



Article

Tenets of e-Commerce Strategy for Airlines

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Foreword

A number of 'tipping points' have taken place in the Travel industry's e-commerce landscape, such as an increasing share of Online bookings. Owing to these points, a majority of airlines are required to embrace e-commerce as a mainstay of their commercial business policy. Sonata promises to help airlines in formulating winning e-commerce strategies.

e-Commerce and the Airline Industry: An Introduction

The Airline industry has to its claim many "firsts," such as:

- The first industry to use Global Distribution Systems (GDS) / Computer Reservation Systems (CRS) that extended the air travel chain to all parts of the world
- The first industry to make use of magnetic strips in Any Time Payment (ATP) cards
- The first industry to implement seamless interline travel, which allows the use of a ticket number by multiple airlines
- The first industry to go paperless, enabled by electronic airline tickets and boarding cards
- The first industry to explore Online bookings through Online Travel Agents (OTAs) like Travelocity, Expedia, etc., thereby extending the horizons of air travel to virtual Online world
- The first industry to adopt Low Cost Carrier (LCC) model to transform domestic / short haul air markets in most parts of the world by simplifying fares and using IP channels for booking processes

E-Commerce for Airlines

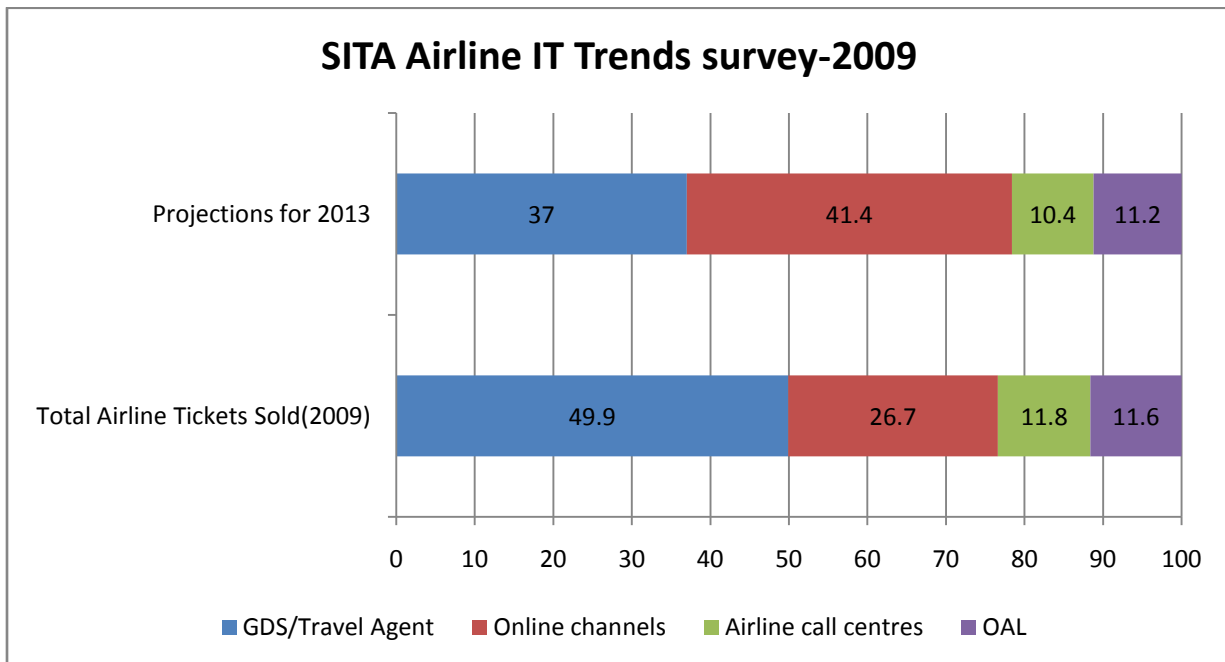
Airline may use e-commerce for sales through Online channels such as airline website (B2C and B2B interfaces), OTAs and joint airline websites.

Forecasts on the Airline industry becoming the world's first Web-enabled industry look realistic as Online sales, e-tickets and a range of new technologies are increasingly gaining ground. North America is the leading region in Online air travel, with a majority of airline bookings made on the Internet. However, due to factors such as low Internet penetration, unwillingness of airlines to experiment with newer channels of distribution, etc., other regions such as Asia, Middle East, and to a certain extent, Europe are lagging behind North America in Online air travel.

The quality of passengers' journey, right from booking to check-in and boarding a flight, depends on the sophistication and integration of the airlines' IT systems with Online channels. It not only enhances passengers' experience but also reduces costs for airlines.

e-Commerce -- Slow Pace of Growth in the Airline Industry

E-commerce for airlines can be defined as all sales that emanate from online channels such as airline website (B2C, and B2B interfaces), OTAs (Online Travel Agents), and joint airline websites. As per the Airline IT Trends Survey 2009 conducted by SITA -- the specialist air transport IT provider -- airlines sold 49.9% tickets through GDSs and 26% tickets through Web channels in 2009. The survey also projected that the figures for ticket sales through GDSs and Web channels are expected to change to 37% and 41% respectively by 2013. It also concluded that Online ticket sales of LCCs were much higher than the industry average, while those of the mainline airlines were well below the average.



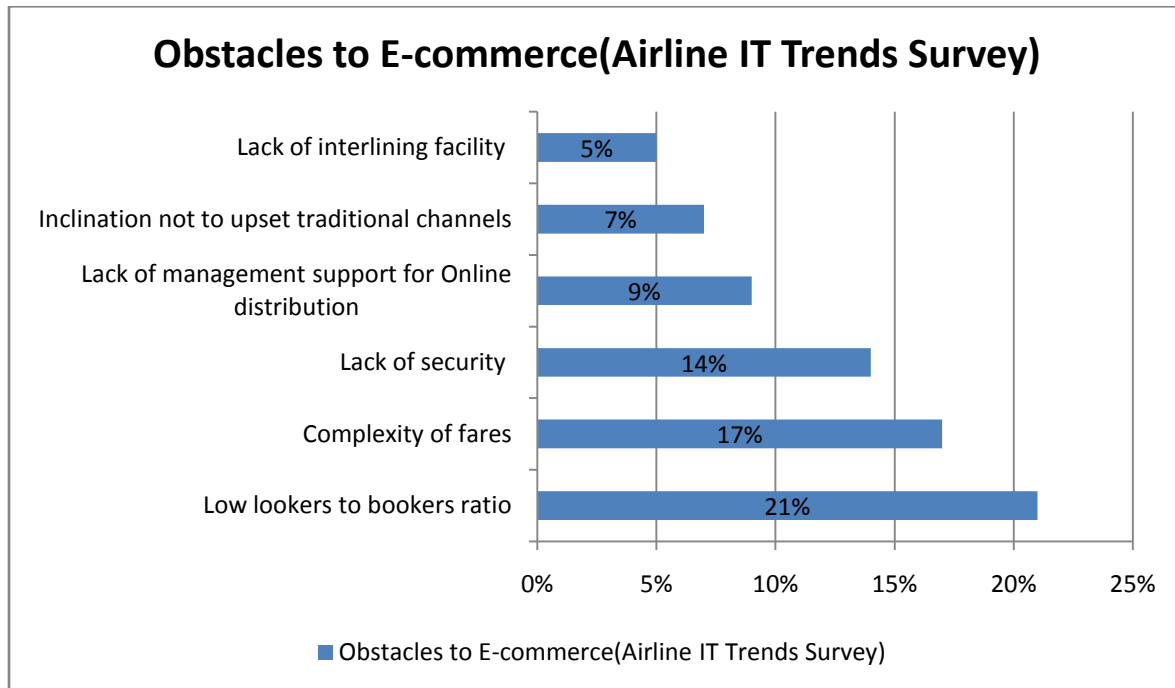
Obstacles to Growth of e-Commerce in the Airline Industry

There is a vast difference in the way LCCs and traditional airlines leverage their Online channels, which has led to a huge disparity in their Online ticket sales. While LCCs sell a large proportion of their tickets on the Internet, mainline airlines are able to sell only 15% of their tickets through Online channels. Growth of Online ticket sales can not only reduce the distribution costs of airlines but also provide

more value to travelers. But the complexity of mainline airlines' business model makes it difficult for them to emulate LCCs in leveraging the potential of the Internet to grow Online ticket sales.

As per the survey conducted by SITA, the top factors inhibiting the growth of e-commerce in the Airline industry, as of 2009, were:

- low lookers to bookers ratio
- complexity of airline pricing / fare model
- lack of security and management support
- inclination not to upset traditional channels



Low lookers to bookers ratio: The best airlines, mostly LCCs, are said to have a lookers to bookers ratio of 12-15%. Transparency in pricing, credibility of booking and the lowest possible prices are pre-requisites for an airline to persuade travelers to buy tickets from their website instead of friendly neighborhood travel agents or consolidators.

Complexity of airline pricing / fare model: Unlike the GDS, the Internet cannot display fares of multiple airlines with as many pre-conditions, rules, etc. Thus, airlines need to simplify their fares, so they can be easily displayed in the form of dashboards on websites.

Lack of security: As Online ticket sales imply use of payment cards, security concerns deter travelers from making Online bookings. But compliance of airline websites with the Payment Card Industry Data Security Standards (PCI DSS) can address such concerns.

Lack of management support for Online channels: As traditional airlines usually depend on travel agents to make bookings, their management does not support Online channels.

Lack of interlining facility: This remains the chief technological bottleneck for Online channels of airlines. Owing to Multilateral Interline Traffic Agreements (MITA) between various airlines, GDS seamlessly issues their tickets for travelers. This is also facilitated by the back-end integration of payment channels like Billing and Settlement Plan (BSP) of the International Air Transport Association (IATA) and IATA Clearing House (ICH). Since such integration is unfeasible on the Internet, joint airline websites can present a potential solution.

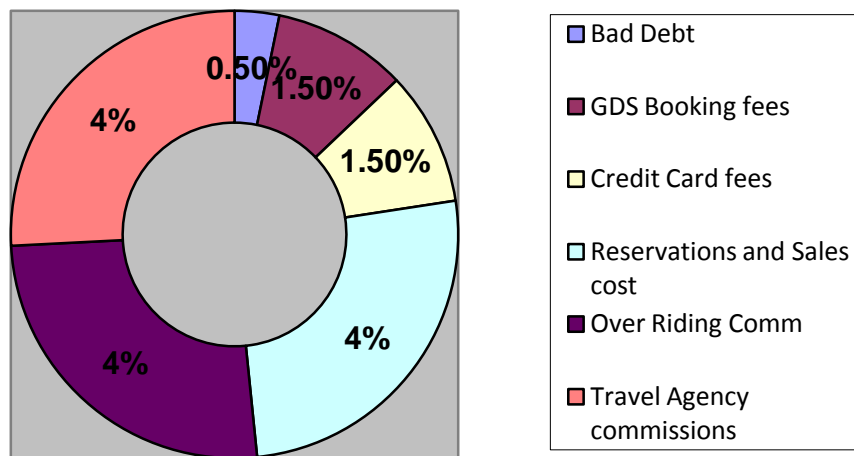
In conclusion, here's how Sonata can address obstacles to the adoption of e-commerce in the Airline industry:

Online Travel Sales - Business Issues	Sonata Evaluation Criteria
Complexity of airline pricing / fare model	<ul style="list-style-type: none"> Provision to monitor competitive fares, as agreed upon by the airline
Inclination not to upset traditional channels	<ul style="list-style-type: none"> Pricing decision support system Reduce the dependence on GDS / Travel Agency model
Lack of security	<ul style="list-style-type: none"> PCI DSS: This involves validation of security of the portal as well as customers' personal and financial data Payment details such as channels of payment and the payment gateway
Lack of interlining / code-sharing capability	<ul style="list-style-type: none"> Joint airline websites Ability to interface with the websites of other GDSs and LCCs
Difficulty in converting "Lookers" to "Bookers"	<ul style="list-style-type: none"> Ability to provide the most competitive fares Ability to provide special fares User friendliness Clarity of content on the portal Low response time for request(s) Ability to meet delivery promises Functionalities in the portal (e.g., Online check-in, Online Frequent Flyer Program (FFP) miles claim, etc.)
Very less number of customers making Online bookings	<ul style="list-style-type: none"> Additional promotions for FFP, B2C, etc.
Complexity in revenue management	<ul style="list-style-type: none"> Ability to interface with airlines revenue management systems
Complications in managing multiple distribution networks	<ul style="list-style-type: none"> Well-defined distribution channel strategy
Lack of management support	<ul style="list-style-type: none"> Build consensus among airline stakeholders

Distribution Costs of Airlines

Marketing distribution costs of airlines reduced from 20% to 15% in 2008, primarily because commissions of travel agencies were cut from 9% to 0% in most parts of the world. However, there is still some scope to further reduce these costs by using technological innovations like e-ticketing, e-commerce, etc.

**Typical Distribution costs (% of Revenue) of an airline
(Ref Industry Sources)**



Sonata's Website Benchmarking Services

Sonata's website evaluation services involve benchmarking of an airline's website vis-à-vis those of its competitors and other industry leaders. On the basis of this evaluation, the website is ranked against its competitors. The evaluation criteria also judge the website's security aspects and recommend strategies to bring remarkable improvements in it to make it an 'award-winning website.'

This evaluation also helps airlines identify gaps in their websites' performance.

As part of its Airline e-Commerce strategy, Sonata also engages in evaluation of the following aspects of airline websites:

- Online check-in (OLCI)
- Campaign management
- Development of automated B2B interfaces for corporate customers or airlines' loyalty program users
- Reduction in transaction time on websites

- Customization of Internet Booking Engines (IBEs) for capabilities like dynamic packaging
- Offer services like car rentals, hotels, flights of LCCs, etc., in addition to owning the airline's inventory

Sonata's PCI DSS Solution for Airlines

The Payment Card industry has proposed a solution -- PCI DSS -- a set of standards that promise to eliminate the concerns related to Online payments. Like other industries such as Retail, etc., the Airline industry too has tight timelines for complying with the PCI DSS, depending upon the volume of payment card transactions.

Sonata has developed a comprehensive solution that helps airlines comply with PCI DSS within stipulated timeline, which is September 2010.

The 12 requirements for PCI DSS compliance are:

- Install and maintain a firewall configuration to protect cardholder data
- Do not use vendor-supplied defaults for system passwords and other security parameters
- Protect stored cardholder data
- Encrypt transmission of cardholder data across open, public networks
- Use and regularly update anti-virus software
- Develop and maintain secure systems and applications
- Restrict access to cardholder data by business need-to-know
- Assign a unique ID to each person with computer access
- Restrict physical access to cardholder data
- Track and monitor all access to network resources and cardholder data
- Regularly test security systems and processes
- Maintain a policy that addresses information security

Helping Airlines Overcome Payment Card-Related Security Risks

Sonata, in partnership with Approved Scanning Vendors (ASVs) and Qualified Security Assessors (QSAs), provides an end-to-end solution to airlines for PCI DSS compliance. Thus, given the time constraints, Sonata can help airlines achieve PCI DSS compliance.

Sonata's partnership with IATA empowers its teams to rapidly deploy a set of IATA-approved processes that reduce the time required to achieve PCI DSS compliance. This is accomplished by validating the architecture of and scanning the environment quickly.

To accelerate PCI DSS compliance for airlines, Sonata has developed solution accelerators like:

- **SonnetPCI:** A solution framework that helps centralize the processing as well as storage of payment card data.
- **SonnetSECURE:** An application security framework that ensures the protection of Web-based applications from critical threats.

To know more about Sonata's PCI-DSS offering for the Airline industry, please click [here](#).