

SABRE / FARELOGIX MERGER INQUIRY

SUMMARY OF HEARING WITH BRITISH AIRWAYS

HELD ON 2 OCTOBER 2019

Current use of distribution channels

Distribution channels used (airline.com, via GDS (including private channel), via other aggregators and direct connect)

British Airways said it uses own website, Global Distribution Systems (GDSs) and direct connects to distribute its content. British Airways explained that in the last two years, since it came out of full content agreements with GDSs, it has somewhat shifted away from GDS and towards direct connect and its website.

British Airways said its distribution via GDS has decreased in the last two years. However, British Airways indicated that in the absence of full content agreements, the amount it pays the GDS is more now due to a higher cost per booking.

Types of customers by distribution channel (leisure v corporate)

British Airways said there had been an increase in its business-to-customer bookings and a decrease in its business-to-business bookings. British Airways explained this change was caused by coming out of full content agreements with GDSs, rolling out the New Distribution Capability (NDC)-enabled distribution, connecting with other aggregators, and using Direct Connect.

British Airways stated it uses NDC APIs to distribute its content. British Airways said it did not have any NDC-enabled distribution capability when negotiating its deals with GDS in 2013 and 2014. British Airways said that its alternatives to distribute outside of the GDS were stronger when it exited the full content agreement in 2017.

British Airways said it was under full content agreements with the GDSs until the end of October 2017. British Airways explained it decided to come out of those agreements for several reasons, including that there were particularly strong clauses limiting what the airline could do with its direct connect capability. British Airways said this was a major decision and part of the benefit was that it can incentivise the connection to agencies using NDC-enabled Direct Connect. British Airways said there are still parity obligations in the participation agreements. British Airways explained that it was not able to differentiate content between channels under full content agreements.

Use of distribution technology

British Airways explained it built its own NDC API. British Airways said it can now (in the absence of full content agreements with GDSs) offer a lower price channel via airline.com or direct connect. British Airways stated its cost of providing services for

customers who book through GDS increased and this led to BA applying a Distribution Technology Charge (DTC) to GDS bookings not using direct connect.

British Airways explained this particularly affected business customers and customers who require a travel agency service. British Airways said it prefers not to increase its prices for customers as it wants to win business from its airline competitors.

British Airways stated that it has not connected its NDC API with the major GDSs because it has been unable to agree commercial terms. British Airways said that the terms it agrees to distribute its content through NDC APIs are the same to any aggregator or technology provider and this does not involve a fee to British Airways. British Airways said it decided not to modify these terms for the GDSs and so far the major GDSs have not agreed to them (although Infini, a regional GDS in Japan has agreed to these terms).

British Airways explained that this is different to how GDSs have traditionally distributed British Airways content, where the airline pays a distribution fee to GDS and the GDS pass through a lot of that money to travel agents in the form of incentives.

British Airways stated that it is possible to connect its NDC APIs to a GDS from a technical point of view. British Airways indicated that its terms would not include a fee paid to the distributor and these terms are available to all technology providers, including GDSs. However, British Airways said the GDSs have not yet agreed to those terms.

British Airways commented that airlines have a choice between signing a full content agreement, which does not enable innovation, or not signing the agreement and accepting a huge increase in cost in the hope that customers pick lower-cost distribution channels.

Growth of distribution channels

British Airways predicted that its bookings through its NDC APIs would grow significantly. British Airways said this technology is still being enhanced. British Airways acknowledged it takes time for travel agents to connect directly to its NDC APIs.

British Airways said it would encourage customers to use a lower cost distribution channel by providing lower prices to customers.

British Airways said it does not charge travel agents to use its API. In addition, British Airways said it values the services that some travel agents provide the customers, such as providing non-airline content and duty of care. British Airways said it incentivises some travel agents to distribute British Airways' content.

Merchandising solutions

Current merchandising solutions

BA currently has an inhouse solution for managing offers, but are looking at replacing it with a third party supplier of merchandising solutions.

Future merchandising solutions

British Airways said it intends to find a third-party provider of merchandising solutions. British Airways explained it does not have the core skills to do it in-house. British Airways explained that finding a provider and implementing a new merchandising solution would be a substantial IT project and include extensive integration to its internal systems.

Importance of NDC

Plans to invest in NDC, direct connect, and/or via a GDS (GDS pass-through) British Airways told us it invested a substantial capital cost in creating APIs and to take a different approach would be a significant change. British Airways said it has not seriously considered changing its investment strategy in the last few years.

British Airways said it is part of the IATA NDC leader board, which has a target of 20 per cent of indirect sales coming through NDC by the end of 2020.

Take up of NDC and direct connects by travel agents

British Airways acknowledged it may take travel agents some time to take up NDC-based direct connects. British Airways explained the take up of NDC-based direct connects by travel agents depends on the commercial decisions they make. British Airways said that once the GDSs start distributing its NDC-enabled content, it expects take up by travel agents to accelerate rapidly.

British Airways said that travel agents are incentivised to use GDSs and must weigh up how much volume to book through GDS compared to other channels. British Airways said that the importance of additional content varies across travel agents. British Airways said travel agents generally want the best prices and a full range of content to offer customers, but this depends on the individual travel agent.

British Airways said there are some products it does not distribute on its website, such as special rates for corporate customers and package holiday prices. However, the BA NDC API provides access to content, such as additional price points and ancillaries, that are not available through current GDS functionality. British Airways stated that travel agents have an option to connect directly to various airline content distributors that can use NDC and more travel agents are now doing this. British Airways predicted that online travel agencies are likely to be able to take up NDC-enabled direct connects faster than travel management companies (TMCs).

British Airways said that this is because TMCs tend to be more reliant on GDS, with some notable exceptions. British Airways explained that it may be more work for TMCs to change to using NDC APIs because they tend to use more contracts and provide a wider range of services than other types of travel agent.

British Airways said its aim is to provide travel agents with options, so they have access to book through direct connects or through the GDS. British Airways said it

does not force travel agents to use its NDC-enabled direct connections and want to provide them with the best option. British Airways explained it will not be straightforward for some travel agents to work out how to use British Airways NDC APIs as they use the GDS connection for other providers.

British Airways said there is some business risk because some customers still require the services of a travel agent. British Airways explained that where the agency continues to book via GDS (where the fare price has DTC added), and not via the NDC API, it is potentially at a competitive disadvantage to airlines who do not apply a GDS surcharge.

Role of aggregators

British Airways said that there are some relatively new NDC technology providers and this benefits the industry. British Airways said the aggregators who have been distributing low-cost carrier content connected to APIs for many years include companies such as Travelfusion and HitchHiker.

British Airways explained aggregators can connect British Airways and use the APIs, then it is up to the travel agents to choose who they want to use. British Airways said that using an aggregator can be a more practical route for travel agents to connect to multiple airlines than using direct connect. British Airways explained it may not be straightforward for some travel agents to integrate the BA NDC API into their systems due to their heavy reliance on GDSs for other providers. However, British Airways stated that extra content is available through its NDC API, such as ancillaries and additional price points, and prices are lower due to no DTC being applied, regardless of how the connection is made. British Airways said that a travel agency will get the same content regardless of which way it chooses to connect.

British Airways said it does not know which providers are likely to grow and compete with the GDSs. British Airways said travel agents have reported that some aggregators, such as TP Connects, are providing value at present. British Airways noted that any competition between such aggregators and the GDSs is in its early stages.

British Airways explained that if it only paid GDSs and not new entrants, then it would be heavily reliant on GDSs. British Airways added that if it, and other airlines, did this then it would dampen competition in the industry. British Airways said it wants to encourage competition in this area to grow and that this would be a good for customers.