

# Airline distribution: A new value-based pricing model

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# Airlines and GDS in 2003

- ➔ Airlines want to reduce all costs, including distribution costs
- ➔ Success with base commissions
- ➔ GDS fees are approx. 2% of total airline costs
- ➔ Reject GDS pricing model
  - ➔ Feel themselves “captive” customers
  - ➔ Are not particularly in favour of agency incentives
- ➔ Observing Low Cost Carrier model
- ➔ Pushing direct distribution and GDS-bypass options

# GDS responses

- ➔ Sabre has initiated a discounting trend (DCA)
  - ➔ Discount on booking fee
  - ➔ 3-year freeze
  - ➔ Participation in Sabre at highest level of access
  - ➔ Focused on North America
- ➔ Galileo has followed suit
- ➔ Now Worldspan joining in

**For North America a 3-year truce has been achieved**

# Amadeus options

➡ Follow ?

➡ Or try to find a new model that will

1. Be sustainable
2. Meet the needs of airlines, travel agencies and GDSs?

# Strategic thinking: value-based pricing

- ➔ GDSs deliver value to airlines through
  - ➔ Reach
  - ➔ Managing complexity
  - ➔ Support in yield management
  - ➔ Service to customers
  
- ➔ Value of a booking to an airline depends on
  - ➔ The fare sold
  - ➔ Where it is sold
  - ➔ The control and service options used

# The single booking fee model is time-expired

- ➔ For 2004 Amadeus will introduce fees that vary by
  - ➔ Itinerary (reflecting value of booking to airline)
  - ➔ Point of sale (reflecting value brought by Amadeus)
- ➔ A modest first step in a new direction

# Amadeus value-based pricing

- ➔ Standard value booking fee for reservations made by travel agencies located in the airline's prime market on itineraries within the same region
- ➔ Premium value booking fee for reservations made by travel agencies located in the airline's prime market on itineraries between two regions and for any reservation made by travel agencies outside the airline's prime market

# Booking fee change by region

REGION	% change in Standard value	% change in Premium value
Europe	- 5%	+ 5%
North America	- 5%	+ 5%
Middle East & Africa	- 5%	+ 5%
Latin America	No change	+ 4%
Asia Pacific	No change	+ 4%

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# Introducing itemised pricing

- ➔ Increasingly we will itemise value-adding control and service features, and charge for them separately
- ➔ However, effective only as of 2005

# Addressing low-fare distribution

- ➔ Agents and most airlines prefer full content in GDS
  - ➔ Will not happen at today's fee levels
- ➔ Agents already paying for low-fare content in various ways
- ➔ Our aim is to ensure that low fare content is available in Amadeus
  - ➔ At a lower cost to the travel agent than is the case today
  - ➔ We cannot rule out that this could mean a reduction in incentive payments, or even the payment of a modest fee
- ➔ Selective experiments in 2004
- ➔ Needs 3-way understanding: airlines, agencies, Amadeus

# The changed business model of c2006

- ➔ Many different booking fees reflecting
  - ➔ Value
  - ➔ Product sophistication
    - ➔ Lower fee for baseline solutions
    - ➔ Incremental fees for optional control and service solutions
- ➔ Both airlines and travel agencies will understand more clearly the value they are receiving from Amadeus
- ➔ GDS still the primary content aggregator
- ➔ A paradigm change - robust enough for the next decade

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