corporate travel departments having little control over the drivers of these costs. >>

Who is kidding who? First of all, does BTC actually believe that merchandising and distribution costs are not already included in the price of the airline ticket and/or the optional fees that the airlines charge? BTC is not talking about new costs; only about how those costs are absorbed through the unidirectional distribution channel.

In the present structure, travel managers only delude themselves in thinking that they can "control" those costs like they did 15 to 20 years ago. The business model and the information

pertaining to travel and travel-related costs, has already given airlines the ability to identify who is traveling where and for whom. The fact that the unidirectional channel precludes a bi-direction "digital discussion" with important corporate travel managers works against the travel manager; not for them. As with the issue of << airline contractual obligations and … new agreements >>, this is a misguided issue of perceived "control".

To one of the earlier points, the word "control" as used by BTC implies a "one-up, one-down" hierarchal relationship; i.e. interaction of the entities is based on one entity having higher control and the other lower control. And as has also been noted earlier, the hierarchal structures of the past are becoming flat and virtual. Business relationships are becoming networked groups seeking "one-to-one" or "like-for-like" mutually beneficial relationships using bi-directional communication as peers. Such a shared benefit networking structure is not something that can or will evolve in a unidirectional sale channel. It requires bi-directional communication.

With all that said, it is important to note that the article "How Hidden Airline Fees Can Increase Managed Travel Cost" only addressed the issue of air travel.

At one time, air travel represented almost 70% of the cost of corporate travel. Today, << " … a pie chart would put airline/air transportation at 35%, lodging at 40%, meals at 15%, car rental at 7%, miscellaneous at 3%.>>[8]. As noted above, hotel (and other non-airline seat related costs of travel) have no cost or service-rendered traceability via the GDSs! All of those costs today MUST be reconciled or tracked using expense reporting systems or other internal corporate information tracking platforms! And there is increasing evidence that air travel costs are going to meld into the disparate pricing packages now found in hotels and other non-air services. It is a reality of the information transformation that Whitley-Smith defines.

A new travel distribution structure must evolve if airlines are to remain in business and provide travelers the kind of travel product-packaging that is now expected in virtually all other aspects of their day-to-day lives. Kevin Mitchell and BTC's call to << … Continue to Improve it!" >> is a virtual impossibility – technologically and within the changing business and societal structures emerging in the 21st Century.

A person with information can control circumstances. A person without information is controlled by circumstances and often has no opportunity to exercise judgment. Our society is experiencing a transformation in how information is controlled and used as exemplified by the rapid adoption of social networking via digital and Internet mediums. Travel and related travel product distribution is not immune to this transformation. Holding on to the past … sustaining the wealth and power structures as they existed in from the 1960's to the 1990's … has largely run its economically viable course.

The airlines must move to direct-connect solutions if they are to serve their traveler's needs. They must unbundle their airline seat product offerings to meet specific traveler and buyer's economic and travel-packaging needs. Airline must re-build their hosting systems if they are to

[8] Conversations with Rolfe Shellenberger, Travel Management & Marketing Consultancy, May 12, 2011 based on data collected for an article, "Online Booking", to be published in Business Travel Executive Magazine in the near future.

cost-effectively serve the expectations of travelers in a demand-driven business environment. Corporate Travel Managers must shed their legacy ways of managing information and evolve new business models that serve the needs of their travelers, their corporations, and the multiple vendors that provide travel needs solutions. The industry must de-emphasize its dependency on airline travel distribution and rebuild a structure that reflects the changing and evolving elements of travel currently dominated by hotel costs. While ancillary costs of air travel are an emotional ploy for attention, they are very much akin to the ancillary costs charged by hotels, car rental firms and virtually any other travel vendor seeking to meet the unique needs of travelers that are their guests. These are truisms that the industry, including the media, travel managers, BTC and other advocacy groups, politicians, travel vendors, retail travel agents, and travelers themselves … need to understand.

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