



*High performance. Delivered.*

**Reducing Distribution Costs: An Accenture Webcast Series**

# **The Ticketless Travel Revolution**

28<sup>th</sup> February 2006

## Our Speakers Today



### David Huttner

David is a seasoned airline executive with over a decade of airline industry experience, including senior director positions at several leading Low-Cost Carriers:

Virgin Express: David held positions from jet fuel analyst to head of marketing and sales

Virgin Blue: David was one of three founding directors of a \$10m start-up that resulted in a \$1.5B+ IPO. He was responsible for revenue management, network planning, sales and marketing, public relations, and lobbying.



### Alex Cruz

**Senior Executive, Customer Centric Aviation, Accenture**



Alex is European lead for Accenture's Customer Centric Aviation practice, based in London. A fifteen-year airline industry veteran, Alex works with airline executives worldwide to help them achieve drive high performance in their businesses, by implementing flexible operating models that enable airlines to offer products which the passengers are willing to pay for.

After 10 years at American Airlines and Sabre in the 90s, Alex joined Arthur D. Little to lead their travel & transport practice. Prior to joining Accenture and for three years, he owned and run his own strategy consultancy, operating exclusively in the travel industry.



# Agenda

## Ticketless Travel – An Overview

No more tickets!

Discussion

# Introduction

- In the current environment airlines continue to aggressively explore all opportunities to address costs
- To remain competitive it is imperative all non-customer facing transaction charges are brought in line with competitors

## Sales & Distribution Costs

- Transaction charges incurred within Sales & Distribution remain a key focal point
- Significant strides have been taken to simplify the business and lower costs in this area

**Reducing Sales & Distribution Costs**

**Simplify the Business**

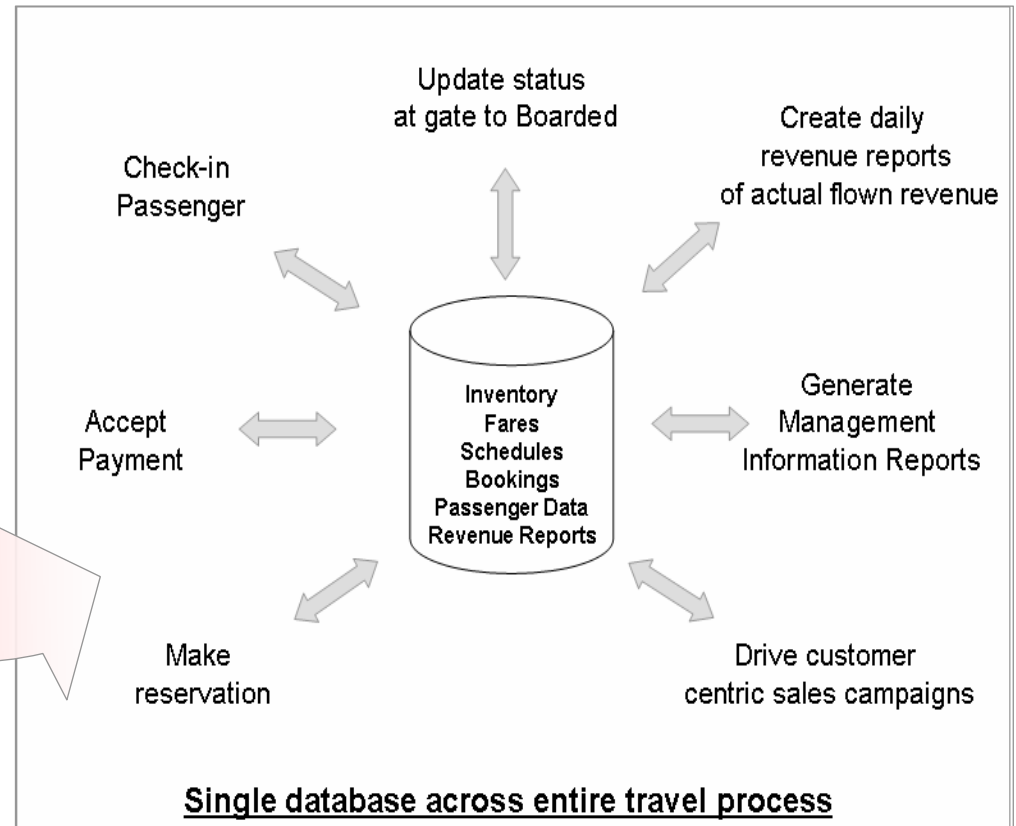
- Cost areas challenged by traditional airlines include:
  - Aggressive push to online direct channels by most airlines
  - Pursuit of 100% e-ticket – IATA industry wide target of 100% e-ticket by 2007
  - Re-assessment of the volume and type of interline agreements
  - Simplified fare structures – e.g. simulated one-way fares, removing fare restrictions, etc.
  - Tackling credit card charges – eg, direct connections to bank settlement processes
  - Discussing opportunities with GNEs (GDS New Entrants)
  - Interacting actively with new generation internet channels, e.g. metasearch engines
  - Pursuing offshore options for revenue accounting functions

**Is a move to Ticketless the next big opportunity ?**

## Introduction

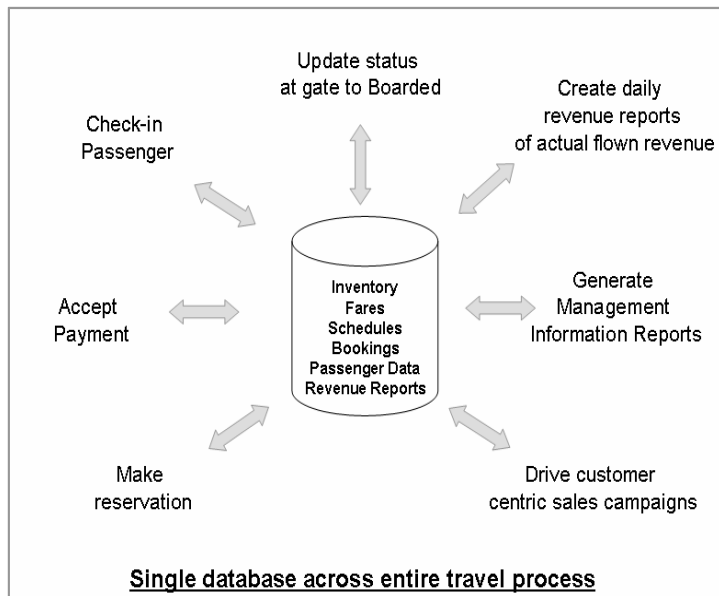
# What is ticketless travel ?

**A streamlined and integrated way to manage passenger reservations which typically is executed using a single source of information for bookings, payments, check-in, boarding and revenue accounting functions**



# Introduction

## What is ticketless travel ?



- **Developed from a blank canvass!**
- **Challenged traditional views on need to maintain duplicate processes in two distinct entities throughout the travel experience: the reservation and the ticket**
- **A reservation is recorded as a transaction against a customer account – there is no ticket**
- **Fundamental design is built around the concept of managing customer accounts and relationships vs. managing individual transactions and tickets**

## Introduction

### What are the main benefits ?

<ul style="list-style-type: none"><li>• <b>Much simpler re-issue and exchange procedures</b></li></ul>	Simple credits or debits can be charged to customer accounts
<ul style="list-style-type: none"><li>• <b>Faster check-in times with rich customer data</b></li></ul>	Integrated reservations and check-in allows fewer keystrokes for check-in. All reservation data on booking, payment, frequent flyer available at check-in (including API info)
<ul style="list-style-type: none"><li>• <b>Revenue recognised at time of flight departure</b></li></ul>	Once flight departs revenue is recognised and can be booked to financial accounts
<ul style="list-style-type: none"><li>• <b>Diminished revenue leakage through erroneous ticket fares</b></li></ul>	Less reliance on accurate fares and ticketing from third parties like ATPCO and GDS's. Use of instant settlement procedures

## Introduction

### What are the main benefits ?

<ul style="list-style-type: none"><li>• <b>Simple and streamlined PRA processes</b></li></ul>	Simplified process as sales and travel records are no longer separate. Less reliance on BSP's, ATPCO, IATA clearing house for revenue pro-ration and settlement
<ul style="list-style-type: none"><li>• <b>Rich customer transaction data enhances sales effectiveness</b></li></ul>	Early revenue recognition and rich customer data drives simpler, targeted and more responsive sales campaigns
<ul style="list-style-type: none"><li>• <b>Significantly reduced IT infrastructure, messaging, communication and distribution costs</b></li></ul>	No need for complex messages that need to be kept in sync across multiple databases, reduction in feeds, databases and data duplication
<ul style="list-style-type: none"><li>• <b>Reduced system infrastructure costs</b></li></ul>	Ticketing queue and E-ticket Database costs are eliminated

## Introduction

### What are the main benefits ?

- Much simpler re-issue and exchange procedures
- Faster check-in times with rich customer data
- Revenue recognised at time of flight departure
- Diminished revenue leakage through erroneous ticket fares

- Simple and streamlined PRA processes
- Rich customer transaction data enhances sales effectiveness
- Significantly reduced IT messaging, infrastructure, and comms costs
- Reduced system infrastructure costs



**Most of the benefits described are not realised with a move to 100% e-ticket !**

## Challenges

***“But, isn’t this just a low cost solution for low cost carriers ?”***

### Low Cost Carrier Attributes Today

- One way fares
- Point to point travel
- No interline
- Limited codeshare
- Direct online sales
- Low GDS usage

### Traditional Carriers have followed suit ...

- Fares
  - Simulated one-way fares
  - Removing restrictions
- Selling
  - Price led
  - Low fare guarantees
  - Incentives to buy direct online
- Product
  - Break into components & charge for each – eg, flexibility, seats, upgrades etc.

**.. but still keep overhead of  
ticket-based operations!**

# Challenges

**Most medium to large traditional carriers have and sell product with similar characteristics to low cost carriers**

## Europe

- British Airways – LGW
- Aer Lingus
- Lufthansa – Cologne/Hamburg
- Iberia – BCN-MAD route
- SAS - Norway



## Americas

- United Airlines – Ted
- Delta – Song
- East Coast Shuttles
- Air Canada – Jazz
- Mexicana – Click Mexicana



## Asia Pacific

- Qantas – Jetstar
- Air New Zealand – Freedom Air
- Japan Airlines – Domestic
- Thai Airways – Nok Air
- ANA - Domestic



## Challenges

***“LCC’s Ticketless travel doesn’t mix well with...”***

### **Codeshare**

- Qantas & Jetstar operate a codeshare agreement where QF can sell JQ flights through all its sales channels, in combination with QF flights

### **GDS Sales**

- Many low cost carriers sell some of their product through GDSs
- Examples include Air Tran, Air Asia, Virgin Blue, Vueling,

### **Travel Agent Sales**

- Travel agents can book direct with the low cost carrier, via a dedicated portal or through a GDS

### **Interline**

- Still developing but one strong example already operating: airlines with interline agreements with Qantas have access to Jetstar inventory

### **Paper Requirements**

- A paper receipt with details of the itinerary can be printed and mailed to the customer in countries where legislation requires it

### **IATA e-ticket Requirements**

- Low cost carriers comply with IATA TCN requirements for code-share sales with ticketing carriers

### **Connections**

- Many low cost carriers are already supporting significant connecting traffic, eg. Airtran, Southwest, Air Berlin, Jetstar..



## Evaluating the Opportunity

- We have been challenged by several airlines to identify the financial benefits
- The question for airlines is not “can we do ticketless” but, given the financial reward, “can we afford not to”
- We have completed a detailed financial model to evaluate the impact of gradually moving to a ticketless solution

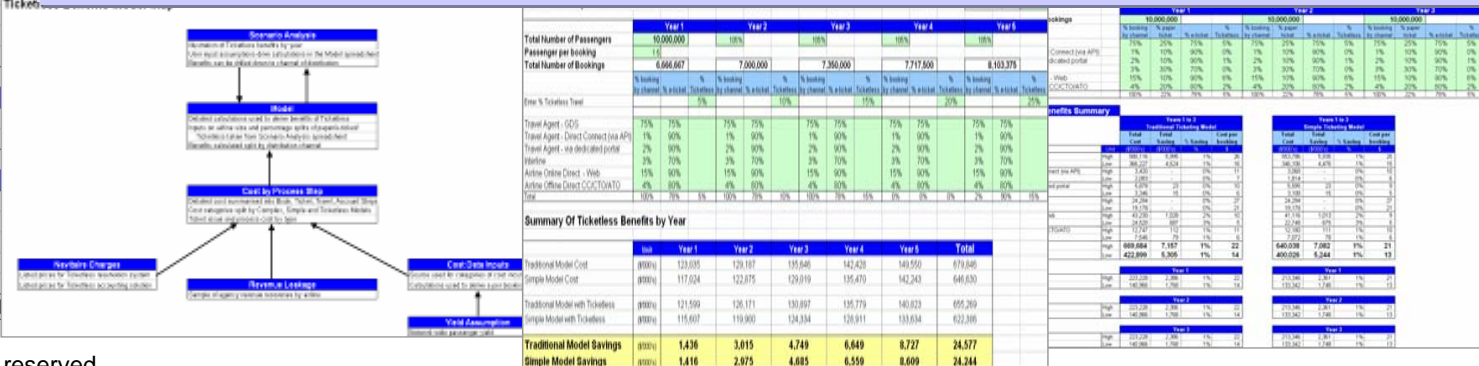
# Evaluating the opportunity Quantifying benefits through a robust financial model

## Breakdown of Cost by Steps in the Ticketing

Sales Channel		Cost
Figures are \$ per booking		
Process Group	Process Step	High
Book	Distribute schedule to OAG	0.000
Book	Distribute fares to ATPCO	0.000
Book	Messaging cost to return inventory availability	0
Book	Messaging cost to reserve inventory	0
Book	GDS cost per booking	
Book	Interline Commission	
Book	Reservation hosting cost - software	1.
Book	Reservation hosting cost - hardware	1.
Book	Payment collection and authorisation	
Ticket	Ticketing Q infrastructure cost	0.000
Ticket	Issue paper ticket - materials, printing, postage, storage	0.000
Ticket	Messaging cost to send SSR	0.000
Ticket	Messaging cost to ETDB's	0.010
Ticket	ETDB infrastructure cost	
Ticket	Internal Sales Reporting cost	
Ticket	BSP paper ticket issuance charge	
Ticket	Re-issue/exchange paper ticket	2
Ticket	Re-issue/exchange e-ticket / Ticketless	1
Travel	PNL feed from RES to DCS	0.00
Travel	Post departure feeds to RES and ETDB	0
Travel	Post departure feeds to other airline ETDB's	0
Account	Daily e-coupon extraction feed to PRA	0.00
Account	Paper coupon scanning	
Account	PRA processing	
Account	Revenue leakage through erroneous tkt fares	
<b>Sum of Ticket Issue and Process Steps</b>		
Paper ticket	Issue and Process	
e-ticket	Issue and Process	
<b>Business Model Driven Costs</b>		
Ticket	BSP transaction service charges	
Account	IATA Clearing House Charges	
Account	Sales Data Exchange ATPCO service	
Account	TCN costs for interline processing	
Account	PRA (Interline and complex fare structure)	
<b>Total</b>		

## Project Approach

- Step-by-step definition of the ticket/e-ticket and the ticketless worlds – process broken down into 35 steps – eg, OAG schedule/ATPCO fare distribution, reservation hosting charges, messaging, sales reports, feeds at check-in, revenue leakage...
- Identification of all the different cost drivers in the ticket/e-ticket world – 45 different data sources included – eg, OAG, ATPCO, GDS, TCN, BSP, IATA clearing house, messaging, ETDB infrastructure costs, PRA processing...
- Evaluation of the reduced cost of running in the ticketless world for each of the steps identified
- **A financial model** built to demonstrate the potential savings of moving a proportion of traffic to Ticketless with benefits split across distribution channels.



## Evaluating the opportunity

**We used an actual airline's data to evaluate the model**

### Airline Characteristics

- Large network airline
- Fierce drive to reduce costs
- Member of a global alliance
- Significant domestic network
- Carries approximately 45 million passengers a year
- Is moving towards 100% e-ticket
- Growing at 1-2% per year
- Has a significant percentage of online direct bookings

### Model Input Assumptions

- 40% of bookings taken through direct online channels rising to 60% over 5 years
- E-ticket adoption of 40% rising to 100% by year 4
- 10% of bookings are interline sales
- Travel agent bookings taken through a GDS start at 35% but decline to 20% by year 5

# Evaluating the opportunity

## Ticketless Scenario 1: Direct Online Sales only

### Scope

The ticketless model is adopted to power only direct online bookings, eg, all web sales are ticketless

### Results

- Large initial savings due to low e-ticket adoption rates
- \$2 to \$4 savings per ticketless booking vs e-ticket booking
- Even after 100% e-ticket is achieved significant savings are realised (\$50 to \$60 million per year)

Scenario Analysis of Ticketless Benefits

	Year 1			Year 2			Year 3			Year 4			Year 5		
Total Number of Passengers	44,806,315			1%			2%			2%			4%		
Passenger per booking	1.2														
Total Number of Bookings	37,338,596			37,711,982			38,466,221			39,235,546			40,804,968		
	% booking by channel	% e-ticket	% Ticketless	% booking by channel	% e-ticket	% Ticketless	% booking by channel	% e-ticket	% Ticketless	% booking by channel	% e-ticket	% Ticketless	% booking by channel	% e-ticket	% Ticketless
Enter % Ticketless Travel															
Travel Agent - GDS	35%	40%		30%	70%		30%	90%		25%	100%		22%	100%	
Travel Agent - Direct Connect (via API)	0%	40%		0%	70%		0%	90%		0%	100%		0%	100%	
Travel Agent - via dedicated portal	0%	40%		0%	70%		0%	90%		0%	100%		0%	100%	
Interline	10%	40%		10%	70%		10%	90%		10%	100%		10%	100%	
Airline Online Direct - Web	40%	40%	100%	45%	70%	100%	50%	90%	100%	55%	100%	100%	60%	100%	100%
Airline Offline Direct CC/CTO/ATO	15%	40%		15%	70%		10%	90%		10%	100%		8%	100%	
Total	100%	40%	40%	100%	70%	45%	100%	90%	50%	100%	100%	55%	100%	100%	60%

Summary Of Ticketless Benefits by Year

	Unit	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>Estimated Costs for Current Model</b>							
High (\$'000's)		750,208	639,464	590,378	543,181	547,781	3,071,012
Low (\$'000's)		502,737	412,525	368,094	330,715	332,791	1,946,863
<b>Combined Existing Model and Ticketless</b>							
High (\$'000's)		628,363	545,829	518,115	481,097	477,343	2,650,747
Low (\$'000's)		409,025	344,348	319,768	292,730	289,695	1,655,565
<b>Savings</b>	(\$'000's)	<b>107,779</b>	<b>80,906</b>	<b>60,294</b>	<b>50,035</b>	<b>56,767</b>	<b>355,781</b>

## Evaluating the opportunity

# Ticketless Scenario 2: Sales of flights out of secondary hub

### Scope

The ticketless model is adopted for all travel from a secondary hub with approx. 2 million passengers a year

### Results

- Large initial savings to due to low e-ticket adoption rates
- \$15 million savings in first year and \$6 million in year 5
- Total savings over 5 years equates to \$44 million

#### Scenario Analysis of Ticketless Benefits

	Year 1			Year 2			Year 3			Year 4			Year 5		
Total Number of Passengers	2,589,903			1%			2%			2%			4%		
Passenger per booking	1.2														
Total Number of Bookings	2,158,253			2,179,835			2,223,432			2,267,900			2,358,616		
	% booking by channel	% e-ticket	% Ticketless	% booking by channel	% e-ticket	% Ticketless	% booking by channel	% e-ticket	% Ticketless	% booking by channel	% e-ticket	% Ticketless	% booking by channel	% e-ticket	% Ticketless
Enter % Ticketless Travel			100%			100%			100%			100%			100%
Travel Agent - GDS	35%	40%		30%	70%		30%	90%		25%	100%		22%	100%	
Travel Agent - Direct Connect (via API)	0%	40%		0%	70%		0%	90%		0%	100%		0%	100%	
Travel Agent - via dedicated portal	0%	40%		0%	70%		0%	90%		0%	100%		0%	100%	
Interline	10%	40%		10%	70%		10%	90%		10%	100%		10%	100%	
Airline Online Direct - Web	40%	40%		45%	70%		50%	90%		55%	100%		60%	100%	
Airline Offline Direct CC/CTO/ATO	15%	40%		15%	70%		10%	90%		10%	100%		8%	100%	
Total	100%	40%	100%	100%	70%	100%	100%	90%	100%	100%	100%	100%	100%	100%	100%

#### Summary Of Ticketless Benefits by Year

	Unit	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>Estimated Costs for Current Model</b>							
High (\$'000's)		43,711	37,273	34,419	31,678	31,952	179,033
Low (\$'000's)		29,268	24,026	21,444	19,274	19,397	113,410
<b>Combined Existing Model and Ticketless</b>							
High (\$'000's)		26,476	25,265	25,770	24,750	24,781	127,043
Low (\$'000's)		16,085	15,310	15,616	14,955	14,946	76,912
<b>Savings</b>	(\$'000's)	<b>15,209</b>	<b>10,362</b>	<b>7,238</b>	<b>5,624</b>	<b>5,811</b>	<b>44,244</b>



## Conclusion

- The opportunity is real
- The technical and functional challenges are likely to be outperformed by the financial return
- However, we see a slow adoption by traditional airlines, as it represents a significant change to the existing business model



# Agenda

Ticketless Travel – An Overview

**No more tickets!**

Discussion



**The industry has come a long way**

**From flimsy tickets . . .**

**. . . to ATB tickets**

**. . . to e-tickets**

**. . . to boarding passes printed at home.**

**But in the traditional airline world, it's all based on  
ticket processing.**

**In the new airline world, it's not.**



**Once I was a travel agent...**

- **Selling simple and complex itineraries**
- **The big advancement then was from hand written '4's' to automated printing**
- **Lots of manual work and time spent searching for missing coupons**

...and ended up in an LCC

## There were a few shocks:

- No tickets
- No complex itineraries
- Revenue Accounting made easy



... to then help start another one

## There was no other choice: ticketless

- **Simplicity**
- **Ease of process**
- **Customer friendly**
- **Profitable**



**If you can't beat them, join them...**

## **Qantas launched Jetstar**

- **Initially as a pure play LCC**
- **Now integrating with Qantas (JQ flights = QF7000 series)**
- **JQ product available through GDS and interline sales**





**This model will likely be replicated**

- **Costs have been squeezed out of ticket based operations**
- **Next step must be to remove them**
- **Any new airline starting in competitive environment, regardless of LCC model, should avoid the legacy approach**



# Agenda

Ticketless Travel – An Overview

No more tickets!

**Discussion**



## Comments or questions?

**Name:** David Huttner  
**Email address:** david.huttner@gmail.com  
**Phone number:** +32-497-29-44-22 (*as of March 6*)

**Name:** Alex Cruz  
**Email address:** alex.cruz@accenture.com  
**Phone number:** +44 207 844 9088