

REPORT BY DAVID FIELD IN WASHINGTON

GNEs out of the bottle

They are called GNEs – pronounced “Genies” – and if these Global distribution New Entrants come anywhere near to fulfilling the promise of their nickname, they will bring about major changes in the way airlines, travel agents and flyers do business with each other.

The GNEs are a new generation of web-based technological alternatives that supporters and developers hope will replace traditional GDSs or at least perform most of the same tasks at far lower costs. While the GDS operators, buttressed by their own recent investment in technology, say that the new entrants have a long way to go to prove themselves, major carriers in the USA are taking the GNEs seriously. Continental Airlines distribution strategist John Slater says: “The new breed of GDS is compelling.” At United Airlines, officials have shown off some of the new technologies to major travel agents and customers.

United Airlines has been joined by Alaska, Continental, Delta, Northwest Airlines and US Airways in working with Orbitz architect Alex Zoghlin in the development of “a private distribution network”, known as G2 SwitchWorks. Privately funded and independent, G2 will not compete with its agency customers by operating an online or offline agency, Zoghlin says.

Slater says that G2’s distribution process does not simply shift existing distribution costs between the airline and the agency, but removes costs from the process altogether. Zoghlin says the network frees travel sellers “to take control and individualise their relationships”. In January, G2 said its web service, dubbed TrueConnect, was already booking tickets.

SwitchWorks relies on ITA Software,

A new generation of web-based alternatives to the global distribution system is emerging, with US carriers showing particular interest

the technology company that supplied Orbitz and which has attracted low-cost carriers with its shopping software. ITA founder Jeremy Wertheimer says that the US-based firm has also developed its own alternative to the GDS that will be able to offer most of the same functions. ITA’s alternative, which is codenamed 1V but has no commercial name yet, operates on Intel systems using Linux. It would charge about 40¢ per segment, he says. ITA is talking about 1V with “about a dozen airlines”, including Continental, Delta, Alitalia, and Air Canada, and is also working with travel management companies.

Wertheimer says that ITA is not yet necessarily seeking major contracts or commitments but is seeking trials with them. He says the project came about in response to a request from United, and that GDS deregulation in the USA hastened its development. Wertheimer says the project, which took 18 months to develop, “clears up a lot of things that have been messed up on the GDS. We took out a long time to replace all the old coding. The pricing alone has millions of lines. This is simpler.” But he admits that it will have to add hotels, cars and rail to its booking inventory.

These are not the only alternative technologies. Navitaire, the Minneapolis-based technology developer, has made major inroads among low-cost carriers with the Open Skies distribution, pricing and revenue-management software previously owned by Hewlett-Packard. Now owned by consultancy Accenture, the company has developed an alternative GDS that

Carlson Wagonlit Travel uses with major corporate clients.

John Dabkowski, Navitaire’s senior vice-president of sales and marketing, calls corporate booking “one of the last safe havens for the GDS, either from an agent or a GDS-empowered site. The next step is an extension of the web services to these functions.” Dabkowski says the technology is already in use for holiday sales through dynamic packaging that combines air, car, hotel and other parts of the journey. Navitaire now provides such software to Accovia, a Canadian pioneer in leisure-oriented dynamic packaging.

Corporate travel

The big frontier, however, is corporate travel. There will be a major change when advanced dynamic packaging is brought into corporate travel use, says Dabkowski. “One advantage to the carrier is that the web-based services can be heavily weighted or biased toward the carriers. As dynamic packaging advances, web-based products can add sophisticated rules such as spending limit, preferred vendors and exceptions to company travel rules, such as letting a high-level executive spend as much as he wants.”

Behind all of these is a real promise of lower price per transaction, costs that are as much as one-eighth of the fees now charged. United says that with the G2 and ITA technology, the carrier can produce a booking at about \$1 per ticket compared with the \$12 currently being spent. At a two-day customer meeting near Chicago in January, United told its leading corporate and agency clients that it was so serious about the new systems that it was considering a share programme that would give up to \$5 per ticket in return for using the new technologies. The airline also invited FareLogix, OutTask and TRX, three hi-

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tech firms that search and integrate fare searching and booking processing, to its meetings. United says that it wanted to explain the emerging channels rather than demonstrate a commitment to, or endorsement of, any one of the new technologies. "The meetings were meant to start the discussion," the carrier adds. That they have done.

The GNEs immediately drew wide attention. Some compared them with new entrant carriers springing up after deregulation. But the GDSs highlight the new entrants' vulnerability. Sabre Holdings says: "We think these entities are engaged in cherry-picking, focusing on a limited set of transactions for a limited set of carriers. Inefficient and incomplete solutions will only drive up the cost and complexity for consumers." Sabre chairman Sam Gilliland adds that "these are products looking for a market".

Large travel companies such as American Express have expressed reservations too, saying their customers want travel information on a global scale that has always been the strength of the GDS. The company says the "proclaimed new technologies" are "in production and evolving" and do not have the total access to fares they require or the efficiency of existing GDSs.

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Jeremy Wertheimer
ITA founder

But the question is one of a business case rather than technology, both sides agree. "I guess you could say we are putting pressure on their model and making them think about it," Wertheimer says.

Worldspan's Ninan Chacko, senior vice-president of e-commerce and product planning, says: "This is about economics, not technology." Chacko compares the effect of the GNEs with the way in which airlines used web fares as a lever in their fight to win GDS fee discounts.

Others such as TravelTech's Norman Rose, a California-based consultant for PhoCusWright, see the web-based challengers as a force to change current relationships among travel buyers, sellers and intermediaries, and to simplify the complex set of incentives underpinning traditional distribution.

He suggests that the challenge the new entrants face is offering agents incentives to adapt to technology that rewards them less but costs dramatically less to function.

Some make strong predictions about the future of the GDS in light of the new technology. To the GDS, this is nothing new, and *businessstravelbeat.com* editor Jay Campbell points out that the GDSs have heard dire judgements for years

but adds: "The major carriers have never before been so desperate to alter their business models." Few, however, will go so far as to await the demise of the GDS, and some see an evolutionary change stemming from the technology.

Virtual alliances

Navitaire's Dabkowski predicts that web distribution will lead to the formation of "virtual alliances of low-fare carriers internationally". He says: "These will be able to sell each other in markets where a carrier may have little market presence but where its alliance partner is well known. Alliances can drive awareness among consumers more than GDSs."

Wertheimer cautions against writing any obituary for the GDSs: "Some carriers would be quite happy to be rid of their GDSs, but others will make their own decisions. I doubt any want to perpetuate the old model. I'm not saying the GDS will disappear; carriers will make their own decisions. These are big companies run by smart people."

Rose at PhoCusWright says: "I think you will see a blend of channels, and in multi-channel distribution, a new entrant may co-exist with a GDS. But when one of the big legacy carriers commits to one of these alternative platforms, you will see deep changes." ■

