

By Richard Eastman

Evolution, Not Revolution

While some of the issues raised by BTC Chairman Kevin Mitchell's essay "Revolution In Canada" are valid, the "us-versus-them" approach hurts business travel managers and their corporations because it ...

- (a) fails to deal with the real issue of the societal transformation confronting travel managers/executives,
- (b) distorts the economic realities of both the past business processes and future needs of travel manager/executives,
- (c) creates a schism between buyers and providers that is costly to both, and
- (d) demeans the role of travel executives who buy and manage the travel needs of corporate employees.

The premise throughout the essay is that Air Canada is attempting to lead a revolution in the way airline travel product is distributed and/or sold. It is hardly a "revolution" if European and/or most other airlines in the world are experimenting with new ways to distribute their product.

It is important to understand what is driving Air Canada and most other airlines to restructure their distribution process. Essentially, the core driver to these changes is the low-cost speed of access to world-wide digital information. Information access becomes virtually instant knowledge to any person interested in almost any subject – including the price of an airline seat in any of its multiple variant offerings and those of its competitors.

Background

The airline product is nothing more than a seat between two points. Until the traveler is sitting in the airplane departing the gate, the airline's product is 100 percent "virtual." In order to pre-sell a "virtual" seat, airlines created their computer reservation systems, global distribution systems and

an electronic settlement process (ATC at the time; ARC today). The airlines created, essentially, the first worldwide e-commerce solution using this system; roughly 40 years before the Internet-driven digital revolution begin.

Business processes 40 years ago were quite different from what they are today. Among other things, the data processes of that era virtually mandated the paper ticket (i.e. "tangible proof" of ownership of a "virtual" product to be delivered at some point in the future). Airlines controlled their pricing via their control of the distribution channel and to participate, buyers had to be authorized by the airline owned settlement process (ARC today, and IATA BSPs elsewhere in the world).

Within the travel community, those processes remain in place today. Because the airlines were first and because of the transactional nature of airline revenue, the systems were simply expanded year-after-year to accommodate new market demands. The very core technology and the structure of the business processes remain embedded in the structure of virtually every airline business transaction — operational, financial, and distribution.

Unfortunately, the Internet-driven e-commerce world has moved into a new dimension. The "transactional" nature of product manufacturing, financial record keeping and distribution has been automated. Virtual products are no longer sold as single "unique" offerings – but are being "packaged" digitally to provide buyers/users with integrated solutions. A transaction (as in the sale of an airline

seat) is no longer "a" transaction. It is now part of a digitally integrated solution – involving multiple dimensions of complexity and need, both physical process and human emotion.

The single-point transactional products offered by the airlines' 40-year-old legacy business process simply cannot serve the complex needs of travelers. Obviously, if it cannot serve the needs of travelers ... then it fails to meet the needs of today's travel managers/executives.

Since the rest of society (i.e. those who are NOT travel managers/executives) is clearly marching down the digital e-commerce integrated buying/packaging path, it is becoming increasingly impossible for the airlines to revert back to old business processes. Yet that is exactly what "Revolution in Canada" advocates — a return to total product offerings in the high-cost inefficient GDS.

It simply cannot happen – nor, for those travel managers/executives who give it serious thought – can it happen!

Elements Of Profitability

The BTC essays talks extensively about "the inefficiency" created by Air Canada's experimentation with new distribution models and new product offerings:

"Instead of efficient distribution through the customer's preferred channel ... all the attendant inefficiencies and increased costs of such a proposed model ... "It's one thing to shift the cost of distribution – it goes to a whole new level when the airline also seeks to force inefficiencies and service degradation ..."

By definition, profit is necessary for any business to survive; including the very businesses that employ travel managers/executives. Most airlines, particularly in North America, Europe and modern Asia, are businesses. Air Canada is a business ... not a government-owned service or non-profit enterprise. Efficiency in operations and finance – as well as marketing and distribution – is absolutely essential to profitability.

Further, new quasi- or real "open skies" policies throughout the Northern Hemisphere as well as those evolving in Europe are compounding the competitive structures that confront all airlines. Buyers are proving clearly by their actions that it is quicker/faster/cheaper to search, build and increasingly more reliable to buy on the Internet than it is to revert to the more traditional business process offerings –

whether one is talking about retail store purchases, home realty, banking or travel.

As more and more business becomes e-commerce driven, the efficiencies of the digital solutions become less and less costly. The reality of that fact is not lost on airline managements. Buyers search travel needs on the Internet long before they turn to the travel agents to make the purchase. And one has to ask, why do buyer's go to a travel agent (even the online travel agencies). The answer ties back to the earlier point – the legacy airline business processes can only handle purchases made directly with an airline ... or through an ARC/IATA BSP approved outlet.

BTC distorts the economic reality of this new buyer-driven world when it suggests that the legacy GDS processes are more efficient. If they were efficient, the airlines would not be abandoning them!

And the view that these solutions are more cost effective for the small number of travel managers/executives representing large corporate buyers is equally unrealistic. Large corporations are increasingly turning to direct digital payment schemes; i.e. salaries are generally deposited directly into employee bank accounts, vendor payments are increasingly made via direct bank settlement, and even consumers are rapidly adapting debit-payments as alternatives to credit card and cash. The business processes exist today to deal with new distribution processes and product offerings being made by the airlines ... of which Air Canada is only one.

The Digital Age Is Here

Virtually every corporate finance officer in the US is attempting to move away from the old legacy business processes to new e-commerce models – all in search of increased internal operations and efficiencies. In most — if not all — cases, the short term cost of adapting to the new distribution tools and product offerings like those being made by Air Canada will lead to significant internal cost benefits for the corporations.

Living with its own industry-owned settlement process, the travel community has not paid much attention to the growing digital alternatives that have evolved to serve the new e-commerce world. In Europe, inter-bank digital transfers are the fastest growing settlement business model. In Latin American, alternatives like PayPal have the growth rates. There are many reasons for this – involving issues of secu-

rity, speed, efficiency, lowered costs, etc – all tailored to fit evolving e-commerce business modes. Corporate CFOs cannot turn a blind eye to these more efficient and less costly business structures serving other aspects of their business.

Claims of lost efficiencies appear to be a reflection of the way things were done in the past; a call to return to business solutions that are no longer cost-effective in any other industry. Those solutions come burdened with human intervention and transactional packaging costs that have been eliminated in more contemporary e-commerce solutions. It is unrealistic to suggest that airlines should incur major costs to benefit such a small number of buyers – given the clear trend of all of society to adapt the new business processes.

Such arguments and advocacy create a schism between buyers and providers. This kind of rationale suggests that readers do not understand or recognize the issues confronting airlines and the travel providers today. Perhaps of even greater importance is that advocacy of past business processes and solutions appears to be self-serving; which is demeaning to the travel managers/executives who are responsible for optimizing the travel packaging of corporate needs.

Corporations ... airlines or buyers alike ... are single entities comprised of many people working together to seek common and identified goals. When cause and effect are mutually understood, goals and processes to achieve those goals become viable. When self-serving interests or “finger pointing” intercede – achieving mutual goals becomes unmanageable.

No Turning Back

The airline industry ... particularly the established legacy carriers and those businesses or processes dependent on the airline industry's structure ... failed to recognize the impact that an evolving 1980s/90s Internet paradigm would have on society in total; let alone, the marketing and distribution of their product. The legacy airlines have not gone willingly down the new information-age path; for it has stripped them of control over their product offerings, allowed new-entrant carriers to strip them of market-share, and is forcing them to spend significant resources to restructure their business processes.

In fact, the airlines would just “love it” if the world would turn around and go back to the way it was in the airline hey-

day of the 1980s. But society is not going to let that happen.

Contemporary airline management is beginning to realize that its product offering is less and less a service in and of itself; but rather, a packaged component within the whole of some other package. In a sense, the airline seat is no longer a popular item that can be mass-produced in large volumes; but is in the process of becoming a mass-produced small item within a “package” of travel needs; i.e. the airlines must now sell a significant portion of their seats as an integral part of “long tail” product offerings derived of the new information-age access to travel data.

Air Canada is only one of many airlines attempting to sort out the issues of transforming itself to meet changed buyer and traveler demands and expectations. The “revolution” — such as it was and is — began when the Internet attained critical mass acceptance by society; that is when the related new e-commerce models proved more effective and efficient than the older human-intervention (i.e. agents, etc.) model. There is no revolution going on in Canada ... or elsewhere; only adaptation to new expectations by those who pay for products and services.

Travel managers/executives need to carefully assess their role in this transformation and open their perspective to recognize what is transpiring around them – to re-educate themselves toward the goal of evolving a mutually (not self-serving) beneficial solution to integrated participation in the new e-commerce world that we must all come to live in. Critical mass exists in the transition and those who seek a return to the “old ways” of doing business risk becoming the “buggy whip” manufactures of our era. **BTE**

Richard Eastman is president and CEO of The Eastman Group, a travel technology development and consulting company.

“Neither I nor TEG are currently working with Air Canada (or any affiliate of Air Canada),” he says, “nor are we working with any travel agency, GDS, Internet provider or corporation that would be served by a public rebuttal.” Current projects do include work with the new Hotel Solutions hotel audit product, a web booking portal for Aloha Airlines, a GDS booking interface for Dav El, a group booking solution used by some members of the Star Alliance, and various airline yield management solutions.