

SABRE / FARELOGIX MERGER INQUIRY

SUMMARY OF HEARING HELD WITH AMADEUS IT GROUP SA ON 18 OCTOBER 2019

Services and product provided

Amadeus is a Global Distribution System (GDS) provider, offering GDS services to airlines and travel agents (whether online travel agencies or 'brick-and-mortar' travel agencies, including to business travel agents). Amadeus also provides technology solutions to airlines for airline booking systems, including the Passenger Service System (PSS).

Competition with GDS

Amadeus stated the GDS business model is a two-sided marketplace that brings together airlines and travel agents in order to facilitate the distribution of airline tickets to passengers.

Amadeus described how airlines need to reach potential passengers via travel agents and travel agents need to fulfil the demands of passengers. Amadeus explained that its value proposition to travel agents is based on three elements. First, on having the right content; without the right content, travel agents will go elsewhere irrespective of how advanced the technology used. Second, on having technology that meets the business needs of travel agents. And third, on ensuring the economics are such that travel agents are incentivised to use Amadeus' systems for airline bookings.

Amadeus indicated that it competes with several distribution channels for booking airline tickets, including other GDSs, content aggregators, and airline direct connects. Amadeus said it particularly competes with the bookings made through the airlines' own websites.

Competition in PSS

Amadeus said Farelogix is the market leader in some aspects of non-core PSS solutions, especially merchandising, but Amadeus views itself as catching up fast with Farelogix (based on functionality). Amadeus said its products have features and capabilities which Farelogix does not have, such as use of artificial intelligence, rather than the Farelogix rule-based technology.

Amadeus said airlines that use Farelogix's merchandising solution must incur a cost to integrate it with its PSS system. Amadeus said that where airlines already use Amadeus' PSS, its merchandising solution is integrated as soon as the airline purchases it.

Amadeus said it also competes with Sabre on PSS services. Amadeus stated that Sabre has started rewriting its systems onto open technologies and developing New Distribution Capability (NDC)-based solutions.

Negotiating power of airlines

Amadeus stated that the description in the Reference Decision from some airlines of GDSs as an oligopoly or as an unavoidable gateway is an incorrect characterisation of market dynamics. Content from large airlines is 'must have' for GDSs. Without it, GDSs would not have a value proposition to travel agents (including travel management companies) who in turn would be unable to provide a comprehensive and competitive offer to their own customers. This means that market power lies with the large airlines. Moreover, Amadeus told us that airline market power is growing especially since there has been some consolidation in airlines.

Amadeus stated that large airlines have leveraged this market power to negotiate various changes to the GDS business model, as exemplified by the imposition of private channel agreements, surcharges and channel discrimination by various airlines.

Amadeus indicated that large airlines with a strong brand and customer base have an inherent incentive to avoid comparison platforms and therefore avoid GDSs in favour of its own direct channels (especially their own websites).

Business and Leisure Passengers

Amadeus explained that the business/leisure passenger segmentation has no impact in terms of negotiations between airlines and GDSs for the connection of services to travel agents. Amadeus indicated that the segmentation of passengers into business and leisure passengers is more of a question for airlines than a GDS.

The value of a GDS

Amadeus stated that the distribution strategy of an airline is a reflection of the position of the airline and the choices that it makes with regard to the customers it wishes to attract.

Amadeus stated that the value of a GDS to an airline is that – as part of that distribution strategy – an airline will look to maximise its routes to market and GDSs are the most efficient way for them to market some airline offers. There is currently no good alternative for many travel agencies to the kind of technology, services and functionality provided by the GDS model.

Amadeus explained that the reason it may seem impossible for airlines to circumvent GDSs completely is because of customer requirements – not GDS. Corporate customers value the services provided by travel management companies (TMCs). Amadeus explained that businesses who can do a corporate deal with a particular airline want to manage that agreement through their TMC because of the variety of services that TMCs provide (bookings, re-bookings in the event of travel disruption and analytics of travel expenditure). TMCs rely on GDSs to perform these tasks. Amadeus explained that large companies and government entities typically go to

TMCs to provide them with the services that they require. All that being said, Amadeus explained that its value proposition to travel agents is first based on having the right content; without the right content, travel agents will go elsewhere irrespective of how advanced the technology used.

Competitive constraint of Direct Channels

Amadeus stated that direct distribution should be part of the same frame of reference as indirect distribution. The same reasoning that justifies the inclusion of direct connect must apply to direct distribution. This is evidenced by a significant structural shift in bookings from the indirect to the direct channel and a clear correlation between those shifts and the imposition of surcharges and/or withdrawal of content.

Amadeus stated that airline.com competes with its GDS. Amadeus said airlines use this direct channel to strengthen their position when negotiating with GDSs. Amadeus explained that the passengers who can compare will switch to the direct channel from the indirect channel if the price in the direct channel is cheaper.

Amadeus provided some of its analysis of airline booking fees. Amadeus said large airlines with significant customer loyalty in a home market can rely on their website bookings far more than can smaller airlines who rely on the GDSs to get their offering to market and compete.

Amadeus indicated that airlines used airline.com as a bargaining chip in negotiations in several ways.

Farelogix

Role in the industry

Amadeus stated that the industry is a diverse marketplace. Farelogix is one of several providers that airlines can use to distribute content including GDSs, OpenJaw, JR Technologies, TP Connects, PROS and Airlines Technology. That is one part of the market. Another part of the market is made up of airline proprietary systems (IAG, Air France KLM, Delta, Virgin Atlantic, and many others have in-house solutions).

Role in the development of NDC

Amadeus stated that Farelogix donated their XML schemas which were not adapted to the travel distribution industry. However, Amadeus stated that these schemas were not the right schemas for the industry to adopt and that the whole industry had to rewrite these schemas before use.

Amadeus indicated that the XML schemas from the Open Travel Alliance, OTA, would have been better for the industry to adopt.

Amadeus stated that it does not place much importance on the fact that Farelogix provided its API code to the industry.

Amadeus stated that Farelogix is not a pure NDC provider but Farelogix also facilitates distribution of some XML messages. It also uses a certain amount of legacy, existing technology and infrastructure in the background when using NDC.

Amadeus explained that Farelogix constructs an offer like a GDS: by taking schedules, fares and availability and constructing it.

Role in merchandising

Amadeus stated that Farelogix position themselves in the market as PSS independent and a best of breed technology.

Amadeus stated that Farelogix try to sell its merchandising solution and its NDC API as a package. Amadeus explained that the value is contained within the merchandising layer and the ability to merchandise via the NDC API. Amadeus stated that an airline cannot do much with just the NDC layer and might as well stick with the PSS standard direct connection.

Amadeus indicated that there are lots of benefits of integration, however, an airline might have a 'best of breeds' approach to technology and some technologies may be better for some providers than others. Amadeus explained that an airline may have its revenue management from one provider and another service from an alternative provider. Accordingly, Amadeus indicated that an airline choosing between Amadeus and Farelogix may choose between the two on the basis that an airline may not want one provider to provide everything.

Amadeus' innovation role and NDC strategy

Amadeus stated that innovation was at the heart of everything it did as a company and that its commercial success – or value proposition to customers – depended on its ability to stay ahead of the technological curve. Amadeus stated that it was broadly recognised to be the leader in technology in the industry globally.

Amadeus stated that it was fully committed to NDC and has contributed more than anyone else in the industry to its development. Amadeus rejected the suggestion from airlines that it had been a reluctant participant in the development of NDC and, more importantly, any insinuation that Amadeus would have coordinated with anybody else in that regard.

Amadeus explained that the development of NDC can be broken up into essentially four stages:

- an ideation phase: which was when IATA came up with the idea in 2011/2013;
- an experimentation phase: which ran up until 2018;
- an industrialisation phase: which involves members of the industry working on more mature standards on a bigger scale. Amadeus indicated that the industrialisation phase will run from 2018 until approximately 2022/23.

- an 'optimisation' phase: which builds upon the industrialisation phase and involves the optimisation of NDC and building on top all the innovation that NDC aims to deliver or enable.

Amadeus explained that the industry is having to recreate for NDC all the decades of optimisation that are currently built into indirect distribution. That said, Amadeus hopes that the development of NDC will not take decades as the blueprint of what needs to be done already exists and the question is more about using the NDC standard to adapt to indirect distribution.

Amadeus stated that in 2020, a number of the airlines that work with Amadeus will be fitted with the features required by travel agents for Amadeus to start producing NDC on a serious basis. Amadeus indicated that Farelogix is one of the companies that Amadeus connect to in order to do that. Amadeus indicated that they expect a significant increase in terms of NDC volumes by the end of 2021.

View of the merger

Amadeus stated that it was not an officious bystander to the anticipated acquisition by Sabre of Farelogix. The reason why Amadeus was at the hearing was to ensure that when a final decision is taken by the CMA, that decision fairly represents the industry that Amadeus is a part of.

Amadeus noted that Sabre has already started a programme to re-write its system onto open technology. Amadeus said, however, this will take Sabre many years.

Amadeus indicated that a concern on the merchandising side could be that Sabre may try and leverage Farelogix by only making it compatible with Sabre PSS. Amadeus explained that in the situation where an airline uses Farelogix on top of Amadeus PSS this would lead to two possible situations: (1) the airline would go to Amadeus to ask it to provide the merchandising and NDC layers, or (2) the airline considers a PSS change to Sabre.