Terms of reference and conduct of the inquiry

Terms of reference

1. On 2 March 2011 the OFT sent the following reference to the CC:

    1. In exercise of its duty under section 33(1) of the Enterprise Act 2002 ('the Act') to make a reference to the Competition Commission ('the CC') in relation to an anticipated merger the Office of Fair Trading ('the OFT') believes that it is or may be the case that—

        (a) arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation in that:

            (i) enterprises carried on by or under the control of Thomas Cook Group plc will cease to be distinct from enterprises carried on by or under the control of the Co-operative Group Limited and from enterprises carried on by or under the control of the Midlands Co-operative Society Limited; and

            (ii) the value of the turnover in the UK of the enterprises being taken over exceeds £70 million; and

        (b) the creation of that situation may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services, including the distribution of holidays, including package and independent holidays, via bricks-and-mortar travel agencies in the UK and the distribution of package holidays only via all distribution channels or via bricks-and-mortar travel agencies separately in the UK.

    2. Therefore, in exercise of its duty under section 33(1) of the Act, the OFT hereby refers to the CC, for investigation and report within a period ending on 16 August 2011, on the following questions in accordance with section 36(1) of the Act—

        (a) whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation; and

        (b) if so, whether the creation of that situation may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services.

    3. In relation to the question whether a relevant merger situation will be created, the CC shall exclude from consideration one of the subsections (1) and (2) of section 23 of the Act if they find that the other is satisfied.

    (signed) SHELDON MILLS
    Director, Mergers, Office of Fair Trading
    2 March 2011

Conduct of the inquiry

2. On 3 March 2011, we posted on our website an invitation to comment on the proposed merger. The administrative timetable for our inquiry was published on 11 April 2011 and the website also contains biographies of the members of the Group conducting the inquiry.

3. We invited a wide range of interested third parties to comment on the proposed merger including travel agents, tour operators, buying groups, Internet holiday providers, airlines, foreign currency exchange outlets, industry federations and trade associations. We held hearings with seven third parties and also gathered information through further written requests.

4. Non-confidential submissions from third parties and summaries of hearings can be found on our website.

5. We commissioned Accent to carry out a survey of customers of all three parties to the joint venture who had purchased a package holiday in the last 12 months. The survey results are published on the CC website.

6. On 28 April 2011, we published an issues statement on our website, setting out the areas of concern on which the inquiry would focus.

7. We received written evidence from Thomas Cook, CGL and Midlands, and a non-confidential version of their joint main submission is on our website. We also held hearings with Thomas Cook, CGL and Midlands on 1 June 2011 in joint and separate sessions.

8. In the course of our inquiry, we sent to Thomas Cook, CGL and Midlands some working papers for comment.

9. A non-confidential version of the provisional findings report was placed on the CC website on 21 July 2011. We also published non-confidential versions of responses from the main parties and a tour operator.

10. The Group decided that there was a need to extend the reference period in order to allow sufficient time to take full account of any comments it might have received in response to its provisional findings. On 27 July, it announced that it had used its power under section 39(3) of the Act to extend the period in which the final report could be prepared and published to 11 October. It also published a revised administrative timetable that aimed to publish the final report by mid-August.

11. Our final report was published on our website on 16 August 2011: www.competition-commission.org.uk/inquiries/ref2011/thomas_cook_co_op_travel_agency_joint_venture/index.htm.

12. We would like to thank all those who have assisted in our inquiry.

Quantitative analysis in relation to the horizontal theories of harm

Introduction

1. This appendix provides further explanation and results of the quantitative analysis relevant to the assessment of the horizontal theories of harm.

2. We first summarize the data used in our analysis. We then explain the approach taken to the definition of catchment areas and how this is used in our analyses. We then set out the work done exploring the relationship between the local retail offer and the presence of other travel agents in the local area, in particular the extent to which discounts are driven by local competition. Finally, we set out other work used in the assessment of the horizontal theories of harm. This work included the survey of customer behaviour and preferences, the estimation of diversion ratios and the analysis of retail margins. For each piece of work undertaken, we explain what data we used, describe the approach we took and give our main findings.

Data

3. The parties provided a considerable amount of data, some of which was 'off-the-shelf' material and some was compiled at our request for the purposes of this inquiry. We summarize below only the information that we used in our assessment of the horizontal theories of harm.

4. All the parties provided monthly and annual store level data for the last five financial years. In particular:

   (a) average discounts, average margins and average revenue in the sale of overseas package holidays. All parties provided this information separately for traditional and dynamic package holidays and a further breakdown for traditional overseas packages by short-haul and long-haul beach, cruise, ski and city break holidays; and

   (b) staff costs, property costs, shop floor area, rent per square metre and opening hours.

5. Thomas Cook also provided the following:

   (a) Store level data on the reasons for which discounts were given for the period June 2010 to March 2011. Thomas Cook provided data for before this period but it was not as informative with the majority of discounts allocated to 'other'. We were also advised that similar data provided by Midlands was not reliable. CGL did not record such information.

   (b) Results of its online monthly survey of customers who had booked holidays or made enquiries at a Thomas Cook store. The survey asks customer to rate various aspects of the retail offer and environment. This survey was started in January 2011. This data has been referred to as pPQRS data, ie data on customer perceptions of Thomas Cook's Price, Quality, Range and Service offer.

6. Thomas Cook provided a database of around 4,000 travel agents in the UK in March 2011. For each travel agent, we have the name, address, postcode and geocode. In addition to this, the database identifies:

(a) all Thomas Cook, CGL, Midlands or TUI branded stores;

(b) stores operated under a CGL-managed service agreement or by another co-operative society;

(c) for all other stores, the name of the store (or fascia name) to be used in counting the number of competitors in an area; and

(d) which stores are members of a buying group (or consortium).

7. Oxera provided further information which allowed us to identify whether a store is part of a chain or an independent.

8. Thomas Cook also provided databases of the opening and closure of Thomas Cook, CGL and Midlands stores since January 2006 and the opening and closure of third party stores in the 12-month period from October 2008 to September 2009.

9. We constructed data on the local demographic characteristics and other control variables using the Office for National Statistics (ONS) and other public sources, and measures of competition and local market characteristics for each joint venture store.

Definition and assessment of catchment areas

10. We used catchment areas in a number of ways in our analysis. We used catchment areas to identify local areas where the joint venture parties overlap to help inform our approach to evidence gathering and assessment. We also used it as an input to constructing variables for use in our other analyses (for example, our econometrics work). In the case of the consumer survey, we used catchment work conducted by Oxera as part of our framework for identifying relevant areas.

11. We recognized that had we come to a view that the creation of the joint venture may be expected to result in an SLC (either in certain local areas or at a national level), this work would have been an important input, together with the results of other work that would measure competitive constraints, in identifying in which areas a significant reduction in rivalry would occur.

Overall approach to identifying overlaps

12. Our first step was to identify for each of the joint venture stores the size of the geographic area from which they drew a large percentage of their customers for overseas package holidays. We looked at the distance that customers travel to stores and defined the catchment area for each store as the area within which 80 per cent of customers live.

13. We considered catchment areas defined by the percentage of package bookings and revenue. We also looked at the distribution of sales analysed by the size of the store and, for Thomas Cook only, by the type of location of the store (eg whether the store was located on a high street or in a shopping centre).

14. We then identified local areas of overlap. We did this by identifying all areas where there is a Thomas Cook store located within the catchment area of a CGL or Midlands store or vice versa. This we referred to as store-centred analysis. We also identified areas where there is currently a Thomas Cook and CGL and/or Midlands store within 5 miles of centres of population. This we referred to as population-centred analysis.

Data

15. For each of the joint venture parties, we used a database of package holiday bookings for the 12 months to March 2011. For Thomas Cook and CGL, we used only data on overseas package holidays. For Midlands, we were not able to exclude domestic package holiday bookings.

16. The databases for all parties included customers who had booked with a store by telephone. For Thomas Cook, we were able to identity and remove these bookings from the data used to define catchment areas. We were not able to do so for Midlands and CGL bookings.

17. For each booking, we used information on the customer's home address postcode and total price of the holiday after any discounts.

18. For Thomas Cook, we also used a database categorizing stores by type of location: central London, city centre, London suburb, major city centre, resort, retail park, shopping mall, supermarket, suburb, suburban shopping and town centre.

Catchment area size

19. We defined catchment areas for each individual joint venture store by identifying the radius of a circle that would capture 80 per cent of their overseas package holiday in-store sales[1] based on the distance between each customer's home and the store.

20. For CGL and Midlands, we also calculated a radius using information on all bookings across all stores. This approach suggested an average catchment area radius for CGL and Midlands stores of 5 miles. For Thomas Cook, we also calculated catchment areas for each store location type. For Thomas Cook, the smallest radius was 3 miles for suburban shops and the largest (excluding central London stores) was 17 miles for supermarkets. For TUI-centred analysis, we used a catchment area radius of 7 miles.

TABLE 1 **Diversion ratios between joint venture parties in response to store closure**

Radius (miles)	*Store type*
3	Suburb
4	London suburb
6	Suburban shopping centre
6.5	Town centre
7	Resort
8	Retail park
10	City centre / major city centre
11	Shopping mall
17	Supermarket
42	Central London

Source: CC analysis of Thomas Cook and Oxera data.

21. We looked at the sensitivities:

    (a) to defining catchment areas based on the number of bookings—generally these results suggested smaller catchment areas; and

[1] Also including domestic package holidays for Midlands, as mentioned above.

(b) to defining the catchment area to capture 85 or 90 per cent of revenue—the results showed that this would result in a substantial increase in the size of the catchment area. This suggested to us that an 80 per cent cut-off was reasonable.

Population centring

22. As discussed in the CC's retail commentary,[2] authorities have rerun a catchment analysis recentring around the stores of a third party and in certain cases on population centres where information has been available.

23. In this case, we also considered recentring on populations. There are two reasons for this: first, the evidence from our survey on the proportion of customers for whom the store at which they booked a holiday was close to their home; and second, given the prevalence of discounts negotiated by customers when making enquiries or booking a package holiday and the possibility that their ability to do so may depend on the presence of other travel agents close to their homes.

24. We considered an approach to identifying centres of population which would potentially face a reduction in competition as a result of the joint venture. To do this, we used census output areas data. Output areas are the smallest areas for which census data is reported with the UK divided into 223,060 output areas. They comprise clusters of adjacent postcodes and are designed to have similar population sizes and be as socially homogenous as possible (based on tenure of household and dwelling type). The minimum output area size is 40 households for England, Wales and Northern Ireland, and 20 households for Scotland.

25. Our approach was to first identify all output areas where there was a Thomas Cook and CGL and/or Midlands store within 5 miles. For people living in these output areas, the merger would result in a reduction in the number of local competing travel agents. Given the very large number of output areas, we then grouped together all areas which had identical competitor sets. Finally, using Census 2001 data we could sum the population across those output areas with the same competitor set.

Data on overlap areas

26. When using our catchment analysis as an input to constructing variables for use in our other analyses, it was important to have information on the competitive conditions within the overlap areas identified by the catchment analysis.

27. For each of these local overlap areas, we extracted the following information on the travel agents present:

(a) the number of fascias and the number of stores per fascia; and

(b) the type of store, for example whether the stores were owned by TUI, other chains or independents and whether the owners were members of a buying group.

28. For overlap areas, we also had the information to take into account the distance of rival stores from the joint venture stores, population within the catchment area and the revenue from the sale of package holidays by joint venture stores in the catchment area.

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[2] Joint CC and OFT Commentary on retail mergers, March 2011, paragraph 28.

Assessment of the relationship between store level retail offer and local competition

29. We investigated the extent to which price and non-price aspects of the retail offer for package holidays are driven by local competition.

30. In this market, defining an average price is difficult because of the variation in the products sold to the consumer (for example, the different destinations and types and quality of accommodation and variation in the elements that can make up a package). For the econometric analysis, we therefore used discounts received by the customer on the price set by the tour operator as a measure of price.

31. We investigated whether the local competition faced by joint venture stores from other travel agents had had an effect on the average discounts given on the sale of package holidays. In doing so, we looked separately at different types of holidays. We carried out three pieces of work:

    (a) an analysis of Thomas Cook data on the reasons why discounts are given in-store for direct evidence of the extent to which discounts are driven by local competition;

    (b) regression analysis using an instrumental variable approach to estimate the effects of local competition from a rival store of a given type on a joint venture store's average discount and, for Thomas Cook stores, on certain categories of discount holding all else equal; and

    (c) a difference-in-difference methodology to estimate the effect of the opening or closure of a Thomas Cook store on the average discounts offered by CGL or Midlands stores in the local area and vice versa.

32. The available information on non-price aspects of the retail offer of the joint venture stores was not specific to the sale of package holidays. We looked at the relationship between local area competition and the floor area of the joint venture stores and the pPQRS scores achieved by Thomas Cook stores. We were advised by the parties that there was not much variation across stores or over time in opening hours.

33. Further information on this analysis is provided below.

Analysis of Thomas Cook discount data

34. Thomas Cook provided monthly store level data on discounts given on all bookings of overseas package holidays for 788 stores since 2006. We focused on the information relating to discounts given for bookings made from June 2010 to March 2011.

35. For this period discounts were allocated to eight 'reason codes' including the non-discounted code, the main ones being cruise, other bookings (ie non-cruise holidays), and price match. For each of these reasons, there are a number of sub-reason codes. Of particular interest to us were:

    (a) discounts that were determined locally, albeit within centrally determined parameters—the discounts allocated to the sub-reason codes 'close the sale' and 'manager's discretion'; and

    (b) discounts given to match prices available on the Internet or from other travel agents.

Description of the data

36. The data was provided in both aggregated and disaggregated formats. The disaggregated format distinguishes all discount reasons and sub-reasons by cruise and non-cruise holidays. The aggregated format does not identify the discounts by sub-reasons or holiday category (ie cruise and non-cruise).

37. The disaggregated data contains monthly data for each store on discounts by travel category. For each reason code it provides:

    (a) the number of discounted travel bookings by sub-reason code;

    (b) the total value of sales receiving a discount allocated to each sub-reason code (labelled 'travel sales');

    (c) the total value of the discounts allocated to each sub-reason code (labelled 'discount value'); and

    (d) the total value of these discounts as a percentage of the value of the sales. (labelled as 'discount value %').

38. This disaggregated data contained duplicated observations as some bookings were reported more than once when more than one discount reason was applied to the same sale, for example if one reason was 'sport' and another was 'price match'. We could not therefore investigate the value of discounts as a percentage of total sales by sub-reason code. We could estimate the frequency of discounting, the value of the discounts and the discount value as a percentage of the total discount value by sub-reason code.

39. We found it necessary to do some 'cleaning' of the disaggregated data. In particular, we dropped observations that reported a negative discount value (all allocated to the 'blank reason' code), or had a zero discount value and a non-zero percentage discount.

40. The 'ready to work' data set contained 95,893 observations, of which [✂] per cent recorded a discount and [✂] per cent were not discounted. The total number of discounts given was [✂], of which [✂] per cent were given to non-cruise overseas package holidays and [✂] per cent to cruise overseas package holidays.

Results

41. We estimated Thomas Cook total sales of overseas package holidays from June 2010 to March 2011 to be £[✂], of which almost £[✂] were discounted sales and the rest were non-discounted sales. On average, [✂] per cent of overseas package holiday bookings were discounted. The total value of all discounts given in the ten months June 2010 to March 2011 was £[✂].

42. We also looked at the average discounts across all stores by cruise and non-cruise holidays, [✂] per cent of all discounts were given to 'cruise' and [✂] per cent to 'non-cruise' overseas package holidays. The average discount on a 'cruise' holiday was [✂] per cent compared with [✂] per cent on a 'non-cruise' holiday.

Analysis of discounts by reason code

43. Table 2 shows the value of discounts by reason code. It shows that between June 2010 and March 2011 the largest reason codes in terms of the total value of the discounts given were: 'price match' accounting for [✂] per cent of total discount value, 'other bookings' [✂] per cent, and 'cruise' [✂] per cent. Altogether these accounted for [✂] per cent of the total value of discounts applied to all overseas package holidays.

TABLE 2 **Discount value by reason code, Thomas Cook, all bookings, June 2010 to March 2011**

Discount reason	*Discount value £m*	*% of total value of all discounts*
Blank reason code	[✂]	[✂]
Cruise	[✂]	[✂]
Marketing	[✂]	[✂]
Other bookings	[✂]	[✂]
Other discounts	[✂]	[✂]
Price match	[✂]	[✂]
Sport	[✂]	[✂]
Staff	[✂]	[✂]
Total	[✂]	[✂]

Source: CC analysis of Thomas Cook data.

44. The average discount on discounted sales, across all stores and all discount reasons was [✂] per cent. The second column of Table 3 indicates that the average discounts were for 'cruise'—[✂] per cent, 'price match'—[✂] per cent and 'other bookings'—[✂] per cent.

TABLE 3 **Average discounts by discount reason code, Thomas Cook, all bookings , June 2010 to March 2011**

Discount reason	*Frequency*	*Average %*	*Std dev*	*Min*	*Max*
Blank reason code	[✂]	[✂]	[✂]	[✂]	[✂]
Cruise	[✂]	[✂]	[✂]	[✂]	[✂]
Marketing	[✂]	[✂]	[✂]	[✂]	[✂]
Other bookings	[✂]	[✂]	[✂]	[✂]	[✂]
Other discounts	[✂]	[✂]	[✂]	[✂]	[✂]
Price match	[✂]	[✂]	[✂]	[✂]	[✂]
Sport	[✂]	[✂]	[✂]	[✂]	[✂]
Staff	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Thomas Cook data.

Analysis of discounts by sub-reason code

45. Table 4 shows the results for the 'price match' reason code. Discounts to match Internet prices accounted for [✂] per cent of all discounts allocated to the price match codes and [✂] per cent of the total discount value. These include 'tc dotcom', 'direct holidays' and '3rd party dotcom'. Discounts to match 'bricks-and-mortar' prices accounted for [✂] per cent of discounts allocated to match price codes and [5–10] per cent of the total discount value. These include the 'high street agent' and 'independent agent' sub-codes.

46. Comparing the frequency and value of discounts allocated to 'high street' agents and 'independent agents', we see that discounts were more frequently allocated to matching prices offered by travel agency chains than independent agents. Thomas Cook said that the allocation of discounts between these sub-codes may be unreliable.

TABLE 4 **Discounts by sub-reason code within 'Price Match' discount reason code, Thomas Cook, all bookings, June 2010 to March 2011**

All overseas package holidays

Price match	*N*	*Relative frequency as % of 'price match'*	*Relative frequency as % of all discounts*	*Discount value as % of total discount value*	*Discount as % of the sale*
Thomas Cook dotcom	[✂]	[✂]	[✂]	[✂]	[✂]
High street agent	[✂]	[✂]	[✂]	[✂]	[✂]
Third party dotcom	[✂]	[✂]	[✂]	[✂]	[✂]
Independent agent	[✂]	[✂]	[✂]	[✂]	[✂]
Direct holidays	[✂]	[✂]	[✂]	[✂]	[✂]
Cruise agent	[✂]	[✂]	[✂]	[✂]	[✂]
Close the sale	[✂]	[✂]	[✂]	[✂]	[✂]
Amending booking	[✂]	[✂]	[✂]	[✂]	[✂]
Campaign/discount	[✂]	[✂]	[✂]	[✂]	[✂]
Essential discount	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Thomas Cook data.

47. The results for the 'other bookings' reason code are shown in Table 5. The 'close the sale' sub-reason code was the most frequently applied accounting for [✂] per cent of discounts allocated to the 'other bookings' code. It also accounted for [✂] per cent of the total value of all discounts. The 'manager's discretion' sub-reason code accounted for [✂] per cent of the discounts allocated to 'other bookings' and [✂] per cent of the total value of the discounts.

TABLE 5 **Discounts by sub-reason code within 'other bookings' discount reason, Thomas Cook, all bookings, June 2010 to March 2011**

All overseas package holidays

Other bookings	*N*	*Relative frequency as % of 'other bookings'*	*Relative frequency as % of all discounts*	*Discount value as % of total discount value*	*Discount as % of the sale*
Close the sale	[✂]	[✂]	[✂]	[✂]	[✂]
Campaign/discount	[✂]	[✂]	[✂]	[✂]	[✂]
Amending booking	[✂]	[✂]	[✂]	[✂]	[✂]
Loyal customer	[✂]	[✂]	[✂]	[✂]	[✂]
Manager's discretion	[✂]	[✂]	[✂]	[✂]	[✂]
Essential discount	[✂]	[✂]	[✂]	[✂]	[✂]
Insurance discount	[✂]	[✂]	[✂]	[✂]	[✂]
Other discounts	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Thomas Cook data.

48. The results for the 'cruise' reason code are shown in Table 6. Again, 'close the sale' was the most frequently applied code accounting for [✂] per cent of the discounts allocated to the 'cruise' reason code and [✂] per cent of the total value of discounts. The 'manager's discretion' sub-reason code accounted for [✂] per cent of all discounts allocated to the 'cruise' reason code, but in value represented only [✂] per cent of the total discount value.

TABLE 6 **Discount by sub-reason code within 'Cruise' discount reason, Thomas Cook, all bookings, June 2010 to March 2011**

All overseas package holidays

Cruise	*N*	*Relative frequency as % of 'cruise'*	*Relative frequency as % of all discounts*	*Discount value as % of total discount value*	*Discount as % of the sale*
Close the sale	[✂]	[✂]	[✂]	[✂]	[✂]
Campaign/discount	[✂]	[✂]	[✂]	[✂]	[✂]
Choose to cruise	[✂]	[✂]	[✂]	[✂]	[✂]
Loyal customer	[✂]	[✂]	[✂]	[✂]	[✂]
Manager's discretion	[✂]	[✂]	[✂]	[✂]	[✂]
Cruise event	[✂]	[✂]	[✂]	[✂]	[✂]
Amending booking	[✂]	[✂]	[✂]	[✂]	[✂]
3rd party dotcom	[✂]	[✂]	[✂]	[✂]	[✂]
Cruise agent	[✂]	[✂]	[✂]	[✂]	[✂]
Insurance discount	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Thomas cook data.

49. Aggregating the sub-reason codes across the three reason codes, the most frequently applied sub-reason code and the largest in terms of total discount value was 'close the sale', accounting for [✂] per cent of the discounts given and [✂] per cent of the total discount value.

50. We carried out further analysis for four categories of sub-reason code we constructed as follows:

(a) Local decision: we included in this category the discounts allocated to 'close the sale' and 'manager's discretion' sub-reason codes. These are discounts that allow for some discretion being exercised at a local level.

(b) Local price match: we included in this category discounts given to price match local competitive constraints ie 'price match high street agent' and 'price match independent agent'.

(c) Internet own: we included in this category discounts to match prices offered by Thomas Cook online, ie 'price match tc dotcom' and 'price match direct holidays'.

(d) Internet third party: we included in this category discounts to match prices offered by other online retailers of package holidays.

51. Figure 1 shows the average discount on discounted sales in these CC categories. [✂]

FIGURE 1

Average discounts by CC category, Thomas Cook, all bookings, June 2010 to March 2011

[✂]

Source: CC analysis of Thomas Cook data.

52. Table 7 shows the results for each of these CC categories on the frequency of discounts given and total discount value. The row 'Internet (all)' is the sum of Internet (own) and Internet (third party).

TABLE 7 **Frequency and total discount value by CC category, Thomas Cook, all bookings, June 2010 to March 2011**

Discount category	*Frequency*	*Relative frequency %*	*Value of discount £*	*Discount value as % of total discount value*
Local decisions	[✂]	[✂]	[✂]	[✂]
Local price match	[✂]	[✂]	[✂]	[✂]
Internet (own)	[✂]	[✂]	[✂]	[✂]
Internet (third party)	[✂]	[✂]	[✂]	[✂]
Internet (all)	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Thomas Cook data.

53. Finally, we looked at the variation within and between stores using an analysis of the components of variance for: all discounts; discounts by reason code and sub-reason code; and discounts by our discount categories (ie local decision, local price match, Internet own and Internet third party). We calculated for each discounted booking the relevant discount as a percentage of the value of the sale. The results are reported in Table 8.

TABLE 8 **Analysis of components of variance of discounts by reason and sub-reason codes, Thomas Cook, all bookings, June 2010 to March 2011**

	Estimated standard deviation	
	Between stores	*Within stores*
All stores	[✂]	[✂]
By reason code:		
Price match	[✂]	[✂]
Other bookings	[✂]	[✂]
Cruise	[✂]	[✂]
By sub-reason code:		
Other bookings and cruise:		
Close the sale	[✂]	[✂]
Manager's discretion	[✂]	[✂]
Price match:		
High street agent	[✂]	[✂]
Independent agent	[✂]	[✂]
TC dotcom	[✂]	[✂]
Third party dotcom	[✂]	[✂]

Source: CC analysis of Thomas Cook data.

54. We found:

(a) greater variation in discounts within stores than between stores;

(b) greater variation between stores for the discounts allocated to the 'other bookings' reason code than for the discounts allocated to the 'cruise' and 'price match' reason codes;

(c) the 'independent agent price match' and 'manager's discretion' sub-reason codes showed the highest variation between stores. The estimated standard deviation within stores for these codes is also the highest among sub-reason codes; and

(d) the 'close the sale' and 'high-street price match' sub-reason codes also showed higher than average variation between stores.

55. Figure 2 gives the distribution of the percentage discount by sub-reason code for all discounted bookings. The 'direct holidays', 'independent agent' and 'manager's discretion' codes show the greatest variation.

FIGURE 2

Distribution of percentage discount by sub-reason code, all bookings, Thomas Cook, June 2010 to March 2011

[✂]

Note: [✂].
Source: CC analysis of Thomas Cook data.

56. Figures 3a to 3e give the distribution of the average discount allocated by each Thomas Cook store to certain sub-reason code expressed as a percentage of the total value of sales of the store.

FIGURE 3a

Distribution of store average discount by sub-reason code as a percentage of total sales, all stores, Thomas Cook, June 2010 to March 2011

[✂]

Source: CC analysis of Thomas Cook data.

FIGURE 3b

Distribution of store average discount by sub-reason code as a percentage of total sales, all stores, Thomas Cook, June 2010 to March 2011

[✂]

Source: CC analysis of Thomas Cook data.

FIGURE 3c

Distribution of store average discount by sub-reason code as a percentage of total sales, all stores, Thomas Cook, June 2010 to March 2011

[✂]

Source: CC analysis of Thomas Cook data.

FIGURE 3d

Distribution of store average discount by sub-reason code as a percentage of total sales, all stores, Thomas Cook, June 2010 to March 2011

[✂]

Source: CC analysis of Thomas Cook data.

FIGURE 3e

Distribution of store average discount by sub-reason code as a percentage of total sales, all stores, Thomas Cook, June 2010 to March 2011

Source: CC analysis of Thomas Cook data.

57. We also looked at the variation in discounting between and within stores for our discount categories. The results are reported in Table 9. These show that the 'local price match' discounts varied more between stores than 'local decision' discounts, followed by 'Internet (own)' and then 'Internet third party'. We also found that the variance in discounts for the 'local decisions' and 'local price match' categories were statistically significantly higher than the variance in discounts for the price match and Internet categories.

TABLE 9 **Analysis of components of variance of discounts by CC category, Thomas Cook, all stores, June 2010 to March 2011**

	Estimated standard deviation	
	Between stores	*Within stores*
By level category:		
Local decisions	[✂]	[✂]
Local price match	[✂]	[✂]
Internet (own)	[✂]	[✂]
Internet (third party)	[✂]	[✂]

Source: CC analysis of Thomas Cook data.

Econometric analysis of discounts

58. The purpose of this analysis was to assess the effect of an additional nearby store of another joint venture party on the average discounts for package holidays, holding constant the competition from other rival travel agents in the local area. The analysis was cross-sectional, looking at how discounts varied from store to store with changes in the degree of local competition, at a single point in time, holding all other factors constant. We ran separate regressions for each joint venture party and for each of the major package holiday product types.

Data

59. We used store-level data on average discounts by product type for the last financial year. Raw data on the locations of travel agency stores came from information provided by the parties, while the data on local demographic characteristics and other control variables came from the ONS and other public sources. Construction of the final measures of competition and local market characteristics for each joint venture store required extensive geo-coding work.

Methodology

60. The basic model estimated was of the following form:

$$DISCOUNT_i = \text{constant} + (\beta \times COMPETITION_i) + (\gamma \times CHARACTERISTICS_i) + \varepsilon_i \quad (1)$$

where:

- $DISCOUNT_i$ represents the average percentage discount offered by store *i* for a given travel product and period;

- $COMPETITION_i$ is a vector (or list) of counts of the number of nearby competitors of different types;

- $CHARACTERISTICS_i$ is a vector of local market characteristics such as population, unemployment and density of retail stores;

- ε_i is a random error capturing all the things that we do not observe about store *i*; and

- β and γ are vectors of parameters to be estimated, with one parameter for each of the competition or market characteristic indicators in *COMPETITION* and *CHARACTERISTICS*.

61. The main coefficients of interest in the final results are the competition parameters in β which show the average effect of an extra nearby rival on the product discount.

62. The simplest way of estimating an equation like (1) is the method of Ordinary Least Squares (OLS). For this method to produce unbiased estimates of the parameters β and γ, it is necessary that the explanatory variables in (1) (ie the variables in COMPETITION and CHARACTERISTICS) be uncorrelated with the error term ε_i . That is, the observable explanatory factors should be uncorrelated with the 'unobservables' in ε_i. If this is not true, then even though the OLS results may show an apparently significant effect on DISCOUNT of, say, a competition measure, this may not be a true causal influence, but simply an indication that both the discount and the competition measure depend on some unobserved third factor that is captured by ε_i.[3]

63. This problem of spurious causation is known as the 'endogeneity problem'. It is of particular concern in performance-competition analyses such as this because of the possibility that there are some unobserved market factors that affect both a store's average discount and the number of rivals operating in the local area. For example, unobserved local variations in wages might influence the pricing of incumbent stores in an area, but would also affect overall profitability and therefore the area's attractiveness to potential entrants. In terms of equation (1), we would then expect to see a (positive or negative) correlation between *DISCOUNT* and *COMPETITION*, but this would simply reflect their joint dependence on the unobserved cost factor in ε_i, rather than a causal effect of the latter variable(s) on the former.

64. With cross-sectional data (from a single time period), the standard method of accounting for the endogeneity problem is the technique of instrumental variables (IV), which uses auxiliary variables (called 'instruments') to 'filter out' any unwanted correlation between the indicators in *COMPETITION* and ε_i. To qualify as an instrument for the *COMPETITION* measures, a variable needs to satisfy two assumptions: *(a)* it should be correlated with at least one of the problem measures in COMPETITION, and *(b)* it should not be correlated with ε_i. A variable which satisfies these assumptions helps us separate simple correlation (between *COMPETITION* and *DISCOUNT*) from true causation because it induces shifts in the competition variables which are unrelated to changes in the unobserved factors in ε_i.

[3] In other words, 'correlation is not necessarily causation'.

65. We used two types of instrument for *COMPETITION*. First, to instrument for the presence of a given rival in a local area, we considered indicators of that rival's presence in adjacent local areas. The motivation here was:

(a) First, that a given operator would be more likely to enter the local area if it was already present in adjacent areas. Thus 'adjacent presence' may be correlated with 'local presence', thereby satisfying assumption *(a)*.

(b) Secondly, all else being equal, whether a rival is present in a neighbouring market would not necessarily have a direct influence on a store's discount in the local market, since presumably the store responds primarily to competition in its own town or city, rather than competition in the next town or city. If this is true, then assumption *(b)* is satisfied.

66. We also considered density of population in the local market. Holding all other factors equal (including the amount of local competition), it is not immediately clear why a store's *DISCOUNT* should directly depend on whether consumers are broadly or thinly spread over a market. Therefore we assumed that population density satisfies assumption *(b)*. However, as a measure of the 'thickness' of a market, or as a proxy for cost-side factors (such as the availability of a local labour pool), population density could be correlated with some factors that determine the desirability of entry into the local market (and which thereby affect *COMPETITION*). Therefore we assumed that population density satisfies assumption *(a)*.

Variable construction

67. The sample for each of the regressions was the set of each party's retail stores open in 2010. The sample size ranges from around 100 for Midlands to more than 700 for Thomas Cook. For each store, the local market was defined as the store's catchment area. All results presented are based on the individual catchment areas for each store that would capture 80 per cent of the customers of the store. Except where otherwise noted, competition and demographic measures ('market characteristics') for the store were calculated by aggregating over its catchment area. When, for reasons of data availability, it was not possible to aggregate over the catchment area, some demographic measures were aggregated over the relevant local authority district instead.

68. For statistical precision, we needed to specify the competition measures in a way that is parsimonious. However, we also needed to allow for not all rivals being alike and that the effect of another rival store of a particular type may depend on how many stores of this or other types were also present in the catchment area.

69. It was not possible to test all possible specifications which may allow for these factors, both separately and in interaction. In this case, we ran exploratory OLS regressions to estimate at what point additional numbers of rival stores ceased to have a discernible impact on discounts, holding market characteristics constant. The exploratory regressions suggested that, in the present context, entry beyond the fifth local rival stores (ie additional entry once the total number of rival stores (including other joint venture stores) equals five) had no further systematic or significant effect on discounts.

70. For each party, we divided the set of rival stores into three categories: other joint venture, TUI, and all other stores. With the above exploratory evidence in mind, we assumed that within any catchment area the third-and-later store of each type would have no additional competitive impact on discounts. According to this specification we then had three integer counts of three types of rival, 0, 1 or 2. In the following,

these 0-1-2 counts are our competition measures, and are labelled *OTHERJV(1to2)*, *TUI(1to2)*, and *ALLOTHER(1to2)*.

71. For the Thomas Cook regression, we tested an alternative specification of COMPETITION based on a count of all the rival stores in the catchment area (*NUMRIVALS)* and the proportion of these stores that are other joint venture and TUI stores. We continue to measure the number of other Thomas Cook stores in the catchment as *OWN(1to2).* The competition measures were:

    (a) LOGNUMRIVALS: log of (*NUMRIVALS* + 1) where the +1 is added to avoid taking the log of zero;

    (b) PROPOTHERJV: proportion of stores of other joint venture operators among *NUMRIVALS* in the catchment area, in percentage points; and

    (c) PROPTUI: proportion of TUI's among *NUMRIVALS* in the catchment area, in percentage points.

72. Finally, for Thomas Cook, we tested the effect of the distance of other joint venture, TUI and other rival stores on total discounts and discounts allocated to certain sub-reason codes. For each Thomas Cook store, we constructed variables for the distance of the closest rival store within each store type.[4] We tested linear and logarithmic specifications of the model.[5]

73. Separate regressions were run for different holiday types: beach, cities, cruise, domestic, dynamic and ski. For Thomas Cook, the beach category was subdivided into long haul (LH) and short haul (SH). Domestic was not considered for CGL. For Midlands the product types were: cities, cruise, package holiday and ski.

74. We tested imposing cross-equation restrictions on the coefficients in particular assumptions that the regression coefficients are the same across the different holiday types. Such restrictions can improve the precision of the estimates where valid.

75. A store's discounts for any product are simply the total value of discounts offered over a year divided by gross sales of that product. We expressed this proportion in percentage points and label this dependent variable as *DISCPCT*. (For CGL the discount excludes free insurance, although as these discounts are relatively small in proportion to other discounts, the exclusion is unlikely to affect the final results much.) Stores with negative discounts for the year, or with very low annual gross sales of the product, were excluded from the regressions as outliers.

Summary statistics and results

76. In Tables 10 to 27 below we report summary statistics and results for the Thomas Cook regressions.

77. Earlier regressions for CGL and Midlands did not produce results of statistical significance. The only firm statistical inference that could be drawn from these results was the rejection of the exogeneity test for CGL's cruise and dynamic packaging products (at the 5 per cent level in both cases). We considered this to be a reflection of the smaller sample sizes in these regressions, and illustrative of an unavoidable short-

[4] We increase the store distance measures by 0.01 mile to avoid the distance being zero.
[5] In the estimation on distance effects, the instruments for minimum distance are slightly different from those for count of stores. In particular, we replace the presence of *any* rival stores in adjacent ring of catchment with the rival stores that are *not the closest* to a Thomas Cook store.

coming of the IV procedure—it often produces imprecise estimates yielding few firm statistical conclusions. Given the noise evident in all the other CGL estimates, these two rejections can be taken as a further caution against placing too much weight on OLS estimates for these markets. For this reason, further work focused on Thomas Cook.

Summary statistics—Thomas Cook

78. Table 10 shows for Thomas Cook stores the annual gross sales for each product type for the relevant financial period, aggregated over all stores open in 2010.[6] This aggregate data is just for bricks-and-mortar sales; it excludes online, telephone, head-office and homeworker sales.[7] The predominance of sales for beach and cruise vacations is clear.

TABLE 10 **Total branch-level gross sales by product, Thomas Cook, FY 2009/10**

Product	*Average gross sales, all UK stores £m*
Beaches (LH)	[✂]
Beaches (SH)	[✂]
Cities	[✂]
Cruise	[✂]
Domestic	[✂]
Dynamic	[✂]
Ski	[✂]

Source: CC analysis of CC and Thomas Cook data.

Note: Excludes online, telephone, head-office and homeworker sales.

79. To capture the characteristics of a store's catchment area, we included variables representing total population, unemployment, average education level, proportion of children, proportion of retirees, proportion of tertiary students, average household size, and the density of all retail establishments. Various other control variables were also considered (such as income) but these proved to be statistically insignificant given the factors already included in the model.

80. As noted above, our IV regression approach used two types of instrument for the competition indicators. The first is simply *POPDENS*, the population density in the store's catchment area. The second is a set of three indicators of rivals' presence in adjacent areas, one for each of the three types of rival. For the construction of these instruments, the relevant area adjoining any catchment area is defined as a doughnut-shaped band extending 15 miles from the catchment edge. For example, if the store's catchment area had a radius of 6.5 miles, its adjacent area would be the set of all locations which are between 6.5 and 21.5 miles from the store. As different stores have different catchment radii, the total area of this 15-mile band also varies across stores. To deal with this we constructed the instruments as counts of rivals' adjacent stores *per square mile* in the 15-mile band.

81. Table 11 gives summary statistics for the discounts by product. Annual discounts, averaged across all stores in the regression samples, vary from [✂] per cent (domestic) to [✂] per cent (cruise). For the major products (beaches, cruise) the average discount generally lies in the range [✂] to [✂] per cent. The standard devia-

[6] For Thomas Cook, the relevant financial period is October 2009–September 2010.
[7] The aggregate may differ from similar totals reported in other CC work, because of missing values in the data, deletion of stores during the data cleaning, and differences in the time period under consideration.

tions, which are mostly over 1 per cent, show that there is substantial variation across stores in the average discount offered.

TABLE 11 **Thomas Cook discounts as a proportion of gross sales, FY 2010**

per cent

Product	*N*	*Mean*	*Std*	*Min*	*Max*
Beaches (LH)	[✂]	[✂]	[✂]	[✂]	[✂]
Beaches (SH)	[✂]	[✂]	[✂]	[✂]	[✂]
Cities	[✂]	[✂]	[✂]	[✂]	[✂]
Cruise	[✂]	[✂]	[✂]	[✂]	[✂]
Domestic	[✂]	[✂]	[✂]	[✂]	[✂]
Dynamic	[✂]	[✂]	[✂]	[✂]	[✂]
Ski	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of CC and Thomas Cook data.

82. To examine further the nature of this variation in discounts across stores, we ran exploratory random-effects regressions for the two Thomas Cook beach products. As Table 10 indicates, in 2010 these products had the highest sales among the Thomas Cook products studied. The random-effects regression uses five years of annual data and allows for the variation in discounts across stores to come from two sources: a component that varies randomly across stores but is fixed at each store over time, and a time-varying component that is pure 'white noise', varying randomly across all store-year combinations. These exploratory regressions included dummies for the Government Office Region but no other explanatory variables. For both beach products, we found that the component that is fixed over time at each store explains a substantial portion of the variation in discounts. After controlling for the region effects, the proportion of the variance in discounts explained by this store specific component was [✂] per cent for the short-haul beach, and [✂] per cent for long-haul beach. This implies that there is 'persistence' in the data, ie that there are store characteristics, constant over time, which explain a lot of the variation in discounts across stores. Such characteristics could include, for example, local demographics, or the nature of competition in the store's catchment area.

83. Tables 12 to 14 give summary statistics for the competition measures for the baseline model and alternative specifications. The main point to note is that for each party there is a non-trivial amount of variation in each measure across stores. For Thomas Cook, detailed tabulations (not shown) indicate that in 2010 around [✂] per cent of stores faced no other non-Thomas Cook joint venture store in their catchment area, while around [✂] per cent faced two or more such stores. There are overlap areas with TUI with [✂] per cent of stores facing no TUI, [✂] per cent facing one, and [✂] per cent facing two or more. For rival store in the 'any other' category, the equivalent proportions were [✂],[✂] and [✂] per cent.

TABLE 12 **Thomas Cook summary statistics for baseline model competition measures**

	Mean	*Min*	*Max*
Baseline model:			
OTHERJV(1or2)	1.07	0	2
TUI(1or2)	1.69	0	2
ALLOTHER(1or2)	1.79	0	2
Also indicator of other Thomas Cook stores in the area			
OWN(1or2)	1.43	0	2

Source: CC analysis of CC and Thomas Cook data.

TABLE 13 **Thomas Cook summary statistics for alternative competition measures**

	Mean	*Min*	*Max*
Alternative model:			
LOGNUMRIVALS)	2.48	0	6.52
PROPOTHEJV(%)	12	0	61
PROTUI(%)	27	0	75

Source: CC analysis of CC and Thomas Cook data.

TABLE 14 **Thomas Cook summary statistics for distance-based competition measures**

	Mean	*Min*	*Max*
OTHERJV(min)	6.13	0.01	62.40
TUI(min)	1.49	0.01	56.57
ALLOTHER(min)	1.58	0.01	41.57
Also indicator of other Thomas Cook stores in the area			
OWN(min)	3.51	0.01	56.56

Source: CC analysis of CC and Thomas Cook data.

Results

Baseline model

84. Tables 15 and 16 show results for the IV regressions for Thomas Cook. The IV approach is implemented via a standard two-stage least-squares procedure. All regressions discard outliers. In addition to discarding a few stores with unusual values for demographic variables, each regression excludes any store with: a negative annual average discount, or with annual sales for the product of less than max(£5,000 , c_1), where c_1 is the one-percentile of the distribution of annual sales of the product across all of the party's stores.[8] Reported standard errors are robust to heteroscedasticity and clustered on Urbanized Area (which is an ONS division of cities, towns and villages in the UK into distinct conglomerations). This clustering allows for correlation between the random errors ε_i of stores in the same town, for example.

85. All regressions also include dummies for Government Office Regions, which control for unobserved factors at the regional level which are not captured by our other explanatory variables. These dummies would capture, for example, the effects of any region-level variations in wages.

[8] Given the construction of this threshold, the 'sales>=£5,000' criterion only affects the relatively low-volume products such as ski vacations. For the main products (beach, cruise), all stores in the regressions will have much higher annual sales of the product, because the one-percentile c_1 is then much higher than £5,000.

TABLE 15 **Two-stage least squares estimates of the effects of competition on discounts, baseline model, Thomas Cook, all stores, FY 2009/10**

Product	*Beach (LH)*	*Beach (SH)*	*Cities*	*Cruise*	*Domestic*	*Dynamic*	*Ski*
Competitive effects:							
OTHERJV(1or2)	0.99*	0.93*	1.33	0.77	0.27	–0.04	1.30*
TUI(1or2)	–0.38	–0.80	0.70	0.51	0.42	–1.08	–0.77
ALLOTHER(1or2)	1.15	1.11*	0.63	0.35	0.24	0.49	1.26
Effects of own stores:							
OWN(1or2)	0.35	0.45	0.54	0.51	0.05	–0.08	0.31
Sample size	775	772	707	774	767	773	654

Source: CC analysis of CC and Thomas Cook data. .

Statistical significances: * 10%, ** 5%, *** 1%.

TABLE 16 **Two-stage least squares estimates for control variable, baseline model, Thomas Cook, all stores, FY 2009/10**

	Beach (LH)	*Beach (SH)*	*Cruise*	*Definitions*
LOG(POP)	–0.65	–0.61	0.89	Log of catchment population
EDUCATION	–0.05	–0.05	0.01	Prop of popn with degree (% pts)
YOUNG	–0.35**	–0.19	–0.15	Prop of popn < 15 yrs (% pts)
RETIRED	–0.26**	–0.20**	–0.01	Prop of popn retired (% pts)
STUDENTS	–0.21**	–0.16*	–0.09	Prop of univ students in popn (% pts)
H'HOLD SIZE	2.97	1.72	1.94	Ave household size (people)
LOG(RETAIL DENS)	–0.11	–0.01	0.00	Log of density of retail shops

Source: CC analysis of CC and Thomas Cook data .

Statistical significances: * 10%, ** 5%, *** 1%.
Note: Other controls included: catchment area, local unemployment, region indicators.

86. Table 15 shows that in the baseline model for Thomas Cook all coefficients on the competition measures are individually statistically insignificant at the 5 per cent level.

87. Table 17 gives results for tests of the joint significance of the effects of competition. The table shows that we can reject the null hypothesis that all three competition effects are zero only for beach SH. The table also reports results for pairwise comparisons of the competition effects, across types of rival. In all instances, we cannot reject the hypothesis that the coefficients are equal.

TABLE 17 **Joint, pair-wise and diagnostic tests, baseline model, Thomas Cook, all stores, FY 2009/10**

Product	*Beach (LH)*	*Beach (SH)*	*Cities*	*Cruise*	*Dom*	*Dynamic*	*Ski*
All competitive effects = 0	Not rejected	Rejected* (0.08964)	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected
OTHERJV = TUI	Not rejected	Rejected* (0.0704)	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected
OTHERJV = ALLOTHER	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected
TUI = ALLOTHER	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected
Diagnostic tests:							
Hypothesis A (instruments valid)	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected
Hypothesis B (comp measures are exogenous)	Rejected* (0.0588)	Rejected** (0.0156)	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected

Source: CC analysis of CC and Thomas Cook data.

88. The last two rows in Table 17 show the results of specification tests. The first of these is a test of the validity of instruments, ie a null hypothesis that these are uncorrelated with the unobserved error terms. That we cannot reject this hypothesis suggests that the instruments are valid. The second of these tests is a technical test of the null hypothesis that the competition measures in the regression are exogenous, ie that they are not correlated with the random error ε_i. The table shows that the null hypothesis of exogeneity is rejected at the 5 per cent level for only beach SH.

Alternative specification

89. Tables 18 to 20 give the same results for the alternative specification of the competition measures.

TABLE 18 **Two-stage least squares estimates of the effects of competition on discounts, alternative competition measures, Thomas Cook, all stores, FY 2009/10**

Product	*Beach (LH)*	*Beach (SH)*	*Cities*	*Cruise*	*Domestic*	*Dynamic*	*Ski*
Competitive effects:							
LOGNUMRIVALS)	0.26	–0.00	0.48	0.35	0.46	–0.92	–0.36
PROPOTHEJV(%)	0.039	0.039	0.061*	0.039*	0.015	–0.0093	0.07
PROTUI(%)	–0.029	–0.043	–0.028	–0.002	0.0027	–0.0075	0.004
Effects of own stores:							
OWN(1or2)	0.67	0.85	1.00	0.60	0.06	–0.19	0.57

Source: CC analysis of CC and Thomas Cook data.

Statistical significances: * 10%, ** 5%, *** 1%.

TABLE 19 **Two-stage least squares estimates of control variables, alternative model, Thomas Cook, all stores, FY 2009/10**

	Beach (LH)	*Beach (SH)*	*Cruise*	*Definitions*
LOG(POP)	–0.44	–0.38	–0.71	Log of catchment population
EDUCATION	–0.08	–0.07	–0.01	Prop of popn with degree (% pts)
YOUNG	–0.20**	–0.05	–0.04	Prop of popn < 15 yrs (% pts)
RETIRED	–0.17*	–0.12	0.02	Prop of popn retired (% pts)
STUDENTS	–0.14**	–0.10	–0.04	Prop of univ students in popn (% pts)
H'HOLD SIZE	1.92	0.93	0.60	Ave household size (people)
LOG(RETAIL DENS)	0.04	0.14	0.10	Log of density of retail shops

Source: CC analysis of CC and Thomas Cook data.

Statistical significances: * 10%, ** 5%, *** 1%.
Note: Other controls included: catchment area, local unemployment, region indicators.

TABLE 20 **Joint, pair-wise and diagnostic tests, alternative model, Thomas Cook, all stores, FY 2009/10**

Product	*Beach (LH)*	*Beach (SH)*	*Cities*	*Cruise*	*Dom*	*Dynamic*	*Ski*
All competitive effects = 0	Rejected (0.1918)	Rejected (0.1617)	Rejected (0.3055)	Not rejected	Not rejected	Not rejected	Rejected (0.1796)
OTHERJV = TUI	Rejected* (0.0564)	Rejected** (0.0266)	Rejected* (0.0795)	Not rejected	Not rejected	Not rejected	Rejected* (0.0752)
Diagnostic tests:							
Hypothesis A (instruments valid)	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected	Not rejected
Hypothesis B (comp measures are exogenous)	Not rejected	Rejected** (0.0214)	Not rejected	Rejected* (0.0643)	Not rejected	Not rejected	Not rejected

Source: CC analysis of CC and Thomas Cook data.

Statistical significances: * 10%, ** 5%, *** 1%.

90. For all products, all coefficients on the competition measures were individually statistically insignificant at the 5 per cent level and we cannot reject the null hypothesis that the competition measures jointly have no effect on margins at the 5 per cent level. For beach short-haul, we rejected at the 5 per cent level the null hypothesis that the effect of the presence of a TUI store was the same as that of other rivals. Finally, the diagnostic tests suggested that the instrumental variables were valid and that OLS estimates would be unreliable for at least two products, short-haul beach and cruise.

Testing for distance effects—total discounts

91. As described above, we ran regressions to test whether the results reported above would be robust to allowing for the distance of rival stores from Thomas Cook stores. The estimated coefficients on the distance of other joint venture stores from a Thomas Cook store were statistically significant at the 5 per cent level for short-haul and long-haul beach, city break and ski holidays. Table 21 gives the results for OTHERJV(min) for the three specifications tested. These results suggest that the presence of a CGL and/or Midlands store would have a statistically significant effect on total discounts, in particular the nearer the CGL or Midlands store the higher the discounts.

TABLE 21 **Two-stage least squares estimates of control variables, distance effects, Thomas Cook, all stores, FY 2009/10**

	Beach (LH)	*Beach (SH)*	*Cities*	*Ski*
OTHERJV(min)				
Linear†	–0.043***	–0.051***	–0.043*	–0.059**
Linear-log‡	–0.176*	–0.216**	–0.176	–0.267*
Log-log§	–0.032*	–0.048**	–0.059	–0.087*

Source: CC analysis of CC and Thomas Cook data.

Statistical significances: * 10%, ** 5%, *** 1%.
†'Linear' is discount on distance.
‡'Linear-log' is discount in log distance.
§'log-log' is log discount on log distance.

92. We also looked at the size of the effect under three specifications and found that they are comparable. We estimated that, all other things being equal, discounts on beach (SH) given by an average Thomas Cook store where there is CGL or Midlands store next door would be [✂] to [✂] percentage points higher than those where the nearest CGL or Midlands store is the average minimum store difference from the Thomas Cook store, [✂] miles.[9]

Testing for distance effects—close the sale, local price matching and management discretion discounts

93. We also ran regressions to explore whether the results could be materially different if we were to focus on the discounts most likely to reflect any variation in discounts driven by local market conditions including local competitive effects. These are the discounts allocated to the 'close the sale', 'manager's discretion' and local price matching sub-reason codes.

94. For each Thomas Cook store, over the ten months June 2010 to March 2011 we generated three sets of dependent variables: the value of the discounts allocated to

[9] Average discount on beach (short-haul) is 5.01 percentage points.

each of these sub-reason codes as a percentage of total sales; the value of the discounts allocated to each sub-reason code as a percentage of the value of the discounts allocated to the associated reason code; and the value of the discounts allocated to each of these sub-reason codes as a percentage of the total discount value.

95. We reran the specifications allowing for distance effects as these had generated statistically significant results for competition effects on total discounts. We did so using the competition measures based on the distance from the nearest other joint venture, TUI and other rival stores for the linear and the linear-log specifications. For the linear-log specification the coefficients were statistically insignificant.

96. In Tables 22 to 24 we report results for the linear specification.

TABLE 22 **Two-stage least squares estimates of competition effects on discounts allocated to certain sub-reason codes, Thomas Cook, all stores, FY 2009/10**

	Discounts value as a percentage of the sales price								
	Price match					*Other booking*		*Cruise*	
	High street agent	*Indep agent*	*Thomas Cook dotcom*	*Third party dotcom*	*Direct hols*	*Manager's discretion*	*Close the sale*	*Manager's discretion*	*Close the sale*
OTHERJV	–0.042	0.12**	–0.046**	0.084***	–0.097	0.005	0.040	–0.088	–0.053
TUI	–0.209	–0.118	0.016	0.029	0.396	–0.270	0.164	–0.441	–0.136
AllOTHER	0.247	0.197	0.024	–0.014	–0.435	0.252	–0.187	–0.423	0.131
OWN	0.041	0.209	0.011	0.039	–0.053	0.068	–0.005	–0.082	–0.031

Source: CC analysis of CC and Thomas Cook data.

Statistical significances: ** 5%, *** 1%.

TABLE 23 **Two-stage least squares estimates of competition effects on discounts allocated to certain sub-reason codes, Thomas Cook, all stores, FY 2009/10**

	Sub-reason discount value as a percentage of reason discount value								
	Price match					*Other booking*		*Cruise*	
	High street agent	*Indep agent*	*Thomas Cook dotcom*	*Third party dotcom*	*Direct hols*	*Manager's discretion*	*Close the sale*	*Manager's discretion*	*Close the sale*
OTHERJV	–0.196	–0.193	0.85***	–0.5***	–0.317	–0.104	–0.65**	–0.101	–0.8***
TUI	0.608	0.679	–0.301	1.5**	0.89	–0.251	1.473	1.173	0.714
AllOTHER	–0.902	–0.706	0.217	–0.715	–0.754	–0.104	–.915	–0.662	–0.121
OWN	0.685	–0.043	–0.736	–0.161	–0.182	0.079	–1.022	0.638	0.034

Source: CC analysis of CC and Thomas Cook data.

Statistical significances: ** 5%, *** 1%.

TABLE 24 **Two-stage least squares estimates of competition effects on discounts allocated to certain sub-reason codes, Thomas Cook, all stores, FY 2009/10**

Sub-reason discount value as a percentage of total discount value

	Price match					*Other booking*		*Cruise*	
	High street agent	*Indep agent*	*Thomas Cook dotcom*	*Third party dotcom*	*Direct hols*	*Manager's discretion*	*Close the sale*	*Manager's discretion*	*Close the sale*
OTHERJV	–0.161	–0.075**	0.248	–0.18***	–0.14	–0.052	–0.295	–0.018	–0.13***
TUI	1.27**	0.035	1.586	0.7***	0.552	–0.467	–1.08	0.141	0.242
AllOTHER	–1.21	–0.4**	–1.109	–0.52	–0.519	0.404	0.756	–0.127	0.015
OWN	0.106	0.03	–0.86	–0.071	–0.103	0.204	0.390	0.06	0.010

Source: CC analysis of CC and Thomas Cook data.

Statistical significances: ** 5%, *** 1%.

Analysis of opening and closure events

97. The purpose of this analysis was to examine the effect on discounts given by Thomas Cook, CGL or Midlands stores of the opening or closure of rival joint venture stores in their local areas. We adopted a difference-in-difference analysis of events over the period October 2008 to September 2009.

98. Oxera provided results of a similar analysis using data on the opening and closure of the parties' stores since January 2006. Oxera undertook a simple before and after comparison of the performance of the stores that might be affected by the opening and closure events and a difference-in-difference analysis using as a control the performance of unaffected stores in the relevant regions. Oxera concluded that their analysis indicated that the opening and closure of CGL and Midlands stores had had no statistically significant impact on the financial performance of nearby Thomas Cook stores (and vice versa).

99. The main difference between our work and that carried out by Oxera is that our approach controlled for the effect of the opening and closure of third party stores. A consequence of this was that we were limited to analysing events over a shorter period as reliable data of third party events was not available for all years since 2006.

100. The information used was:

(a) For 2008/09, for the catchment of each Thomas Cook store, changes in the number of stores of other joint venture operators, TUI stores, other rival stores, and other Thomas Cook stores. For this analysis, we used catchment areas estimated for different Thomas Cook store types.

(b) For each Thomas Cook store, the change in discounts from 2007/08 to 2009/10.

101. We ran OLS regressions with a dependent variable labelled *CHANGE IN DISCOUNTS* and independent variables labelled *CHANGES IN MARKET STRUCTURE and REGION INDICATORS.*

102. During this period CGL closed 15 stores and did not open any new stores. Midlands closed one store and did not open any new stores. Twenty Thomas Cook stores were exposed to the closure of a CGL store within their catchment areas. Whilst we had reservations about analysing this data due to the small sample sizes, we carried out some initial work. The results of this work suggested that generally the closure of these CGL stores had not resulted in statistically significant reductions in the discounts given by nearby Thomas Cook stores. The only exception to this was in

relation to cruise packages. Given the early indications of a generally weak effect on Thomas Cook discounts of the closure of CGL stores and the small sample sizes, we did not pursue this analysis further.

103. Econometric analysis of non-price local competition effects

104. We estimated using the instrumental variable regression approach described above the effect of local competition on the quality of the service provided in Thomas Cook stores.

105. The basic equation estimated was the following:

$$QUALITY_i = \text{constant} + (\beta \times COMPETITION_i) + (\gamma \times CHARACTERISTICS_i) + \varepsilon_i \quad (1)$$

106. We constructed two measures of the in-store service quality: one based on results of the Thomas Cook pPQRS customers survey and the other on the floor size of Thomas Cook stores.

107. Since January 2011 Thomas Cook has conducted monthly online survey asking customers who have made enquiries and booking holidays in its stores to grade stores on various aspects of the quality of stores and the service provided. We took the average overall score achieved by each Thomas Cook store for bookings and enquiries. These scores ranged from 0 to 10.

108. Store size was used as a proxy for the range and quality of service provided in store including the availability of brochures, the number of sales desks and the availability of foreign exchange facilities.

109. Table 25 gives summary statistics for the dependent variables.

TABLE 25 **Thomas Cook summary statistics for quality of service measures**

	Min	*Max*
PQRS overall	[✂]	[✂]
PQRS bookings	[✂]	[✂]
PQRS enquiries	[✂]	[✂]
Store area	[✂]	[✂]

Source: CC analysis of CC and Thomas Cook data.

110. Table 26 gives results for the estimates of the competition effects.

TABLE 26 **Two-stage least squares estimates of competition effects on service quality, Thomas Cook, all stores, FY 2009/10**

	PQRS overall	*PQRS bookings*	*PQRS enquiries*	*Store area*
nojv1to2	–0.12	–0.09	–0.29	–20.04*
ntui1to2	–0.36**	–0.17	–0.96***	–1.46
noth1to2	–0.34*	–0.32**	–0.44	–24.87

Source: CC analysis of CC and Thomas Cook data.

Statistical significances: * 10%, ** 5%, *** 1%.

111. We found no statistically significant evidence that those Thomas Cook stores facing more local competition provided their customers with a higher quality of service. The coefficients on the competition measures were individually statistically insignificant or negative. Table 27 provides results for the tests of the joint significance of the competitive effects. The null hypothesis of no competitive effects was rejected for three of

the four measures. For the others, the results suggested that more local competition was associated with a lower quality of service.

TABLE 27 **Results of tests of joint significance, quality of service competition effects, Thomas Cook, all branches, FY 2009/10**

	Hypothesis *All competition effects = 0*
PQRS overall	Not rejected (0.1246)
PQRS bookings	Not rejected (0.1614)
PQRS enquiries	Rejected* (0.0668)
Store area	Not rejected (0.3189)

Source: CC analysis of CC and Thomas Cook data.

Work relevant to the assessment of post-merger incentives

112. In this section, we provide further details on the following: our customer survey which provided information on customers' preferences, including factors that influence how and where they book holidays; the estimation of diversion ratios using the results of the customer survey; and the analysis of sales margins.

Our customer survey results

113. We carried out a survey of 2,504 customers who had booked a package holiday in a Thomas Cook, CGL or Midlands store in the last 12 months.

114. We consulted with the parties on the sampling framework and the questionnaire design. The base for selecting respondents was booking data for joint venture stores identified by work Oxera had done identifying overlap areas within 5-mile catchment areas centred on CGL stores where the joint venture would result in a 6 to 5/4 fascia reduction or below. We summarize below the results that have been of particular interest in the assessment of this case.

General background

115. On average, respondents booked 2.28 holidays in the last 12 months (Q7). This average increased with age (12 per cent of over 65s had booked five or more holidays).

116. For package holidays, the majority of people (66 per cent) booked a beach holiday. The second most popular type of package holiday was a cruise (13 per cent) (Q17).

Preferences for using particular distribution channels

117. Responses to several questions suggested that the majority of respondents had a preference for booking package holidays in a travel agency store:[10]

(a) 77 per cent of respondents said that they preferred to book package holidays at a travel agency shop (Q11).

[10] The parties commented that the CC's customer survey did not measure the strength of customer preferences for booking through retail stores rather than online.

(b) In response to questions on how they would have responded to the closure of the store at which they had booked their package holiday or the closure of the relevant chain, the majority of respondents said that they would still have booked their holiday in a travel agent store (Q35). In particular:

(i) if just the store they had booked at closed, then 69 per cent said they would still have booked in person at a store (Q35); and

(ii) if the chain had closed all its stores, 68 per cent said that they would have looked to find another shop where they could book in person (Q37).

118. Asked how generally they preferred to book package holidays, 7 per cent said that they preferred to do so using the Internet whilst 24 per cent said that they had considered booking over the Internet.

TABLE 28 **CC customer survey, booking preferences, Q11 and Q31 (base: all respondents)**

How do you prefer to book package holidays? *Internet*	7%
Did you consider booking over the internet?	24%

Source: CC customer survey.

119. Even though respondents preferred to book in a shop for a package holiday, if they booked flights only, the majority said that they preferred to use the Internet for this activity. In particular, of the respondents who had booked 'flight-only' holidays via some channel, 62 per cent (excluding people who had 'no preference') said that they would prefer to do so via the Internet (Q13).

120. 84 per cent of respondents said that they had Internet access at either home or work, or both (Q52). A further 1.0 per cent said that they lacked Internet or computer skills, and a further 0.7 per cent disliked or distrusted the Internet (Q12), although some of this group said that they were willing to use it for research and to try to get travel agents to give better prices.

Reasons for preferences for booking at travel agency shops

121. Table 29 provides a summary of the reasons given by those respondents who said that generally they preferred to book package holidays in store. Personal contact and advice was the most frequently given reason. Of those who preferred to book any package holiday in store, 66 per cent gave this as a reason for doing so.

TABLE 29 **CC customer survey, reasons for preferring to book package holidays in store, new Q12 (base: all respondent who preferred to book package holidays in store, n=1916)**

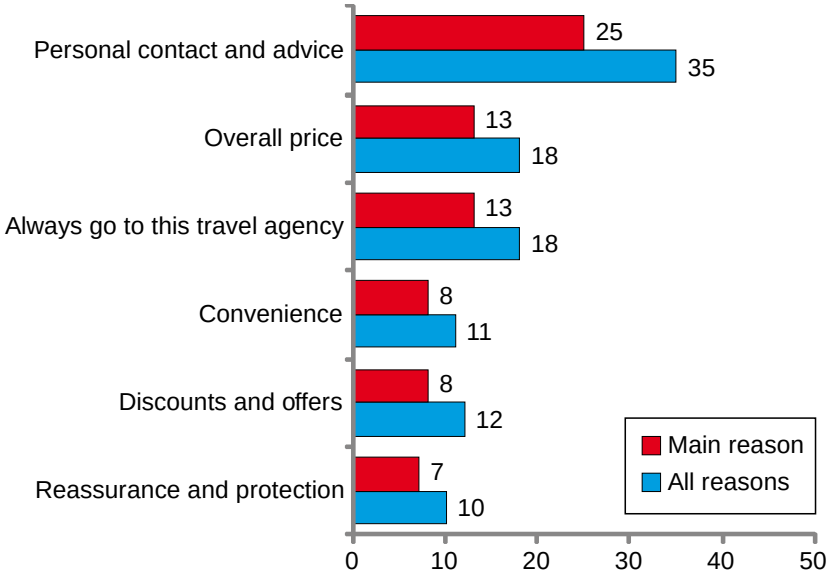
Why do you prefer to book package holidays at a travel agency shop?	%
Personal contact and advice	66
Reassurance and protection	26
Overall price	6
Convenience	7
Discounts and offers	8
Always go to this travel agency	8
Quicker to do	5
Easy price comparison across different holiday options	3
Don't have access to the Internet	5
Other answers (not shown)—<3%	

Source: CC customer survey.

122. Asked why they had booked the particular package holiday in-store (see Figure 4), 35 per cent gave personal contact and advice as a reason and 25 per cent as the main reason (Q25 and Q26x).

FIGURE 4

CC customer survey, reasons why respondents had booked their last package holidays in store, Q25 and Q26 (base: all respondents, n=2,504)

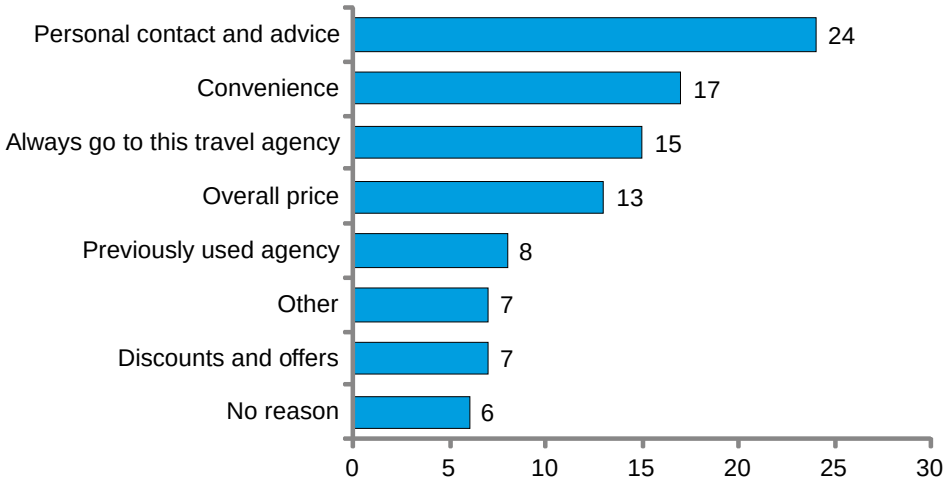


Source: CC customer survey.

123. Figure 5 provides a summary of the reasons why respondents had booked a package holiday at the store that they did (Q27). The main reason was still personal contact and advice. It was the main reason for 24 per cent of respondents (Q27new).

FIGURE 5

CC customer survey, reasons for booking at this particular travel agency shop as opposed to others in the area, Q27 (Base: all respondents, n=2,504)



Source: CC customer survey.

124. We asked respondents what they would have done if the tour operator they had booked with were no longer available in the store they booked in. 67 per cent said

that they would have booked the same holiday in a different way. For customers booking Thomas Cook holiday packages in CGL/Midlands stores, 68 per cent said that they would have booked the same holiday.

125. We also asked respondents who preferred to use the Internet for flight-only bookings what their reasons were for this. The results are summarized in Table 30.

TABLE 30 **CC customer survey, reasons for preferring to book flight-only using the Internet, Q13 and Q14 (base: all respondent who preferred to book flight only using the Internet, n=958)**

Why do you prefer to book flight only using the Internet?	*%*
Personal contact and advice	1
Reassurance and protection	1
Overall price	40
Convenience	15
Discounts and offers	7
Always go to this travel agency	
Quicker to do	37
Easy price comparison across different holiday options	18
Don't have access to the Internet	
Other answers (not shown)—<3%	

Source: CC customer survey.

Pre-booking researching

126. We asked respondents who had booked a package holiday in-store about the sources of information they had used before making the booking (Q32 and Q33). The results are summarized in Table 31. Of all respondents, 70 per cent had done some research before going into the store at which they made the booking, 49 per cent had used the Internet and 27 per cent had looked at brochures.

TABLE 31 **CC customer survey, sources of information (Base: all respondents (2,504)**

Q32. Apart from the travel agency you booked through, what other sources of information did you use before booking your holiday?

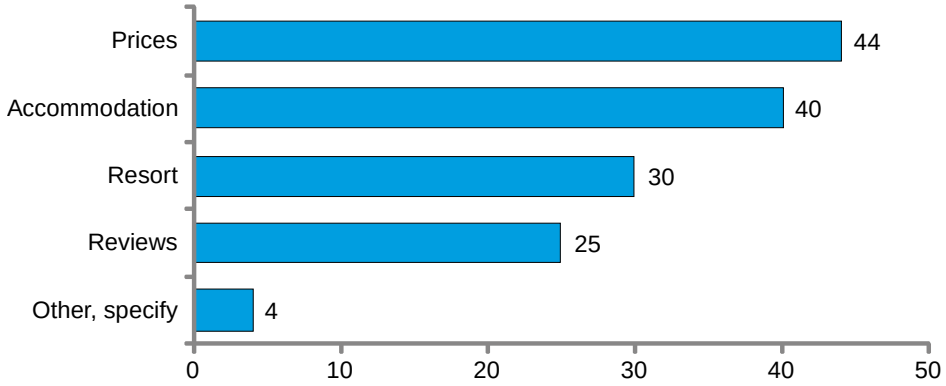
	%
None	30
1 or more	70
Internet	49
Brochures	27
Asked friends, relatives, colleagues	8
Other answers not shown	<2%

Source: CC customer survey.

127. We asked respondents who had used the Internet as a source of information for further details on the purpose for which they had used the Internet. We asked the question 'what exactly did you look for on the Internet?' Responses are summarized in Figure 6. 44 per cent of these respondents said that they had looked at prices, suggesting that overall 22 per cent (44 per cent of 49 per cent) of respondents researched the price of their package holiday online before going into a store to book.

FIGURE 6

CC customer survey, use of the Internet (Base: all who used Internet, n=1,229)



Source: CC customer survey.

128. The parties argued that the phrasing of these questions would result in an under-estimate of the Internet as a source of information on prices. In particular, the parties argued that such a question would not capture use of Internet that would have given respondents information on prices even though they may not have actively or intentionally searched for prices. We accepted that this was a risk.

Discounts

129. We asked all respondents whether they had asked for a discount and, if they had, what had prompted them to do so and what level of discount they had been given. The responses are summarized in Table 32. 38 per cent of respondents said that they had asked for a discount and 10 per cent said they had asked for a discount because cheaper prices were available online.

TABLE 32 **CC customer survey, request and receipt of discounts (Base: all respondents, 2,504)**

Q33. Did you ask for a discount on the price you were first given for your holiday?	%
Yes	38
No, but got an early booking discount	7
No, but was offered another type of discount by travel agent	19
No, did not ask and wasn't offered a discount	36
Q34. Why did you ask for a discount?	
It was cheaper online	10
I was offered a cheaper price at another travel agent	2
I just asked for it	20
Other—specify	7

Source: CC customer survey.

Awareness of local travel agents

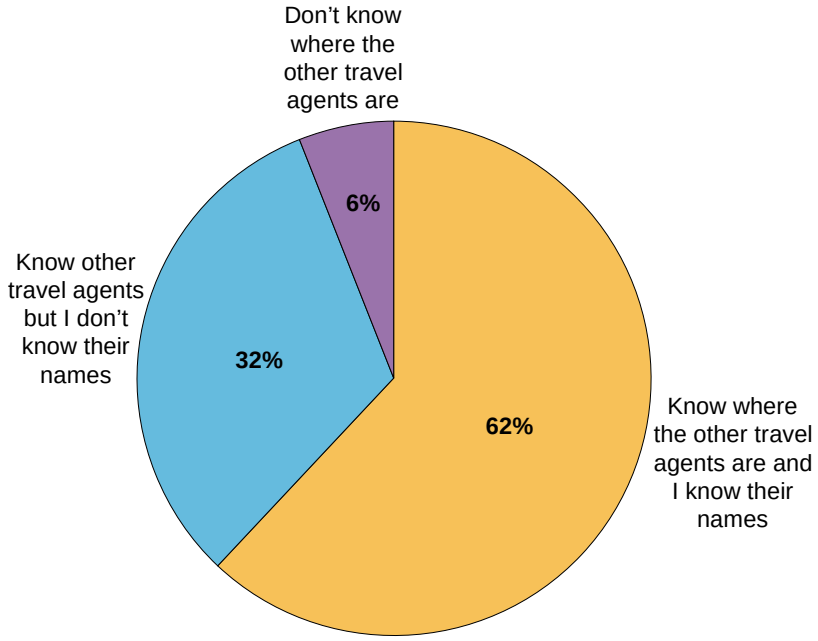
130. We asked respondents about their awareness of other travel agents in the local area. The results are summarized in Figure 7.

131. Awareness of the presence of the three large travel agency chains appeared to be high. 62 per cent of respondents said that they knew the names of other agents in the area and another 32 per cent knew of agents, but not their names (Q42). Of the 62 per cent who knew the names, Thomas Cook is the most mentioned by 71 per

cent, then Co-op by 64 per cent, Thomson/First Choice by 75 per cent and Midlands by 3 per cent. Other retail travel agents were mentioned by less than 1 per cent of respondents (Q43).

FIGURE 7

CC customer survey, knowledge of other travel agents in the respondents' local area, Q42 (Base: all respondents, n=2,504)



Source: CC customer survey.

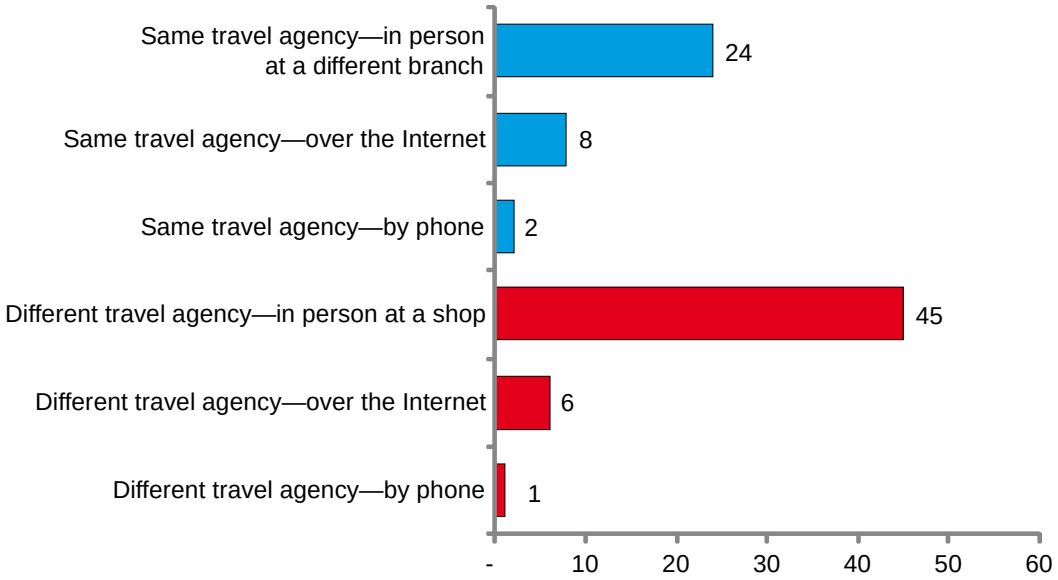
Forced diversion

132. We asked respondents how they would have responded had the store at which they booked their package holiday closed permanently, or all Thomas Cook, Co-op or Midlands stores, as appropriate, had closed. These are referred to respectively as the store and brand forced diversion questions. The responses to these questions are summarized below. In the next section, we explain how these results were used to estimate and model diversion ratios between the parties.

133. Figure 8 summarizes the responses to the store forced diversion questions. Overall we note that 69 per cent of respondents said that they would have continued to book at a store, 24 per cent at other stores in the same chain and 45 per cent at a store of another travel agent. 14 per cent said that they would have booked over the Internet.

FIGURE 8

CC customer survey, response to the travel agency shop being permanently closed, Q35 (Base: all respondents, n=2,504)

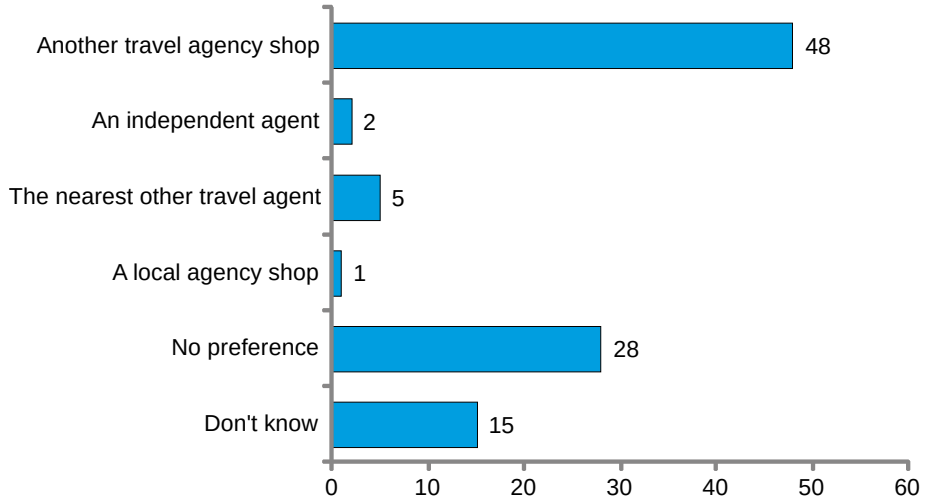


Source: CC customer survey.

134. We asked those who said they would have booked in-store at a different travel agent which store they would go to. The responses are summarized in Figure 9. Overall, 48 per cent gave the name of the travel agent, and a further 2 and 5 per cent said that they would have booked at an independent travel agent or the nearest travel agent, respectively. 15 per cent said they did not know and 28 per cent said they had no preference.

FIGURE 9

CC customer survey, travel agency shop would go to if current shop permanently closed, Q36 (Base: those who would book with a different agency, n=1289)

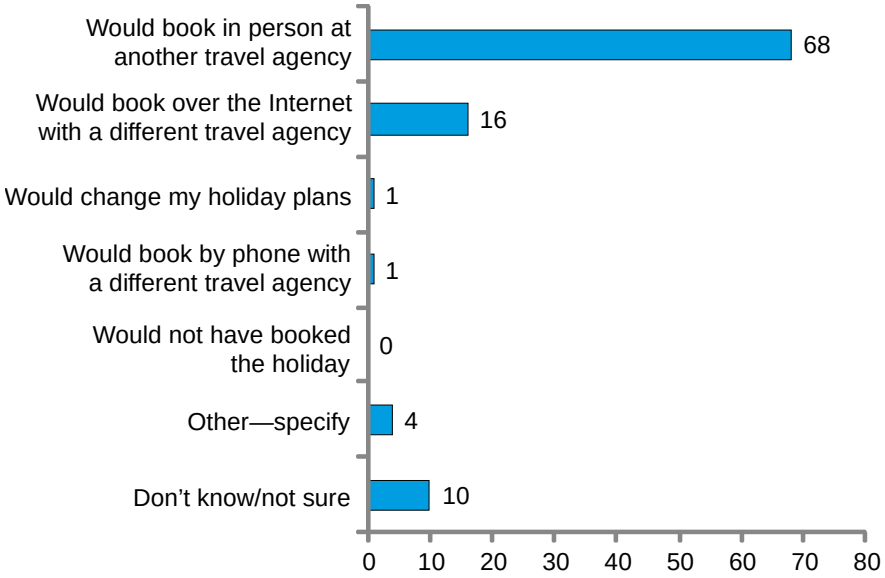


Source: CC customer survey.

135. Figure 10 summarizes the responses to the brand forced diversion question. For this question, we did not ask respondents further questions about which travel agent they would divert to.

FIGURE 10

Response to the brand forced diversion question, Q41 (Base: all those who would book with the same travel agency, n=839)



Source: CC customer survey.

Estimation of diversion ratios

Purpose

136. We asked respondents what they would have done had the store at which they had booked their package holiday permanently closed and also had all Thomas Cook, CGL or Midlands stores, as appropriate, closed.[11]

137. The purpose of asking these questions was as an input to assessing the closeness of competition between the joint venture parties and also between the joint venture parties and other competitors. On the assumption that intra-marginal customers would behave in the same way as all customers, responses to this question can be used in considering how customers might respond to price increases at the store or chain of stores at which they booked their package holidays. This can be one input to the assessment of post-merger incentives to increase prices.

138. We asked customers whether they would continue to book their holiday in-store or whether they might switch to booking through a different distribution channel, the Internet, telephone or by post. For customers who said they would book with a different travel agent, we asked further about with which travel agent they would book their holiday. Responses also included changing their holiday plans or not booking a holiday.

[11] The parties commented that the framing of these questions was likely to have led to an underestimate of the constraint posed by the Internet. This point is discussed in paragraph 9.25 of the main report.

139. The output of this work is diversion ratios. In this case, the diversion ratio from customers booking holidays in-store with travel agent X to travel agent Y is measured by asking respondents what they would do if the store (or chain) at which they booked closed, and calculating the number who said they would divert to booking with travel agent Y (in store, by telephone or online), as a proportion of all respondents except those who said 'don't know' whether they would book the same or a different travel agent. We are particularly interested in the percentage of people who told us that they would have booked with another joint venture travel agent.

140. As an input to the assessment of local effects, we needed diversion ratios that controlled for the options available to customers in each particular area. As explained above, the customers surveyed had booked holidays at joint venture stores in overlap areas where, centred on CGL stores, the merger would result in a fascia reduction of six to five, five to four etc in those areas where there is currently a Thomas Cook and a CGL or Midlands store and six to four, five to three etc in those areas where there are Thomas Cook, CGL and Midlands stores.

Approach

141. Our approach to analysing the results was as follows:

(a) First, we calculated diversion ratios based on relative frequencies across all respondents (excluding 'don't know' responses and 'other' responses), distinguishing between customers according to whether they had booked their package holidays at a Thomas Cook, CGL or a Midlands store.

(b) Then we estimated a logit (see below for further explanation) model of diversion ratios as a function of other travel agents present in the local area. We controlled for other characteristics of the area, with the aim of using this to predict diversion ratios for particular stores and/or areas of interest.

Results

Responses to store closure questions

142. Table 33 gives the diversion ratios between the joint venture parties across all responses (excluding don't knows). For example, for all respondents who had booked a package holiday in a Thomas Cook store, 46 per cent said that they would continue to book with Thomas Cook (in-store, by phone or online), 10 per cent said they would book with Co-op or Midlands and 10 per cent said that they would book with TUI.

TABLE 33 **Diversion ratios between joint venture parties in response to store closure**

	Store at which the booking was made		
	Thomas Cook	*Co-op*	*Midlands*
Travel agent to which the customer would divert:			
Thomas Cook	46	18	17
Co-op//Midlands	10	33	38
TUI	11	10	9

Source: CC analysis of CC customer survey data.

Base: all respondents (2,206) excluding 'don't knows', ie all respondents who said they would book with the agent they actually booked with or with a different travel agent either in-store, by phone or online or change their holiday plans.

143. It is worth noting that respondents appear to have used 'Co-op' both for CGL and Midlands. Switching to CGL and to Midlands cannot therefore be distinguished in the

data. Hence Co-op and Midlands are considered jointly (see second line in the table above).

144. We consider that these figures will understate the diversion between the joint venture parties because nearly half of the respondents who said that they would book at a different travel agent did not identify a particular travel agent. In particular, of those who said that they would switch to a different travel agent, 28 per cent said they had no preference, 14.8 per cent said they did not know which travel agent they would have used and 5.1 per cent said they would use the nearest travel agent. It appears reasonable to assume that at least some of these people would have booked a holiday with CGL or Midlands.

145. Table 34 gives the diversion ratios between the joint venture parties for only customers who said that they would have booked at a different travel agency (in-store, by phone or over the Internet). For example, of those customers who had booked a holiday at a Thomas Cook store and said they would switch to booking with a different agent, 18 per cent said that they would have booked the holiday at a CGL or Midlands store. We consider that these responses provide further information on how customers may respond to the brand closure.

TABLE 34 **Diversion ratios between joint venture parties in response to store closure**

	Store at which the booking was made		
	Thomas Cook	*Co-op*	*Midlands*
Travel agent to which the customer would divert:			
Thomas Cook	4*	27	27
Co-op//Midlands	18	2†	5†
TUI	20	15	13

Source: CC analysis of CC customer survey data.

Base: respondents who said they would book with a different travel agent in store, by phone or online or change their holiday plans, ie excluding those who said they would stay with the same agent (1,367).
*Respondents who had not followed the line of questioning.
†Includes respondents who would have diverted from Co-op to Midlands stores or vice versa.

Brand closures

146. We also asked respondents who had said they would have continued to book with the same travel agent, at another store, in response to the closure of the store at which they had booked, what they would have done had all the relevant chain's stores been closed. Of the 24 per cent of people who said they would continue to book with the same travel agent in-store in response to the store closure question, 68 per cent said they would have switched to booking in-store with a different travel agent in response to the brand closure question. This suggests that overall, faced with the closure of all stores operated by the Thomas Cook, CGL or Midlands, as appropriate, 61 per cent (ie 0.45 + 0.24*0.68 = 0.61) of all respondents would have switched to booking in-store with a different travel agent.

Model of diversion ratios

147. The purpose of this work was to estimate a model for diversion ratios between the joint venture parties using the responses to the survey which we could use to predict diversion ratios for stores that might be of particular interest.

148. As above, we analysed switching from Thomas Cook to Co-op/Midlands and from Co-op/Midlands to Thomas Cook without further distinction between CGL and Midlands.

149. We estimated a logit model using maximum likelihood estimation. We model the probability of switching to another JV agency:

$$P(y=1|\mathbf{x}) = \exp(\beta_0 + \beta_1 x_1 + ... + \beta_k * x_k)/[1 + \exp(\beta_0 + \beta_1 x_1 + ... + \beta_k * x_k)],$$

where *y=1* is the outcome 'switches to another JV agency' and *y=0* is the outcome 'does not switch to another JV agency' and ***x*** is the vector of the explanatory factors $x_1, ..., x_k$ which consists of variables measuring competition and demographic variables and estimate the logit, L_i

$$L_i = \ln (P_i/(1-P_i)) = \alpha + (\beta.COMPETITION_i) + (\gamma.DEMOGRAPHICS_i) + \varepsilon_i$$

- P_i is the probability that an individual would divert to another joint venture agency;
- $COMPETITION_i$ is a vector of the numbers of store by types in the catchment of the store at which the booking was made. The number of stores has been broken down by total number of stores in the given catchment area (distinguishing areas with up to nine stores and more than nine stores in total—see Table 37 for details);
- $DEMOGRAPHICS_i$ is a vector of local market characteristics such as population, unemployment etc; and
- ε_i is a random error.

150. To account for the survey design, we cluster on the areas from which customers have been sampled, ie we account for interdependency of responses from those areas.

151. For Thomas Cook stores, catchment areas were estimated by store type. In a small number of cases the type of store was not available. Here we used the average catchment area for Thomas Cook stores, 8 miles, as distance for the catchment areas. For CGL and Midlands stores we used the average catchment area for these stores of 5 miles.

152. We estimated the model on two bases: all respondents, and respondents who said they would divert to a different travel agent or change their holiday plans, ie excluding those who said they would stay with the same travel agent. The latter would be a proxy for diversion ratios were one of the joint venture parties to close all its stores. The results are given in Tables 35 and 36.

TABLE 35 **Logit regression of diversion to stores of a difference joint venture party, all responses**

	Marginal effect	*Confidence interval*
Thomas Cook	–0.091***	[–0.13, –0.05]
Cum own JV (<10)	–0.021	[–0.05, 0.01]
Cum own JV (>9)	–0.006	[–0.01, 0.02]
Cum other JV (<10)	0.064***	[0.03, 0.10]
Cum other JV (>9)	0.010**	[0.00, 0.02]
Cum TUI (<10)	–0.027**	[–0.05, –0.00]
Cum TUI (>9)	–0.024***	[–0.04, –0.01]
Cum non-BG chains	–0.029***	[–0.05, –0.01]
Cum BG chains	–0.007	[–0.02, 0.01]
Cum ind (BG or not)	0.019***	[0.01, 0.03]
[demographics]	[…]	[…]

Source: CC analysis of CC customer survey data.

Statistical significance levels: * 10%, ** 5%, *** 1%.

TABLE 36 **Logit regression of diversion to stores of a difference joint venture party, respondents who said they would switch to a different travel agent or change their holiday plans**

	Marginal effect	*Confidence interval*
Thomas Cook	–0.103***	[–0.16, –0.04]
Cum own JV (<10)	–0.010	[–0.05,– 0.03]
Cum own JV (>9)	0.013**	[0.00, 0.02]
Cum other JV (<10)	0.101***	[0.05, 0.16]
Cum other JV (>9)	0.016**	[0.00, 0.03]
Cum TUI (<10)	–0.059***	[–0.09, –0.02]
Cum TUI (>9)	–0.034***	[–0.06, –0.01]
Cum non-BG chains	–0.042***	[–0.07, –0.01]
Cum BG chains	–0.011	[–0.03, 0.01]
Cum ind (BG or not)	0.031***	[0.02, 0.05]
[demographics]	[…]	[…]

Source: CC analysis of CC customer survey data.

Statistical significance levels: * 10%, ** 5%, *** 1%

153. The explanatory variables are explained in Table 37.

TABLE 37 **Description of explanatory variables**

Variable name	*Description*
Thomas Cook	Indicator for Thomas Cook customer
cum own JV (<10)	Number of stores of the type the customer used (Thomas Cook, Co-op or Midlands) for catchment areas with less than 10 stores in total
cum own JV (>9)	Number of stores of the type the customer used (Thomas Cook, Co-op or Midlands) for catchment areas with more than 9 stores in total
cum other JV (<10)	Number of stores of the respective other JV party for catchment areas with less than 10 stores in total
cum other JV (>9)	Number of stores of the respective other JV party for catchment areas with more than 9 stores in total
cum TUI (<10)	Number of TUI stores for catchment areas with less than 10 stores in total
cum TUI (>9)	Number of TUI stores for catchment areas with more than 9 stores in total
cum non-BG chains (<10)	Number of chain stores which are not members of buying groups for catchment areas with less than 10 stores in total
cum non-BG chains (>9)	Number of chain stores which are not members of buying groups for catchment areas with more than 9 stores in total
cum BG chains	Number of chain stores which are members of buying groups
cum indep	Number of independent stores
[demographics]	

Source: CC analysis of CC customer survey data .

154. We then used these results to predict diversion ratios between the joint venture parties, that is the average predicted probability of switching to another joint venture party, for catchment areas with particular characteristics in terms of the number and type of competitors in the catchment area. The results are shown in Tables 38 and 39. Results are given for areas with the following characteristics:

(a) Where there is a store of another joint venture party within 0.5 miles of the relevant store and, in addition:

(i) no TUI stores and no ‘other large chains’ (proxied by chains that are not members of buying groups) within 1 mile of the relevant store;

(ii) stores of ‘other large chains’ but no TUI stores within 1 mile of the relevant store; or

(iii) TUI stores but no stores of ‘other large chains’ within 1 mile of the relevant store.

(b) Alternatively, areas where there are:

(i) no TUI stores and no 'other large chains' (proxied by chains that are not members of buying groups) within the catchment area of the relevant store;

(ii) stores on 'other large chains' but no TUI stores within the catchment area of the relevant store; or

(iii) TUI stores but no stores of 'other large chains' within the catchment area of the relevant store.

TABLE 38 **Predicted diversion ratios between joint venture parties for particular areas, all customers**

	(a)(i) No TUI, no large chain	*(a)(ii) No TUI, large chain*	*(a)(iii) TUI, no large chain*	*(b)(i) No TUI, no large chain*	*(b)(ii) No TUI, large chain*	*(b)(iii) TUI, no large chain*
Crit = 0	12.8	14.2	13.3	13.0	14.2	13.1
Crit = 1	19.6	*8.9*†	15.9	18.6	*9.5*†	15.2
Crit = 0, T Cook = 0	17.0	18.1	17.1	16.9	18.1	17.6
Crit = 0, T Cook = 1	8.5	10.1	9.6	9.4	10.1	8.8
Crit = 1, T Cook = 0	22.0*	*2.5*†	19.9	21.6	N/A	18.5
Crit = 1, T Cook = 1	16.9*	*9.5*†	11.1	13.8	*9.5*†	11.4

Source: CC analysis of CC customer survey data .

†No of obs < 23.
*Different at the 11% level of sign.
Note: N/A = not available.

TABLE 39 **Predicted diversion ratios between JV parties for particular areas, all customers who divert to another joint venture party**

	(a)(i) No TUI, no large chain	*(a)(ii) No TUI, large chain*	*(a)(iii) TUI, no large chain*	*(b)(i) No TUI, no large chain*	*(b)(ii) No TUI, large chain*	*(b)(iii) TUI, no large chain*
Crit = 0	20.4	23.0*	21.9	20.8	23.0*	22.3
Crit = 1	33.5	*17.9*†	24.6	31.3	*17.9*†*	23.4
Crit = 0, T Cook = 0	24.8	26.8	26.0***	24.7	26.8	27.9
Crit = 0, T Cook = 1	15.0	18.0	17.2	16.5	18.0	16.3**
Crit = 1, T Cook = 0	35.0	N/A	28.1***	34.0**	N/A	26.0
Crit = 1, T Cook = 1	31.6	*17.9*†	19.8	26.3**	*17.9*†	19.6**

Source: CC analysis of CC customer survey data .

*Different at the 11% level of sign. ** 9% level of sign. *** 6% level.
†No of obs < 16.
Note: N/A = not available.

Where:

Crit = 0	Average diversion ratio between JV parties in areas which do not have the characteristics as set out in the column heading (in other areas)
Crit = 1	Average diversion ratio between JV parties in areas with characteristics as set out in the column heading (relevant areas)
Crit = 0, T Cook = 0	Division ratio for CGL/Midland customers to Thomas Cook stores in other areas
Crit = 0, T Cook = 1	Division ratio for Thomas Cook customers to CGL/Midland stores in other areas
Crit = 1, T Cook = 0	Division ratio for CGL/Midland customers to Thomas Cook stores in relevant areas
Crit = 1, T Cook = 1	Division ratio for Thomas Cook customers to CGL/Midland stores in relevant areas

155. We considered that these results were likely to understate the diversion ratios from a Thomas Cook, CGL or Midlands store to another joint venture travel agent (either booking in-store, online or by telephone) as these results do not include an allocation of customers who said they did not know what they would do or with which travel agent they would book faced with store closure. Likewise at least some of those who told us that they had no preference would be most likely to have booked with the respective other joint venture party.

Sales margins

156. Margins may be an indicator of the strength of competition faced by the joint venture parties pre-merger; high margins may be associated with weak price competition. The same information can also be used in considering the potential impact of the merger on consumers. Margins would be one input to an assessment of post-merger incentives to increase prices.

157. We considered that the relevant margin in this case is the retail profit earned on additional sales expressed as a percentage of the total value of these additional sales. The retail profit earned on the additional sales will be the net revenue (ie commission income less discounts funded by the travel agent) less any additional in-store costs incurred in making the additional sales.

158. Each party provided information on annual average revenue margins for all sales of package holidays and by type of package holiday, for each of the last five financial years. The average revenue margin is defined as total commission revenue less discounts funded by the travel agent, expressed as a percentage of total sales revenue. These average net revenue margins were in the range of around [✂] per cent depending on the party, product and year.

159. To calculate margins, we also needed to understand the relationship between in-store costs and volume or value of sales. Store network costs are largely staff and rent. We considered it reasonable to assume, for our purposes, that rents are fixed. We explored the relationship between branch sales and staff costs.

160. Using Thomas Cook data for all existing stores, over the period October 2006 to September 2010, we examined the relationship between total travel sales by value and total branch staff costs. We estimated simple OLS regression using a double log specification. The results are set out below.

TABLE 40 **OLS estimates of the relationship between staff costs and value of travel sales**

Type of Thomas Cook store	*Elasticity of travel sales on staff costs*	*% increase in staff costs with a 10% increase in travel sales*	*Statistically significant*
Closed bureaux	.	-	-
Closed GP Homeworkers	0.0535	0.54	Yes
Closed Going Places	0.0917	0.92	Yes
Closed HSBC	.	-	-
Closed other centres	.	-	-
Closed Thomas Cook Shops	0.0742	0.74	No
Existing Thomas Cook	0.0392	0.39	Yes
New Thomas Cook	0.0572	0.57	Yes
Other centres	–0.7712	–7.71	Yes

Source: CC analysis of Thomas Cook data.

161. We also converted the data into a panel data set. We ran a random coefficients model which assumes store specific effects are uncorrelated with the independent variable (travel sales). The results are provided in Table 39.

TABLE 41 **OLS panel estimates of the relationship between staff costs and total travel sales value, Thomas Cook, last five financial years**

	% increase in staff costs due to a 10% increase in travel sales					
Type of Thomas Cook store	*OLS model on non-panel data set*	*Stat sig*	*Random co-efficients model on panel data set*	*Stat sig*	*Random coefficients model on panel data set with year dummies*	*Stat sig*
All stores	0.75		0.85	Yes	0.80	Yes
Closed GP Homewkrs	0.54	Yes	.		.	
Closed Going Places	0.925	Yes	0.83	Yes	0.83	Yes
Closed Thomas Cook Shops	0.74	No	1.15	Yes	0.45	No
Existing Thomas Cook	0.39	Yes	0.86	Yes	0.63	Yes
New Thomas Cook	0.57	Yes	0.68	Yes	0.76	Yes
Other centres	–7.71	Yes			.	.

Source: CC analysis of Thomas Cook data.

162. These results suggest that a 10 per cent increase in total sales was associated with between a [✂] and [✂] per cent increase in staff costs. Over the period 2007/08 to 2009/10, staff costs accounted for around [✂] per cent of total branch costs and around [✂] per cent of total travel sales. Based on these results, the effect of allowing for variable staff costs would be to reduce the margin by between 0.25 and 0.5 percentage points.

163. Overall these results suggest that the relevant sales margins are of the order of [✂] per cent on the sales value.

Vertical theories of harm

1. This appendix provides further details on our modelling of incentives for foreclosure and our study of the effects of foreclosure, as summarized in Section 10 of the main report.

2. As in Section 10, in this appendix we have adopted terms not used by the parties to distinguish between the different levels of Thomas Cook's business. We refer to Thomas Cook's upstream operations as Thomas Cook Holidays (TCH), its down-stream bricks-and-mortar operations as Thomas Cook Stores (TCS),[1] and the wider corporate entity as Thomas Cook Group (TCG).

Modelling incentives for foreclosure

3. We modelled incentives for foreclosure using vertical arithmetic models. This section gives background on the margins used as inputs to the models, describes the models used to assess incentives customer foreclosure and input foreclosure, and assess the conditions under which foreclosure strategies would be profitable. The modelling assumes that TCG has effective control over the joint venture, but takes only 66.5 per cent of the joint venture's profits.[2]

Margins

4. Two important inputs into our vertical arithmetic model are the retail margins earned by the parties' stores and the wholesale margins earned by TCH. This section describes the values we have used for retail and wholesale margins.

Retail margins

5. Retail margins on package holidays are relatively straightforward. Travel agents earn commission on the sale of holidays, but may transfer some of that to the customer in the form of discounts. In addition, travel agents may earn an extra margin on sales of products directly linked to the packages (primarily insurance), and we have included this in the retail margin.

6. We have calculated a separate retail margin for TCH and for third party packages (ie all package holidays other than those supplied by TCH), in case there is a difference that affects the joint venture's incentives as to what holidays to sell.

7. We have excluded cruise holidays from this calculation. TCH does not offer cruise holidays, and so we expect that TCG would have little incentive to cease selling third party cruise holidays in the joint venture's stores. Therefore the retail margins on package holidays that we have used exclude cruise. We consider the issue of cruise holidays separately in Section 10 of the main report.

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[1] These terms are not used by the parties. Thomas Cook operates stores under two brands and offers package holidays under several brand names, so it is convenient to be able to group together all the stores under one term and all the tour operations under another.

[2] We note that there are certain restrictions on TCG's control, but we do not believe that they would prevent it from carrying out the type of strategies described in our report and this appendix. See paragraph 10.5 and accompanying footnote.

Wholesale margins

8. We asked Thomas Cook the value of an additional/lost customer at tour operator level. We were concerned that the margin would vary according to which costs were classified as fixed, and depending on when the holiday was booked (because the price of a given holiday varies over time, and in particular is often discounted as the departure date approaches).

9. For example, if a foreclosure strategy allowed TCH to sell holidays that would otherwise go unsold and with flights and hotels which TCH has already committed to pay for, the effective margin of the sale might be the list price minus the travel agent's commission. Alternatively, such a strategy might allow TCH to sell holidays earlier in the season than it would have done, in which case the effective margin might be the difference in price between selling early at 'full price' and selling later at a discounted price.

10. Thomas Cook told us that this margin depended on a number of factors:

- The margin on a package holiday for a passenger on a scheduled flight is £[✂]. Scheduled flights account for only [✂] per cent of TCH's passengers.
- The margin for a passenger on a charter flight is £[✂]. Charter flights account for the remaining [✂] per cent of TCH's passengers.
- If TCH can flex the number of charter flights it operates, then the margin on passengers on these flights falls to £[✂].
- The gain from selling a holiday early in the season rather than late is £[✂] (due to prices falling as the holiday departure becomes closer).
- The gain from selling a holiday in the peak selling months of the season (January to February) rather than late is £[✂].

11. So (in our model) the upstream gain from selling more TCH packages depends on what type of flight is used, the number of extra passengers, and whether TCH increases the total number of holidays sold or just sells holidays earlier and avoids discounting them.

Customer foreclosure

Total foreclosure

Vertical arithmetic

12. The key group of consumers is those who would, absent a foreclosure strategy, buy non-TCH packages in the joint venture's stores. Under a total foreclosure strategy, those third party packages would no longer be available in the joint venture's stores. These customers will either stay at the joint venture's store and buy a Thomas Cook holiday, or leave the joint venture's store (go to a different retailer or do not buy a holiday). The joint venture loses its retail margin on non-TCH packages for all these customers, and gains a retail margin on TCH packages for retained customers. The change in TCG's profits is its share (66.5 per cent) of the change in joint venture profits, plus TCH's upstream margin on retained customers. So TCG's expected gain per passenger is:

$$\text{Gain} = -sR_{nonTC} + X(W+sR_{TC})$$

where R is the retail margin and the subscript indicates either a TCH package or a non-TCH package, W is TCH's upstream (wholesale) margin, s is TCG's share of profits from the joint venture, and X is the percentage of relevant customers retained. Rearranging this formula, we find that TCG gains from the strategy if:

$$X > sR_{NonTC}/(W+sR_{TC}).$$

13. Table 1 below shows what proportion of customers each of the parties' stores would have to retain in order for a total foreclosure strategy to be profitable (based on retail margins at each type of store), depending on what the relevant measure of wholesale margin might be. The results differ for different store groups because the retail margins differ between stores of each party.[3] In order for the strategy to be profitable, the parties would have to meet these retention targets at each of the three parties' stores (or exceed the target at one to make up for a shortfall at another).

TABLE 1 **Proportion of customers the parties need to retain**

	Scheduled	*Charter small numbers*	*Charter large numbers*	*Gain from selling early*	*Gain from selling in peak*
Wholesale margin/pax (£)	[✂]	[✂]	[✂]	[✂]	[✂]
Must retain (%):					
Thomas Cook stores	23.2	12.1	53.5	32.4	45.1
CGL stores	32.6	17.8	66.9	43.8	58.2
Midlands stores	33.5	18.0	70.7	45.5	61.0

Source: Wholesale margin figures supplied by Thomas Cook; other figures based on CC calculations.

14. We have not reached a firm view on the exact wholesale margin that would be most appropriate. Since a total foreclosure strategy could affect over a million passengers a year, the 'charter small numbers' margin seems unlikely to be the most appropriate. It is possible that the 'true' margin would involve a weighted average of several measures—selling some holidays that would have gone unsold, selling some holidays earlier, and expanding capacity to offer and sell more holidays in total.

Further considerations

15. We took into consideration several further factors.

16. First, the analysis above does not include customers who, absent a foreclosure strategy, would buy a TCH package from one of the joint venture's stores. It implicitly assumes that their behaviour is unchanged. If the reduced choice in the joint venture's stores would lead to some of these customers buying a holiday elsewhere (even if they ultimately choose the same TCH package), then the joint venture will lose its retail margin and TCH may lose its upstream margin. This would make foreclosure less profitable or, in other words, the joint venture's stores would have to retain a higher share of customers than shown in Table 1 to compensate for this loss.

17. Secondly, Oxera suggests that anyone currently buying a third party holiday in a Thomas Cook store, despite that store's existing directional selling behaviour, is extremely unlikely to switch to a TCH package—almost all would go to a different travel agent. This is not necessarily the case; an alternative possibility is that at least some of this group of people want to buy their holiday from a Thomas Cook store, and so they would be unlikely to go anywhere else. If Oxera's conjecture is valid and the joint venture would find it difficult to retain customers in Thomas Cook stores,

[3] We do not have retail margin split by Thomas Cook packages and non-Thomas Cook packages for CGL, so we have treated the retail margin on both as identical.

then to compensate they would have to retain a higher share of customers in CGL and Midlands stores than shown in Table 1.

18. Both of these arguments would mean that the 'must retain' figures in Table 1 are conservative, ie total foreclosure would be unprofitable even at this retention rate and the true 'must retain' figure would be higher.

19. Thirdly, as noted above, TCG may have a strategic incentive to foreclose because of other upstream benefits. If this is the case, then the joint venture's stores could retain a lower share of customers than shown in Table 1 and the strategy would still be profitable.

20. Fourth, the parties argued that TCS currently stock holidays from a range of operators, and the proposed joint venture would not change its incentives.

21. We have taken Thomas Cook's current behaviour into account in our assessment, but the joint venture would change Thomas Cook's incentives in two ways. First, TCG will benefit from only 66.5 per cent of TCS's profits, and so the cost to TCG of any type of customer foreclosure strategy is reduced. Secondly, TCH will benefit from sales in a larger network of stores, which may recapture some customers who leave TCS. Both of these factors increase its incentive to foreclose.

Likely level of retention

22. Our survey suggests that there is quite a large degree of loyalty to tour operators for holidays. We asked customers what they would have done if the tour operator they had booked with were no longer available in the store they booked in.[4] 67 per cent said that they would have booked the same holiday in a different way, of which 58 per cent said they would have used a different retail store chain and 24 per cent would have booked directly with the tour operator. 25 per cent would have booked a different holiday, of which 66 per cent at the same shop. This implies a retention rate in store of around 17 per cent, which is substantially below any 'must retain' figure in Table 1 (except the 'charter small numbers' category, which we think is unlikely to be appropriate).

23. We also considered whether there is customer loyalty to stores:

- Thomas Cook told us that, of households booking a holiday with Thomas Cook (all channels) in 2007/08, less than [✂] booked a holiday with it the following year, and only [✂] booked a holiday with it in both 2008/09 and 2009/10.

- CGL told us that, of households booking a holiday with it in 2009, less than [✂] booked a holiday with it the following year. Of households booking a holiday with it in 2007, less than [✂] booked another holiday with it in any of the following three years.

- Midlands told us that, of households booking a holiday with it in 2009, less than [✂] booked a holiday with it the following year. Of households booking a holiday with it in 2007, less than [✂] booked another holiday with it in any of the following three years.

[4] This question was not asked to customers buying a Thomas Cook holiday in a Thomas Cook store, partly because we thought it would be confusing, and partly because for these purposes we are not interested in that group of customers.

24. Although we do not know how many of these customers booked holidays with a different travel agent, these numbers are sufficiently low to suggest that customer loyalty to travel agents is limited, which is consistent with a low retention rate from a foreclosure strategy.

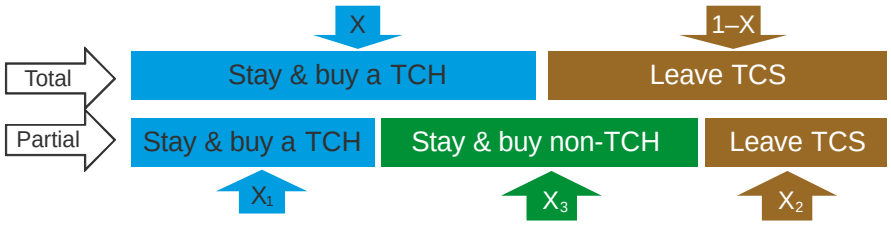
Partial foreclosure

25. As noted in Section 10 of the main report, we use the term 'partial foreclosure' here to refer to any strategy by which TCG might try to increase sales of TCH in TCS, short of entirely ceasing to stock third party holidays, rather than in the normal economics sense of raising rivals' costs. See paragraph 10.6 of the main report.

Vertical arithmetic

26. We have revised the vertical arithmetic that we used above to consider total foreclosure. The key group of consumers to consider is still those who would, absent a foreclosure strategy, buy non-TCH packages in the joint venture's stores.

27. Customers buying non-TCH packages have three choices: proportion X_1 switch to TCH packages, X_2 = leave the joint venture's store, and X_3 make a non-TCH purchase despite directional selling. $X_1+X_2+X_3 = 100\%$. The diagram below illustrates the choices that this group of customers has in TCS (an equivalent diagram would apply for CGL stores and for Midlands stores). Under a total foreclosure strategy, they had two choices; under partial foreclosure they have three choices.



28. For all customers who switch (proportion X_1), TCG gains the wholesale margin, plus its share of the difference between retail margin on a TCH package compared with the package the customer would have bought. For all customers who leave the store (proportion X_2), TCG loses its share of the retail margin on the package the customer would have bought. And for the group that sticks with its original choice (proportion X_3), TCG's profit is unchanged. So TCG's change in profits can be expressed as:

$$\text{TCG gain} = X_1(W + sR_{TC} - sR_{nonTC}) - sX_2R_{nonTC} + 0.X_3.$$

29. Rearranging this formula, we find that TCG gains from the strategy if:

$$X_1/X_2 > sR_{NonTC}/(W+s(R_{TC} - R_{nonTC})).$$

30. In other words, TCG gains if the proportion who switch is sufficiently high relative to the portion who leave. If the retail margin on TCH and third party packages is the same, $R \equiv R_{TC} = R_{nonTC}$, then this condition simplifies to:

$$X_1/X_2 > sR/W.$$

31. If X_3=0, then the conditions are equivalent to those for total foreclosure (where $X_1 = X$ and $X_2 = 1–X$). In other words, total foreclosure can be viewed as a special (or extreme) case of partial foreclosure.

32. Table 2 shows the conditions under which partial foreclosure is profitable. The interpretation of these numbers is more complex than in Table 1. Here, we are comparing the proportion of customers who switch to a TCH package with the proportion that leave the store. So, for example, if the critical number in the table were 100 per cent, we would interpret that as meaning that partial foreclosure is profitable if more people switch to a TCH package than leave the store. If the critical number is 200 per cent, then twice as many people must switch to a TCH package as leave the store.

TABLE 2 **Conditions for partial foreclosure to be profitable**

	Scheduled	*Charter small numbers*	*Charter large numbers*	*Gain from selling early*	*Gain from selling in peak*
Wholesale margin/pax (£)	[✂]	[✂]	[✂]	[✂]	[✂]
X_1/X_2 must be greater than (%):					
Thomas Cook stores	30.2	13.7	114.9	47.9	82.1
CGL stores	48.4	21.6	202.3	78.1	139.1
Midlands stores	50.4	22.0	241.1	83.4	156.5

Source: Wholesale margin figures supplied by Thomas Cook; other figures based on CC calculations.

33. We do not have any information on the likely values of X_1 and X_2, but it is plausible that the ratio between them could be large. For example, if partial foreclosure takes the form of 'soft' selling tactics, such as trying to persuade a customer to buy a TCH package, or showing a TCH package first but then moving to a non-TCH package if the TCH package is not suitable, then the probability of customers leaving the store (X_2) may be quite small. And if X_2 is small, then X_1/X_2 can easily be large.

Comparison of incentives for total and partial foreclosure

34. We have considered whether partial foreclosure is likely to be more or less profitable than total foreclosure. As we would expect, this depends on how many retail customers the joint venture's stores can 'save' under partial compared with total, and how many fewer customers they 'convert' to TCH packages under partial compared with total.

35. Taking the equations for gains from partial and total foreclosure above, we can show that the gain from partial foreclosure minus the gain from total foreclosure is:

$$sR_{nonTC}((1–X) –X_2) – (W + sR_{TC} – sR_{nonTC}).(X–X_1).$$

36. We can simplify this by denoting the 'lost conversions' as $Y_1 = X–X_1$, and the customers 'saved' as $Y_2 = (1–X) –X_2$. So we can rewrite the difference between partial and total foreclosure as:

$$Y_2sR_{nonTC} – Y_1(W + s(R_{TC} – R_{nonTC})).$$

37. This means that partial foreclosure is more profitable than total foreclosure if:

$$Y_2/Y_1 > sR_{nonTC} / (W + s(R_{TC} – R_{nonTC}))$$

38. If the retail margin on TCH and non-TCH packages is the same, we can write this more simply as:

$$Y_2/Y_1 > sR_{nonTC} / W$$

39. In other words, partial foreclosure is more profitable than total if the proportion of customers that would be lost under total but not partial foreclosure is large relative to the customers who would be 'converted' to a TCH package under total but not partial

foreclosure, and if the wholesale margin is large relative to TCG's share of the retail margin.

Input foreclosure

Total foreclosure

Vertical arithmetic

40. If it stops selling TCH packages to third party retailers, TCG gains its share of the retail commission from the extra sales in the joint venture's stores, and loses the wholesale margin on packages that are no longer purchased. The group of consumers that we need to consider is those who would otherwise buy TCH packages in third party stores. Mathematically, TCG's average gain from this group is:

$$ZsR_{JV} - (1 - Z)W$$

where Z is the proportion of customers buying TCH packages in third parties' stores who switch to the joint venture's stores (ie they are 'recaptured') and s is TCG's share of joint venture profits. Here, we use R to denote the average retail margin of all the joint venture's stores on TCH packages, and W is again the upstream (wholesale) margin on TCH packages.

41. We can rearrange to show that this strategy is profitable for TCG when:

$$Z > W/(W+sR_{JV}).$$

42. In other words, this is more likely to be profitable if the joint venture's stores can recapture a large proportion of customers, and if retail margins are high relative to wholesale margins. As with the vertical arithmetic for customer foreclosure, we need to find an appropriate definition of wholesale margin. For each of the five measures that Thomas Cook gave us, Table 3 shows the proportion of customers that the joint venture's stores would need to recapture. The calculation is based on a weighted average retail margin on TCH packages across the three joint venture parties.

TABLE 3 **Proportion of customers Thomas Cook needs to recapture**

	Scheduled	*Charter small numbers*	*Charter large numbers*	*Gain from selling early*	*Gain from selling in peak*
Wholesale margin/pax (£)	[✂]	[✂]	[✂]	[✂]	[✂]
Must recapture (%)	73.3	86.0	39.7	63.0	48.9

Source: Wholesale margin figures supplied by Thomas Cook; other figures based on CC calculations.

43. The table shows that even on the most generous assumption about wholesale margin, TCG would need to recapture 40 per cent of consumers who would, absent the strategy, have bought a TCH package in a third party store.

44. Although we have not explicitly included it in this calculation, it is possible that some of the recapture could come in the form of sales through Thomas Cook's direct channels outside the joint venture (such as Thomas Cook's website). In that case, TCG would benefit from 100 per cent of its online retail margin (rather than 66.5 per cent for sales through the joint venture) and so it would not need to recapture such a large proportion of customers.

Studying effects of foreclosure strategies

Customer foreclosure

45. We considered the likely effects upstream of the joint venture operating a foreclosure strategy. The effects will depend on the volume and value of sales that move from third party packages to TCH packages.

46. TCH packages account for around [✂] per cent of CGL's sales of overseas package holidays, and around [✂] per cent of Midlands'.[5] Thomas Cook's Synergy Model calls for them to sell [✂] per cent Thomas Cook holidays (across all holiday products), and we have used this as one possible benchmark. In Thomas Cook stores, around [✂] per cent of package holiday sales are TCH packages, but to be conservative we have considered an upper bound of 75 per cent for sales under a partial foreclosure strategy.

47. In 2009/10, CGL and Midlands stores' combined sales of overseas package holidays were around £[✂] million. IPS estimated the total market size as 10,241 million passengers. If sales of TCH packages increased to [✂] per cent of CGL's and Midlands' sales (as per the efficiencies plan), that would account for around £[✂] million of sales, or [✂] per cent of the total market.

48. If sales of TCH packages further increased to 75 per cent, that would account for around £[✂] million of sales, or [✂] per cent of the total market. We consider this to be the upper limit under a partial foreclosure strategy.

49. And if sales of TCH packages further increased to 100 per cent—in other words, every sale made in a CGL or Midlands store switched to TCH packages—that would account for around £[✂] million of sales, or [✂] per cent of the total market. If TCS also operated a successful total foreclosure strategy, a further £[✂] million of sales ([✂] per cent of the market) would be affected. We consider it highly unlikely that any of the parties would be able to operate a total foreclosure strategy without losing some volume of sales, and so this is likely to exceed the maximum possible impact.

50. Of this, we calculated that £[✂] million of sales ([✂] per cent of the market) through CGL and Midlands were through their in-house operations [✂] (primarily Escape and Co-op Holidays,[6] [✂]). These sales can be netted off against the impact above since they would not represent part of the loss to third party tour operators, and we would expect most of them to transfer to TCH regardless of any type of foreclosure strategy.

Affected operators

51. The parties told us that CGL and Midlands accounted for less than [✂] per cent of independent tour operators' sales, and they estimate that 80 per cent of AITO-affiliated operators use direct sales channels exclusively.

52. There is very little data available on the size of tour operators, and our best source is ATOL data. This includes passengers carried on air-based packages only (thus it excludes passengers leaving the UK on ex-UK cruises, Eurostar or coaches). ATOL

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[5] In this section all sales are expressed in value terms, rather than volume. The inclusion of dynamic packages makes calculating sales in volume terms difficult, since a single dynamic package may have two or more suppliers (flight, hotel, transfers etc), whereas a traditional package holiday would only have one. Hence there is a degree of double counting when adding up sales by volume. We have performed the same analysis on a volume basis and the results are similar.
[6] Escape is the dynamic packaging operation of CGL and Co-op Holidays is the dynamic packaging operation of Midlands.

licensed tour operators have to pay a fee of approximately 12p per licensed passenger, and they make their estimates at the time the licence is issued (in either September or March). Operators may later revise the number of passengers. Thomas Cook told us that 'Provided the industry remains stable, ATOL licences can therefore be seen as a reasonable proxy for tour operators' market share in relation to air based packages (only)', with the caveat that the industry has been relatively unstable of late and so there could be some marked deviations from licensed seats. We also asked the CAA, which supplies ATOL-licensed passenger numbers. The CAA used to produce an 'ATOL Business' report which compares licensed seats with actual passengers. It no longer produces this report, but it told us that it saw no particular reasons why licensed numbers and passengers carried should be particularly different. Therefore we think this data should be informative, although we should use a little caution in interpreting it. We used ATOL data from December 2010. It excludes Small Business ATOL holders, who are authorized to carry no more than 500 passengers in any rolling 12-month period.

53. One obvious group of potentially affected operators would be those who are currently sold in Co-op stores[7] but not in Thomas Cook stores. The parties supplied us with ATOL data from December 2010 and indicated which operators were sold by each of the parties. Some of these operators were different brands under common ownership (for example, Thomas Cook had six brands with ATOL licences) and we grouped these together, which left us with 238 operators, of which the smallest was licensed for 4,726 seats. Thomson and Thomas Cook were each licensed for more than 4 million seats, and a further 24 operators were licensed for between 100,000 and 500,000 seats.

54. According to the parties' data, TCS sold [✂] of the 238 operators, and the Co-op stores between them sold [✂]. The operators sold by TCS accounted for 64.8 per cent of seats, and those sold by the Co-op accounted for 66.0 per cent. Operators sold by the Co-op but not TCS accounted for just 2.74 per cent of all licensed seats.

55. We tried to match sales data supplied to us by the parties with the operators in the ATOL data set. This revealed a number of discrepancies (eg CGL's sales data included some operators that CGL told us it did not stock, and vice versa—although some of these were very small sales, and there are issues involved in matching operator names). This suggested that the Co-op sold [✂] operators, accounting for [✂] per cent of seats in the data set, compared with TCS's [✂] operators ([✂] per cent of seats).

56. We examined the 47 operators sold by the Co-op but not TCS.[8] According to our analysis, sales through the Co-op accounted for less than [✂] per cent of licensed seats for all but nine of these operators, less than [✂] per cent for all but four operators, and [a small proportion] in all cases.

57. We also used the ATOL data to see if there are any other operators who make a sizeable proportion of their sales through the Co-op, or the joint venture. We could only do this for operators listed in the ATOL data since we do not know the size of other operators in the market.

58. We found 15 operators[9] which sold more than 10 per cent of their seats through either TCS or the Co-op (combined). Of these, four were cruise operators and, as we

[7] For convenience, in this section we use the term 'Co-op stores' to refer to both CGL and Midlands stores. Since CGL and Midlands are members of the same buying group, they stock the same range of holidays.
[8] We excluded Co-operative Travel from this comparison.
[9] Excluding TCH and Co-operative Travel.

discuss elsewhere in this appendix, it is not clear that TCG would have an incentive to change the way it supplies cruise operators. Of the remainder, only one sold more than 20 per cent of its passengers through the parties' stores, and a further two sold more than 15 per cent. Hence even a total foreclosure strategy seems unlikely to harm significantly many of the operators in the ATOL data set.

59. We also considered the likely effect of a partial foreclosure strategy on these operators. Four were not sold by TCS at all. Five of them sold more than 10 per cent of their seats through the Co-op, but all sold less than 15 per cent.

60. In total, we found 243 operators who sold through Co-op stores but not TCS in 2009/10.[10] We noted that the smallest operator on the ATOL list had just under 5,000 seats, so we looked at operators who had sales of 500 or more through Co-op stores to try to capture operators too small for the ATOL list but who may have had 10 per cent or more of their sales through Co-op stores. We found there were just 13 such operators, with total sales through Co-op stores of 16,000 seats. Assuming that all of them are smaller than the smallest operator on the ATOL list, they must account for fewer than 61,000 seats in total.

Possible effect on downstream prices (discounting)

61. We analysed the discounts given by CGL. We found that CGL was slightly less likely to give discounts on Thomas Cook packages than on other packages ([✂] per cent vs [✂] per cent in 2009/10);[11] and that when it did offer discounts, it offered slightly lower discounts on Thomas Cook packages ([✂] per cent vs [✂] per cent).

62. We analysed Midlands' discounts in the same way. We found that Midlands was slightly less likely to give discounts on Thomas Cook packages than on other packages ([✂] per cent vs [✂] per cent in 2009/10, although the reverse was true in 2008/09);[12] and that when it did offer discounts, it offered slightly higher discounts on Thomas Cook packages ([✂] per cent vs [✂] per cent).

63. Finally, we found that TCS offered discounts on TCH packages more often than on other packages ([✂] per cent vs [✂] per cent in 2009/10);[13] and that when it did offer discounts, it offered higher discounts on Thomas Cook packages ([✂] per cent vs [✂] per cent).

64. We considered the implications of CGL and Midlands selling a greater share of TCH packages after the joint verger is established. If they continued the same discounting patterns, and substituted comparable Thomas Cook holidays for third party holidays, we might expect consumers to pay slightly lower prices, on average, in CGL stores, and slightly higher prices in Midlands stores. In both cases, we do not consider the differences to be material.

65. An alternative scenario is that discounting in Co-op stores will be similar to that in TCS. Discounts are one tool that stores could use to promote sales of TCH pack-

[10] Excluding Co-operative Travel. Because of the inclusion of suppliers of components of dynamic packages, not all of these will offer entire package holidays.
[11] Source: CC analysis of data provided by CGL. Propensity to discount based on value, not number, of holidays. We excluded cruise holidays from this comparison, since TCH does not supply cruise holidays. Cruises tend to be sold at a higher discount than other types of package holiday, and so including them would skew the average discount on non-TCH packages, making it look larger in comparison with TCH packages.
[12] Source: CC analysis of data provided by Midlands. Notes on analysis as in previous footnote.
[13] Source: CC analysis of data provided by Thomas Cook. Notes on analysis as in previous footnote. These figures exclude MyTravel branded stores, since the data available did not allow us to calculate the propensity to give discounts in those stores. However, including those stores does not change the patterns we see in average discount size.

ages; the discounting pattern in TCS is consistent with that theory. Co-op stores could increase discounts/propensity to discount for TCH packages; or they could reduce discounts/propensity to discount for non-TCH packages. It is difficult to compare discount levels and the tendency to discount between chains, since the product mix may be different. We note that discounts are generally [✂] in TCS than in the other two chains, though the propensity to discount non-TCH packages is [✂] than in CGL stores.

Non-package-holiday businesses

Introduction

1. The business areas that the main parties are operating in (other than the distribution of package holidays) and that are relevant to the creation of the joint venture are:

   (a) flight-only sales;

   (b) accommodation-only sales;

   (c) foreign exchange;

   (d) domestic travel;

   (e) tour operations;

   (f) holidays sold over the phone;

   (g) holidays sold via online travel agents;

   (h) business travel;

   (i) buying groups;

   (j) franchise agreements and managed service contracts; and

   (k) ancillary services (eg travel insurance).

2. Table 1 summarizes high-level financial data for each of these business activities to provide an indication of areas of overlap and their economic significance.[1]

TABLE 1 **Gross sales revenue for non-package holiday businesses areas of Thomas Cook, CGL and Midlands**

	£ million			
	Thomas Cook	*CGL*	*Midlands*	*Overlap?*
Flight-only bookings	[✂]	[✂]	[✂]	YES
Accommodation-only bookings	[✂]	[✂]	[✂]	YES
Foreign exchange services	[✂]	[✂]	[✂]	YES
Domestic travel	[✂]	[✂]	[✂]	YES
Tour operations	[✂]	[✂]	[✂]	YES
of which cruise (external sales)	[✂]	[✂]	[✂]	YES
Call centres (holidays sold over the phone)	[✂]	[✂]	[✂]	YES
Online travel agent services	[✂]	[✂]	[✂]	YES
Business travel agent services	[✂]	[✂]	[✂]	YES
Travel agent buying groups	[✂]	[✂]	[✂]	NO
Franchise agreements and managed services contracts	[✂]	[✂]	[✂]	NO
Ancillary services	[✂]	[✂]	[✂]	YES
of which travel insurance	[✂]	[✂]	[✂]	YES

Source: The main parties.

[1] The sales in each business area do not add up to total sales of the parties as the same sale can appear in more than one category (eg online travel agent services for flight-only sales would also be included in flight-only bookings.

3. Table 1 indicates that no overlap exists for travel agent buying groups and franchise agreements and managed services contracts. These operations are therefore not considered in further detail in this appendix. However, as we considered whether the Freedom Travel buying group and CGL's managed services contracts should be part of our vertical and horizontal analysis, we provide a brief description of these activities in paragraphs 109 to 116.

4. We consider that sales through stores of the Freedom Travel Group and sales through stores that are subject to managed services and franchise agreements are largely independent from the main parties and we therefore excluded those sales from our assessment of the share of supply of the main parties.

5. We set out below the evidence provided by the main parties and other information we considered in coming to our conclusions on the likelihood of an SLC on the remaining business areas set out in paragraph 1.

Data used to assess share of supply in flight-only and accommodation-only sales

6. Thomas Cook stated that it was most appropriate to provide overall supply and shares of supply in volume, rather than value. It argued that it was extremely difficult to derive reliable estimates of total market value due to a lack of suitable data sources. Nevertheless, it was Thomas Cook's view that the share of supply of the main parties by value was likely to be broadly consistent with or in some cases lower than the shares of supply suggested by the volume figures given that the main parties' products are generally focused on the lower end of the price spectrum.

7. Thomas Cook used two different data sources to derive share of supply data for its flight-only and accommodation-only offerings based on passenger volume data—IPS and LTM.

International Passenger Survey

8. Thomas Cook stated that the International Passenger Survey (IPS) measured the number of people who actually travelled by mode of transport and main purpose of trip. The IPS survey was based on a large and continuous survey conducted by the Office for National Statistics (ONS) at all major airports, ports and terminals. IPS data was published in quarterly updates of travel trends, which covered trips made by UK residents overseas (by type of trip and mode of transport). The relevant IPS data referred specifically to holidays and excluded travel for the purposes of visiting friends and relatives (VFR) and business. The IPS captured both package and independent holidays. However, the IPS did not distinguish between 'traditional' and 'dynamic' packaged holidays, and therefore Thomas Cook expected that whilst some dynamic packages would be captured in the package holiday figures, others might be classified as independent holidays depending on the customer's perspective of whether they had taken a package holiday when responding to the survey question.

9. Thomas Cook stated that IPS data did not directly measure accommodation-only bookings. Thomas Cook had therefore used the IPS data category, 'Independent holidays via all modes of transport (air, sea, tunnel)', as a proxy for accommodation-only bookings on the basis that the passengers were on an independent holiday and must therefore have booked transportation and accommodation separately.

10. Thomas Cook considered that the IPS provided the most authoritative data for the distribution of holidays generally (including package and independent holidays).

Leisure Travel Monitor

11. Thomas Cook stated that AC Nielsen ceased to supply data in the travel sector in November 2006. A new data provider, Ascent MI Ltd, created the Leisure Travel Monitor (LTM) which began the supply of data for the package holiday sector in December 2007. LTM replicated the AC Nielsen methodology. AC Nielsen/LTM figures measured the total passenger bookings for most of the tour operating brands owned by the two large vertically integrated travel groups (TUI and Thomas Cook). This included sales across all booking channels, including direct to consumer, other in-house channels (shops, telephone or online) and third party agents. In addition, data from other travel agents was included as well as from a sample of independent travel agents (which reflected the bookings of all tour operators booked through those channels). Sales through other independent travel agents were based on estimates. The data excluded direct to consumer sales (telephone or online) by tour operators other than TUI and Thomas Cook[2] and some tour operating brands of TUI and Thomas Cook.[3]

12. Thomas Cook stated in respect of flight-only bookings that none of the airlines reported their data to LTM, meaning that all leisure travel bookings made directly with the airlines (eg easyJet, British Airways, etc) were not included. In addition, some significant online travel agents did not provide their booking data (eg Expedia). LTM's coverage of flight-only bookings was therefore restricted to those bookings made in a retail shop and a limited selection of online websites (eg lastminute.com).

13. Thomas Cook stated in respect of accommodation-only bookings that the overseas accommodation-only sector was extremely fragmented with a large number of different specialist agents and bedbanks and a very large volume of bookings made directly with accommodation providers. None of the hotel groups reported their accommodation-only data to LTM, meaning that no leisure travel booking made directly with the hotels was included. In addition, some significant online travel agents did not provide their booking data (eg Expedia). Furthermore, none of the major bedbanks provided any booking data to the LTM. LTM's coverage of accommodation-only bookings was therefore restricted to those bookings made in a retail shop and a limited selection of online websites (eg lastminute.com). Moreover, approximately 20 per cent of the LTM accommodation-only data relating to the destination of property was either missing, unspecified or inaccurate, meaning the accommodation could not be classified by destination and was therefore excluded from the short-haul and long-haul splits.

Which measure to use

14. TGC argued that AC Nielsen/LTM data significantly underestimated the total supply of UK package holidays. For these reasons, Thomas Cook did not consider that LTM data provided the most accurate share of supply data for the package holiday sector and suggested the use of IPS data which measured the package holiday sector more comprehensively.

15. However, Thomas Cook stated that LTM was a useful source of market intelligence as it measured the latest forward booking position for holidays whereas the IPS measured the number of people who actually travelled by mode of transport and main purpose of trip.

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[2] For example, direct bookings for major tour operators such as Virgin, Kuoni, Olympic, Cosmos and direct bookings from all the smaller tour operators are not included.
[3] ACN/LTM does not measure dynamic packages.

16. Thomas Cook stated that for flight-only and accommodation-only bookings the LTM covered bookings made in a retail shop.

17. We note the reservations of Thomas Cook on the use of LTM data to calculate share of supply. However, we note that Thomas Cook considered that LTM data provided a useful indication on the share of supply for flight-only and accommodation-only sales in travel agents. This is also supported by Tables 4 and 5 (and Tables 15 and 16), which show that share of supply for the main parties in the distribution of flight-only products (and accommodation-only products) through retail travel agent outlets using IPS data is similar to the LTM data set for the share of supply of the main parties for total flight-only and accommodation-only sales.

18. We therefore consider LTM data to be a suitable proxy for the main parties' share of supply of accommodation-only and flight-only sales through retail travel agent outlets.

Distribution of flight-only products

Sales in value

19. Table 2 shows the gross sales revenue for the main parties' flight-only bookings through all of its distribution channels (ie retail outlets, Internet, phone). However, Thomas Cook's sales revenue excludes sales made through Thomas Cook's flyTC.com.

TABLE 2 **Gross sales revenue for flight-only bookings for Thomas Cook, CGL and Midlands in 2010**

£ million

	Thomas Cook	*CGL*	*Midlands*	*Total*
Flight-only bookings	[✂]	[✂]	[✂]	[✂]

Source: The main parties.

Passenger numbers

20. Table 3 shows the passenger numbers (PAX) for the main parties' flight-only bookings through all of its distribution channels (ie retail outlets, Internet, phone) split by long haul and short haul.

TABLE 3 **Passenger numbers for flight-only bookings for Thomas Cook, CGL and Midlands in 2010**

£ million

	Thomas Cook	*CGL*	*Midlands*	*Total*
Flight-only bookings long haul (PAX)	[✂]	[✂]	[✂]	[✂]
Flight-only bookings short haul (PAX)	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]

Source: The main parties.

Discounts for flight-only sales

21. Discounts for flight-only bookings in Thomas Cook's retail branches were on average [✂] per cent in the period October 2005 to September 2010 and were on average [✂] per cent for CGL in the period 2006 to 2010.

22. Thomas Cook explained that the proportion of flight-only bookings that were discounted was between [✂] and [✂] per cent. This reflected the fact that commissions were almost universally not paid on flight-only sales. Unless a further component was also purchased alongside the flight (eg accommodation or hire car), discounts were very rarely given.

23. Thomas Cook, however, noted that whilst no commission was paid by airlines on flight-only sales, some airlines priced flights to distributors at a price that was lower than their 'direct' selling price, allowing the distributor to add a mark-up and still be competitive. As no commission was paid, this was the only way that a margin was made on a flight-only sale.

24. CGL and Midlands stated that flight-only bookings were generally sold at cost plus an administration fee charged to the customer at the time of booking.

25. Thomas Cook explained that its mark-up typically ranged between £[✂] and £[✂] and that [✂] per cent of Thomas Cook's flight-only sales (other than flight-only sales of Thomas Cook's in-house airline) were subject to a mark-up.

26. CGL explained that the maximum administration charge it aimed to apply was approximately [✂] per cent of the sale price (with the average charge being around [✂] per cent) and that around [✂] per cent of its flight-only bookings were subject to such a charge.

27. Midlands told us that it aimed to earn [✂] per cent of the flight price or £[✂] per passenger (whichever was higher) on flight-only bookings. Midlands stated that the average charge was [✂] per cent and that [✂] per cent of its flight-only bookings included an administration charge.

28. Table 4 shows the share of supply in flight-only for Thomas Cook and CGL and Midlands measured by passenger numbers (PAX) using IPS and LTM data distributed through all channels.

TABLE 4 **Share of supply for overseas flight-only bookings in the UK across all sales channels using IPS and LTM data***

Based on PAX, per cent

	W07/S08	*W08/S09*	*W09/S10*
Share of supply IPS data			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
IPS total for main parties (excl FT and MS)	[✂]	[✂]	[✂]
Share of supply LTM data			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
LTM total for main parties (excl FT and MS)	[✂]	[✂]	[✂]

Source: The main parties.

* Excludes Freedom Travel (FT) and managed services (MS) sales.
Note: Total supply for IPS data is for flight-only (excluding VFR) passenger numbers / total supply based on LTM data for flight-only passenger numbers. Midlands data includes domestic flight-only bookings (Midlands estimated that approximately 20 per cent of its passenger numbers related to domestic travel).

29. The main parties provided us with estimates of IPS and LTM flight-only booking data by distribution channel. Table 5 shows the main parties' share of supply for flight-only

bookings in retail travel agents outlets based on IPS and LTM data, measured by passenger numbers.

TABLE 5 **Share of supply for overseas flight-only bookings in the UK through retail travel agent outlets based on IPS and LTM data**

Based on PAX, per cent

	W07/S08	*W08/S09*	*W09/S10*
Share of supply IPS data			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
IPS total for main parties (excl FT and MS)	[✂]	[✂]	[✂]
Share of supply LTM data			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
LTM total for main parties (excl FT and MS)	[✂]	[✂]	[✂]

Source: The main parties.

Note: IPS total supply data for retail travel agent outlets is based on Thomas Cook management estimates, having regard to available IPS and Euromonitor data (which is not split by channel for accommodation-only and flight-only).

30. The share of supply of the main parties in Table 5 is similar to the LTM data for the main parties in Table 4. This suggests that LTM overall share of supply data is a reasonable proxy for the main parties' share in flight-only holiday distribution through retail travel agent outlets.

31. Table 6 shows the share of supply in flight-only bookings for TGU and CGL and Midlands measured by passenger numbers using overall LTM data for short-haul and long-haul flight-only bookings.

TABLE 6 **Share of supply for short-haul and long-haul overseas flight-only bookings in the UK across all sales channels using LTM data**

Based on LTM data, PAX, per cent

	W07/S08	*W08/S09*	*W09/S10*
Share of supply LTM—short-haul			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
Short-haul total for main parties (excl FT and MS)	[✂]	[✂]	[✂]
Share of supply LTM—long-haul			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
Long-haul total for main parties (excl FT and MS)	[✂]	[✂]	[✂]

Source: The main parties.

*The increase in share of supply in 2008/09 is largely due to the acquisition of Gold Medal.

32. Table 6 shows that Thomas Cook has a high share of supply in long-haul flight-only bookings as measured by LTM data. This would imply that Thomas Cook has a high share of supply in long-haul flight-only bookings made through travel agent outlets.

33. Thomas Cook stated that the LTM coverage for flight-only bookings through retail travel agent outlets was heavily biased towards short-haul as LTM data omitted retail travel agent outlets including Trailfinders and Flight Centre (which sold a significant

number of long-haul flights). Thomas Cook Management estimated that the split understated the proportion of long-haul flight-only sales made through retail travel agents by around 10 to 15 per cent. Table 7 shows the resulting Thomas Cook estimate of its share of supply in flight-only bookings through retail travel agent outlets (based on IPS data).

TABLE 7 **Share of supply for short-haul and long-haul overseas flight-only bookings in the UK across all sales channels using IPS data**

	Based on IPS data, PAX, per cent		
	W07/S08	*W08/S09*	*W09/S10*
Share of supply IPS—short-haul			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
Short-haul total for main parties (excl FT and MS)	[✂]	[✂]	[✂]
Share of supply IPS—long-haul			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
Long-haul total for main parties (excl FT and MS)	[✂]	[✂]	[✂]

Source: The main parties.

Flight-only bookings in retail travel agent outlets as a percentage of all flight-only bookings

34. When looking at the total number of flight-only bookings from IPS and LTM, we can derive an approximate estimate of the number of flight-only bookings made in retail travel agent outlets vs other modes of booking (ie by assuming that the LTM total number of bookings is approximating flight-only bookings in retail travel agent outlets and by assuming that IPS total number of bookings capture all flight-only bookings, irrespective of the way they were booked). Using these assumptions, Table 8 shows that around 18 per cent of all flight-only bookings are made through retail travel agent outlets. The share of bookings of long-haul flights that are made through retail travel agent outlets is only slightly higher at 19 per cent.

TABLE 8 **Flight-only bookings LTM and IPS as an indication of flight-only bookings through retail travel agent outlets**

	All booking channels (W09/S10), PAX		
	IPS	*LTM*	*%*
All flights	17,076,869	3,140,329	18
Short haul	13,909,127	2,467,467	18
Long haul	3,167,741	612,062	19

Source: The main parties, CC calculations.

35. To put this ratio into context, we calculated the equivalent ratio for package holiday bookings. Table 9 shows that, assuming that total package holiday bookings in the LTM data set does provide an estimate of the package holiday bookings that are made through retail travel agent outlets (and that IPS data provides an estimate of all package holiday bookings), around 70 per cent of all package holiday bookings are made through retail travel agent outlets.

TABLE 9 **Package holiday bookings LTM and IPS as an indication of package holiday bookings through retail travel agent outlets**

	All booking channels, W09/S10, PAX		
	IPS	*LTM*	*%*
All package holidays	14,047,626	9,947,134	71

Source: The main parties, CC calculations.

36. The main parties made their own estimates of the share of bookings made through retail travel agent outlets as a percentage of total bookings. They estimated that around 6 per cent of all flight-only bookings were made through retail travel agent outlets. The main parties estimated that around 45 per cent of all package holiday bookings were made through retail travel agent outlets.

37. Whilst there is a significant difference in the magnitude of the estimates of the share of retail travel agent outlet bookings as a percentage of total bookings, both data sets show that the proportions of flight-only bookings made through retail travel agent outlets is significantly lower for flight-only bookings compared with package holiday bookings (around 40 to 50 percentage points lower).

38. This is further supported by Thomas Cook's own bookings data, which shows that the share of flight-only bookings (in terms of PAX) via retail travel agent outlets is around [✂] percentage points lower than flight-only bookings via the Internet (Thomas Cook accounts for more than 90 per cent of all flight-only bookings by the main parties). See Table 10 below, which shows the split between the distribution channels used by each of the main parties for their flight-only sales by passenger numbers and by revenues.

TABLE 10 **Distribution mix by passengers (PAX) and revenue (W08/S09)**

per cent

	Thomas Cook		*CGL*		*Midlands*	
	PAX	*Revenue*	*PAX*	*Revenue*	*PAX*	*Revenue*
Flight-only:						
Retail outlet	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Internet	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Telephone	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: The main parties.

39. The split for Thomas Cook is, however, skewed by sales of flythomascook.com. Without those sales, retail outlets would account for around [✂] per cent of sales and PAX and the Internet for around [✂] per cent for sales and PAX. See Table 11.

TABLE 11 **Distribution mix by passengers and revenue (W08/S09) excluding sales of flythomascook.com**

per cent

	Thomas Cook		*CGL*		*Midlands*	
	PAX	*Revenue*	*PAX*	*Revenue*	*PAX*	*Revenue*
Flight-only:						
Retail outlet	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Internet	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Telephone	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: The main parties.

40. Thomas Cook stated that flythomascook.com bookings were, for the vast majority, short-haul charter flight sales made at low selling prices and were all made online (essentially analogous to an LCC). The resulting distribution of sales implies that for long-haul flights, a larger proportion of sales are made through retail outlets than for short-haul flights.

41. Thomas Cook explained that due to the volume of capacity operated by the LCCs, almost all of which was sold directly via the LCC's websites, the proportion of flight-only sales made via the online channel was higher for short-haul than for long-haul flight-only bookings. Thomas Cook explained that nevertheless a very significant proportion of both short-haul and long-haul flight-only sales were made through airlines' websites. The expansion of web-based capabilities allowing passengers to book multi-stop long-haul flights and to choose seating meant that long-haul flights were as easy to book online as point-to-point short-haul flights. Flight consolidators such as skyscanner.net also allowed customers easily to compare different flight options and prices for both long-haul and short-haul flights.

42. Virgin Holidays commented that holidays that involved the booking of connecting flights were more likely to involve a customer contacting a travel agent, who could advise about the distance between airports and the time needed to transfer between airports (or even between terminals at the same airport) and give the customer re-assurance to be comfortable before booking the holiday.

Flight-only bookings by telephone and online

43. Table 12 shows the combined share of supply of the main parties in flight-only distribution through the telephone and Internet.

TABLE 12 **Share of supply for overseas flight-only bookings in the UK across online and telephone sales channels based on IPS data**

Number of passengers in % IPS data

	W05/S06	*W06/S07*	*W07/S08*	*W08/S09*	*W09/S10*
Online	[✂]	[✂]	[✂]	[✂]	[✂]
Telephone sales	[✂]	[✂]	[✂]	[✂]	[✂]

Source: The main parties.

Other evidence

44. Thomas Cook stated that airlines supplied flights on a stand-alone basis both directly to consumers and to intermediary suppliers (including tour operators, travel agents and other online holiday providers), in the latter case both for sale on a stand-alone basis and inclusion in a traditional or dynamic package. Direct sales by airlines to consumers had increased dramatically over recent years, such that Thomas Cook believed that direct sales by airlines now accounted for a substantial proportion of flight-only sales to consumers (notably not only by low-cost carriers (LCCs) but also more 'traditional' scheduled operators selling direct).

45. Mintel stated that flight- and accommodation-only bookers were most likely to think that the Internet was cheaper/better value than travel agents.

46. We found in our survey that around 60 per cent of respondents who make flight-only bookings preferred to make flight-only bookings through the Internet and around 25 per cent preferred to book through the travel agent shop.[4] The main reason for the preference of the Internet was overall price and that it was quicker to book on the Internet. This contrasts with around 75 per cent of the respondents who booked package holidays preferring to book it in a travel agent outlet (and only around 7 per cent preferring to book package holidays through the Internet).

47. [An independent tour operator] stated that there was a segment of consumers who did not want to use the Internet for their high-value complicated travel purchases, although they may well use the Internet to acquire single items, such as flight tickets or accommodation only.

Distribution accommodation-only products

48. Table 13 shows the gross sales revenue for the main parties' accommodation-only bookings through all of its distribution channels (ie retail outlets, Internet, phone).

TABLE 13 **Gross sales revenue for accommodation-only bookings for Thomas Cook, CGL and Midlands**

£ million

	Thomas Cook	*CGL*	*Midlands*
Accommodation-only bookings	[✂]	[✂]	[✂]

Source: The main parties.

49. Table 14 shows the split between the distribution channels used by each of the main parties for their accommodation-only sales by passenger numbers and by revenues.

TABLE 14 **Distribution mix by passengers and revenue (W08/S09)**

per cent

	Thomas Cook		*CGL*		*Midlands*	
	PAX	*Revenue*	*PAX*	*Revenue*	*PAX*	*Revenue*
Accommodation only:						
Retail outlet	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Internet	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Telephone	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: The main parties.

50. Table 15 shows the share of supply in accommodation-only for Thomas Cook and CGL and Midlands measured by passenger numbers.

[4] Q13 in our survey: In general, how do you prefer to book flights only? Base: all who book flights only respondents (N=1,661).

TABLE 15 **Share of supply for overseas accommodation only bookings in the UK across all sales channels using IPS and LTM data**

per cent

	W07/S08	*W08/S09*	*W09/S10*
Share of supply: IPS			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
IPS total for main parties (excl FT & MS)	[✂]	[✂]	[✂]
Share of supply: LTM			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
LTM total for main parties (excl FT & MS)	[✂]	[✂]	[✂]

Source: The main parties.

Note: Midlands data includes domestic bookings (Midlands estimated that approximately 20 per cent of its passenger numbers related to domestic travel).

51. Table 16 shows the main parties' share of supply for overseas accommodation-only bookings in retail travel agents outlets based on IPS data, measured by passenger numbers.

TABLE 16 **Share of supply for overseas accommodation-only bookings in the UK through retail travel agent outlets**

per cent

	W07/S08	*W08/S09*	*W09/S10*
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
Total for main parties (excl FT & MS)	[✂]	[✂]	[✂]

Source: The main parties.

52. Table 17 shows the share of supply in accommodation-only for Thomas Cook and CGL and Midlands measured by passenger numbers using LTM data for short-haul and long-haul accommodation-only bookings.

TABLE 17 **Share of supply for short-haul and long-haul overseas accommodation-only bookings in the UK across all sales channels using LTM data**

per cent

	W07/S08	*W08/S09*	*W09/S10*
Share of supply LTM—short-haul			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
IPS total for main parties (excl FT & MS)	[✂]	[✂]	[✂]
Share of supply LTM—long-haul			
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
LTM total for main parties (excl FT & MS)	[✂]	[✂]	[✂]

Source: The main parties.

53. Table 18 shows the combined share of supply in accommodation-only for telephone and Internet sales.

TABLE 18 **Share of supply for overseas accommodation-only bookings in the UK across online and telephone sales channels based on IPS data**

per cent

	W05/S06	*W06/S07*	*W07/S08*	*W08/S09*	*W09/S10*
Online	[✂]	[✂]	[✂]	[✂]	[✂]
Telephone sales	[✂]	[✂]	[✂]	[✂]	[✂]

Source: The main parties.

54. Thomas Cook noted that there were a wide range of suppliers offering hotel rooms and other types of holiday accommodation to consumers, particularly through online websites. Thomas Cook said that the Internet had made it relatively easy for consumers to book directly with hotels, cutting out the use of any intermediary.

55. Mintel stated that flight- and accommodation-only bookers were most likely to think that the Internet was cheaper/better value than travel agents.

Foreign exchange

Retail foreign exchange

56. Table 19 shows gross sales of each party to the merger for foreign exchange.[5]

TABLE 19 **Gross sales revenue for foreign exchange for Thomas Cook, CGL and Midlands**

£ million

	Thomas Cook	*CGL*	*Midlands*
Foreign exchange gross sales	[✂]	[✂]	[✂]

Source: The main parties.

57. CGL told us that it also sold retail foreign exchange through the Co-operative Bank. We consider that the Co-operative Bank's gross sales in 2010 of retail foreign exchange (£[✂]) were very low and did therefore not consider them any further in our analysis.

58. Thomas Cook said that the current UK expenditure abroad across all payment categories was estimated to be around £40 billion.

59. Thomas Cook further stated that:

(a) Consumer research conducted in May 2010 confirmed both the competitive and commoditized nature in the supply of foreign exchange, and the inertia and lack of brand loyalty when making what was considered by consumers to be a 'chore' purchase.

(b) The same research confirmed that use of the Internet was increasing as a price comparator prior to purchasing on the high street.

[5] Gross sales represent the total value paid by the customer for the currency.

(c) The most rapidly growing channel in the last 12 months had been supermarkets and non-traditional foreign exchange high street retailers (eg WH Smith, Debenhams, Marks and Spencer) and that both of these channels were very aggressively priced.

60. Thomas Cook stated that over 500 new foreign exchange competitors had opened in the last 12 months alone.

61. Thomas Cook also stated that despite product commoditization and the exponential growth of non-traditional foreign exchange retailers, most recent statistics indicated that Thomas Cook had grown its share of supply to a range of between [✂] and [✂] per cent.

62. Thomas Cook also provided evidence showing its share of supply in foreign exchange for summer 2009—see Figures 1 and 2.

FIGURE 1

Foreign exchange share of supply for summer 2009

[✂]

Source: Thomas Cook.

FIGURE 2

Foreign exchange share of supply range estimates—summer 2009

[✂]

Source: Thomas Cook.

63. Table 20 shows Thomas Cook's estimate of the main parties' share of supply by customer numbers in summer 2009.

TABLE 20 **Retail supply of foreign currency by volume of customer (summer 2009)**

Company name	*Share of customers* *%*
Thomas Cook	[✂]
Co-operatives*	[✂]
Combined	[✂]
Post Office	[✂]
Marks and Spencer	[✂]
TUI	[✂]
Various banks & building societies	[✂]
Others	[✂]
Total	100

Source: YouGov survey commissioned by Thomas Cook, July–September 2009.

*The figure for the Co-operatives cover all co-operatives in the UK and not only CGL and Midlands.

64. Thomas Cook also provided data on share of supply in retail foreign exchange based on a survey in June–September 2010, which is shown in Table 21.

TABLE 21 **Retail share of supply in UK foreign exchange**

	%
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]

Source: [✂]

65. Thomas Cook also provided additional share of supply data for the period summer 2008 to summer 2010. See Table 22.

TABLE 22 **Share of supply in foreign currency services, 2008 to 2010**

	Percentage share of customers		
Company name	*Summer 2008*	*Summer 2009*	*Summer 2010*
Thomas Cook	[✂]	[✂]	[✂]
Co-operatives	[✂]	[✂]	[✂]
Combined	[✂]	[✂]	[✂]
Post Office	[✂]	[✂]	[✂]
Marks and Spencer	[✂]	[✂]	[✂]
TUI (Thomson brand only)	[✂]	[✂]	[✂]
Various banks & building societies	[✂]	[✂]	[✂]
Others	[✂]	[✂]	[✂]
Total	100	100	100

Source: Thomas Cook commissioned surveys. Research Now for 2010 data: YouGov 2008 and 2009 data.

66. Thomas Cook stated that the Post Office continued to dominate the supply of foreign exchange with an estimated share of between [✂] and [✂] per cent. Convenience was cited as a prime reason in consumer research for purchasing from the Post Office.

67. Thomas Cook said that price was the dominant purchasing decision for consumers and pricing for foreign exchange was highly competitive, particularly on the euro which accounted for [✂] per cent of volume.

68. Thomas Cook argued that the main parties would continue to face effective competition in the retail supply of foreign currency from other parties such as the Post Office, Marks and Spencer, TUI and the UK banks and building societies as well as other retail travel agencies. Customers were also able to order foreign currency from suppliers on the Internet which provided an additional layer of transparency and allowed easy switching between suppliers. A further constraint was the ability of customers to draw local currency from ATM machines on arrival at their destination.

69. One of CGL's customer satisfaction surveys stated that the Post Office was increasingly becoming a competitor in the supply of foreign exchange.

70. CGL noted that retail foreign exchange faced competition from Tesco.

71. In respect of the retail supply of foreign currency to travellers, Thomas Cook argued that the main parties would only have a share of supply of less than [✂] per cent (by

volume of customers) and would continue to face strong competition from the Post Office, banks and other retailers, both those in the travel sector and elsewhere.

Corporate foreign exchange

72. Thomas Cook said that it relaunched a corporate foreign exchange business in London in February 2006, and currently generated £[✂] million profit a year. Thomas Cook said that no share of supply data currently existed for this sector, but that Travelex (which was recognized as the largest non-bank provider of corporate foreign exchange services in the UK) posted earnings before interest and tax of £30.9 million in 2008.

73. CGL said that it supplied some foreign exchange to its corporate travel customers (£[✂] million gross sales in 2010). CGL estimated its share of supply in corporate foreign exchange to be less than 1 per cent.

74. Midlands said that it supplied some foreign exchange to its corporate travel customers (£[✂] million gross sales in the financial year ended January 2011). Midlands estimated that it accounted for less than 1 per cent of corporate foreign exchange supply in the UK.

Distribution of domestic (UK) holidays

75. Thomas Cook said that it estimated its share in the distribution of domestic holidays in the UK to be less than 1 per cent. Thomas Cook did not expect that its share of any sensibly defined sub-segment would be substantially higher than its overall share of domestic travel.

76. Thomas Cook further explained that the UK domestic holiday market was fragmented and a high proportion of bookings was made directly with suppliers. In general, customers would be able to reach a destination within the UK by their own means (eg their own car) and did not require any form of third-party transport arrangements, as was necessary in the case of air or sea travel. Customers would also typically book accommodation themselves.

77. The main parties provided an estimate of their share of supply in the distribution of domestic holidays. See Table 23.

TABLE 23 **Share of supply for the distribution of domestic holidays in the UK (across all sales channels)**

Company name	*W08/S09 Pax*	*W08/S09 pax %*
Thomas Cook	[✂]	[✂]
CGL	[✂]	[✂]
Midlands	[✂]	[✂]
Combined	[✂]	[✂]
Total market	[✂]	[✂]

Source: Thomas Cook, CGL and Midlands figures. Mintel data for total market.

78. Thomas Cook stated that the very low combined share of supply reflected the fact that travel distribution services were used to a much lesser degree for domestic holidays in the UK given that most consumers were happy to book directly with accommodation providers and did most travel using their own car or by booking tickets directly with the train services providers.

Tour operations

General

79. Table 24 shows the gross revenues of the main parties derived from their tour operating activities.

TABLE 24 **The main parties' gross revenue from tour operating activities**

£ million

	Thomas Cook	*CGL*	*Midlands*
Tour operations	[✂]	[✂]	[✂]
Of which cruise (external sales)	[✂]	[✂]	[✂]
Of which sports and events	[✂]	[✂]	[✂]

Source: The main parties.

80. Thomas Cook said that its share of supply in tour operating activities in the UK was [✂] per cent.

81. Table 25 provides Thomas Cook's share of supply in package holidays, split by short-haul (flight time not substantially in excess of 3 hours) and long-haul (flight time substantially in excess of 3 hours).

TABLE 25 **Share of supply for Thomas Cook for short- and long-haul package holidays based on IPS figures for total package holidays**

Tour operator	*W06/S07 Pax*	*W06/S07 %*	*W07/S08 Pax*	*W07/S08 %*	*W08/S09 Pax*	*W08/S09 %*
Thomas Cook short-haul	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total market short-haul	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Thomas Cook long-haul	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total market long-haul	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Thomas Cook figures based on internal data; IPS for total market.

Note: The package holiday figures attributable to Thomas Cook's Elegant Resorts business have only been included in Thomas Cook's figures for W07/S08, as Thomas Cook only acquired this business in April 2008. The package holiday sales attributable to Thomas Cook's Gold Medal business have only been included Thomas Cook's figures for W08/S09, as Thomas Cook only acquired this business in April 2009 (although Gold Medal's sales for the whole year have been added to the Thomas Cook total).

82. Thomas Cook stated that CGL and Midlands' dynamic packaging business (Escape Travel and Co-op Holidays) might be considered to be active at the tour operation level (supplying flight and accommodation as a package). However, it was intended that these upstream operations would be brought into the joint venture [✂]. At the package holiday level, Thomas Cook estimated that CGL and Midlands had a combined share of supply in the UK of below [✂] per cent.

83. CGL said that its sales of its holidays through third parties were around £[✂] million in 2009. Sales to third parties included sales of Escape Beach (dynamic package beach), Escape Flights and Cities (schedule, low cost, and charter flight only, worldwide/tailor-made packages and city breaks), Spectrum Cruise (prepackaged/tours and tailor-made cruise), Melhart Travel (South Africa packages) and Co-operative Holidays (joint venture with Cosmos (Monarch Group)).

84. CGL stated that it established a tour operation joint venture with Cosmos in 2009 called Co-operative Holidays, which supplied package holidays and independent holidays to consumers in the form of flight-only and accommodation-only products.

Thomas Cook noted that Cosmos and CGL had recently announced that they had decided to terminate the joint venture. The joint venture enabled CGL to publish its own brochure of holidays, all of which were supplied by Cosmos. Co-operative Holidays had made only a limited number of sales, was currently loss-making and was not achieving its intended objectives. Cosmos and CGL had therefore recently announced that they had decided to terminate the joint venture. CGL subsequently said that the joint venture was no longer actively trading and generated no sales.

85. Appendix G, Table 1, shows that Thomas Cook holds around 28 per cent and CGL around 1 per cent of ATOL licences.

Cruise operations

86. Thomas Cook provided evidence that showed that it did have only very minor cruise tour operating businesses.

87. Midlands provided evidence that showed that it did not have any cruise tour operator businesses.

88. CGL provided evidence that showed that it did generate around £[✂] million gross sales in its cruise tour operator businesses.

Holidays over the phone

Call centres

89. All the main parties operate call centres and sell holidays over the phone.

TABLE 26 **The main parties' gross revenue from holidays sold over the phone**

			£ million
	Thomas Cook	*CGL*	*Midlands*
Call centres (holidays sold over the phone)	[✂]	[✂]	[✂]

Source: The main parties.

90. Thomas Cook explained that its call centres (located in Falkirk, Peterborough and Accrington) currently serviced businesses that would be included in the joint venture and businesses that would remain outside the joint venture. The call centres themselves would continue to be owned by Thomas Cook and would provide services to the business joint venture under a contract.

91. Thomas Cook also stated that the cruise call centres of Thomas Cook and CGL would be part of the joint venture [✂].

92. It was Thomas Cook's view that the telephone was a channel in decline and the Thomas Cook strategy on call centres was to manage this decline.

Internet travel agents/online travel agents

93. Table 27 shows the gross revenues of the main parties derived from their online travel agent activities.

TABLE 27 **The main parties' gross revenue from online travel agent services**

	Thomas Cook	*CGL*	*Midlands*
		£ million	
Online travel agent services	[✂]	[✂]	[✂]

Source: The main parties.

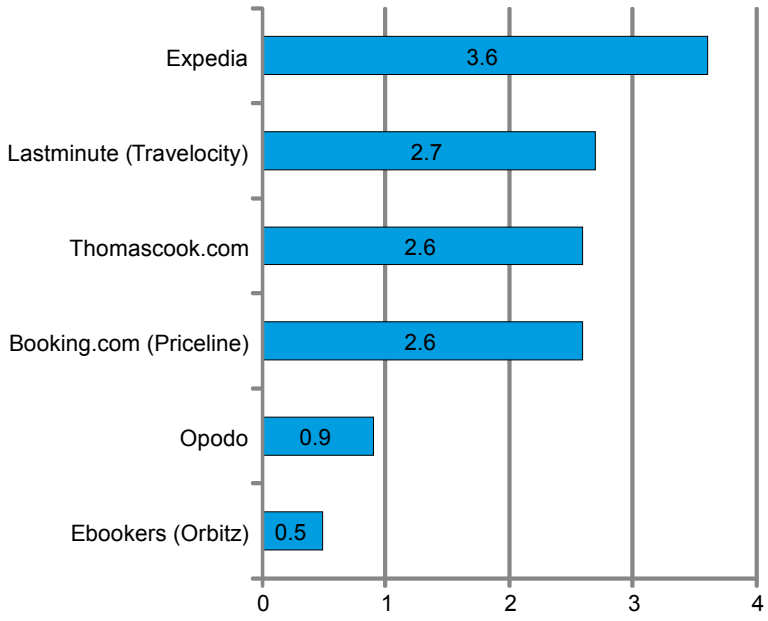
94. Thomas Cook stated that it operated a number of websites (eg www.thomascook.com). Thomascook.com sold both in-house and third-party-related travel products such as flights, accommodation, packages, insurance, car hire and other ancillary products. Approximately [✂] per cent of sales on www.thomascook.com were in-house and around [✂] per cent were third party.

95. Thomas Cook provided evidence that showed that in the UK the value of distribution of holidays through online travel agents was around €4.8 billion in 2008.

96. Thomas Cook also provided some indicative evidence showing its relative position in the distribution of holidays through online travel agents by reference to the number of users of online travel agent websites. See Figure 3.

FIGURE 3

UK total monthly unique users



Source: Thomas Cook.

Business travel

97. Table 28 shows the gross revenues of the main parties derived from their business travel agent services.

TABLE 28 **The main parties' gross revenue from business travel agent services**

			£ million
	Thomas Cook	*CGL*	*Midlands*
Business travel agent services	[✂]	[✂]	[✂]

Source: The main parties.

98. Thomas Cook said that it did not have any business travel agent operations.

99. The main parties estimated that the combined share of supply of CGL and Midlands for domestic business travel was around [✂] per cent and for overseas business travel was around [✂] per cent (measured in number of passengers).

100. Table 29 shows a table provided by Midlands giving a ranking by size of largest business travel management companies in the UK (ranked by UK sales).

TABLE 29 **The year in numbers**

Rank	*TMC*	*2009 total UK sales £m*	*2008 total UK sales £m*	*Number of staff (full-time equivalent)*
1	American Express	1,090	1,100	5,724
2	HRG	1,080	1,100	1,865
3	Carlson Wagonlit Travel	1,003	1,200	1,390
4	BCD	405	410	537
5	FCm Travel Solutions	380	370	650
6	Portman Travel	302	365	505
7	ATP international	194	183	353
8=	Capita Business Travel	145	151	200
8=	Hillgate Travel	145	151	171
10	Uniglobe Travel	122	117	234

Source: Buying Business Travel.

Other travel-related services (ancillary services)

General

101. Thomas Cook stated that the main parties also supplied various travel-related services to consumers, including car hire, airport parking, travel insurance and other related services.

TABLE 30 **The main parties' gross revenue from ancillary services (all distribution channels), 2010**

			£ million
	Thomas Cook	*CGL*	*Midlands*
Ancillary services	[✂]	[✂]	[✂]
Of which travel insurance	[✂]	[✂]	[✂]
Of which airport hotels	[✂]	[✂]	[✂]
Of which attraction passes	[✂]	[✂]	[✂]
Of which car hire	[✂]	[✂]	[✂]
Of which airport lounge	[✂]	[✂]	[✂]
Of which airport parking	[✂]	[✂]	[✂]
Of which others	[✂]	[✂]	[✂]

Source: The main parties.

102. CGL told us that it also sold travel insurance through the Co-operative Bank. We consider that the Co-operative Bank's gross sales in 2010 of travel insurance (£[✂]) were very low and did therefore not consider them any further in our analysis.

103. Thomas Cook stated that it also offered other travel-related services including overseas money transfer; Thomas Cook credit card; Thomas Cook travel vouchers; airport hotels and lounges; overseas transfers and taxis; attraction tickets such as Disney theme parks; overseas excursions; UK theatre tickets; tickets to sporting events; theatre breaks or theatre tickets and transport; and guidebooks.

104. CGL also offered ferry tickets, travel insurance products and ticket sales for worldwide theme parks and tourist attractions. CGL also distributed airport hotels and access to airport lounges.

105. Midlands said that it sold travel insurance, airport coach services, airport hotels, attraction passes, car hire, airport lounges, airport parking, rail tickets, theatre tickets and transfers.

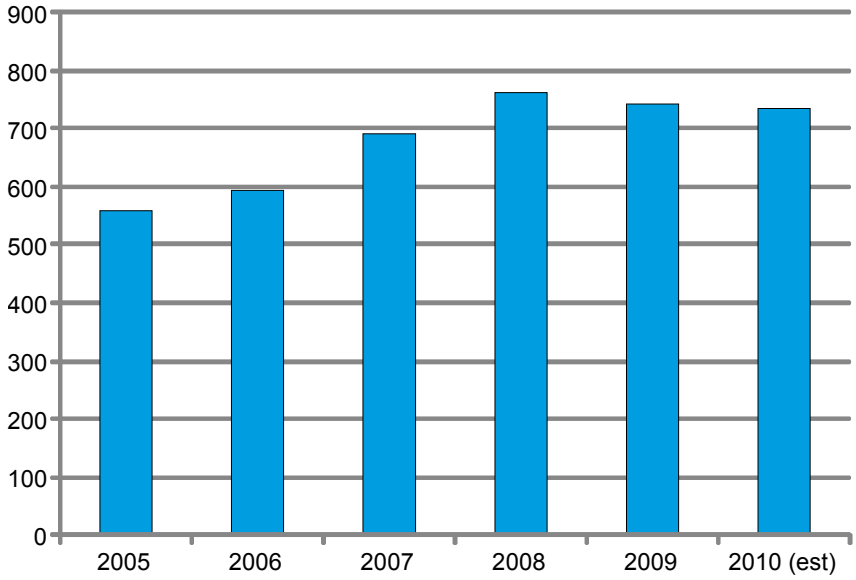
Travel insurance

106. Thomas Cook said that it had around [✂] million insurance passengers in 2009 and [✂] million insurance passengers in 2010.

107. Thomas Cook provided us with Figures 4 and 5 below, which give an overview of the gross premium written in travel insurance and the share of supply of different providers of travel insurance. Thomas Cook said that the major direct providers of travel insurance were [✂], 'Columbus Direct' and [✂].

FIGURE 4

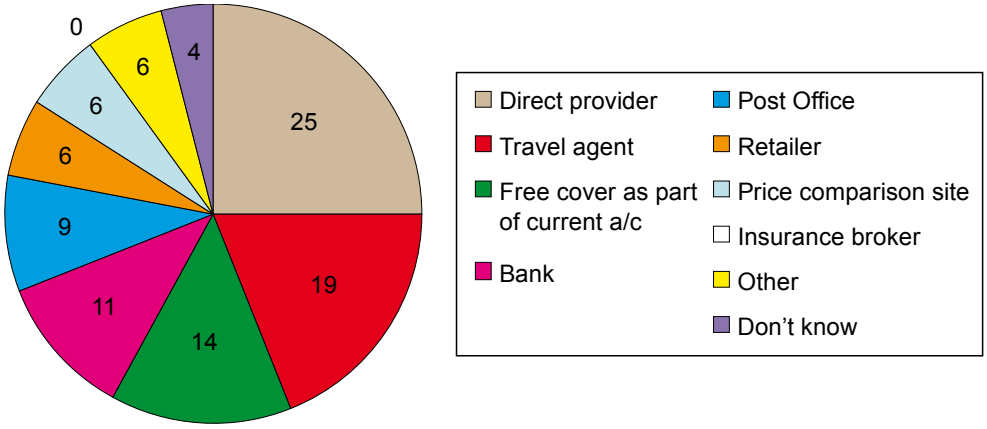
Travel insurance gross premium written



Source: Mintel.

FIGURE 5

Travel insurance share of supply, 2008



Source: Thomas Cook.

108. Thomas Cook commented that the share of supply of travel agents in travel insurance was reducing and that the share of supply for travel agents declined by between 25 and 30 percentage points between 2003 and 2008. Thomas Cook also said that annual policies were growing at the expense of single-trip policies.

Freedom Travel group, managed services and franchise agreements

Freedom Travel group

109. CGL stated that it owned a majority shareholding in the Freedom Travel Group.

110. CGL explained that the Freedom Travel Group was a buying group which allowed independently branded travel agents to benefit from increased buying strength while retaining independent operational control over their own businesses. The branches operated under the Freedom Travel Group were not owned or operated by CGL and did not trade under the Co-operative Travel brand. The Freedom Travel Group did not have any right of management or other form of control over the operation of the businesses of its members. The members retained the independence to select their own suppliers (provided these were registered on Freedom's booking system) and to set their prices.

111. CGL said that members could terminate their relationship with Freedom Travel and join another buying group on [✂].

112. The main parties stated that there were five principal alternative buying groups other than Freedom Travel (see Table 31). Travel agencies could switch between these alternative consortia in order to secure the best terms and conditions for their business.

TABLE 31 **Alternative buying groups to Freedom Travel**

Company name	*Number of outlets*
Advantage	788
TTA Worldchoice	748
Global Travel Group	482
Hays Travel Independence Group	231
Elite Travel Group	[✂]*

Source: Buying groups; and *the main parties.

113. However, CGL said that almost all agents of Freedom Travel were new starts and there continued to be little evidence of agents moving consortia, mainly due to the fact that the consortia would retain any forward commission upon exit.

Franchise agreements and managed service contracts

114. CGL explained that it had 37 managed services branches that were owned by other co-operative societies but managed and operated by CGL on their behalf. These branches had the right to use the Co-op brand name and benefited from commercial terms of CGL. The managed service branches would not be transferred to the joint venture, although they would continue to operate under the managed service agreements.

115. CGL explained that CGL's 'management' role over the managed services branches was limited to the provision of intellectual property, purchasing and back-office services. CGL said that it did not have control over the operations of the business (eg in terms of sales priorities and discounts).

116. CGL stated that it also had franchise agreements with two individuals operating three branches between them. The agreements with the franchisees were very similar to the managed services agreements: in particular, the franchisees retained the independence to select their own suppliers and set their prices.

Entry conditions for retail travel agent outlets

Introduction

1. This appendix outlines the entry conditions for operators of retail travel agent outlets.

2. Any analysis of a possible SLC includes consideration of the responses of third parties (eg rivals, potential rivals and customers) to the merger.

3. Potential (or actual) competitors may encounter barriers which adversely affect the timeliness, likelihood and sufficiency of their ability to enter (or expand). Barriers to entry are features of a market that give incumbent firms an advantage over potential new entrants. The strength of any given set of barriers to entry or expansion will to some extent depend on conditions in the market, such as a growing level of demand.

4. In some cases, the possibility of entry or expansion can mitigate the initial effect of the merger on competition and in some cases may mean that there is no SLC.

5. In assessing whether entry or expansion might prevent an SLC, we consider whether such entry or expansion would be *(a)* timely, *(b)* likely, and *(c)* sufficient to prevent an SLC.

6. See also the CC's *Revised Merger Assessment Guidelines*.[1]

7. In the remainder of this appendix we first provide an overview of the economic environment for retail travel agent outlets and the profitability of retail travel agent outlets. We then review evidence of recent entry followed by an overview of buying groups. We then discuss potential barriers to entry in turn, followed by our overall assessment of the entry conditions for retail travel agent outlets.

8. The evidence indicates that barriers to entry are moderate. However, the economic conditions for retail travel agent outlets are such that entry is nevertheless infrequent.

What constitutes entry

9. For the purpose of this appendix, we examine the entry in the distribution of holidays through retail travel agent outlets that could happen through the opening or expansion of new retail travel agent outlets, but not through setting up distribution of holidays over the phone or via the Internet.

10. We distinguish between small-scale entry (the opening of one or a small number of outlets in a local area) and large-scale entry and expansions (ie the building up of a larger chain of retail outlets covering a number of local areas).

11. We define small-scale entry as a new opening of one or a small number of new retail outlets either by a new operator (de-novo entry) or by an existing operator. This may include openings of retail travel agent outlets by operators that were previously only active in related areas, eg tour operators or travel agents that do not have any pre-existing retail travel outlets (eg online travel agents).

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[1] www.competition-commission.org.uk/about_us/our_organisation/workstreams/analysis/pdf/100916_merger_assessment_guidelines.pdf, paragraph 5.8.1ff.

12. As a general proposition, small-scale entry of an existing operator (or an operator in a related area) is likely to face fewer barriers to entry than de-novo entry.

13. Large-scale entry can either be through the opening of a large number of new retail outlets or through the acquisition of a large number of existing outlets. Large-scale entry can also be effected through incremental openings or acquisition of retail outlets by a previously smaller operator of retail outlets. For the purpose of this appendix, we consider large-scale entry to involve creating a chain of at least 100 retail outlets. This is based on the size of Midlands, which operates around 100 retail outlets and which is around 1 to 2 per cent of the total number of travel agents in the UK, as shown in Table 1.

Market background

14. We looked at the degree to which distribution of holidays through retail travel agent outlets is growing. In a growing market, new entrants may gain customers without having to win them away from existing relationships with competitors. All else equal, entry is generally easier and more attractive and therefore more likely in an expanding market.

15. We also looked at profitability. Again, everything else being equal, entry is more likely to occur if potential entrants consider that they will be able to recoup any upfront costs within a short period of time.

Overall demand for travel

16. We consider that the decline in the number and value of overseas holidays taken as set out in paragraphs 5.3 to 5.6 in the main report is a cyclical effect and would expect a return to growth as the economy recovers.

Demand for retail travel agent services

17. The main parties' business plans indicate that they are planning for a continued annual decline in the number of retail travel agent outlets at around [✂] per cent. The main parties stated that they expected the number of retail travel agent outlets to reduce by 2 to 3 per cent per year going forward. In light of the evidence in paragraphs 5.16 to 5.22 in the main report, it appears that the number of retail travel agent outlets is likely to continue to decline moderately for the foreseeable future.

Profitability of retail travel agent services

18. The main parties stated that Thomas Cook, CGL and Midlands were [✂] in their bricks-and-mortar distribution businesses.

19. The main parties said that margins were under pressure in retail travel agent outlets.

20. In the merger announcement, Thomas Cook stated that profitability for CGL's travel operations was low (with CGL operating around the breakeven level in 2009) and that the businesses that Thomas Cook contributed to the merger had margins on gross profits (ie margins on net commissions) of around 5 per cent (but this level of profitability for Thomas Cook's retail travel outlets was not reported profitability, but based on pro-forma data supplied by Thomas Cook as part of the merger).

21. Bolsover Cruise Club commented that there were not many profitable companies in the travel agent industry.

22. Table 1 shows the net profit margins of the retail travel agent outlets (as a percentage of gross sales)[2] of the main parties and two of their competitors (Hays Travel and Virgin Holidays).

TABLE 1 **Profitability of the retail travel agent outlets of the main parties to the joint venture and of some third parties**

per cent

	2007/08	*2008/09*	*2009/10*	*2010/11*
Thomas Cook	[✂]	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]	[✂]
Hays Travel	[✂]	[✂]	[✂]	[✂]
Virgin Holidays	[✂]	[✂]	[✂]	[✂]

Source: Main parties, Hays Travel and Virgin Holidays.

23. Table 1 indicates that profitability of retail travel outlets is [✂].

24. The main parties stated that they would expect that in the longer term the number of stores would adjust and the remaining stores should be able to operate profitably (assuming that the travel agent was efficient, had the right product proposition and catered to the right market).

25. We consider that the current economic environment for retail travel agent outlets is impacted by the reduction in the overall spend and frequency of overseas holidays taken by consumers. We consider it likely that this is a short-term cyclical effect. It may be possible that once the overall holiday market starts to returns to historical levels, profitability of retail travel agent outlet may increase as volumes of overseas holidays taken start to increase. However, it is uncertain if this increase in profitability will materialize as some or perhaps all of the market growth may be captured through other distribution channels, such as the Internet. Absent the merger, we therefore consider it likely that in the foreseeable future, profitability for retail travel agent outlets will continue to be low.

Evidence on recent history of entry

26. The main parties stated that there had been a large number of openings, closures and rebrands over the past five years, demonstrating the relatively low level of barriers to entry in the travel agency market. Examples provided by the main parties included expansions of existing smaller chains through new store openings or acquisitions and branch openings of tour operators.

27. Thomas Cook did not open any stores in the last three years, Midlands opened two stores and CGL five stores during this period.

28. CGL stated that tour operators were also increasingly distributing their own products. For example, specialist long-haul operator [✂]. Similarly, [✂]. CGL told us that such moves were motivated by a desire to establish more control over the distribution of their own products and facilitate a drive for reduced distribution costs attributable to third parties due to a decreased reliance on them.

[2] Gross sales means the total price paid by the holidaymaker.

29. Virgin Holidays told us that it currently operated 57 outlets, and that it planned to increase the number of retail travel outlets to around [✂]. It also told us that it did not sell third party products through its retail travel agent outlets.

30. Hays Travel commented that there were new entries from entrepreneurs, for example high street managers who wanted to operate their own store. However, these small-scale entries were likely to be with the help of a buying group. However, Advantage Travel and Bolsover Cruise Club commented that there were not many new retail travel agents opening.

31. Mintel stated that some online travel agents were now opening retail travel agent outlets, for example:

    (a) lastminute.com announced in 2009 that it would extend its bricks-and-mortar presence by opening three retail outlets in London (Covent Garden), Manchester and Birmingham, adding to its existing franchised stores (mostly selling late hotel deals and theatre packages).

    (b) Teletext Holidays had recently announced that it would open its second retail outlet (and separately Mintel noted Teletext Holiday's plan to open 20 outlets in Tesco stores by 2013[3]).

32. The main parties stated that the probability of large-scale entry was low. They also said that there was generally not much entry, because whilst barriers were generally low, the overall profitability of the industry did not make entry sufficiently profitable.

33. Our own analysis for 2008/09 indicated that there were around 40 new store openings which operated under an ABTA bond in that year (including openings from the main parties). Of those, approximately five were openings of the main parties, [✂], seven expansions of existing chains or entry from tour operators and [✂] openings as part of the Freedom Travel [✂]. The 40 openings represent less than 1 per cent of the around 5,500 ABTA bonded travel agent outlets shown in Table 1.

34. TUI Travel said that it had very good management information and knew the level of sales it generated from every town in the country. It stated that it would not seek to open a store in a particular town if it got good support from third party travel agents there. However, if that support suddenly dropped off and there was a demand for its product from that town, it would consider (among other options) opening its own store in that area.

35. Based on this evidence, we are of the view that small-scale entry does occur, though the incidence of entry is low relative to the overall size of the sector. Apart from [✂], no recent large-scale entry took place. There are some cases of small new chains being established by firms active in related sectors (eg Teletext), but again the number of outlets operated by these entrants is small considering the overall number of ABTA bonded retail travel agent outlets in the UK.

Buying groups

36. The main parties suggested that new entrants could establish a travel agency through joining a consortium (or buying group)—this option represented the lowest cost and provided easy access to a wide product offering for a new entrant. There were a range of consortia that offered varying levels of support including access to

[3] Mintel, *Holiday Booking Process*, Leisure Intelligence, March 2010, p38.

ABTA membership and ATOLs, commercial deals, IT systems, back-office support and marketing:

(a) Commercial terms—the substantial volume accounted for by the members of buying consortia means that the consortia were able to secure much improved terms from tour operators and other travel providers than would be offered to individual outlets.

(b) Information technology—including hardware and software for front- and back-office systems and Internet presence. For example, Advantage Travel offered its members a page on its website which allowed consumers to browse their offers online and the Global Travel Group offered to produce a fully operational website for all new members allowing them take bookings online.

(c) Training—including initial training designed for people with no prior experience and ongoing training designed to keep experienced people abreast of latest developments.

(d) ATOL licensing—consortia often provide their members with access to a group ATOL licence, which allows the members to package their own products and protect their customers' holidays.

(e) Free access to ABTA membership or alternatives to ABTA membership—in order to join ABTA, an individual traditionally needs a financial bond. Some of the consortia offer ABTA membership for free to qualified individuals. Alternatively, agents can obtain similar bonding protection to that provided by ABTA by joining consortia such as Global Travel Group which provides their own alternative to ABTA membership.

37. The main parties stated that annual costs for consortia membership ranged from £1,000 to £26,000 depending on the consortia and the number of services offered.

Potential barriers to entry

38. In this section we describe potential barriers to entry and expansion for retail travel agent outlets.

39. We recognize that these potential barriers to entry would not affect all possible new entrants equally. For example, a completely new entrant with no prior exposure to the travel industry would face higher barriers to entry than entry or territorial expansion by a party already operating in the travel industry. Similarly, a well-known national tour operator may face fewer barriers to entry or expansion associated with branding and reputation compared with a regional operator.

40. We identified the following possible barriers to entry in the market for retail travel agent outlets:

(a) economies of scale;

(b) set-up costs;

(c) access to tour operator product;

(d) access to competitive commission rates; and

(e) branding and reputation.

41. For each of these, we discuss the points raised by the main parties and third parties and then come to a view.

Economies of scale

42. The evidence on the existence of economies of scale was mixed. The main parties told us that economies of scale were likely to exist, but that this was mitigated by the presence of buying groups.

43. CGL said that other independent bricks-and-mortar multiples had much more limited operations and therefore had considerably lower overheads than itself. The main parties said that a small independent agent had no overhead structure, much leaner back-office processes, had no management structure and often benefited from having the owner in the store, which provided a cost advantage. [A tour operator], on the other hand, stated that it was easier for larger operators to deal with the increasing legislative burden.

44. [A tour operator] also said that rents for new entrants were likely to be higher than for the 'big 3' (Thomas Cook, TUI, Co-op) retail agency businesses due to the higher risks for the landlord, although we were unable to verify whether this was a significant effect. [A tour operator] also commented that the commission levels for independent agents were lower than for the 'big 3'.

45. A cruise operator stated that, in its opinion, the barrier to entry for a smaller independent agent operating via high street retail outlets could be high due to the lack of scale.

46. We found no strong evidence of significant economies of scale. Apart from issues relating to commission rates (see paragraphs 86 to 96), the main economies of scale appear to be purchasing power (eg related to rents) and the ability to spread overheads over a larger number of outlets (eg of legal compliance costs).

47. The ability of small operators to join buying groups has the potential to enable small operators to benefit from some efficiencies in purchasing (in particular, for commission rates) and to share overheads.

48. We consider it likely that an existing operator opening an additional outlet would incur few additional overheads and may have already benefited from some economies of scale.

49. We note that there are a very large number of small retail travel agents operating outlets (see Table 2—row 'Other ABTA outlets'), which provides an indication that economies of scale are unlikely to form a significant barrier to entry.

TABLE 2 **Travel agency high street outlets (as at March 2011)**

Company name	*Number of outlets*	*% share of outlets*
Thomas Cook*	777	19.0
CGL*	360	8.8
Midlands*	102	2.5
Combined*	1,239	30.3
TUI†	866	21.2
Flight Centre†	90	2.2
Bath Travel†	65	1.6
STA Travel†	51	1.2
Hays Travel†‡	44	1.1
Midcounties Co-operative†	35	0.9
CGL managed services and franchises†	40	1.0
Other ABTA outlet*	1,385	33.9
Non-ABTA outlets*	267	6.5
Total	4,082	100.0

Source: *Thomas Cook, †the companies, ‡at August 2011.

50. We therefore consider that while there may be some relatively minor economies of scale enjoyed by larger chains of travel agents, they are unlikely to act as a significant barrier to entry.

Set-up costs

51. The set-up costs required to enter on a small scale will vary depending on the type of entrant (eg tour operator, de-novo start-up, expansion of existing chain), the size and shape of the store and its location.

52. The main parties stated that in order for a travel agent to sell a full range of tour operator products, it needed a trade body membership (for example, through ABTA, Travel Trust Association (TTA) or Global Travel Group), which offered protection for consumers should the agent go out of business. Whilst it was possible to operate without such a membership, it was valued by consumers, and travel agents without this protection in place might find it difficult to enter into commercial agreements with tour operators to sell their packages or may be required to provide financial bonds to tour operators for these purposes.

53. The main parties stated that ABTA membership cost a joining fee of £1,550 and an annual membership fee of £750 and £15.50 per £100,000 of turnover. ABTA membership also required a share capital of £30,000, net assets of at least £30,000 and working capital of at least £15,000. ABTA members must also provide a bond (similar to an insurance policy from a bank or insurance company that paid out in the event of the member's failure) which cost between 1 and 5 per cent of the value of the bond.

54. The value of a bond of a smaller operator is likely to be £37,500 (implying annual costs of around £400 to £2,000 a year).[4]

55. The main parties said that an ATOL licence was required when a firm sold as principal flight-based packages, charter flights or scheduled flights where an airline ticket was not issued straight away, and also if a travel agent wanted to sell dynamic packages as a principal. (There was no obligation for a travel agent to hold an ATOL licence where it only sold as an agent.)

[4] www.abta.com/join/member_introduction/bond.

56. The main parties stated that in order to obtain an ATOL membership, a travel agent new to the scheme must pay a bond (the travel agent's customer must also pay an ATOL Protection Charge of £2.50 per person). The minimum bond requirement for new licence holders was £40,000 or an amount equal to 15 per cent of ATOL turnover, whichever was the higher amount. A bond would be required for a minimum of four years but the amount of bonding required may be reduced annually at renewal. ATOL bonds were provided by banks or insurance companies.

57. The main parties said that other than the requirement to hold an ATOL licence for retailers creating package holidays or selling flight-only products, there were no legal or regulatory barriers to entry affecting the distribution market.

58. The main parties suggested that new entrants could join a buying group. Through buying groups independent agents could get access to the required licensing without large capital outlays and without the need to take out their own ABTA and ATOL memberships.

59. The main parties suggested that working capital requirements were very low due to the deposits paid by customers of travel agents. This was because generally customer monies were collected prior to tour operator payments being made and commission earnings were retained by the agency rather than being paid by the tour operator.

60. However, Hays Travel stated that when a new entrant joined its buying group, then in the start-up phase some working capital was required as under Hays' operating model all payments were made into the accounts of the buying group in the first instance rather than into the account of the travel agent and the buying group member would only receive the commission when it was earned.

61. The main parties estimated that the capital costs for opening a new store were around £10,000 to £40,000 for a new start-up operation. We looked at a sample of Midlands and CGL data from four of their store openings in 2008 and 2009. This indicated that initial capital expenditure for opening these stores was between £[✂] and £[✂] (see Table 3).

TABLE 3 **New store openings of CGL and Midlands**

£'000

	Store			
	Midlands—Narborough Road (June 09)	*Midlands—Raunds (Mar 08)*	*CGL Shawlands (Oct 08)*	*Saltire/Bingley Road (Jun 09)*
Capex	[✂]	[✂]	[✂]	[✂]
Business plan contribution Year 1	[✂]	[✂]	[✂]	[✂]
BP contribution Year 2	[✂]	[✂]	[✂]	[✂]
BP contribution Year 3	[✂]	[✂]	[✂]	[✂]
BP Sales year 1	[✂]	[✂]	[✂]	[✂]
BP Sales year 2	[✂]	[✂]	[✂]	[✂]
BP Sales year 3	[✂]	[✂]	[✂]	[✂]
Actual contribution year 1	[✂]	[✂]	[✂]	[✂]
Actual contribution year 2	[✂]	[✂]	[✂]	[✂]
Actual contribution year 3	[✂]	[✂]	[✂]	[✂]
Actual sales year 1	[✂]	[✂]	[✂]	[✂]
Actual sales year 2	[✂]	[✂]	[✂]	[✂]
Actual sales year 3	[✂]	[✂]	[✂]	[✂]

Source: CGL and Midlands store level management accounts and business cases for openings. For Midlands, we included all of its store openings in the last three years in the sample. For CGL, we included two out of the five new store openings in the last three years in the sample. We included those CGL new store openings for which data was most readily available.

Note: CGL also acquired the customer list of an adjacent store to its Shawlands store for an additional £[✂] in early 2009.

62. Virgin Holidays said that capital expenditure for a new store was approximately £[✂]. Hays Travel stated that costs incurred when opening a new store were legal fees and refit costs of approximately £40,000.

63. The main parties estimated that running costs for a new store were around £100,000 a year.

64. Our analysis of the four new store openings in Table 3 for Midlands and CGL shows that their business cases projected profit margins of around [✂] per cent of gross turnover (ie of the value of the holiday sales and foreign currency sales) for new store openings within three years of opening. However, actual sales of the newly-opened stores were generally significantly lower than the projections in the business case[5] [✂].

65. TTA Worldchoice said that it was difficult to become profitable as a start-up and that the main hurdle of setting up a new business was getting critical mass in any niche of the market.

66. Based on the evidence above, it appears that there is a realistic prospect that a new store will incur losses in the early years of operation. This would require additional capital buffers and increase the overall set-up costs.

67. We considered the extent to which any set-up costs would represent sunk costs. We noted that CGL acquired a customer list, forward bookings and some domain names in 2009 for £[✂] from an existing third party travel agent outlet. This indicates that some of the costs incurred in setting up a new travel agent outlet may be recoverable upon closure of a retail travel agent outlet. Other recoverable items could include some fixtures and fittings. However, this needs to be seen in the context of possible liabilities, for example from redundancies and unexpired leases and dilapidation costs.

68. Virgin Holidays estimated that approximately [✂] of the capital expenditure ([✂]) on a new store was sunk costs (eg physical set-up costs, network line set-ups). The remaining [✂] (eg furniture, IT equipment, carpets), could be transferred to another site. Virgin Holidays noted that most other potential entrants would need to sublet the retail outlet which, in the current economic climate with many retail units standing empty, would not be straightforward.

69. Virgin Holidays provided us with the financial performance of their retail travel outlets over the last three years which showed a [✂] in each year. [✂] Virgin Holidays added that for other entrants at the retail level who would enter the market by taking a lease of a stand-alone store—and who did not have Virgin Holidays' brand and the ability to give a solid parent guarantee (which may reduce the financial burden) the time for a new store to break even would be [✂].

70. TUI stated that it would generally expect a new outlet to take around two to three years to be profitable.

71. Hays Travel commented that when opening a new outlet it would expect the outlet to generate small profits at the end of the second year of trading.

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[5] [✂]

72. A cruise operator said that establishing a travel agency of Thomas Cook's size and high street presence would require considerable funds, and given the current limited availability of credit, this could present a significant barrier to entry.

73. Taken together with the declining demand for retail travel agent outlets and the relatively low margins for retail travel agents, the set-up costs (although relatively low) and the potential for losses in the start-up phase do appear to form a barrier to entry.

74. This appears to be the case for both small-scale entry (both from de-novo entrants as well as additional store openings from existing operators) and large-scale entry.

75. We note in this context that there has been no large-scale entry over the last three years except for [✂].

Access to branded tour operator products

76. Branded products from the larger tour operators (in particular, Thomas Cook and TUI) are an important feature of the offerings of many travel agents with Thomas Cook and TUI accounting, for example, for around [✂] per cent of CGL and [✂] per cent of Midlands' sales prior to the transaction. Therefore, many new entrants may be at a disadvantage if they were unable to offer holidays from the large tour operators to their customers.

77. Hays Travel commented that brand names were very important to customers.

78. Thomas Cook told us that it aimed to ensure that its products continued to be available to third party travel agents after completion of the merger.

79. Comments from third parties indicated that access to product was not generally perceived to be an entry barrier for various reasons, including that product could be accessed through buying groups and because branded products could often be replicated by dynamic packaging. The latter point is supported by Thomas Cook's statement that it was its sales policy to offer each customer a prepackaged and a dynamically created product in its stores. Thomas Cook further stated that customers had very little loyalty to its in-house airline. If a seat on Thomas Cook airlines did not allow the agent to offer a competitive dynamic package, the agent could instead use an alternative airline—together with a room in the same or equivalent hotel as the Thomas Cook package. (Thomas Cook added that the vast majority of the hotels Thomas Cook used for its package holidays were non-exclusive.) Thomas Cook also stated that the price of a dynamic package was likely to be similar to a package holiday price.

80. One tour operator (Virgin Holidays) commented that some of the buying groups were important to it as distribution channels [✂].

81. The main parties stated that dynamic packages allowed agents to make additional profits since selling dynamic packages meant that the travel agent generally controlled the mark-up rather than relying on the commission provided by the supplier. For many agents, dynamic packaging was likely to be their main revenue stream.

82. Worldchoice noted that Thomas Cook restricted access to its stock in certain circumstances. However, Worldchoice said that this only happened occasionally.

83. Overall it does not appear that access to tour operator product is currently an entry barrier for travel agents. This is based on the wide availability of tour operator prod-

uct through buying groups and to existing retail travel agents. We consider the possibility that the merger could lead to vertical effects in our analysis of vertical effects in Section 10 of the main report.

Access to competitive commission rates

84. The main parties suggested that new entrants could get access to commission rates at the level of larger operators through joining a buying group.

85. The main parties and third parties told us that commission rates for a travel agent depended on the volumes of holidays sold.

86. Advantage Travel indicated that commission rates from third party tour operators for the large vertically integrated operators were sometimes higher than those that could be achieved by the Advantage Travel buying group.

87. Worldchoice said that Thomas Cook sometimes sold holidays through its own distribution channels at prices that could not be matched by independent travel agents even if they gave up all their commission.

88. Bolsover Cruise Club commented that some travel agents would look at dynamic packaging if they could not compete with the prices offered on package holidays by the large vertically integrated operators. Hays Travel said that its dynamic packaging business had grown dramatically, but it had now stabilized (or even declined) as the commercial terms available from tour operators had improved.

89. Table 4 summarizes Thomas Cook's commission rates to travel agents for winter 2009/10, summer 2010, winter 2010/11 and summer 2011.

TABLE 4 **Commission rates paid by Thomas Cook**

per cent

	Basic discount	*Bonus discount*	*Total discount*
Thomas Cook (internal)	[✂]	[✂]	[✂]
CTTG:			
Co-op Travel/Midlands/Mid countries (variation seasonal)	[✂]	[✂]	[✂]
Freedom Travel Group (variation seasonal)	[✂]	[✂]	[✂]
Other (variation largely seasonal)	[✂]	[✂]	[✂]
TUI	[✂]	[✂]	[✂]
Advantage members:			
Variation between periods and members	[✂]	[✂]	[✂]
Global Travel members	[✂]*	[✂]	[✂]
Travel Trust Association members (variation seasonal)	[✂]	[✂]	[✂]
Hays (seasonal variation)	[✂]	[✂]	[✂]
Bath Travel (Chain/non-consortia)	[✂]	[✂]	[✂]
STA Travel (Chain/non-consortia)	[✂]	[✂]	[✂]
Independents:			
Generally	[✂]	[✂]	[✂]
Bookable holidays	[✂]	[✂]	[✂]
Holiday Direct	[✂]	[✂]	[✂]
This is travel	[✂]	[✂]	[✂]
Travel Republic	[✂]	[✂]	[✂]
Lastminute	[✂]	[✂]	[✂]

Source: Thomas Cook.

*[✂] per cent for one member.

90. Thomas Cook's commission data in Table 4 shows that there are [✂].

91. [A tour operator] stated that as a small independent tour operator it had to pay slightly higher commission rates than Thomas Cook. These higher commission rates were an incentive for agents to sell [✂] products.

92. Travel agents with an ATOL licence can sell dynamically packaged products. This allows them to replicate a tour operator's holiday creating their 'own-label' tour operator product and to include their own 'commission rate'. Dynamic packaging therefore provides an alternative source of product and revenue for travel agents if the commission rates paid by tour operators are too low.

93. The significant number of small independent travel agents operating retail travel outlets (as noted in paragraph 51) suggests that differences in commission rates were not a major barrier to their entry.

94. Therefore it does not appear that access to competitive commission levels is a significant barrier to entry.

Branding and reputation

95. We considered the importance of branding and reputation. Mintel stated that high street travel agent brands were strong[6] and that brand familiarity was a crucial selling point,[7] but that exclusive brand loyalty was lacking.[8]

96. The main parties noted that some customers might prefer to purchase from well-known brands such as Thomas Cook. However, they told us that there were many other factors which were taken into account when choosing a travel agent including price, consumer protection and the availability of unbiased advice. They told us that many customers preferred to purchase their holidays from independent agents as they believed that they would be unbiased in their selection of tour operator product. They suggested that a new entrant could therefore seek to create a good reputation with customers by offering a good service and independent advice.

97. Third parties told us that brands were very important to some customers. In particular, customers increasingly sought reassurance of trustworthy and recognized brands, particularly in the current economic climate. They wanted to know that they were paying funds to an established business. However, the reputation and skill of the staff operating in the travel agent were also very important. [A tour operator] said that rather than brand the most important elements for a holidaymaker were whether the right departure at the right airport was available and pricing.

98. Data provided by CGL and Midlands showed that around [✂] per cent of its customers made repeat bookings within one year of their original booking and around [✂] per cent within three years of the original booking. Data provided by Thomas Cook showed that around [✂] per cent of its customers rebooked with Thomas Cook in the year after a booking and [✂] per cent of its customers would also book again with Thomas Cook in the following year. This suggests that customers of retail travel agent outlets show an element of customer loyalty.

99. The main parties stated that a lot of new store openings tended to come from people within the travel industry who had probably worked within a store and therefore had the ability to transfer their clients to the new store.

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[6] Mintel, *Holiday Booking Process*, Leisure Intelligence, March 2010, p53.
[7] ibid, p53.
[8] ibid, p59.

100. [A tour operator] said that whilst the barriers to entry to becoming a travel agent were low overall, it would take time to establish customer loyalty and reputation as a trusted independent travel agent.

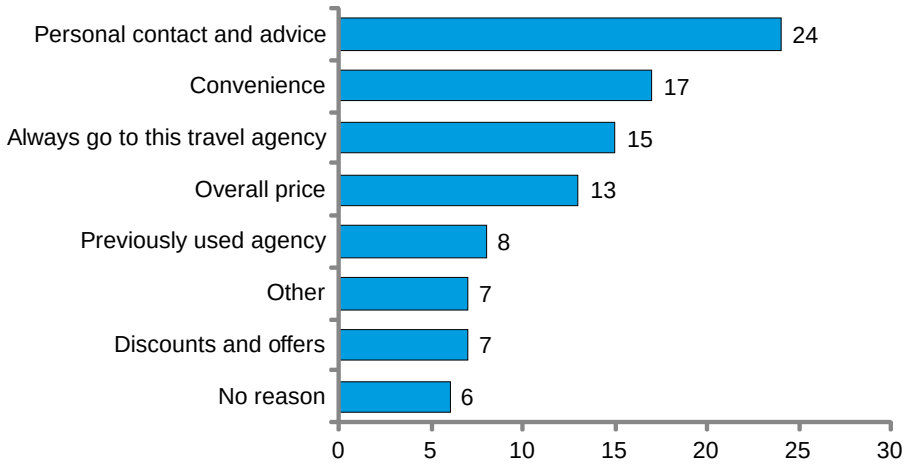
101. The main parties stated that price was a very important determinant for holiday-makers.

102. Bolsover Cruise Club said that whilst customers had brand loyalty to its travel agent operations, competitive pricing was very important, and that its customers would switch to competitors if they offered lower prices and that customer choice was mostly based on price and not service.

103. Our customer survey provides some indication that reputation and customer loyalty (or habit) is a relevant factor for some customers when choosing a retail travel agent outlet. Figure 1 shows that almost half of respondents explicitly stated good service and good advice and prior or regular use as the reason for booking at a particular travel agent.

FIGURE 1

CC customer survey, reasons for booking at this particular travel agency store as opposed to others in the area, Q27 (Base: all respondents, n=2,504)

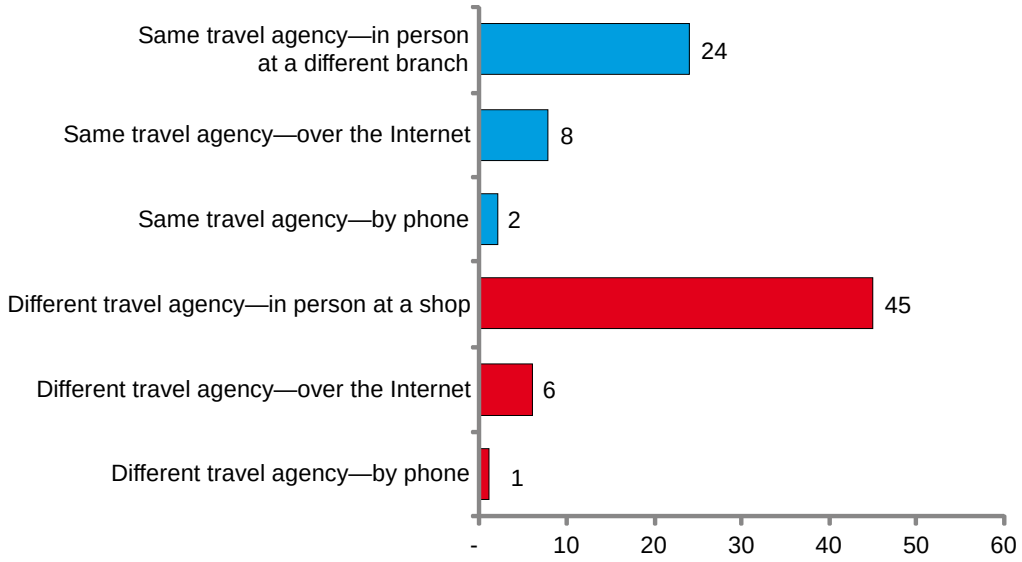


Source: CC customer survey.

104. Our survey also showed that brand loyalty was present for some respondents. For example, Figure 2 shows that 24 per cent of respondents would book their holiday in a different outlet of the same travel agent, if their travel agent closed down. However, 45 per cent of respondents would book at a different travel agent. This suggests that brand loyalty exists (for example, for chains of travel agents), but other factors (for example, location) are also likely to be relevant.

FIGURE 2

CC customer survey, response to the travel agency store being permanently closed, Q35 (Base: all respondents, n=2,504)



Source: CC customer survey.

105. The main parties told us that marketing expenditure for a new entrant was minimal when opening a new retail travel outlet, as most promotion would be via a prominent display of offers in the agency window. Some leafleting or small-scale local press advertising may also be used to drive awareness at launch, but the costs for this would be minimal. Thomas Cook provided research by Keynote that stated that in the year ended June 2010, Thomas Cook's main media advertising spend for its retail travel agent activities was £6.7 million. Barrhead Travel, a leading UK independent travel agent with outlets in Scotland, had the second-highest level of expenditure, with £1.7 million. The Co-op Travel and Teletext also spent over £1 million each on main media advertising in 2009/10. Thomas Cook estimated that it spent around £[✂] million on marketing per year in its retail travel agent outlets. CGL said that it spent around £[✂] million on marketing in its retail travel agent outlets in each year of 2008 to 2010.

106. Virgin Holidays said that each of its stores had a marketing budget of around £[✂]. Much of this store-related budget would be spent on [✂]. Hays Travel told us that marketing expenditure when opening a new store was approximately £12,000 within the first year, of which approximately £6,000 was spent when the store first opened.

107. Worldchoice (a buying group) said that it had a well-known brand that its members could use.

108. It is likely to be difficult for a de-novo entrant to build a brand, reputation and a customer base comparable to the main parties within a short timescale. Existing operators in the travel industry opening a new retail travel agent outlet are likely to benefit from their national, regional or local reputation to some degree and would therefore face lower barriers to entry from reputation or branding.

109. The evidence suggests that a new entrant would need to establish a positive reputation with customers. This is likely to add to the costs and timescale required to enter successfully.

Overall assessment of barriers to entry for retail travel agent outlets

110. The demand for retail travel agent services has been in moderate decline over recent years and the profitability of retail travel agent outlets is generally low. Based on the evidence that we have seen, we would expect these trends to continue.

111. There has, however, been some entry on a small scale, some new store openings by existing chains and one recent example of larger-scale entry by a tour operator ([✂]), though the incidence of entry has been low relative to the overall size of this segment.

112. While the costs associated with entry are moderate, when combined with the trends in demand and profitability (ie at current levels of profitability and demand growth), prospects of entry are low and the threat of substantial entry does not therefore appear likely to be a strong competitive constraint. We have seen some new store openings, which we consider may influence the joint venture's behaviour. These openings also suggest that additional entry is likely should profitability for retail travel agent outlets improve. We cannot identify with any accuracy what level of price increase would encourage significant entry as this will depend on the specific circumstances.

Profitability of retail travel agent outlets

The table below shows the net profit margins of the retail travel agent outlets (as a percentage of gross sales)[1] of the parties and two of their competitors (Hays Travel and Virgin Holidays).

Profitability of the retail travel agent outlets of the parties to the joint venture and of some third parties

per cent

Profitability of retail travel agent outlets	*2007/08*	*2008/09*	*2009/10*	*2010/11*
TCG	[✂]	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]	[✂]
MDL	[✂]	[✂]	[✂]	[✂]
Hays Travel	[✂]	[✂]	[✂]	[✂]
Virgin Holidays	[✂]	[✂]	[✂]	[✂]

Source: Main parties, Hays Travel, Virgin Holidays, CC calculations.

[1] Gross sales means the total price paid by the holidaymaker.

Number and share of supply for tour operators

1. Thomas Cook provided a list of the top 250 ATOL licence holders—Table 1 shows the largest 40).[1]

TABLE 1 **Top 40 individual ATOL licence holders, ranked by number of passengers licensed, December 2010**

Company	*Passenger licensed*	*Share of top 250 total %*	*Type of operator*
TUI UK Ltd	4,185,968	21.96*	Traditional tour op
Thomas Cook Tour Operations Ltd	4,037,900	21.19†	Traditional tour op
Gold Medal Travel Group PLC	684,050	3.59	Flight consolidator
Expedia, Inc	489,021	2.57	Retail DP
Thomas Cook Retail Ltd	433,533	2.27	Traditional tour op
Travelworld Vacations Ltd (Olympic Holidays)	400,000	2.10	Traditional tour op
Virgin Holidays Ltd	399,529	2.10	Traditional tour op
Trailfinders Ltd	367,732	1.93	Retail DP
Avro PLC	350,001	1.84‡	Flight consolidator
Cosmos Holidays plc	300,001	1.57	Traditional tour op
LM Travel Services Ltd (Lastminute.com)	226,963	1.19	Retail DP
The Airline Seat Company Ltd (Canadian Affair)	221,269	1.16	Retail DP
Jet2Holidays Ltd	217,047	1.14	Traditional tour op
Carnival PLC	207,083	1.09	Traditional tour op
Southall Travel Ltd	190,000	1.00	Retail DP
The Global Travel Group Ltd	182,482	0.96	Retail DP
Lotus International Ltd	178,697	0.94	Traditional tour op
The Mileage Company Ltd (Airmiles)	174,956	0.92	Retail DP
Acromas Holidays Ltd (AA Getaways/Greatgetaways)	174,412	0.92	Retail DP
The Freedom Travel Group Ltd	163,050	0.86	Co-op own DP
Co-op Group Travel 1 Ltd	161,210	0.85	Co-op own DP
Hayes and Jarvis (Travel) Ltd	157,784	0.83	Traditional tour op
Hotelplan Ltd (Inghams)	155,500	0.82	Traditional tour op
British Airways Holidays Ltd	154,713	0.81	Traditional tour op
Royal Caribbean Cruises Ltd	136,040	0.71	Traditional tour op
Kuoni Travel Ltd	133,662	0.70	Traditional tour op
Thomas Cook Scheduled Tour Operations Ltd	124,998	0.66	Traditional tour op
Holidays 4 UK Ltd	105,465	0.55	Traditional tour op
Hays Travel Ltd	100,000	0.52	Retail DP
Balkan Holidays Ltd	88,000	0.46	Traditional tour op
Flight Centre (UK) Ltd	87,822	0.46	Retail DP
Citalia Holidays Ltd	84,087	0.44	Traditional tour op
Holidayline (UK) Ltd (Directline holidays)	74,033	0.39	Retail DP
James Villa Holidays Ltd	71,200	0.37	Traditional tour op
Fleetway Travel PLC	70,000	0.37	Retail DP
Cresta World Travel Ltd	69,822	0.37	Travel management company
Lotus Travel Ltd	65,997	0.35	Traditional tour op
Sunshine Cruises Ltd (Island Cruises)	63,547	0.33	Traditional tour op
Travel 2 Ltd	61,231	0.32	Traditional tour op
Flightline Essex Ltd	58,283	0.31	Retail DP

Source: Thomas Cook.

*[✂]
†Gold Medal Travel Group, Thomas Cook Retail and Thomas Cook Scheduled Tour Operations are owned by Thomas Cook, bringing its total share to around 28 per cent.
‡[✂]

2. The main parties provided us with their estimates for the share of supply for the largest operators for short-haul and long-haul package holidays. See Tables 2 and 3.

[1] Thomas Cook has several entries in Table 1 (eg Thomas Cook Tour Operations, Gold Medal Travel Group, Thomas Cook Retail).

TABLE 2 **Share of supply in short-haul package holidays (based on IPS data)**

	Number of passengers		
	W07/S08	*W08/S09*	*W09/S10*
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
Total joint venture	[✂]	[✂]	[✂]
			per cent
TUI UK	22–25	22–25	22–25
Travelworld	3–5	3–5	3–5
Expedia	2–4	2–4	2–4
Monarch Group	2–4	2–4	2–4
Jet2 Holidays	1–3	1–3	1–3
Hotelplan	1–2	1–2	1–2
Acromas Holidays	1–2	1–2	1–2
Balkan Holidays	0–2	0–2	0–2
James Villa Holidays	0–2	0–2	0–2
Carnival PLC	0–2	0–2	0–2
Holidays 4U	0–2	0–2	0–2
Fleetway Travel	0–1	0–1	0–1
Mark Warner	0–1	0–1	0–1
Page & Moy	0–1	0–1	0–1
British Airways Holidays	0–1	0–1	0–1
Trailfinders	0–1	0–1	0–1

Source: The main parties.

TABLE 3 **Share of supply in long-haul package holidays (based on IPS data)**

	Number of passengers		
	W07/S08	*W08/S09*	*W09/S10*
Thomas Cook	[✂]	[✂]	[✂]
CGL	[✂]	[✂]	[✂]
Midlands	[✂]	[✂]	[✂]
Total joint venture	[✂]	[✂]	[✂]
			per cent
TUI UK	15–17	15–17	15–17
Virgin Holidays	15–17	15–17	15–17
Kuoni	8–10	8–10	8–10
Trailfinders	6–8	6–8	6–8
British Airways Holidays	4–6	4–6	4–6
Stella Group	4–6	4–6	4–6
Royal Caribbean Cruises	3–5	3–5	3–5
Acromas Holidays	3–5	3–5	3–5
Expedia	2–4	2–4	2–4
Carnival PLC	2–4	2–4	2–4
Lotus Travel	2–4	2–4	2–4
Monarch Group	1–3	1–3	1–3
Travelworld	0–2	0–2	0–2
Page & Moy	0–2	0–2	0–2
Fleetway	0–2	0–2	0–2

Source: The main parties.

Glossary

ABTA	A travel trade association for tour operators and travel agents.
ABTA bonding	If an **ABTA** member is acting as an agent, it is a condition of **ABTA** membership that the agent provides **ABTA** with security in the form of a bond or other applicable security for this purpose. If the agent's business should fail financially, this bond or security will help to ensure that customers can continue with their travel arrangements or are reimbursed the cost of their travel arrangements.
Accommodation-only	A separate booking in a travel agent of accommodation.
ATOL	Air Travel Organisers' Licensing. A financial protection scheme managed by the Civil Aviation Authority. If an ATOL tour operator fails, the ATOL scheme ensures that customers contracted with the ATOL holder for an air package or a flight do not lose the money paid over or are not stranded abroad.
Bedbank	A bedbank contains bookable accommodation.
Buying group	Usually a consortium of independent travel agents to negotiate better commercial terms from suppliers, in particular commission rates from tour operators.
CGL	The Co-operative Group Limited.
DP	Dynamic package. Dynamic package holidays can be either offered by tour operators or by travel agents. A dynamic package holiday is a holiday where the components of the holiday are assembled at the time of booking and are bought at current market prices (ie they are not prepackaged like a traditional package holiday). From a consumer perspective dynamic packages generally look the same as traditional packages.
Directional selling	The practice by a travel agent of highlighting to consumers a particular tour operator's products ahead of those of other operators, with the intention of selling that particular tour operator's products.
Flight consolidator	A flight consolidator provides bookable flight information.
Flight-only	A separate booking in a travel agent of a flight.
Franchises	**CGL** has three stores that are managed by franchisees.
Freedom Travel Group	A buying group operated by **CGL**.
Gross sales	The ultimate price paid by the end-customer for a service.
Independent holidays	Where customers book accommodation and transport on a stand-alone basis, rather than in a package. They are often booked through the Internet rather than in travel agents.
Independent travel agent	Travel agents that have no links, in terms of ownership, with any tour operators and thus have the ability to sell any holiday from any operator.

IPS	International Passenger Survey. The IPS based on a large and continuous survey conducted by the Office for National Statistics at all major airports, ports and terminals of passengers entering and leaving the UK by air, sea or the Channel Tunnel.
LOGIT	A binary response model. A model of a binary response—that is 0 or 1, yes or no—where the response probability is modelled by the logistic distribution function which is evaluated at a linear function of the explanatory variables.
LTM	Leisure Travel Monitor. Ascent MI Ltd created the LTM which began the supply of data for the package holiday sector in December 2007.
Managed services	**CGL** provides certain services to 37 travel agency stores on behalf of other co-operatives. These are referred to as managed services in our report.
Midlands	The Midlands Co-operative Society Limited.
Net sales	The commission income earned by a travel agent.
OLS	Ordinary least squares. A method to estimate the parameters of a multiple linear regression model. The estimates are obtained by minimizing the sum of squared residuals.
OTA	Online travel agent.
Retail travel agent outlet	A travel agent store.
Thomas Cook	Thomas Cook Group PLC.
TCG	Thomas Cook Group PLC.
TCH	Thomas Cook's tour operating businesses. We use this term to include a number of brands operated by Thomas Cook.
TCS	Thomas Cook's stores. We use this term to include stores under the MyTravel brand.
Traditional package holiday	The traditional pre-bundling of holiday components into a package which is then offered to the consumer at a fixed price. It usually involves the bundling of flights, accommodation and other services by a tour operator usually using pre-contracted accommodation and charter flights.
TUI	TUI Travel PLC, which operates a number of brands including Thomson.
Vertically integrated operator	Tour operators that also have retail travel agent outlets.
Virgin Holidays/Virgin	Virgin Holidays Limited.