

SABRE / FARELOGIX MERGER INQUIRY

SUMMARY OF HEARING HELD WITH VIRGIN ATLANTIC 28 OCTOBER 2019

Use of distribution technology

Virgin Atlantic said it built its New Distribution Capability (NDC) Application Programme Interface (API) in-house, rather than outsourcing to a third party.

Virgin Atlantic explained this decision was made to allow the company to understand more about the capability and the technology. Virgin Atlantic indicated that this would help it to secure internal sponsorship for the program. Virgin Atlantic said it believes this will need to be scaled over time.

Virgin Atlantic said that it decided to build in house to make it easier to integrate the system into its shared Passenger Service System (PSS). Virgin Atlantic said that its decision to focus on integration through AIR4 (bought from Delta Airlines) informed its decision not to use a third party NDC API. Virgin Atlantic indicated that the AIR4 had functionality that Virgin Atlantic decided it could build upon in its NDC API development. Virgin Atlantic explained that building on this functionality provided a more feasible solution. Virgin Atlantic said it helped it coordinate engagement in PSS migration, building an NDC API solution, and integration.

Moreover, Virgin Atlantic indicated that its decision was influenced by the fact that Air4 is a platform Virgin Atlantic shares with Delta. Virgin Atlantic explained that viability would become an issue if Virgin Atlantic were to use Farelogix and Delta was to build in-house.

Virgin Atlantic said this also enables it to have greater control and tailor the solution according to Virgin Atlantic's strategy.

Virgin Atlantic said using a third party has the advantage of speed but results in a solution that is more generic because it is designed for many airlines.

Virgin Atlantic said it plans to emerge from negotiations with Global Distribution Systems (GDSs) in 2018 without any constraints upon how it could utilise NDC technology.

GROWTH OF DISTRIBUTION CHANNELS

Virgin Atlantic said that the airline industry has an industry-wide target of distributing 20 per cent of content through NDC by 2020. Virgin Atlantic indicated that it is likely to distribute 20 per cent of content through NDC between 2021 and 2022.

What incentives do they use to encourage traffic in certain distribution channels?

Virgin Atlantic said it pays travel agents an incentive to book Virgin Atlantic. Virgin Atlantic indicated that the existing model of how it pays travel agents to sell content that goes through the GDSs does not coincide with its plans for NDC. Virgin Atlantic said it is looking at optimising the way of paying for content versus the existing model.

MERCHANDISING SOLUTIONS

Current use of merchandising solutions

Virgin Atlantic said its merchandising functionality is fed through by Farelogix, despite not having a contract with Farelogix. Virgin Atlantic explained it subscribes to Delta for the AIR4 platform and this includes a module around its merchandising solutions. Virgin Atlantic added that it is effectively an indirect customer of Farelogix because it uses the AIR4 platform.

Virgin Atlantic said it previously used Datalex for its merchandising solution but switched as part of its PSS migration.

Virgin Atlantic said Farelogix is considered the market leader in merchandising. Virgin Atlantic said Farelogix's solution can be shared across the different platforms that act as Virgin Atlantic's seat map. Virgin Atlantic contrasted this to GDSs that offer paid seating with one price for anybody who goes from seat map. Virgin Atlantic explained that the level of personalisation that the level of detail it achieves with its merchandising solution cannot be achieved through GDSs.

Future use of merchandising solutions

Virgin Atlantic said airlines rarely change their PSS and contracts are typically span over a decade. However, Virgin Atlantic said it could switch merchandising providers and use different technologies where there is a business case.

Virgin Atlantic said it has come across several different solution providers. Virgin Atlantic said it bases its decisions on what is fit for purpose with Virgin Atlantic and chooses solutions that will deliver in the timescales it requires. Virgin Atlantic said it values having control of its software that can be consumed by aggregators, rather than using an aggregator and limiting itself to the generic requirements of that software.

IMPORTANCE OF NDC

What plans to invest in NDC, Direct Connect and/or GDS

Take up of NDC and direct connects by travel agents

Virgin Atlantic indicated that the take up of NDC by travel agents will be influenced by several factors. Virgin Atlantic said travel agents prefer all content to be available in one place. Virgin Atlantic said a good level of take-up of NDC by travel agents would require sufficient workflow.

Virgin Atlantic said that some travel agents had relied wholesale on the technology that GDS provides due to the nature of travel agents. Virgin Atlantic indicated that

travel agents would be reluctant to move to NDC should the functionality be available through GDS.

Virgin Atlantic said Online Travel Agents (OTAs) and innovative Travel Management Companies (TMCs) who run their systems much more like platforms are more open to the idea of transitioning to NDC than other travel agents.

Role of aggregators

Virgin Atlantic said servicing will be important as NDC evolves. Virgin Atlantic said has started discussing with aggregators and GDSs what NDC servicing will look like when it is fully understood.

Virgin Atlantic stated that it is anticipating the GDS distribution space to become more competitive. Virgin Atlantic said the increase in competition will either be due to airlines and aggregators. Virgin Atlantic said it expects increased competition in the GDS space to result in the overall cost of distribution being reduced.

Comparative role in US vs EU

Virgin Atlantic noted that EU airlines have been pushing NDC more aggressively than US Airlines. Virgin Atlantic explained this was partially due to geographic differences, as the US is not as crowded out of certain hubs as other territories. Virgin Atlantic explained that from an EU hub such as London one can fly with almost any airline, whereas this is not the case in the US.

Virgin Atlantic said European carriers are more innovative in terms of distribution and services provided to customers compared to American carriers.

Virgin Atlantic said the UK is one of the most innovative and competitive markets in Europe. Virgin Atlantic explained that this forces airlines to compete on many levels and not just on products and brands.

VIEWS ON THE MERGER

Role of Farelogix in the market

Virgin Atlantic said Farelogix has significant influence in the industry and this impacts how Virgin Atlantic sells airline content indirectly. Virgin Atlantic explained that Farelogix developed and pushed forward both NDC and its precursor. Virgin Atlantic said that Farelogix continues to support NDC through the IATA.

Virgin Atlantic said Farelogix is the market leader in merchandising platforms. Virgin Atlantic explained that Farelogix's role extends beyond IATA in terms of bringing airlines together for discussions and pushing airlines to adopt new innovations in the airlines industry.