The Battle Over the Control of Airline Ticket Sales

How does one go about buying an airline ticket? In the beginning, this was accomplished by making a reservation directly with the airline. As the market expanded, travel agents entered the market, taking over some of the sales and ticket-writing burdens from the airlines, providing greater market coverage for the airlines, and providing greater convenience for consumers by eliminating the need to seek out a local ticket office run by the airline or to travel to the airport just to purchase a ticket for a future flight.

While travel agencies have a history dating back to the mid-18th century, it was not until around 1920 that travel agencies involved in the area of air transport came into existence. The International Air Traffic Association (IATA), the trade association for the industry, came into existence in 1919 to help co-ordinate the early days of international travel and to represent the interests of the industry. In 1945, IATA was renamed the International Air Transport Association, assuming an expanded role in an international industry that was growing rapidly (see http://www.iata.org).

In the pre-Internet era, travel agents would earn their keep by searching the hard copy of the OAG (Official Airline Guide) to find flights and necessary connections and then writing up the ticket by hand on the IATA ticket form, all very time consuming activities. Travel agents received a commission from the airlines based on the base fare of the ticket (i.e., before taxes) for their services. Once onsite computer ticketing was possible, the time to search and print tickets by travel agents was significantly reduced. By 2008, with electronic ticketing (ET) fully implemented in the industry, things got even simpler; the days of the hard copy ticket were all but over.

As the process of ticketing got simpler, the airlines realized that the traditional commission structure that determined how much a travel agent would be paid for "writing up" a ticket needed to be changed. As a result, the commission rate received by the travel agents was reduced, if not eliminated all together. In retaliation, or as a matter of survival, many travel agents refused to service airlines that cut the travel agent commission rates and/or started charging customers an additional service fee directly. Both moves were more of a nature of cutting off one's nose in spite of one's face, since travel agents could still earn commissions for hotel and car rental bookings still required of many travelers. If the airport out of which a travel agent booked passengers was a major hub (e.g., Detroit and Minneapolis for Northwest Airlines®; Atlanta for Delta Airlines®; Houston and Newark for Continental Airlines®; Philadelphia and Charlotte for USAir Airlines®; Chicago and Denver for United Airlines®; and Chicago and Dallas-Fort Worth for American Airlines®), refusing to book passengers on the dominant airline in the market would only mean a major loss of business for the travel agent. Airline mergers (e.g., Delta-Northwest, Continental-United) also meant that travel agents were now dealing with a more restricted economic market (i.e., fewer competitors) in which fewer airlines existed and held greater market dominance. Having to pay a separate service charge for booking a flight was also not received warmly by customers.

The biggest blow to traditional travel agents was the impact of the Internet on their business. Customers could now search and book their own trips online without relying on a traditional (i.e., street-level) travel agent. Online travel sites, like Expedia®, Travelocity®, and Orbitz®, also entered the picture, as did metasearch engines, such as Kayak.com®. In addition, travelers could now book their tickets directly with specific airlines that had set up their own interactive websites. Of course, such change was facilitated by the availability of low-cost home computers and printers, the ease by which a consumer could learn how to book online, and the more than ever ubiquitous-appearing broadband Internet access.

While the airline ticket reservation industry has faced many challenges during over time history, recent events may once again shake up the industry. A December 21, 2010, news release from American Airlines, once the domestic market leader but now in third place after the Delta/Northwest merger and the United/Continental merger, indicated that the airline no longer allowed Orbitz to list or sell tickets for American Airline flights (“Citing Failure,” 2010). The authority to book such tickets granted to Orbitz by American Airlines was revoked because of the refusal of Orbitz to switch to the direct connect technology used by American to provide flight and other travel information to travel agents and the general market (“Citing Failure,” 2010). American Airlines had threatened to carry out such action on December 1, 2010, but Orbitz was able to persuade a state court judge in Chicago to block the move temporarily (Freed, 2010). However, on December 21, 2010, the court refused to issue an injunction against the intended action of American (Freed, 2010). As a result, American took the action it did against Orbitz (Freed, 2010), thereby preventing travelers from booking American flights through the Orbitz website. The judge denying the injunction indicated that the parties involved could deal with any breach of contract through a lawsuit that could be filed at a later date (Freed, 2010). American was also carrying out negotiations of the like described with other online ticketing operations (Freed, 2010). One such agreement, referred to as a distribution agreement, is that which recently occurred between American Airlines and Priceline.com (“American Airlines In Distribution Agreement,” 2011).

The December 21, 2010, news release from American Airlines also made reference to a number of other points. American indicated that reservations on American could still be made through the American website, through American reservation agents, through thousands of travel agents worldwide, through other online travel agencies, such as Priceline.com, and through online travel metasearch engines, such as Kayak.com (“Citing Failure,” 2010). The news release also indicated that travel agencies could book American flights for customers through the usual global distribution systems and/or through the new direct connection technology (Farelogix) developed by American. And, finally, the news release also made note of the fact that there is no cost to travel agencies for using the latter technology and that the booking changes being introduced to the channel were designed to improve overall customer service.

The underlying issue in the American-Orbitz conflict is the desire for American to provide flight information directly to the Orbitz system (Freed, 2010). Currently, such information is provided by what are referred to as global distribution systems (GDS), the category of channel facilitator that American wants to remove from the channel (Freed, 2010) as a means by which to reduce operating costs. American pays a fee to access flight information from a GDS (Freed, 2010). By bypassing the GDS, American can avoid paying the associated fee as well as gain the opportunity to offer passengers hotel and car rental options (i.e., packages) more directly linked to the sale of American tickets (cf. Freed, 2010). Direct contact with a customer also allows the airline to promote other money-making services offered by the airline (e.g., priority boarding) and to take steps to strengthen the level of brand loyalty customers show toward the company (Jones, 2011).

As it turns out, the company behind the court action taken by Orbitz is Travelport Ltd., a GDS that owns 48% of Orbitz (Freed, 2010). Travelport Ltd., also runs Galileo® and Worldspan®, two of the largest GDS organizations (Freed, 2010). The Sabre Travel Network, which is associated with Travelocity®, an online global travel system, is another major player in the GDS market. Besides concern over the costs associated with using a GDS, such organizations, in general, have been criticized for being slow at upgrading company systems with the latest technology (Freed, 2010).

The market implications for American by not being on the Orbitz system are considered to be mixed. Customers who want to fly American are expected to book using the American website (Freed, 2010). Customers who do not care which airline is flown or who are unaware of the absence of the firm from the listing on Orbitz will not be affected (Freed, 2010). Without American being listed on the Orbitz system, for those customers who care, the ability to compare the market offerings of the various airlines that fly particular city pairs will not be possible without going to the extra effort of searching other websites, whether it is the American site or the sites of other travel-information aggregators (e.g., Expedia®, Priceline®, Kayak®) to find the best deal (cf. Freed, 2010; Jones, 2011). The deletion of the American Airline flight schedule from the Orbitz listing could also mean that customers may selectively decide not to search the Orbitz site. Market offering comparisons across sites would also be difficult if the all-inclusive or “out-the-door” fare (i.e., base fare and all taxes and fees, including any charge levied by the airline, aggregator, or travel agent) is not provided to the consumer (cf. Freed, 2010).

As of late-January, 2011, there is no mention on the opening Orbitz webpage that American Airline flights are not listed or when flight listings for Toronto (YYZ) to Los Angeles (LAX) and Toronto (YYZ) to Chicago (ORD) flights are checked. The identified city pairs are routes that are heavily serviced by American. However, the lead banner on the first page of the American Airlines website indicates that American flights are not listed on Orbitz. Thus, as previously indicated, without the disclaimer, a traveler who is not aware of the dispute between American and Orbitz would not be provided with the expected, complete flight information routes serviced by American when searching Orbitz for flights.

Overall, it appears that American is seeking to play a more dominant role in the channel which it anchors at the service provision level. With all channels of distribution, including those for the sale of airline tickets, there are product/service, information, and financial flows. The airline provides the service of moving the customer from one airport to another. While each airline is the creator of the flight information for the company, such information is made available to external sources, such as store-front and online travel agents. When a ticket is sold by a party other than the originating airline, the travel agent, aggregator, and/or GDS organization may receive some form of financial payment from the airline for using the available information to execute a sales transaction with a customer. It is the nature of this financial flow that the airlines would like to reverse (Freed, 2010). American would rather have the intermediaries and facilitators within the channel pay American for accessing and using flight information created by American (cf. Freed, 2010), particularly, when used by or accessed through GDS organizations. By gaining full control over flight information, American would be able to provide information that, the company believes, would better meet the needs of each customer and eliminate a cost of operation at the same time (cf. Freed, 2010).

The operating style and history of Southwest Airlines reveal a similar desire to take control of access to flight information (cf. Jones, 2011) (also see southwest.com: history, news media releases, and fact sheets). The company introduced the first corporate website (iflyswa.com) in 1995, the first major airline to do so. The essentially static website only provided a route map and other basic information. It was also in 1995 that Southwest switched from the need for reservations to be made by individuals or travel agents via telephone to the use of the SABRE computerized reservation system, a system that allowed travel agents to print tickets at the same time of the booking.

The ability for customers to book flights on the Southwest Internet site became a reality in 1997. However, in 1999, Southwest was in the process of developing a corporate reservation system (NewRes) to replace the current SaaS (Software-as-a-Service), but improvements in the licensed reservation system led the company to abandon the project.

By the year 2000, for the first three quarters of the year, the company website generated about 30% of company revenue. In the first three quarters of 2003, 55% of flight bookings were done via the company website by customers. By the year 2010, for the same time period, this number had increased to the 81% level.

It was also in 2003 that Southwest stopped paying travel agent commissions. Southwest was the last major U.S. airline to do so. By this time, the commission rate was at the 8% level for ticketless booking and 5% for paper ticket transactions. Up to 2001, a single commission rate of 10% was in place, having been established in 1995, the same year that the company switched to computerized booking.

By 2003, the travel agent industry had changed from an airline-paid, commission-based business model to a customer-paid, fee-based approach. The change in business model by travel agents did not mean that they could no longer book airline flights for customers; the only change was the fact that no commissions would be paid for such bookings. Travel agents still collected commissions for hotel, car rental, and other travel-related service bookings.

The changes in the operating methods and philosophy of Southwest during the history of the company reflect the general trends for the airline industry. Changes in the nature of the customer and the nature of the technology played a significant role in the way flight reservations are made today. Such changes also have an impact on the structure of the channel, the role of the facilitators, and the nature of the competition in the industry.

Orbitz Worldwide Inc. is taking the action against it by American in stride (Freed, 2010). While the company still sells tickets for more than 400 airlines worldwide, it shows a desire not to give up on being able to sell American Airlines tickets (Freed, 2010). During the first three quarters of 2010, sales of American Airline tickets and associated hotel bookings and car rentals represented about 5% of revenue for Orbitz (Freed, 2010) and about $800 million in sales during the first three quarters of 2010 for American (Jones, 2011). The company also believes that any loss of ticket sales for American flights will be offset by ticket sales on other airlines (Freed, 2010). It is not clear if the “other” sales are by passengers who would have flown American or just represent an overall increase in business for Orbitz.

American Airlines is not the only airline trying to take back control of the channel. In mid-December, 2010, Delta Airlines ended the listing of Delta flights on the following .com sites: CheapOAir®, OneTravel®, and BookIt® (Freed, 2010). By dropping these smaller online travel sites, Delta is moving toward a more direct channel structure when dealing with customers. Delta likes to compare what it is looking for in relations with customers as being similar to what Apple® achieves by operating retail outlets under the company banner for the distribution of Apple products (i.e., only sell company and company-related products) versus what stores like Best Buy® offer (i.e., sell products of many different manufacturers, including Apple products) (cf. Freed, 2010).

The conflict between American Airlines and Orbitz has led the Expedia travel site to side with Orbitz. Just two days after Orbitz lost access to the inventory of flights controlled by American, Expedia, while still listing American flights on the company travel site, placed American flights at the bottom of the flight list that appeared before the consumer; no such changes were made to the listings of other airlines (“Expedia Changes,” 2011). Expedia explained such change in structure of listings as a step in the direction of preparing the company for when it too may lose access to American flight inventory at the end of the current contract between the airline and the travel site (“Expedia Changes,” 2011).

By January 3, 2011, however, Expedia ended all relationships with American Airlines, by deleting American flights from the Expedia website (James, 2011). One reason offered by Expedia for taking such a step pertained to the failure of the two sides to come to an agreement about the switch to the new direct connect model for booking developed by American (James, 2011). A second reason offered by Expedia was that it would be difficult for consumers to compare different flight costs and offerings under the new system (James, 2011). In response, American claimed that, compared to a year ago, ticket sales for the airline were higher over the period during which Orbitz no longer had access to American flights (James, 2011).

Hotwire, a subsidiary of Expedia also ended all relationships with American at the same time. On the positive site, however, American Airlines recently arrived at an agreement with the online travel booking site, Priceline.com to serve as a booking agent for the airline using the direct connect technology that the airline is using (“American Airlines In Distribution Agreement , 2011). On the company website, the airline indicates that Orbitz, Expedia, and Hotwire are no longer associated with American Airlines (http://www.aa.com).

Focus: The concepts that are relevant to this case are categorized by general topic area, as set out below. [Note: Not all of the concepts listed will be found within the case. Some of the remaining concepts may be discussed in the set of questions posed.]

General marketing concepts: levels of problem solving - business market: straight rebuy, modified rebuy, new task; external environment: competition, economic, regulatory, technology, social (culture and political system) [CERTS]; Ansoff’s (1958) Strategies for Diversification - product/market matrix: market penetration, product development, market development, diversification; economic structure: monopolistic competition; marketing functions: buying, selling, transporting, financing, grading/sorting, storing, market information, and risk taking.

Consumer concepts: level of problem solving - consumer market: routinized (habitual) response behavior, limited problem solving, extensive problem solving; Sherif & Hovland’s (1961) ordered alternatives approach to the analysis of social objects: latitude of acceptance, latitude of noncommitment, latitude of rejection; brand categorization: evoked set, inert set, and inept set, behavioural brand loyalty, attitudinal brand loyalty, Heider’s balance theory.

Product/service concepts: consumer goods classification (see Copeland’s [1924-1925] perspective): convenience good, shopping good, specialty good; traditional consumer goods classification: convenience goods (staple, impulse, emergency, unsought), shopping goods (homogeneous, heterogeneous), specialty goods; product/service offering width; product/service offering depth, generic demand vs. selective demand, SaaS.

Place (distribution) concepts: service provider; travel agency; (travel) aggregator; online metasearch (engine) travel agency; direct channel; indirect channel; single-distribution channel; dual distribution; multiple distribution; power; types of power: reward, coercive, referent, expert, legitimate; conflict; vertical conflict; horizontal conflict; intra-type horizontal competition; inter-type horizontal competition; institutional approach to retail store classification: convenience store, shopping store, specialty store (single-line, limited line, super-specialty); consumer goods classification (see Bucklin's [1963] product-patronage matrix perspective): convenience good, shopping good, specialty good; intensity of distribution: exclusive, selective, intensive; channel intermediary; channel facilitator; nature of retail operations: bricks and mortar, clicks and bricks, pure play; ecommerce; conflict of interest; approaches to conflict resolution (e.g., negotiation); channel captain; horizontal integration; disintermediation; flows within a channel of distribution: product/service, information, financial; vertical integration.

Promotion concepts: website.

Price concepts: base price, fees, commissions.

Other concepts: none.

Questions:

1. Define each of the concepts listed in the focus section.

2. Explain how the concepts of direct channel and indirect channel apply to airline ticket sales, as described in the current case situation.

3. Explain how the concepts of single distribution, dual distribution, and multiple distribution apply to the sale of airline tickets, as described in the current case situation.

4. In the current case situation, identify the product/service providers, the channel intermediaries, and the channel facilitators. Explain.

5. There are eight marketing functions that must be carried out by marketers, functions that can be shifted from one level to another within the channel but cannot be eliminated if such activities apply to the channel. Explain which functions have to be performed within the airline ticket channel, as described in the current case situation, and identify which channel members carry out the various functions. What marketing functions do travel agencies perform? In terms of marketing functions performed, why are travel aggregators

important to the airline transport industry? Explain. What marketing functions do travel aggregators perform? How would the channel member function-responsibility change under the proposal set out by American Airlines?

6. Explain how the concept of vertical distribution applies to the sale of airline tickets, as described in the current case situation.

7. Explain how the concept of horizontal conflict (competition), intra-type and inter-type apply to the current case situation.

8. What is the nature of the conflict situation between American Airlines and Orbitz? Explain how the concept of power was applies to the conflict situation between these two firms.

9. Explain how the retail-form concepts of bricks and mortar, clicks and bricks, and pure play apply to the sale of airline tickets, as described in the current case situation.

10. Explain how the different types of consumer goods, as defined by Copeland (1925) apply to the way a consumer approaches the pre-purchase decision when engaged in the airline ticket purchase process.

11. Explain how the institutional approach to retail store classification applies to the airline ticket sales market, as described in the current case situation.

12. Explain how the different types of consumer goods as defined in Bucklin's (1963) product-patronage matrix apply to the way a consumer approaches the pre-purchase decision when engaged in the airline ticket purchase process.

13. Explain how the different types of retail or store classifications as defined in Bucklin's (1963) product-patronage matrix apply to the way a consumer approaches the pre-purchase decision when engaged in the airline ticket purchase process.

14. Explain how the concept of levels-of-problem-solving applies to a consumer's decision process (B2C:business-to-consumer) in making an airline ticket purchase. Explain the same situation in a B2B (business-to-business) situation using the appropriate concepts.

15. Explain how the concept of intensity of distribution applies to the sale of airline tickets, in general, and in the situation described in the current case.

16. Explain how the concept of price applies to the current case situation.

17. Explain how the concepts of depth and width of market offering apply to the current case situation.

18. Explain how the components of the external environment (i.e., see CERTS acronym) apply to the current case situation.

19. Explain how Ansoff's (1958) Strategies for Diversification (i.e., product-market matrix) applies to the current case situation.

20. Explain how Sherif and Hovland's (1961) ordered alternatives approach (latitude of acceptance, latitude of noncommitment, latitude of rejection) to the analysis of social objects applies to the current case situation.

21. Explain how the concepts of an evoked set, inert set, and inept set of brands apply to the current case situation.

22. Explain how the concept of monopolistic competition, one of the market forms which can be found within the economic structure of an industry, applies to the current case situation.

23. Explain how the concept of conflict of interest applies to the current case situation. If Orbitz was not owned by a GDS, how do you think the former company would have responded to the request from American Airlines to obtain flight information directly from the airline? Explain.

24. One way for firms that are party to a conflict situation to resolve or deal with the conflict is to reach a negotiated solution. What would be the nature of such a solution in the current case situation? What are the different ways that firms can use to deal with a conflict situation (e.g., bargaining, coercion, compromise, wielding of power)? Which approach, if any, would be the most appropriate for the current situation? Explain.

25. Explain how the concept of channel captain applies to the current case situation? Who is the channel captain in the airline ticket sales channel? Explain.

26. How does the concept of horizontal integration apply to the current case situation? Explain.

27. How does the concept of vertical integration apply to the current case situation? Explain.

28. Explain how the concept of intensity of distribution (i.e., exclusive, selective, and intensive distribution) applies to the current case situation?

29. Explain how the concept of disintermediation within a channel applies to the current case situation.

30. Describe the nature of product/service, information, and financial flows with respect to the current case situation.

31. Explain the relevance of behavioural and attitudinal brand loyalty to the current case situation.

32. Explain the relevance of generic vs. selective demand to the current case situation.

33. Use Heider's balance theory to diagram, describe, and explain why Expedia sided with Orbitz and ended all association with American Airlines?

34. Use Heider's Balance Theory to diagram, describe, and explain the nature of the relationship among Expedia, Priceline, and American Airlines.

35. Does the fact that Orbitz does not indicate on the company website viewed by potential customers that American Airline flights are not listed reflect a biased information source? Do those who book travel through a store-level or online travel agent expect (i.e., through an "agent" representing a customer) an unbiased presentation of complete information? Explain.

36. If you were called in as the mediator or arbitrator for the dispute between American Airlines and Orbitz, what recommendation would you put forth to resolve the dispute? Explain. What arguments, both for and against your recommendation, would each side put forth? Why would each side make such arguments? [Do you know the difference between a mediator and arbitrator?]

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