the beat

ELECTRONICALLY REPRINTED FROM APRIL 27, 2017

Two U.K. TMCs Go Direct With Lufthansa

Lufthansa Group has established its first two global distribution system-bypass connections to travel management companies. Both Portman Clarity and Click Travel are based in the U.K. and have histories of establishing direct connections to travel suppliers.

Lufthansa's application programming interfaces, which conform to the International Air Transport Association's New Distribution Capability standards and were developed with Farelogix, will start to pipe content to those TMCs on May 1, following development work initiated in September 2016.

The announcement is striking since the first TMCs to connect are based outside any of the airline group's home markets and since two medium-sized players are the first to reach agreement with Lufthansa.

In spite of long-term industry consolidation, the U.K. has retained a healthy, independently minded and tech-savvy midmarket TMC sector. However, Lufthansa Group senior sales director for U.K., Ireland and Iceland Andreas Koester said at a press briefing here: "We are in discussions with all of [the multinational TMCs]" and "with HRG we are in a concrete project."

Portman Clarity CEO Pat McDonagh is pleased to be ahead of them. "We move a lot quicker than multinational TMCs, which gives us a competitive advantage," he said.

Click Travel executive chairman Simon McLean added: "Most TMCs have their hands tied because they are limited by their relationship with their technology provider. If you have built your business around a GDS, you have to wait for them to move."

Both Portman Clarity and Click Travel offer their own online booking tools that mirror their agent desktop systems. In both cases, agents and customers will see Lufthansa direct fares displayed on the same page as GDS fares from other carriers.

"We already aggregate different sources in the flight search, including Multicom and Travelfusion," said McDonagh, referring to a couple of aggregators.

Click Travel considered displaying both GDS and direct content from Lufthansa but concluded there was no advantage in including the former, since the latter offers the same and then some.

"What you see on the page is night and day in terms of quality," said McLean. "You are getting that parity with airline websites."

A better customer experience is one of three reasons McLean identified for making the switch. The others are improved ability to amend and manage bookings (a point on which McDonagh disagreed) and access to wider content.

Koester repeatedly heralded the ability to offer exclusive promotions and customized fare bundles via the new channels "in the near future," but did not specify when the differentiated content would become reality.

The GDS-bypass connections offer another advantage in avoiding Lufthansa's €16 Distribution Cost Charge for GDS bookings. Yet, echoing another Lufthansa direct-connect pioneer, Siemens vice president of global mobility services Thorsten Eicke, McDonagh said: "This isn't about the DCC. This is really about content."

Nevertheless, the move away from GDS distribution raises profound questions about the future economics of corporate travel distribution, given that GDS providers pay substantial incentives to TMC customers. Fewer GDS bookings mean less GDS revenue for TMCs. Does that mean they in turn will raise fees for corporate customers?

Both McDonagh and McLean rejected this idea for two reasons, one technological and one commercial. The first, said McDonagh, is that TMCs can still take out more costs through further automation. "TMCs in general need to become more efficient. They are too reliant on manual processes."

Additionally, noted McDonagh: "Lufthansa are doing this to sell ancillary products and naturally that comes with a reward to the TMC, so maybe one revenue will be replaced with another revenue."

McLean added: "The revenue streams have to change."

Koester took the view that "this will only work if we create new content, not just move existing content from one channel to another." McLean added that his team has "been toying with" the idea of offering sponsored listings on its fare displays in the manner of a Google search page.

Another specter raised by direct connections and the retreat from the universality of GDSs is increased complexity, both for TMCs and their corporate clients. For Koester, this represents a commercial opportunity. "It will be a unique selling point of a TMC in future to manage this complexity on behalf of the customer," he said.

McDonagh and McLean expressed confidence they could handle the fragmentation of distribution, the latter saying "it's not rocket science."

However, the extent to which simplification will be abetted by the intended standardization of API connections through NDC is a moot point. McLean estimated that using an NDC adaptor only saves 20 percent of the work needed for each new airline API adopted by his company.

Nevertheless, Click Travel is actively pursuing more APIs. "We have another airline following shortly and various others in the pipeline," said McLean.

Similarly, Portman Travel told *BTN* in October 2016, just days before announcing its merger with Clarity Travel, that it was looking closely at British Airways' NDC offering.

As for Lufthansa's next steps, other agencies are in the process of evaluation and implementation of API-based distribution.

"Lufthansa key account managers are evolving more and more into distribution consultants," noted Koester. Lufthansa has certified two online booking tools—Amadeus-owned Cytric through Amadeus-owned passenger service system Altea, and Germany's Onesto via Farelogix – and is "in the planning phase" with a few more direct corporate clients, following connections to Siemens and Volkswagen in 2016.

~ Amon Cohen