FIRST VIEW
October 2022

SAS's Distribution Commission Program: A New Distribution Model is Born

THE FACTS

SAS announced on 3rd October that its compulsory Distribution Commission Program for all travel agencies in Sweden, Norway, and Denmark will go into effect from 1 March 2023. SAS will provide agencies with a content commitment and a new upfront commission. Agencies can use the commission to pay for their chosen GDS or content aggregation platform, either by paying the platform provider directly or by SAS issuing a debit memo in the amount of any booking fees assessed to it by the provider.

Agencies may use the SAS NDC API known as "SAS NDC", the SAS Partner Portal, a "SAS NDC Partner" (which for now includes a selection of NDC Aggregators), or a GDS. However, SAS announced that its Go Light fares will not be offered via the GDSs from 1 March unless the GDS becomes a SAS NDC Partner.

THE ANALYSIS

The old wholesale commercial model is new again.

First introduced by American Express and American Airlines nearly 20 years ago,[1] the wholesale model places the travel agency in control of its own destiny. Armed with a content commitment and a commission from the airline, the travel agency is free to select the content aggregation platform which best fits with its business. The travel agency is exposed to all tradeoffs in platform selection: content, functionality, *and costs*. It does not sit idly by hoping airline-GDS struggles produce relevant content and adequate economics for their business.

Though the wholesale model has long been an accepted economic arrangement among agencies, airlines, GDSs, and other parties, its method of application in this case is novel. Instead of implementing it in a series of bilateral contracts, SAS has in one

[1] https://www.breakingtravelnews.com/news/article/btn40004681/
[2] https://www.sassalesinfo.com/distribution-and-ndc/sas-distribution-strategy/about-strategy

stroke incorporated it into its standard instructions which sit atop the IATA Passenger Sales Agency Agreement with all its appointed agencies in Scandinavia. This makes it possible to deploy the model efficiently at scale.

The market wide implementation of the wholesale model for access to SAS's content will instantaneously level the competitive playing field between GDS, NDC Aggregator, and in-house content aggregation platforms. The traditional GDS commercial model creates a set of incumbent "haves" which offer a combination of content, functionality, *and financial incentives* that compete against challenger "have nots" which have content and functionality but often must charge travel agencies for their services. The wholesale model equips agencies with the *same incentive* irrespective of its selection of content aggregation platform, giving each competitor an equal chance to win business based on its individual merits.

The decision of which content aggregation platform to select for SAS content may not be an easy one for most travel agencies. GDS-dependent agencies may value the operational efficiency of remaining with a single platform but may pay higher costs and lose access to SAS Go Light fares. Agencies which are, or aspire to be, able to access content from multiple sources may pay less and secure access to broader content. The larger agencies which have developed in-house content aggregation platforms may fare the best via a direct integration with SAS.

The challenge ahead for SAS is change management. From a commercial perspective, they have introduced a new distribution model that many in the market are discovering for the first time. SAS bears the burden of educating agencies and equipping them to make an important business decision over the course of a holiday-shortened 5-month period. Agencies, GDSs, and NDC Aggregators may all find themselves in a hurry to adjust, which may result in delays and confusion along the way. From a technology perspective, SAS is going to market with an NDC API provided by Datalex, putting its technology in the industry spotlight for the first time at scale. There will undoubtedly be commercial and technological challenges along the way, and SAS will be measured by its ability to manage through them.

THE SPECULATION

How will the various stakeholders in the airline distribution chain react? Here are the considerations as we see them, stakeholder by stakeholder:

- Corporate Travel Management Companies (TMCs): There are two houses in the TMC community separated by their degree of commercial, technical, and operational dependence upon GDSs. The largest of the global TMCs tend to be more GDS-loyal, while others have made the strategic decision to build in-house content aggregation platforms or acquire third party NDC aggregators.[2] Of note in Scandinavia is Berg Hansen, which has become more content source-agnostic.[3] While the TMCs which can more easily access content from multiple sources may fare better in the short term, T2RL notes that the structure of SAS's upfront commission provides richer compensation for agencies which sell more high-yielding tickets and that may result in palatable economics for any TMC.

- Online Travel Agencies (OTAs) and Other Leisure-Oriented Agencies: As compared to TMCs, this agency segment may be more motivated to secure access to Go Light fares. Many OTAs are likely to be well-positioned to access SAS's NDC content either directly or via an NDC Aggregator. What bears watching is how other leisure-oriented agencies react. Many have been GDS-centric historically, and the thought of negotiating wholesale amendments with their GDS and/or accessing content separately via an NDC Aggregator may be very foreign to them. *T2RL is offering Scandinavian agencies a short term, very low-cost subscription to its world-class ProcureIT® sourcing platform to solicit bids for content aggregation services from GDSs and/or NDC Aggregators. Interested agencies should contact us at enquiries@t2rl.com to learn more.*

- Metasearch Engines (MSEs): MSEs are likely to fly above the fray as they normally do. Regardless of content source, they typically have access to the best content. What may change is the direction of their referrals to the extent that any channels lose access to SAS's lowest fares. OTAs that source a large proportion of their bookings from Metasearch Engines may be particularly interested in maintaining access to Go Light Fares.

- NDC Aggregators: Clearly this is a welcome development for SAS NDC Partners, which at this stage include Aaron Group, Air Gateway, Mystifly, and Travelfusion. They will be able to add SAS to their list of airline partners for existing agency customers and perhaps acquire more agency customers in Scandinavia because of their newfound content advantage.

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[2] http://t2rl.net/insight/display.asp?ID=690
[3] https://www.linkedin.com/pulse/historic-day-industry-berg-hansen-first-issue-ndc-ticket-villadsen/?articleId=6481517423026532353

What remains to be seen is how many more agencies will embrace NDC Aggregators and how nimbly the NDC Aggregators onboard them commercially and technologically.

- Other Airlines: SAS is certainly not alone in its desire to lower distribution costs and move technology forward. Their wholesale model provides the global airline community a new distribution strategy option on which to ruminate. Some airlines may find the wholesale model is compatible with their existing GDS agreements, and therefore may not need to wait for regular contract renewal cycles for implementation. *Airlines interested in an evaluation of their current distribution strategy, recommendations on future options, and assistance with the implementation thereof should contact enquiries@t2rl.com.*

- Global Distribution Systems (GDSs): SAS's wholesale model could present short term and long term problems for the GDSs. In the short term, they may need to adjust quickly to a very different competitive landscape in Scandinavia than previously assumed. Amadeus, as the dominant player of the three major GDSs in Scandinavia, may be motivated to take a more defensive posture to avoid setting any precedents. Sabre and Travelport would have the most to gain but may also worry about precedents that may affect other markets. Longer term, the potential virulent nature of this model may put new commercial pressure on the high-margin traditional GDS model as well as accelerate efforts to secure and implement NDC content from airlines. If such a scenario occurs, the GDSs may embark upon an era in which margins decline and capital investments increase more rapidly than expected. Against this backdrop, T2RL would not be surprised to see the GDSs attempt to aggressively oppose SAS's initiative and close Pandora's Box before other airlines follow.

- Investors: It is important to keep in perspective that this is an action taken by one airline in one region of the world. No one can predict the pace and degree to which any airline strategy may propagate more broadly. However, it is important to pay attention to signposts like these because they give us a sense of airlines' continuing appetite for distribution change and its attendant revenue risks. We do not foresee any significant impacts on the GDSs in the near term provided that the deployment of wholesale models by airlines remain small in scope.

Changes to airline distribution strategies have become more commonplace since the onset of the pandemic, and generally we find it is no longer a game limited to the largest players. The next tier of airlines has gotten involved and are showing the propensity to take more risk than their larger counterparts in some cases. In the example of SAS, we are also seeing the willingness to depart from industry norms in how they promote change. We will closely watch how the market digests its gambit.

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