IT PAYS TO KNOW.

THOUGHT LEADERSHIP SERIES – PART TWO

TRAVEL AGENCY AND AIRLINE PAYMENTS.

We're seeing more innovation in B2B travel payments. It's a key reason why it's now just as important for both airlines and agents to have a B2B travel payments strategy that complements their B2C one.

To ensure a sustainable model, and one that benefits all parties in the travel value chain, agents and airlines need to work closer than ever before. Our Travel Agency and Airline Payments thought leadership series explores how streamlining B2B travel payment strategies, and working together for mutual benefit, can help both parties stay financially sustainable and better navigate the road to recovery.

Here's Part Two.

> "The best way forward is for both parties to recognise and appreciate the impact of the change to the distribution landscape, and work together to have constructive commercial discussions and agree on a travel payment strategy that benefits all parties."
>
> **Anthony Hynes**
> **MD & CEO eNett International**

eNett
Redefining payments

WHERE DID B2B TRAVEL PAYMENT MODELS AND SYSTEMS ORIGINATE?

1971 (FIRST BSP)

- Cash was king: travellers paid cash, agents paid airlines in cash.
- Interactions were in person and face to face.
- Travellers only accessed agents in local markets.
- Principal/agent relationship defined by agency commissions.

VS

TODAY

- Online bookings change traveller payment preferences.
- Higher customer expectations shaped by e-Commerce.
- Competition and distribution is cross-border and global.
- Airline and agent commercial partnerships.

The retailer model in today's B2B travel payments landscape for air.

Part One of this series explored how the retailer model has become a must in travel distribution, and how important B2B travel payments strategies for air are in the travel retailing world. In this second part, we'll look at the challenges today's B2B travel payments landscape poses for travel agencies and airlines, when they adopt the retailer model, and the vision for financially sustainable B2B travel payments for air.

Today's B2B travel payments landscape for air is still characterised by longstanding legacy payment and settlement systems designed 50 years ago.

Payments designed for times gone by.

The first BSP was established in 1971 in Japan. Today's B2B travel payments landscape for air is still characterised by longstanding legacy payment and settlement systems designed 50 years ago. These systems reflect how markets worked in the days before technology drove the focus on customer experience and the retailer model, and before competition and distribution across borders became the norm. It was also before low-cost carriers were part of a full service carrier's competitor set. So, why do they still remain?

First, some context. Air distribution and its payment and settlement systems started locally and grew organically. Country by country BSPs began as a way to consolidate reporting and payment of airline sales by agents in that market. Back then, travellers paid cash to travel agents, who in turn paid cash to airlines.

Travellers only accessed travel agents in their local market, either in person or later via local call centres. Agents only had two ways of paying airlines in the BSP: cash, or passing through a credit card.

New business models start to emerge.

Cross-border transactions and truly global travel agencies grew when international call centres became feasible, and took off when e-commerce exploded.

It's also important to remember that airline distribution strategies were very different back then because travel agencies were a true agent, in a principal/agent relationship, receiving commissions for their services.

When airlines changed strategies in the late '90s, and stopped paying or limited these commissions, the dynamics of air distribution changed. The industry had to adapt to losing a key factor in the principal/agent relationship and travel agents had to revamp their business model.

BSP: Billing and Settlement Plan

IS THERE A ROLE TODAY FOR LEGACY B2B TRAVEL PAYMENT MODELS AND SYSTEMS FOR AIR?

Evolution shifts expectations.

So, does this mean there is no longer a place for these payment and settlement systems? No, it doesn't. But it is clear that their role should be reassessed. New payment technology means the travel payments industry has evolved. And the B2B travel payment landscape has to accommodate that change. It's no longer only about traditional credit cards and cash – when was the last time you paid for travel using cash? Payment products for individual consumers and corporates are now wide ranging, varied, and encompass both physical and virtual forms of payment. Plus, with hundreds of B2C payment methods on the market, travellers are used to shopping online. In fact, they now expect a certain payment experience.

Payment experience is now king.

Travel agents must be able to deliver a travel shopping experience on par with the broader online retail shopping experience. The payment experience must be easy and seamless. It must offer choice. And it must reassure travellers that their purchase is protected.

The only way a travel agent can achieve this is by also adopting the retailer model. Travel agents who don't, can't control the payment transaction and can't deliver the expected payment experience.

Travellers frustrated by their payment experience are likely to abandon their purchase[1], which means lost sales for both travel agents and their travel supplier partners, including airlines.

COVID-19 reinforces need for change.

COVID-19's impact on travel industry payments only confirms that the systems from 50 years ago can't address all the challenges of a now global, cross-border and technology-driven B2B travel payments landscape for air. Nor should they.

Instead, today's framework should reflect the commercial needs of travel agents and airlines, and the B2B travel payment strategies they put in place to ensure the success of their businesses in serving their common customer – the traveller.

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1 For example, the Adyen Retail Report 2019 found that when the preferred method of payment was not available more than half of respondents abandoned their purchase

WHY IT'S IMPORTANT TO LINK AN AIRLINE'S PAYMENT AND DISTRIBUTION STRATEGIES.

Both direct and indirect distribution channels impact traveller experience.

We touched, in Part One of this series, on why airlines should care about both their direct and indirect distribution channels. Even NDC, IATA's New Distribution Capability standard, is meant to focus on retailing to both end travellers and travel agents[2].

The traveller's experience is impacted whether they buy their ticket directly from the airline or indirectly via a travel agent. And if both direct and indirect distribution is refocusing on the retailer model, then so too should airlines' payment strategies.

So, it's important that airlines take care of indirect distribution and have a B2B travel payment strategy.

Return on investment in payments and distribution.

A B2B travel payment strategy is important for two key reasons. Firstly, about 60-70% of a typical full-service carrier's volume is distributed via intermediaries. And secondly, sales through travel agencies tend to be higher margin because they include long haul and corporate travel. This is just one example of the clear financial pay-off for airlines who invest in the parts of their distribution and payment strategies that impact travel agent partners.

But how does an airline's B2B travel payment strategy impact the end traveller? Shouldn't it only impact how the airline's travel agency partners pay them? Well, yes and no. We explore why on the following page.

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2 IATA, "Part 1: Introduction – NDC in a nutshell", Get Started with NDC, 2019: 4.

WHY IT'S IMPORTANT TO LINK AN AIRLINE'S PAYMENT AND DISTRIBUTION STRATEGIES.

Adding risk to the travel value chain...

How the industry adapted to changes in the principal/agent relationship helps explain the wider impact of an airline's B2B travel payment strategy. Agents make all the investments needed to operate the retailer model, taking care of the traveller on one side while still taking on the cost and risk of paying the airline on the other. That original principal/agent set up offset some of those costs, but this is no longer the case. If the airline's B2B travel payment strategy doesn't account for how travel agents operate today, as retailer, the agent is effectively paying the costs of both sides. So, airlines who don't link their indirect distribution and B2B travel payment strategies compromise their travel agent partners, and add risk to the travel value chain.

…or benefiting the whole value chain?

On the other hand, when airlines do link these strategies, they strengthen their agency partnerships and enhance their global reach, accessing their away markets more easily. They offer greater choice of payment methods to their end travellers via their travel agency partners, not only the handful of B2C payment methods the airline's implemented.

Their travel agent partners can also protect them from all fraud and risk, with protection being a benefit some airlines are now looking to cover in their B2B travel payment strategy. These airlines are benefiting the whole travel value chain.

Optimising indirect distribution.

The right B2B travel payment strategy for an airline allows it to optimise indirect distribution through travel agents. Many airline partners do exactly that, strengthening their agency partnerships and reducing risks and costs along the way.

As a start, airlines should understand their own fraud and risk profile in their different markets of distribution, and understand travellers' payment experience preferences in the markets they want to access. Their B2B travel payment strategy should also consider how their agency partner payments can offset or eliminate any fraud and risk as well as their agency partners' needs in those markets.

"It's great to see the travel industry discussing the full travel value chain when it comes to payments – from the traveller, to the agency, to the airline. Mastercard's role is to offer payment choices to enable all stakeholders in the travel value chain to benefit, while also providing protection and reducing risk. It's now more important than ever for agents and airlines to align their B2B travel payment strategies."

Bart Van Gompel
VP Enterprise Partnerships
Mastercard

IMPACTS OF AN AIRLINE'S B2B TRAVEL PAYMENT STRATEGY ON AGENTS.

MERCHANT MODEL PAYMENT FLOW
(Supports Retailer Model)

Travel agent accepts payment from traveller and makes a separate payment to the airline.
Travel agent is agent for airline and merchant for traveller payment. Airline is merchant for travel agent payment.

AGENCY MODEL PAYMENT FLOW

Travel agent passes through the traveller's credit card details to the airline.
Travel agent is agent for airline, but not merchant for any payment. Airline is merchant for customer payment.

Prince of payments: the merchant model.

Travel agents generally distribute on behalf of multiple travel suppliers. Ideally, this means that their optimal B2B travel payment for air strategy aligns with their overall payment strategy. This may seem logical. But there are still many agents who, over the years, have adopted one strategy for paying air suppliers and a very different strategy to pay all other suppliers. This isn't efficient, or sustainable.

We've talked about technology driving the change to the retailer model in travel to deliver the best customer experience. We've also talked about how important controlling the transaction and the payment experience is to the agent meeting changing customer expectations. For some time now, the most successful agencies have turned to the 'merchant model' to achieve exactly these things.

The merchant model streamlines payments...

In the merchant model, agencies control the inbound customer payment on one side and pay travel suppliers in a streamlined process. This allows them to leverage the payment technology that has driven the evolution of travel payments.

Combine that with changes in the airline/agent relationship, and travel agents really have no choice but to also adopt the merchant model to distribute air payments.

It's inefficient to operate two models simultaneously, by adopting the merchant model for some parts of a customer booking and the agency model, where the customer payment is directly passed through to the supplier, for other parts.

...and delivers a seamless payment experience.

Acting as merchant and streamlining the payment process across all travel suppliers also allows travel agents to deliver a seamless payment experience to the end traveller. Travellers can make a single payment with their preferred payment method, and the travel agent takes care of the rest.

The alternative demands the traveller makes one payment for part of their booking, and a second payment for the other.

This is not a good customer experience. And it demonstrates one of the indirect impacts of an airline's B2B travel payment strategy on the end traveller.

PARTNERING BENEFITS THE WHOLE TRAVEL VALUE CHAIN.

Financially sustainable B2B travel payments.

Indirect benefits are always the hardest to measure. But it's clear from this discussion that decisions airlines and travel agents make about how they accept and make B2B travel payments have a direct impact on their one common goal – the customer experience of the end traveller.

Part Three of this series will look at how complementary airline and travel agent B2B travel payment strategies benefit the whole travel value chain, and what makes this change necessary.

So, what's the vision for a financially sustainable B2B travel payment landscape? Is it enough for only the travel agent or the airline by themselves to implement a B2B travel payment strategy? No, it's not.

Airlines and travel agents must work together and have open conversations to align their B2B travel payment strategies. This will allow them to harness the benefits of new payment technologies. And create mutual benefits for both parties, and their common customer.

COVID-19, CONVERSATIONS AND LEGACY FRAMEWORKS.

Before COVID-19, we saw some airlines and travel agencies engaging with and aligning their B2B travel payment strategies – and reaping the benefits. Costs and risks to the overall travel value chain were often reduced, while an optimal customer experience was maintained.

The impacts of COVID-19 have prompted many to engage in conversations that they may not have otherwise had. They've challenged existing legacy frameworks that many airlines, and some agents, take for granted, or still assume are the only viable way to do business.

Only once both airlines and agents commit to rethinking their B2B travel payment strategies and engage collaboratively, can a 'new normal' emerge. One where both parties can capitalise on all the benefits that new payment technology has to offer.

Got a question about how your B2B travel payments strategy can help drive your business success?

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