

Exhibit 1 – End-customer Analysis: Service Outputs

“Developing a (sales) channel strategy, similar to many other marketing activities, must start with the end-user” (Palmatier et al. 2015)

In order to successfully meet the end-customers’ demands in the passenger airline industry it is evident for LH to not only understand *what* they want to purchase but also *how* they want to get access or obtain the product or service. In this work project the *what* is represented by the airline transportation service of LH. The *how to sell* is analyzed according to end-customer demands. In this sense end-users service outputs can “reduce their search, waiting time, storage, and other costs” (Palmatier et al. 2015).

If price and product attributes are perceived to be the “same” by the end-customer, he will select the channel with a higher degree of service outputs provided (Palmatier et al. 2015). In the work project five different types of service outputs are analyzed.

Type of Service Output	Description
Information provision	Education of end users about product attributes or usage capabilities , pre-post purchase services e.g. knowledge of specific aspects and conditions of destination
Customer service	All aspects of easing the shopping and purchase process including post sales
Breadth of variety and depth of assortment	The higher both are the higher the output and the higher the overall distribution costs
Spatial convenience	Increases end user’s satisfaction by reducing transportation requirements and search costs e.g. Online Travel Agents possible ticket purchase 24 hours
Waiting time	Time between ordering and receiving goods. Can be different for original purchase and post-sale service (high)

Exhibit 2 – Yield Calculation and Analysis

The yield describes the average revenue per passenger. This means, how much money LH earns with each passenger on board. The yield can be calculated on flights or whole routes (various flights) and includes the fuel surcharge (YQ) of LH which is counted as LH’s revenue. (The YQ surcharge for intercontinental flights is at 85 Euros per route segment. The YQ surcharge for European flights is at 22 Euros per route segment i.e.: The YQ for a flight from Lisbon to Frankfurt: 22 Euros; the YQ for a flight from Frankfurt to Hong Kong: 85 Euros)

The formula that describes the yield is as follows:

$$\text{Net Net incl. YQ Yield} = \frac{\text{Net Net revenue incl. YQ}}{\text{Passenger/Coupon (Pax/Cpn)}}$$

(Net Net revenue describes the Net revenue less backend incentives and less agency upfront commissions, please see Exhibit 7 for detailed explanation)

For LH, contracted corporate customers generate a much higher yield than leisure passengers. See below the difference in yield between two tariff classes one for contracted corporates offered by LH in 2015 and one offered for *Visit Friends and Relatives*:

Customer	Passenger per coupon (PX/Cpn)	Net Net inclusive YQ	Net Net inclusive YQ Yield
Contracted Corporate	42.130	9.518.053	226
Visit Friends and Relatives	27.931	3.670.141	131

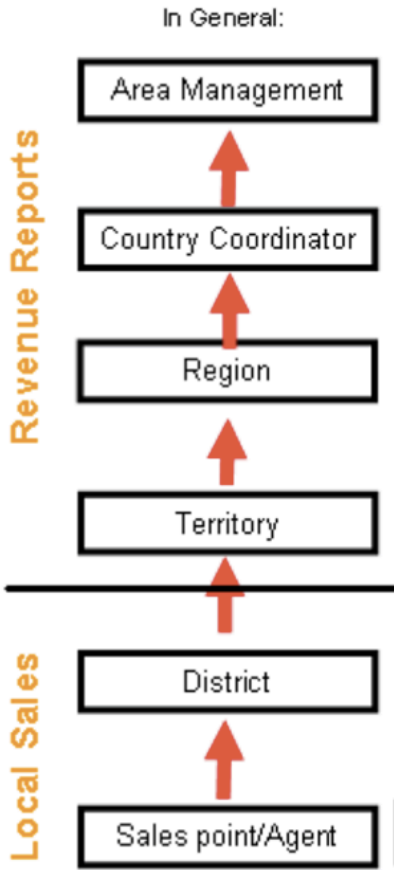
Exhibit 3 – Revenue share (2015) of LH’s customers according to the segmentation applied in the analysis

Customers	Net Net incl. YQ	Revenue Share
Contracted Corporates	9.518.053	16%
SMEs	6.331.761	11%
Vacation Traveler	18.418.037	32%
VFFs	3.670.141	6%
Other	20.051.032	35%
Total	57.989.024	100%

It is important to note that “Other” in this table represents the customers that are not yet identified by LH’s sales organization in Portugal. One of their main tasks is the recognition of customers, especially corporate customers, in order to contact them directly.

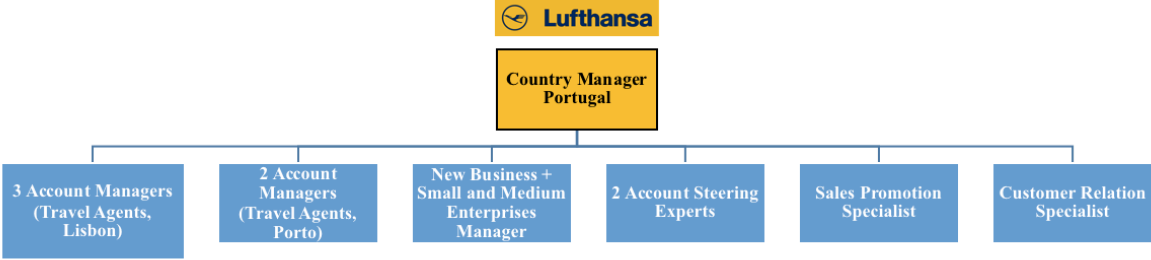
It is evident that within the 35% of unidentified customers there are more potential “contracted corporates” or potential “SMEs”.

Exhibit 4 - LH's Sales Point Organization in General



The smallest business unit forms the sales point (an agent who sells LH tickets). Each sales point belongs exactly to one district. Each district is, in turn, assigned to a territory and so it continues via sales region, country coordinator right up to the area management, which is the highest stage in LH's Sales Point Hierarchy.

Exhibit 5 - Lufthansa German Airlines' Sales Organization Portugal: Organizational Chart

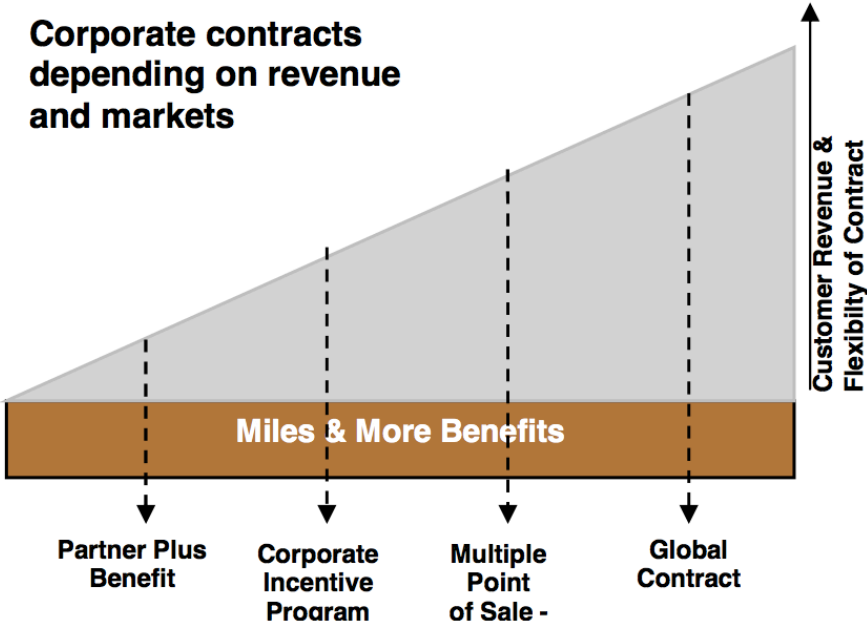


In Lisbon, the Country Manager supervises five Account Managers (there of two are located in Porto), two Account Steering Experts as well as one New Business and SME Manager, one Sales Promotion Specialist and one Customer Relation Specialist.

The sales organization in Lisbon creates tailor-made incentives which drive sales forward in line with the overall business directives and sales goals. With each incentive contract LH tries to offer their customers reasons to do business with them, foster their loyalty and to build lasting, win-win relationships.

Exhibit 5.5 - Corporate contracts depending on revenue and markets

LH differentiates “managed” customers (more than 50.000 Euros generated revenue for LH



Portugal per year) and “unmanaged” customers. The unmanaged customers, for example Small and Medium Enterprises, can participate in the online incentive programs such as

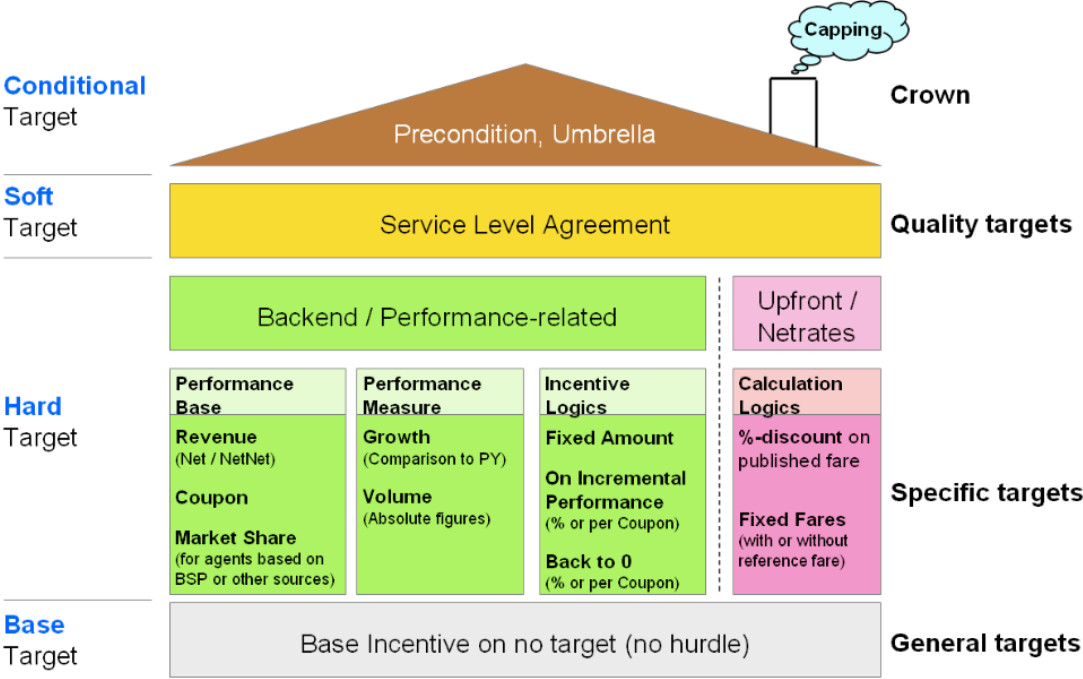
PartnerPlusBenefit (PPB). With these customers the contractual relationship may be limited to the online incentive program.

LH’s sales organization provides Partner Plus Benefit (PPB) to small and medium sized companies and at associations in Portugal.

It is an online based, self- administrative tool, enabling members who fly Lufthansa or partner airlines, to collect benefit points and to receive benefit awards (i.e. upgrades, vouchers, excess baggage vouchers, payouts or free flight tickets).

Exhibit 6 – Types of targets arranged in agent incentive contracts

Once LH’s sales organization has agreed in creating a contract with an agent in Portugal, different types of targets are defined:



Base Target

A base target represents the fundament of a contract. It is mainly a general or unspecified target. Usually no target will be defined and the agent will receive incentive payments on all revenue produced (i.e. 0,5% on everything).

Hard Target

The “hard target” may be composed of a backend incentive and/or an upfront incentive. A typical characteristic of the hard targets is that it is measurable. The target can either be based on volume (i.e. 150.000 EUR) or growth (index 105 or index 97 to previous year). How the targets are set has to be in line with LH’s sales objectives in the Portuguese market.

Soft Target

This is a target containing mainly qualitative aspects. Soft targets are often used for big accounts but can also be an excellent instrument for smaller accounts.

Example: Joint customer events with the agents such as the Trade Show for travel “Mundo Abreu” in 2016.

Conditional Target

Also called “Bonus”. A conditional target is based on reaching a combination of different individual targets (hard targets, and/or soft targets).

Capping

In order to control incentive payments a capping may be part of the agreement. Usually it is defined as a certain percentage of the total eligible flown revenue of the customer. Example: The capping is set at 4%: this means, that a max. of 4% of the net flown revenue will be paid as an incentive, despite the fact that the customer might have achieved more if all incentive modules were taken into consideration. This feature not only limits the incentive payments but is also well suited for fast growing markets.

Exhibit 7 - LH's Distribution Channel Members in the Portuguese market

Channel	Explanation
LH Direct Channel	<p>The online channel of LH belongs to the direct distribution, since the company sells their tickets directly to the customer via the corporate website, "Lufthansa.com" and the mobile app. In 2015, 11% of revenue was generated through the direct online channel.</p> <p>LH's direct offline channel consists of sales offices and the airport ticket counter at <i>Lisbon Portela Airport</i>. In 2015 the share of revenue generated through the direct offline channel was 2%. Call centers, stations, town offices and other smaller channels are established to reach the customer directly. Both, the direct offline and online channel are managed directly from the headquarter in Germany.</p>
Local Agency Chains	<p>The agency chains with a local contract generally consist of several retailer locations and are the most important revenue generator for LH in the Portuguese market responsible for 59% of total revenue generated in 2015. Through offices all over Portugal travel agency chains such as Abreu, Springwater (Top Atl. Tagus, AWT, TPartner, Geostar), Go4Travel (RANT, Armet, GEA), Veusa, Atlantica, Beralo Esceletur, Travel Store, TUI and Hal com, (among others) get in direct touch with the customer.</p> <p>LH further differentiates only local chains that have more than 5 locations, minimum 1000 T Euro Revenue or are multinational.</p>
Local Retailer	<p>Single local agents also establish a direct customer contact and have their own fulfillment. In Portugal they are the second most important channel partner measured in percentage of the revenue responsible for 22 % of total revenue generated for LH in 2015.</p>
Consolidator	<p>Consolidators serve nationwide non IATA and IATA leisure travel agencies with LH fares. It is an air-only ticket wholesaler selling LH fares. It represents an intermediary between the airline and the subagent (B2B) and serves as a fulfillment center for subagents, mainly without IATA accreditation. If travel agents do not have an IATA number they use Consolidators to issue the tickets for them. In terms of tracking the sales this means that there is only one IATA number (Consolidator) responsible for around 50 different agents. The distribution and sales organization of LH in Portugal constantly tries to determine them because they are mainly responsible for the steering and influencing of the customers flying with LH Airlines. Due to a shift in this service it becomes more difficult to generate the origin of the tickets.</p>
OTA	<p>Online Travel Agents (OTA) and Platforms like Expedia, Ebookers, Opodo and Edreams specialize in offering planning sources and the service of booking airplane tickets. LH and other travel-related service providers maintain their own web sites providing retail sales. The search engine technology of the OTA organizes the complex offerings for the end customer according to a certain geographic location, price, time frame or service class. Travel bookings are one of the largest components of e-commerce. In Portugal OTAs were responsible for 4% of total revenues generated for LH in 2015. An OTA contract with LH includes an online code of conducts; e.g. dos and don'ts, efficient booking practices, controlling the IT, interface, technical recommendations and standards.</p>

Exhibit 8 - LH's Selective Distribution Strategy and IATA – accreditations

LH operates as one of the biggest international airlines and is the second largest passenger airline in Portugal after the national airline TAP. Its well-known brand seizes to deliver a

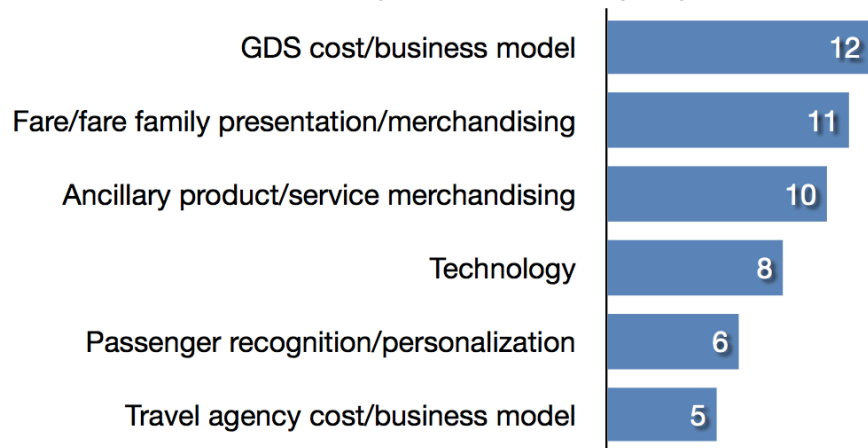


strong premium image to a broad segment of customers. LH communicates through a broad variety of different channels in order to be constantly present. The type of distribution, however, is still selective. LH chooses its channel partners and

especially agents and retailers very carefully and all of them need to be accredited by the International Air Transport Association (IATA). The profound selection enables LH to build strong and customized relationships with each partner, as well as it facilitates an effective and frequent control of its services.

Exhibit 9 - Major concerns with regards to third-party distribution

“Thinking about third-party distribution, how much of a concern are the following” (Number who answered in the top two boxes for each response)

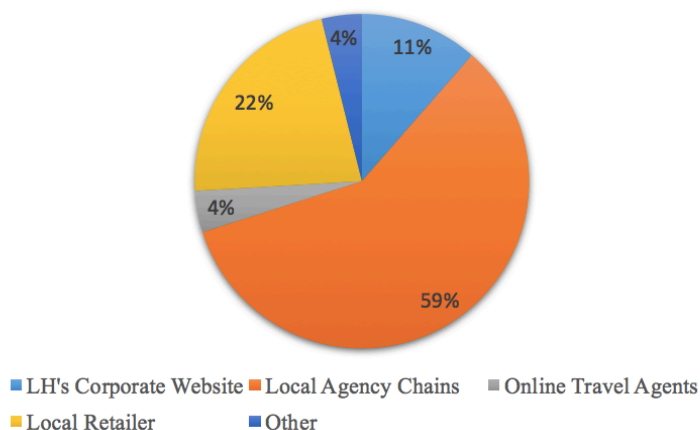


Source: Atmosphere telephone interviews with 15 airline marketing/sales/distribution executives

Source: Atmosphere Research 2012

Exhibit 10 - Lufthansa German Airlines in Portugal 2015 revenue share of each sales channel

Channel share contribution according to revenue (netnet + YQ) generated for Lufthansa Portugal 2015



Type of Channel	PAX/CPN	Net Net incl. YQ	Net Net incl. YQ Channel Share
LH's Corporate Website	59.854	6.629.591	11%
Local Agency Chains	206.253	33.997.339	59%
Online Travel Agents	32.953	2.323.527	4%
Local Retailer	90.061	12.784.331	22%
Other	25.225	2.254.236	4%
Grand Total	414.346	57.989.024	100%

First of all, some definitions have to be made:

LH's flown revenue can be measured in different ways. Depending on the purpose, different calculations and rates can be used. Therefore, it is important to define the following in this work project:

Fare
= GrossGross (GGross)
- Vat
= Gross
- Agency Standard Commission
= Net
- Agency Backend Incentives
= Net Net

As defined by LH's headquarter, the **GGross** is the actual fare on the ticket. It takes the local value-added-tax(Vat/GST) into account, which is not done by **Gross**. **Net** revenue is the **Gross** revenue minus the agency standard

commissions for travel agents (in Portugal 0,5% on Net). **Net Net** revenue means the **Net** revenue less agency backend incentives.

“**Net Net with YQ**” is chosen in the calculation for the revenue share above to demonstrate the actual revenue for LH including the fuel surcharge YQ which is also calculated as revenue defined by the sales organization of LH in Portugal (source: LH internal data).

Exhibit 11 - Channel Yields 2015 of Lufthansa German Airlines in Portugal

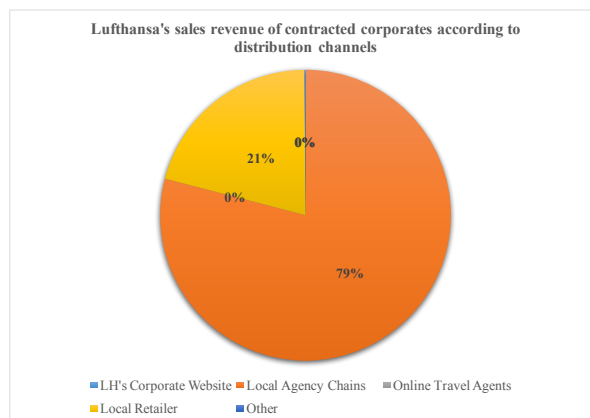
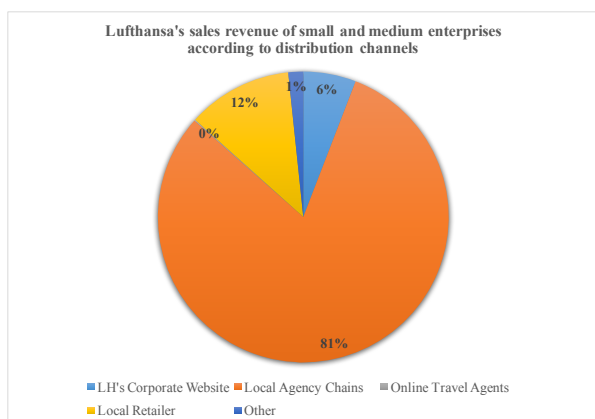
The table shows the calculation of the Yield (Net Net including YQ) according to LH's main channel in Portugal. It is evident that the local agency chains and local retailer score highest whereas Online Travel Agents are responsible for the lowest rate of revenue per passenger.

Type of Channel	PAX/CPN	Net Net incl. YQ	Net Net incl. YQ Yield
LH's Corporate Website	59.854	6.629.591	111
Local Agency Chains	206.253	33.997.339	165
Online Travel Agents	32.953	2.323.527	71
Local Retailer	90.061	12.784.331	142
Other	25.225	2.254.236	89
Grand Total	414.346	57.989.024	577

Exhibit 12 – Which of LH’s channels did corporate customers access in Portugal in 2015?

Corporate Customer Type	Channel Type	PAX/CPN	Net Net incl. YQ	NN incl. YQ Yield	Net (EUR)	NetNet (EUR)	Channel Share Net Net incl. YQ
SMEs	LH's Corporate Website	2.692	371.376	138	266.603	266.388	6%
	Local Agency Chains	27.639	5.107.634	185	4.171.146	4.038.421	81%
	Online Travel Agents	61	7.211	118	5.878	5.742	0%
	Local Retailer	4.825	740.569	153	557.547	543.216	12%
	Other	833	104.971	126	78.465	77.602	2%
Total (SME)		36.050	6.331.761	176	5.079.639	4.931.369	100%
Contracted Corporate	LH's Corporate Website	50	5.398	108	3.594	3.592	0%
	Local Agency Chains	31.987	7.517.480	235	6.309.586	6.081.541	79%
	Online Travel Agents	0	0	0	0	0	0%
	Local Retailer	9.983	1.983.946	199	1.616.564	1.577.833	21%
	Other	110	11.229	102	6.676	6.563	0%
Total (Contracted Corporates)		42.130	9.518.053	226	7.936.420	7.669.529	100%
Total all Corporates		78.180	15.849.814	203	13.016.059	12.600.898	

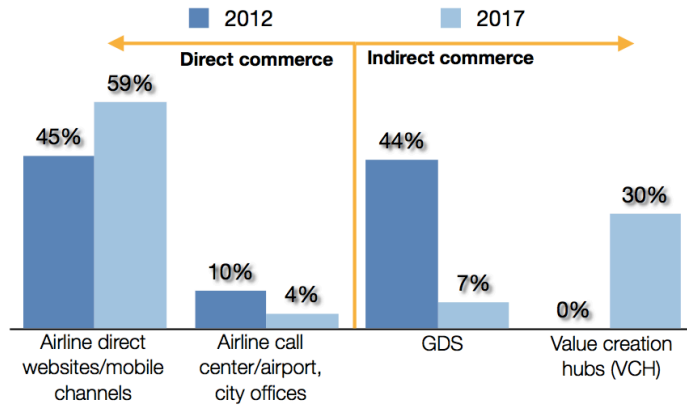
The above analysis gives answer to the question which channel the corporate customers use in order to purchase LH airline tickets and services. Therefore, the small and medium enterprises and the contracted corporates are analyzed separately.



Calculating the channel share based on the revenue (Net Net incl. YQ: 15.849.814 Euros) achieved for LH’s sales organization in Portugal it can be stated that most of the sales generated through both, SMEs and contracted corporates are achieved with the local agency chains, whereas there is almost none generated via Online Travel Agents. Even though 371.376 Euros are earned through SMEs in Portugal purchasing via LH’s corporate website LH.pt, this only represents 6% and in addition the site is not yet used by the contracted customers.

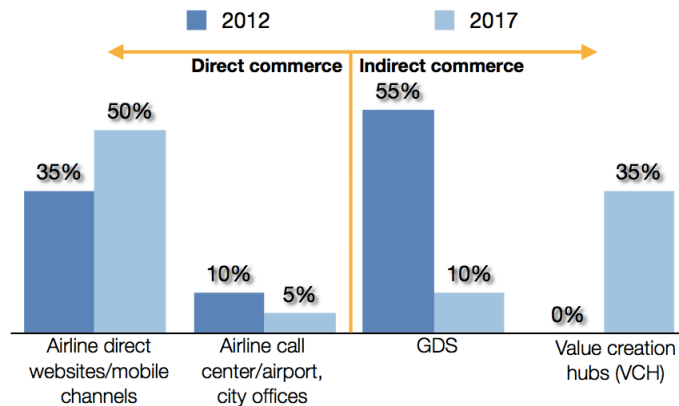
Exhibit 13 - Channel Share (Shift) Volume of 14 Network Airlines, Global vs LH Portugal

Global Channel Share Shift Volume, All Airlines, 2012-2017



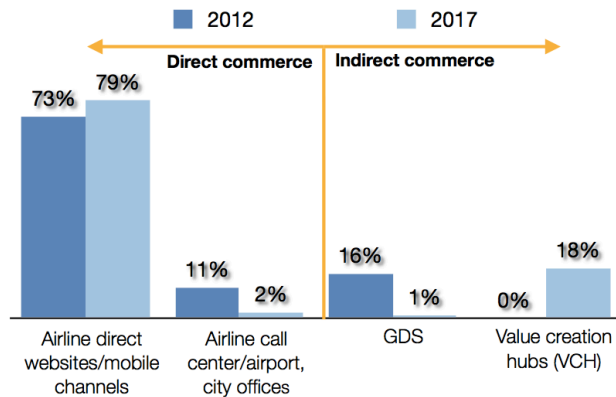
(numbers may not total 100 due to rounding)
 Base: 24 network/flag airlines and LCCs with revenues of US \$1 billion+
 Source: Atmosphere's Global Travel Industry Executive Online Survey, Q3 2012

Global Channel Share Shift Volume, Network/Flag Airlines, 2012-2017



(numbers may not total 100 due to rounding)
 Base: 14 network/flag airlines with revenues of US \$1 billion+
 Source: Atmosphere's Global Travel Industry Executive Online Survey, Q3 2012

Global Channel Share Shift Volume, LCCs, 2012-2017



(numbers may not total 100 due to rounding)
 Base: 10 LCCs with revenues of US \$1 billion+
 Source: Atmosphere's Global Travel Industry Executive Online Survey, Q3 2012

Exhibit 14 – Analysis of the share of continental and intercontinental flights according to the sales channels of LH’s sales organization in Portugal (2015)

Traffic Area	Channel Type	PAX/CPN	Net incl. YQ	Net incl. YQ Yield	NetNet	NN incl. YQ	NN incl. YQ Yield	Net Net incl YQ Channel Share
Continental Flights	LH's Corporate Website	42.763	3.323.926	78	2.314.530	3.321.074	78	12%
	Local Agency Chains	151.629	16.790.976	111	12.537.137	16.443.697	108	58%
	Online Travel Agents	27.780	1.507.718	54	1.070.690	1.482.484	53	5%
	Local Retailer	60.924	5.977.389	98	4.392.853	5.868.802	96	21%
	Other	16.961	1.361.340	80	1.167.288	1.344.580	79	5%
Continental Total		300.057	28.961.349	97	21.482.498	28.460.637	95	100%
Intercontinental Flights	LH's Corporate Website	17.091	3.309.946	194	2.003.943	3.308.517	194	11%
	Local Agency Chains	54.624	18.069.777	331	13.472.216	17.553.915	321	59%
	Online Travel Agents	5.173	852.829	165	504.701	841.043	163	3%
	Local Retailer	29.137	7.091.922	243	4.638.835	6.915.529	237	23%
	Other	8.264	919.446	111	722.208	909.383	110	3%
Intercontinental Total		114.289	30.243.920	265	21.341.903	29.528.055	258	100%
Grand Total		414.346	59.205.269	143	42.824.401	57.989.024	140	

Analyzing the share of continental and intercontinental flights according to the sales channels of LH’s sales organization three major findings are important.

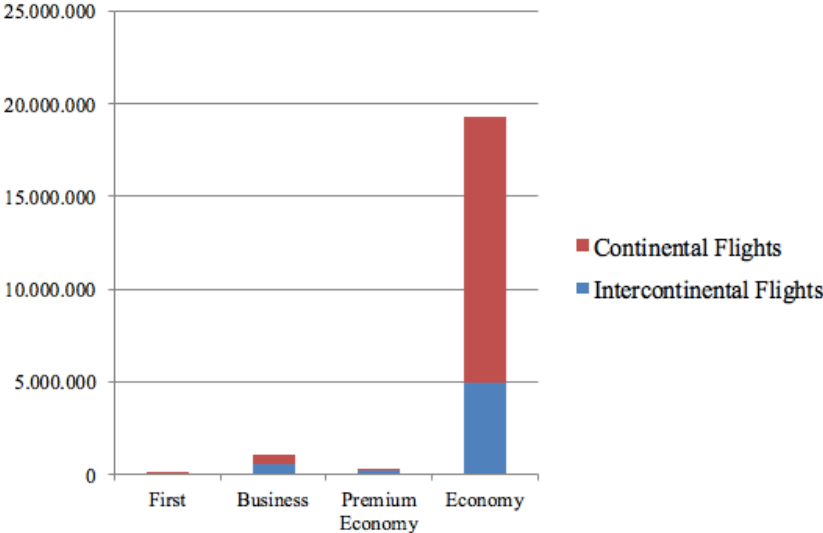
1. Even if intercontinental flights are undertaken by a relatively small amount of passengers, these passengers are responsible for slightly more Net Net Revenue. Therefore, it can be stated that LH is a passenger airline focusing on intercontinental travel.
2. Concerning the channel revenue share, there can be noted a slight shift and increase of local agency chains and retailers involved in the the booking process for intercontinental flights.
3. In order to maximize their revenue LH has to steer the local agents and retailers to sell more intercontinental flights to customers.



Exhibit 15 – Analysis of LH’s passenger airline classes according to intercontinental and continental flights

Booking class	PAX/CPN		NetNet incl. YQ (EUR)	
	Intercontinental	Continental	Intercontinental	Continental
First	21.077	4.346	38.501.185	2.156.159
Business	567.746	477.500	473.822.132	132.003.512
Premium Economy	207.385	75.478	73.628.701	5.042.772
Economy	4.924.156	14.369.076	852.766.206	1.214.444.728

Passenger Per Coupon



Net Net incl. YQ Revenue

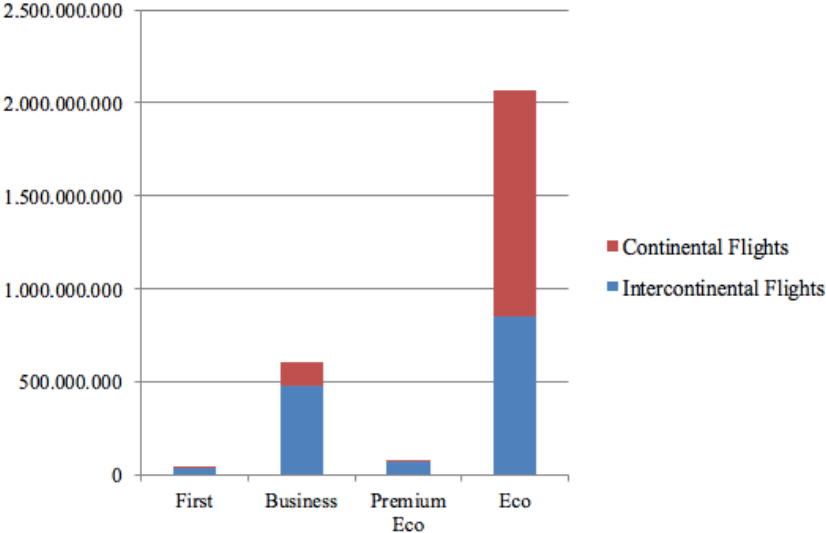


Exhibit 16 - Travel booking methods of customers and channels accessed

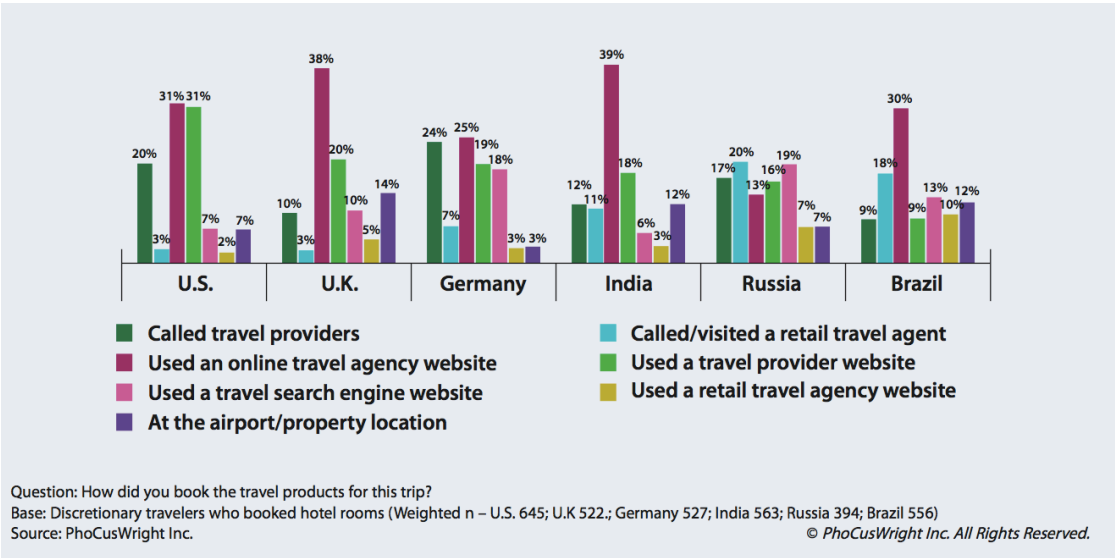


Exhibit 17- Estimated costs of LH's sales organization in Portugal

Estimated costs of LH's sales organization in Portugal				
Cost of materials			1.000,00 €	
Personnel costs	Basic remuneration/ salaries		400.000,00 €	
	Social Security Expenses		10.000,00 €	
	Variable salaries		15.000,00 €	
	Retirement Exp.		13.000,00 €	
Amortization and depreciation			3.000,00 €	
Other Expenses	Agent Standard commissions		239.651,00 €	
	Agent Backend Incentives		1.148.394,00 €	
	Sum other personnel related costs	3rd party employees		1.000,00 €
		Travel expenses		14.000,00 €
		Training expenses		- €
	Rent building real estate	Rent building		24.000,00 €
		Maintenance		2.000,00 €
		Maintenance EDP		24.000,00 €
	Other expenses	Marketing		59.000,00 €
		Public Relations		10.000,00 €
Audit, consulting & legal fees			8.000,00 €	
Total Expenses			1.972.045,00 €	

The table above provides an overview of the estimated costs of LH's sales organization in Portugal in 2015. It can be noted that agent standard commissions and agent backend incentive payments are the biggest cost driver of the sales organization.

Exhibit 18- Costs of agent standard commissions and agent backend incentives of LH's sales organization in Portugal in 2015

Given the total Net revenue and Net Net revenue sales of the local agency chains and local retailer, the agency standard commissions (0,5% on the Net Net) as well as the agency backend incentives can be calculated as followed.

Total Agent Commission and Fees (local agency chains)	
Gross Rev	34.881.609 €
- Agency Standard Commission (0,5% on Net Rev)	- 174.304 €
= Net Rev	34.860.753
- Agency Backend Incentives	- 863.414 €
= Net Net Rev	33.997.339

Total Agent Commission and Fees (local retailer)	
Gross Rev	13.072.099 €
- Agency Standard Commission (0,5% on Net Rev)	- 65.347 €
= Net Rev	13.069.311
- Agency Backend Incentives	- 284.980 €
= Net Net Rev	12.784.331

(OTAs are disregarded here, since the costs are dealt with by the headquarter)

Taken all these costs together this results in an amount of:

- **1.037.718 Euros** LH had to pay to **local agency chains** in form of agency backend incentives and agency standard commissions in Portugal in 2015
- **350.327 Euros** LH had to pay to **local retailer** in form of agency backend incentives and agency standard commissions in Portugal in 2015

Taken into account that there is no major change in the amount of ticket bookings undertaken by SMEs, LH can reduce its commission costs and fees for the GDS. The total amount saved through the direct connection and therefore purchasing via Lufthansa.pt will be:

1.388.045 Euros per year

Exhibit 19 – Estimation of GDS fees paid by LH’s sales organization in Portugal in 2015 according to each channel

Type of Channel	PAX/CPN	GDS Costs 2015
LH's Corporate Website	59.854	- €
Local Agency Chains	206.253	1.031.265 €
Online Travel Agents	32.953	- €
Local Retailer	90.061	450.305 €
Other	25.225	- €
Total	414.346	1.481.570 €

The costs of GDS can be calculated by multiplying the PAX/CPN with the 5 Euro fee LH has to pay for the reservation. Since the access is established via the indirect channel like local agency chains, local retailers and the OTAs, GDS costs exclusively occur here. Since OTAs are dealt with entirely by the headquarter of LH in Germany, their GDS costs will be disregarded in this analysis for LH’s sales and distribution organization in Portugal.

NOTE: This is an estimation and does not include the bookings that were cancelled in the end and passengers did not board the airplane. These additional costs will be disregarded in the work project due to the complexity of the data gathering.

Exhibit 20 – Gap Analysis Local agency chains / local retailer

Service Output	SOD	SOS	GAP
Information Provision	High	Medium	SOS<SOD
Customer Service	High	High	No Gap
Variety and Assortment	High	Medium	SOS<SOD
Delivery and waiting time	High	High	No Gap
Spatial Convenience	Medium	Medium	No Gap

Exhibit 21 – Gap Analysis Lufthansa German Airlines direct online channel

Service Output	SOD	SOS	GAP
Information Provision	High	Medium	SOS<SOD
Customer Service	Medium	Low	SOS<SOD
Variety and Assortment	High	High	No Gap
Delivery and waiting time	High	High	No Gap
Spatial Convenience	High	High	No Gap

Exhibit 22 – Gap Analysis Online Travel Agencies

Service Output	SOD	SOS	GAP
Information Provision	High	High	No Gap
Customer Service	Medium	Low	SOS<SOD
Variety and Assortment	High	Medium	SOS<SOD
Delivery and waiting time	High	High	No Gap
Spatial Convenience	Medium	Medium	No Gap

Exhibit 23 – Identified power sources in LH’s distribution channel in Portugal

The power sources evolve through a specialization in competences of every channel member leading to interdependency among these players for the overall success of the channel. As a matter of fact, maximizing the profit of the whole channel does not mean maximizing the profit of each channel member (Palmatier et al. 2015, 54). In this work project the term *power* will be used as defined by Palmatier as “the ability of one channel member (A) to get another channel member (B) to do something it otherwise would not have done.” (Palmatier et al. 2015, 54) While managing these power sources LH can solve conflicts in the channel and define the relationship of its members. In the best case scenario, the players work together in such a way that value is generated in the channel (“growing the pie”) and at the same time it is guaranteed that each member receives his fair share of that value (“dividing the pie”). (Palmatier et al. 2015, 54)

Power Source	Identified in LH Portugal’s Distribution Channel
Reward Power	The ability of a channel member to influence the behavior of another player through a rewarding system is called Reward power (Palmatier et al. 2015). LH offers a variety of incentives to its partners and the customers in order to influence them and control the sales. In a highly competitive market with products that are often perceived as substitutable this is of extraordinary importance. Concerning their indirect channel partners such as the local chains or retailers there are mainly two different ways of reward power. The headquarter sets the main framework but details can also be adapted to the Portuguese market by the local country manager by offering some additional benefits on the “service level agreement”. In general, agents are remunerated with an amount X if they have reached the agreed goals of sales. On the “service level agreement”, there are additional teasers that influence them to steer for LH. This includes the participation of marketing events such as <i>Abreu world</i> and so called <i>push actions</i> . The basic standard commission for travel agents in Portugal is 0.5%, which is very low compared to other markets such as Germany (XX%). Therefore, <i>push actions</i> have a strong effect on the sales since LH pays an over-commission beyond the 0.5% for a limited period of usually 2-3 months. In this way LH tries to steer the sales of the product they want or need to increase (e.g. intercontinental flights). Besides the standard commission LH pays 4.5% in economy, 9.5% in premium economy, 14.5% in business and 19.5% commission for seats sold in the first class ¹ . In these cases, communication needs to reach not only the management but also the counters who sell the tickets. Agents can pay for special warnings in the GDS reminding them on the push actions every time they check availability of LH flights.
	Expert Power implies that a channel member has a strong competence in its business area and very specialized knowledge that is not shared with the other partners (Palmatier

¹ This could mean, for a ticket sold in the first class with the cost of 8000 euros 20% is paid out to the agent or the retailer, which is very attractive. In 2015, 25 push actions we exercised, also within the LHG with Brussels Airlines or even within the American joint venture of United Airlines and Air Canada

Expert Power	<p>et al. 2015).</p> <p>LH has expert power due to its high experience and expertise in offering the air transportation service. As an extraordinary strong European airline with a network so strong, settled and implemented it is considered impossible for local travel agents, retailers or OTAs to stop selling their tickets. In Portugal LH is the foreign airline number one and is almost unavoidable for destinations on an international basis.</p> <p>However, also the local chains and retailer have expert power since their competence area of promoting travel, consult, advise and support end-customers before and during their journey is necessary for LH to sell their tickets. Especially in the Portuguese market where end-customers have less affinity to access the online channels the geographical reach and direct relationship and exchange of the local chains and retailers to the population is evident. LH could not manage all of them at the same time and depends on them.</p> <p>Furthermore, the so called Global Distribution Systems (GDS) have expert power since they offer a technological infrastructure that is not easily replicated without incurring in high costs. LH needs them as an automated platform to connect themselves with agents around the world.² The GDSs manage the content and customer data on a reliable basis and ensure the quality, integrity and real-time multichannel availability of the content. In order to guarantee an optimal relation between LHs channel members it is recommended that the information gathered on the processes and targets is shared by the partners. During the direct interaction channel partners should not force their knowledge on other members but rather educate and advise them.</p>
Referent Power	<p>A channel member has Referent Power when he is seen by others as a standard of reference who consequently want to be associated publicly with this member. They wish to be identified with him for example in search of prestige (Palmatier et al. 2015).</p> <p>LH is perceived as a premium brand with high quality and high security and service standards. The service on the ground (airport), in the air (aircraft) and everything in between is managed by trained and educated LH staff. To meet customer needs LH has to be part of the repertoire of channel and retail partners. They actually want to be known and identified with the brand and image LH represents since especially a major part of the business travelers demands the airline as first choice.</p>
Legitimate Power	<p>Legitimate Power describes the power source that emerges from the existence of a sense of obligation to fulfill the demands of another channel member. The target feels the duty to carry out the influencers interests because it is bound by legal, social or moral forces (Palmatier et al. 2015).</p> <p>Legitimate power in its traditional and legal form is exercised in the analyzed channel of LH Portugal. Since everything is arranged by signed contracts, LH and its channel partners have legal and moral obligations, and rights. All contracts and written arrangements LH has with third parties regulate each partner's appropriate claims, rights and demands. In order to correct situations of non-compliance legitimate power can be executed as coercive power.</p>
Coercive Power	<p>If a channel partner fails to meet the commitments, fails to achieve the results or actions that another channel partner had tried to influence him to pursue, the channel member will execute Coercive Power (Palmatier et al. 2015).</p> <p>LH mainly executes coercive power in two different forms. On the one hand, this is the case when agents or retailers do not fulfill their commitments in terms of GDS usage. The so called <i>shearing</i>, where a huge amount of reservations of LH seats are made which are cancelled in the end and do not result in bookings, are prohibited.³ If this is not accepted, after initial warnings, LH sends out agent debit memos (ADMs), which consist of a fee for the malpractice.</p> <p>On the other hand, when retailers fail to pay according to the arranged terms and deadlines coercive power is executed. As a consequence, LH stops the access to their ticket system via the GDS until the payments are settled. In all the cases there is a legal base (contracts) provided for the use of the Coercive Power, so the retailers may use</p>

² Amadeus reaches out to 219 markets with access to over 400,000 agents (Amadeus, 2013). This service is difficult to replicate in the next few years by using alternative distribution systems of LH.

³ Even if the the reservations do not result in bookings (issued tickets) LH has to pay 4.5 Euros per person per segment to the GDS, which results in very high fees for them. Agents on the other hand receive commissions for every seat *reserved* via the GDS even though they will not be sold in the end.

	coercive power in case of non-compliance with the agreed terms of the contract from their side as well.
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Exhibit 24 – Conflict Analysis according to Palmatiers Conflict Template

Channel conflicts can emerge if the behavior of a channel member is in opposition to the interests or expectations of another channel correspondent. (Palmatier et al. 2015) In the following conflict analysis the current channel conflicts of LH’s distribution channel members in Portugal are identified.

Conflict Type	Identified in LH Portugal’s Distribution Channel
<p>The latent conflict arises in channel because every member is trying to reach its own targets, retain their autonomy or compete for limited resources. In general, it is present in the vast majority of channels causing a collision of interests from the different partners (Palmatier et al. 2015, 37).</p>	<p>In the analyzed channel of LH Portugal we find agents and retailers who want to maximize their profits and margins and LH who strives for increasing the passenger income. The conflicts manifests in negotiations of LH with the agents and retailers for being the prioritized airline in their offer or lower ticket prices. In addition, LH wants to be positioned and promoted adequately and more effectively than their competitors which leads to this conflict becoming the norm.</p>
<p>In opposition to the latent conflict a perceived conflict emerges in a situation when a channel member suspects opposition from one or more partners regarding viewpoints, interests and intentions (Palmatier et al. 2015, 37).</p>	<p>In the relation to the GDSs, LH Portugal faces this conflict. Since the GDS pays out commissions to agents and retailers by making reservations over the online system for tickets. The airline has to pay 5 Euros per person and per segment to the GDSs for bookings even if they do not result in the issuing of a ticket but are cancelled in the end. Furthermore, in relation to the local agency chains they offer a variety of different airline brands. Therefore, they might receive higher commissions selling competitor tickets such as Emirates. Nevertheless, the perceived conflict is characterized as a normal and an almost preferable state in sales channels without emotions.</p>
<p>The felt (or affective) Conflict arises through the interference of negative emotions in the channel. Channel members begin to personalize tensions (Palmatier et al. 2015, 37).</p>	<p>This conflict has been identified in LHs distribution channels in Portugal in terms of the agency’s fear of LH promoting its online channels to customers. In addition, LH attempt of disintermediation and direct approach of business customers has resulted in a negative response by agents and retailers.</p>
<p>If not managed correctly a felt conflict can intensify to a manifest conflict which can lead to channel members hindering or blocking each other openly. If a channel member does not comply with pre-arranged terms, a manifest conflict might arise (Palmatier et al. 2015, 37).</p>	<p>In the case of LHs distribution channel the passenger airline took the industry by surprise when it announced a GDS fee on June 2, two days after the expiry of a full-content agreement with main GDS partner Amadeus. The 16 Euros charge was applied in the Portuguese market among others</p>

	<p>and on all LHG airlines – including Swiss, Austrian Airlines and Brussels Airlines – in September 2015. LH’s CEO Carsten Spohr commented on this: “We thought it time to act, not just talk. Let’s save some money on the GDS” (Taylor 2015, 145). However, this was considered an attempt to force a new model on travel agents and buyers. For it to work, LH must hope agents and customers accept the fee or book directly on <i>Lufthansa.pt</i>. For now, no other airline has followed on this.</p>
<p>In contrast to the general perception of conflicts being only negative and destructive, functional conflict is a type of conflict characterized by its positive outcome for the system. The channel members know and understand each other’s role and stand points in the system and communicate on regular basis (Palmatier et al. 2015, 37).</p>	<p>Especially in the case of information exchange with local agency chains and retailers, this conflict arises in LH’s distribution channel. Both channel members could establish a relationship in which the regular exchange of information from an airline service supplier and a retailer’s perspective can benefit the two. Unfortunately, this sharing of information is not yet as effective as it could be.</p>

Exhibit 25 – Estimation of GDS costs and agency commission fees that occur through the booking of SMEs via the local agency chains in Portugal

Corporate Customer Type	Channel Type	PAX/CPN	Net (EUR)	NetNet (EUR)
SMEs	LH's Corporate Website	2.692	266.603	266.388
	Local Agency Chains	27.639	4.171.146	4.038.421
	Online Travel Agents	61	5.878	5.742
	Local Retailer	4.825	557.547	543.216
	Other	833	78.465	77.602

(Based on booking data from 2015)

Given the Pax/Cpn, Net revenue and Net Net revenue of SMEs who purchased their tickets via the local agency chains or retailers, the agency standard commissions (0,5% on the Net Net) as well as the agency backend incentives can be calculated as followed.

In addition to that the GDS charges 5 Euros per Passenger per Coupon (Pax/Cpn).

Comission and Fees (SMEs book via local agency chains)	
Gross Rev	4.192.002 €
- Agency Standard Comission (0,5% on Net Rev)	- 20.856 €
= Net Rev	4.171.146 €
- Agency Backend Incentives	- 132.725 €
= Net Net Rev	4.038.421 €
GDS Fees (5 Euros per PAX/CPN)	138.195 €

Comission and Fees (SMEs book via local retailer)	
Gross Rev	560.335 €
- Agency Standard Comission (0,5% on Net Rev)	- 2.788 €
= Net Rev	557.547 €
- Agency Backend Incentives	- 14.331 €
= Net Net Rev	543.216 €
GDS Fees (5 Euros per PAX/CPN)	24.125 €

(OTAs are disregarded here, since the costs are dealt with by the headquarter)

Taken all these costs together this results in a total amount of:

- **291.776 Euros** LH had to pay to intermediaries (GDS and agent) when the SMEs booked their tickets via the **local agency chains** in Portugal in 2015
- **41.244 Euros** LH had to pay to intermediaries (GDS and agent) when the SMEs booked their tickets via the **local retailer** in Portugal in 2015

Taken into account that there is no major change in the amount of ticket bookings undertaken by SMEs, LH can reduce its commission costs and fees for the GDS. The total amount saved through the direct connection and therefore purchasing via Lufthansa.pt will be:

333.020 Euros per year.