Competition & Markets Authority

Summary

1. The Competition and Markets Authority (CMA) has provisionally found that the anticipated acquisition by Sabre Corporation (Sabre) of Farelogix Inc (Farelogix) (the Merger) may be expected to result in a substantial lessening of competition (SLC) within the supply of merchandising solutions on a worldwide basis and the supply of distribution solutions on a worldwide basis.

2. This is not our final decision. We now invite submissions from any interested parties on these provisional findings by 28 February 2020.

3. Alongside these provisional findings, we have published a notice of possible remedies, which sets out the CMA's initial views on the measures that might be required to remedy the SLC that we have provisionally found and/or the resulting adverse effects. We also invite submissions from any interested parties on these initial views by 21 February 2020.

4. We shall take all submissions received by the above dates into account in reaching our final decision, which will be issued by 12 April 2020.

Our inquiry

5. On 2 September 2019 the CMA referred the Merger for further investigation and report by a group of CMA panel members (the Inquiry Group) following a phase 1 review. The Inquiry Group must decide:

   (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 an SLC within any market or markets in the UK for goods or services.

6. This report, together with its appendices, sets out our provisional findings. We are required to come to, and report on, our final decision by 12 April 2020.

The Parties

7. Sabre is a US technology and software provider to the global travel industry. Sabre provides technology solutions to airlines and travel agents. Of relevance to our inquiry, Sabre provides core and non-core Passenger Service System (PSS) IT services to airlines and operates a Global

Distribution System (GDS) which distributes airline content to travel agents for the purpose of booking airline tickets. Sabre's global turnover in 2018 was approximately £2.8 billion.

8. Farelogix is a US technology and software provider that supplies technology solutions for airlines, including non-core PSS modules (with a merchandising module as its main product) and airline content distribution solutions.

9. Farelogix is owned by Sandler Capital Management (Sandler), a private equity fund.

The industry

10. Our inquiry centres on airline solutions provided as a part of the global booking systems for airlines. The main stages in this supply chain comprise of a retailing function that packages relevant content so that a ticket can be sold to a passenger; the distribution of airline content to travel agents and passengers; and a reservation being made and the booking fulfilled. The Merger pertains to aspects of the retailing function (specifically merchandising solutions) and to the distribution of airline content (ie information on the fare, availability, schedule and other aspects of the airlines' offer to passenger).

11. Airlines use IT solutions within their booking system IT stack (the PSS). PSS is a complex set of systems that manage various tasks in the booking process (eg pricing or determining availability of seats on a flight). This IT system can be broken down into two parts: (i) core PSS modules and (ii) non-core PSS modules.

12. Core PSS modules are used for central reservation, inventory and departure control, and they are usually bundled together. Non-core PSS modules enable airlines to offer services that are ancillary to the core PSS as well as helping airlines to manage their operations. The modules can, for example, provide IT solutions for data analytics, flight and personnel scheduling, and airline revenue management. Sabre supplies core PSS modules whereas Farelogix does not. Both Parties supply non-core PSS modules.

Merchandising solutions

13. Merchandising modules (or merchandising solutions) are a subset of non-core PSS modules. They allow airlines to create offers with ancillary services such as extra luggage allowance, the option for passengers to upgrade their seat, in-flight purchases, airport parking or meal options. For an airline to sell tickets and ancillary services, the core and non-core PSS need to work with each other. Currently, Sabre's merchandising solutions can only work with Sabre's

PSS (ie they are PSS-dependent), whereas Farelogix's merchandising solutions can work with any PSSs (ie they are PSS-agnostic).

Distribution solutions

14. Airlines use distribution solutions to distribute content. They can distribute directly to passengers via call centres or their own website (referred to as the direct channel and, in the case of websites, airline.com), or indirectly via travel agents (referred to as the indirect channel). Airlines today have greater flexibility in offering passengers choices over aspects of their travel experience via the direct channel than the indirect channel. For example, they can allow the passenger to select optional ancillaries. In addition, the airline can make dynamic price changes across any of these options or the seat.

15. Within the indirect channel, airlines typically distribute content to travel agents via the GDSs. Airlines can also use technology solutions to bypass a GDS, as described below. Approximately 90% of indirect channel airline bookings are made via a GDS.

GDS

16. The three largest GDSs are Sabre, Amadeus and Travelport, which together account for almost all (85-95%) GDS bookings worldwide.

17. GDSs are two-sided platforms serving both airlines and travel agents. A GDS receives content from an airline's PSS and from third parties (eg fare or schedule). It then aggregates content across airlines and distributes it to travel agents. Packaging different aspects of travel including the route, type of seat, schedule, availability and price, so that a ticket can be sold to a passenger is the offer creation. In the indirect channel, GDSs (rather than the airlines) are responsible for creating the offer. Airlines have limited visibility over the package offered to the passenger.

Direct connect, GDS bypass and GDS pass-through

18. Airlines can distribute content to travel agents outside GDS in different ways. They can establish 'direct connects', which are one-to-one connections between an airline and a travel agent, using an API (application programming interface). They can also establish connections using the API with an aggregator, which combines content across airlines and distributes it to travel agents. Both types of connections are sometimes referred to as 'GDS bypass'. GDS bypass offers airlines more control over the offer creation process but fewer post-booking fulfilment functions (eg managing travel

disruption) than GDSs. They accounted for 0-5% of worldwide passenger bookings or 5-10% in the indirect channel in 2018.

19. Using an API, airlines can also distribute content via a GDS but without requiring offer creation from the GDS. The Parties refer to this as 'GDS pass-through'. The use of GDS pass-through appears limited to date.

20. Some airlines have built and managed APIs in-house, while others use third-party solutions such as those provided by Farelogix, Amadeus, OpenJaw and Datalex.

New Distribution Capability (NDC) and the future of the industry

21. The airline industry is undergoing lengthy and complex changes. GDSs distribute content using legacy technology which is decades old and has substantial limitations in its ability to handle rich digital content.

22. In 2012, the International Air Transport Association (IATA) – a trade association for airlines – launched the NDC standard to address the industry's current limitations. The NDC standard is a computer messaging standard. Farelogix was instrumental in its development. Retailing and distribution solutions compatible with the NDC standard (NDC solutions) allow for dynamic, personalised offers to be created by airlines and this rich content to be communicated and accessed by travel agents in real-time.

23. Airlines' business strategies show that they wish to exercise greater control over their offers. We have been told in our inquiry that airlines wish to differentiate their offers in response to passenger demands for more choice and better travel experience, and to competition from other airlines. NDC solutions provide airlines with the means to do so.

24. The majority of airlines told us that they have a strategy to adopt the NDC standard and to use NDC solutions (although progress varies), with merchandising capabilities considered to be particularly important. This has given rise to demand for suppliers with technologies and business models alternative to the GDSs', as well as responses from GDSs. Each of Sabre, Amadeus and Travelport are working on developing the requisite capabilities to use the NDC standard in their businesses. This process appears to have much further to evolve in the future.

Jurisdiction

25. We have provisionally found that arrangements are in progress or in contemplation which, if carried into effect, will lead to enterprises ceasing to be distinct.

26. The turnover test in section 23(1)(b) of the Act is not met. We have therefore considered the share of supply test. The share of supply test is satisfied if the merging enterprises both either supply or acquire goods or services of a particular description, and will, after the merger, supply or acquire 25% or more of those goods or services in the UK.

27. The Parties submitted that the CMA does not have jurisdiction over the Merger as the share of supply test has not been met.

Supply of goods or services of a particular description

28. We consider that the Parties both supply IT solutions to UK airlines for the purpose of airlines providing travel services information to travel agents, to enable travel agents to make bookings (the Relevant Description of Services). Sabre supplies the Relevant Description of Services through the provision of its GDS to UK airlines. Farelogix supplies the Relevant Description of Services through its FLX Open Connect (FLX OC) and FLX NDC API (collectively referred to as the FLX Service) to one UK airline, British Airways, in respect of one type of itinerary, interline bookings. We consider that the Farelogix supply of the FLX Service directly to British Airways is underpinned by three commercial arrangements:

    (a) the existing service agreement between Farelogix and American Airlines, under which Farelogix supplies the FLX Service to American Airlines, and in doing so supports itineraries with American Airlines' interline partners (Direct Connect Services Agreement);

    (b) the interline arrangement between American Airlines and British Airways; and

    (c) the existing 'FLX Interline Distribution Agreement' between Farelogix and British Airways entered into by British Airways to enable British Airways to receive supply of the FLX Service (the British Airways Agreement).

29. In particular, we consider that Farelogix supplies the FLX Service directly to British Airways in order to enable British Airways to market Interline Segments using the FLX Service under the interline arrangement with American Airlines.

30. The Parties do not consider that the FLX Service constitutes supply within the UK. The Parties submitted that the British Airways Agreement merely concerned the establishment of necessary technical links that give American Airlines permission to send messages to the British Airways PSS and the American Airlines PSS (via a third-party provider). Therefore, the service provided by Farelogix to British Airways under the British Airways Agreement is not an equivalent of the FLX Service.

31. However, we consider that the British Airways Agreement does more than merely provide that technical bridge. We consider that the British Airways Agreement enables the supply of the FLX Service to British Airways in the context of its interline arrangements with American Airlines and shows British Airways' intention to receive supply of the FLX Service. In addition, we consider that the British Airways Agreement and supporting contemporaneous documents provide clear evidence that British Airways took active and conscious steps, and made a clear choice, to receive supply of the FLX Service.

32. We consider that:

   (a) The terms of the Direct Connect Services Agreement show that Farelogix and American Airlines both intended that the FLX Service would be provided to American Airlines' interlining partners (such as British Airways).

   (b) The interline arrangement in place between American Airlines and British Airways is necessary context to the supply relationship between Farelogix and British Airways for the FLX Service.

   (c) The terms of the British Airways Agreement and associated documents show a clear and active choice by British Airways to receive supply of the FLX Service in the context of its interline arrangement with American Airlines and that British Airways had regard to its competitive alternatives in doing so.

33. We therefore consider that Farelogix directly supplies the FLX Service to British Airways.

Supply 25% or more of those goods or services in the UK

34. We provisionally consider that the 25% threshold is met on the basis that Sabre's share alone exceeds 25% of revenue from the provision of the Relevant Description of Services to UK Airlines, and we have identified some

increment from Farelogix's supply of the Relevant Description of Services to UK Airlines.

35. In 2018 only a small number of tickets including a British Airways Interline Segment were processed through the FLX Service and the revenues received and receivable from these bookings is therefore small. However, the Act does not require a minimum increment.

36. In this case we have identified two possible means by which to identify revenue for the FLX Service provided by Farelogix to British Airways, ie part of the Fee received by Farelogix from American Airlines which is intended to cover the FLX Service provided in relation to British Airways Interline Segments, and the fee receivable directly from British Airways.

Provisional conclusion on jurisdiction

37. We have provisionally found that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

Market definition

Merchandising

38. We have provisionally found that a relevant market to assess the impact of the Merger is the supply of merchandising solutions to airlines on a worldwide basis. Merchandising and non-merchandising modules are not demand-side substitutes, as they serve distinct purposes. There is no supply-side substitutability between merchandising and other functions. A PSS supplier that is not active in merchandising cannot readily extend its capability in other non-core PSS modules to start supplying merchandising functions to airlines.

39. In the competitive assessment, we have regard to the similarities and differences between the solutions of the Parties and their competitors and, in light of airlines' evolving business needs and suppliers' ongoing plans to meet these, how their offerings might change in the future.

Distribution

40. The Parties are active in the supply of distribution solutions to airlines. While they each operate different business models using different technologies, they both facilitate the distribution of airline content to travel agents and passengers.

41. We provisionally found that GDSs compete with distribution solutions that enable GDS bypass (eg those based on the NDC API provided by Farelogix) in the same product market. Evidence from airlines indicates that while GDSs will remain a significant distribution channel, there is a growing degree of adoption of GDS bypass and reducing use of GDSs generally. Documents from distribution solution suppliers show that GDS bypass is expected to grow and is seen as a threat to the GDSs. An important factor is that GDS bypass allows airlines to take greater control of their distribution strategies.

42. However, we found that the suitability of GDSs and GDS bypass is influenced by the type of travel agents consuming the content and, related to this, the complexity of passenger requirements. The evidence indicates that GDS bypass is mainly used for distribution of content to online travel agents (OTAs), which primarily (but not exclusively) target leisure customers with simpler itinerary and fulfilment requirements. It is also used by travel management companies (TMCs) that target corporate travellers with a full service offering, and other bricks-and-mortar (B&M) travel agents, but both to a lesser degree than OTAs currently.

43. In relation to the direct channel, we consider that airline.com is an important part of an airline's distribution strategy alongside GDS (and increasingly GDS bypass), and it exercises a constraint on the GDS. However, we found that the degree of constraint is limited by the differences in the type of passengers served by airline.com and GDS, and the ways they compete. On balance, our view is that it appropriate to assess the direct and the indirect channels in the same product market, but we further consider the differentiation between these channels in the competitive assessment.

44. On the basis of the above, we have provisionally concluded that a relevant product market for assessing this Merger is the supply of distribution solutions to airlines on a worldwide basis. This market includes the services provided by GDSs, distribution solutions based on NDC API (including GDS bypass) and airline.com, for the sale of tickets and ancillary content to travel agents and/or passengers.

Nature of competition

Merchandising

45. Airlines traditionally procure merchandising solutions either as part of a bundle with its core PSS, or as a separate module from a third-party provider and integrate it into the core PSS. In both cases, procurement typically takes place through a bidding process. Airlines can also procure merchandising

solutions through bilateral negotiations with suppliers without a bidding process. Suppliers of merchandising solutions compete for airlines by offering higher quality products and more favourable commercial terms (eg price) generally and, in part, by building on existing reputation (track record) and/or relationships.

Distribution

46. In the supply of distribution solutions, competition takes place in multiple forms reflecting differentiated business models in the marketplace. GDSs are two-sided platforms connecting airlines with travel agents. Price is a parameter of competition on both sides, and a GDS' revenue is determined by the difference between the booking fees they receive from airlines and the incentives they pay travel agents. GDSs set booking fees and incentives to balance the demands of the two sides.

47. While in principle GDSs can compete for airlines by reducing booking fees, in practice parity clauses can reduce their incentives to do so. However, GDSs face pricing pressure from other channels including GDS bypass and airline.com; the option of switching volumes to these non-GDS channels are used by airlines as levers in negotiations. GDSs compete with one another for travel agents on price (by offering higher incentives), on quality of the content available on the GDS (eg by providing more favourable air fares and wider range of offers) and more generally on the level of services.

48. While Sabre and other GDSs compete for both airlines and travel agents, Farelogix and other suppliers of distribution solutions based on the NDC API compete on the airline side only. Airlines decide how to use these solutions to connect to travel agents and passengers; these suppliers compete with GDSs and with one another by offering reliable innovative technology and lower booking fees to reduce airlines' distribution costs.

49. Airline.com allows airlines to distribute content to passengers directly, rather than through a platform or technology to travel agents and then indirectly to passengers.

Theories of harm

50. Theories of harm describe the possible ways in which an SLC could arise as a result of a merger. A theory of harm provides the framework for our analysis of the competitive effects of a merger.

51. In this case we are assessing whether the Merger gives rise to an SLC (i) in the supply of merchandising solutions, and (ii) in the supply of distribution

solutions, both on a worldwide basis. These are our two theories of harm and are categorised as horizontal unilateral effects.

52. Our assessment considers whether the Merger would lead to slower rates of innovation and product development, reduced product range or quality (compared to the situation without the merger), and in particular innovation in merchandising and/or distribution solutions compatible with the NDC standard. We also consider whether the Merger would be likely to lead to higher prices and/or worse terms for airlines purchasing existing merchandising and distribution products.

Assessment of the competitive effects of the merger

Relevance of the merger to the UK

53. The Parties operate at a global level. The UK has major airline, travel agency and passenger activity and we consider that the Merger may have a significant impact on airlines operating in the UK, and therefore on the price, quality and range of services they provide to UK passengers. This is because the Merger could potentially reduce the availability of, and pace of ongoing innovation in, NDC merchandising solutions and NDC distribution solutions. This would affect the supply options available to all airlines (including UK airlines), and the scope for UK passengers to have greater choice in and control over their travel experiences.

54. The scale of the services supplied by the Parties in the UK, and therefore the scope for a UK impact of the Merger, is indicated by the fact that:

(a) Sabre alone facilitated millions of bookings via travel agents in the UK in 2018;

(b) Farelogix is the IT provider with the highest share of both merchandising and distribution solutions among the top 20 network carriers operating in the UK;

(c) UK bookings were made through connections developed by Farelogix; and

(d) UK airlines paid booking fees of approximately £170 million in the indirect channel in 2018.

Counterfactual

55. The counterfactual is an analytical tool used to help answer the question of whether a merger may be expected to result in an SLC. It does this by providing the basis for a comparison of the competitive situation in the market with the merger against the most likely future competitive situation in the market absent the merger.

56. We note that how the industry adopts merchandising and distribution solutions based on the NDC standard (which is of importance to the inquiry), is a process that is likely to take a number of years. Given this, and the specific plans we have seen in our inquiry, we consider that a time frame of the next three to five years is an appropriate period to consider how providers may develop their NDC-enabled solutions, and thereby to assess the counterfactual.

57. The Parties submitted that the appropriate counterfactual in this case is the prevailing conditions of competition.

Sabre's position in merchandising

58. We consider that Sabre's strategy documents show that, absent the Merger, it had both the incentive and the intention to become a stronger merchandising provider, in particular through the development of a PSS-agnostic merchandising solution to enable it to sell to all airlines irrespective of whether they use Sabre's PSS.

59. We have found that a key driver for Sabre is the need to protect the value of its GDS. Traditionally, a GDS such as Sabre generates value not only by distributing content but also by performing offer creation functions. However, with the emergence of new retailing models in an environment based on the NDC standard, airlines are increasingly able to undertake the offer creation function themselves. This represents a threat to Sabre, as it diminishes the value of its GDS's contribution to the overall process of creating and distributing airline content. Sabre's internal documents confirm this.

60. The internal documents show that Sabre also has other reasons to develop its merchandising capabilities. This would mitigate the risk of it losing PSS business to its competitors, particularly given that an effective merchandising offering is of growing importance when competing for broader NDC retailing bundles. It may also enable Sabre to compete to supply merchandising solutions to airlines which do not use Sabre's core PSS, which represent the majority of the market.

61. Sabre itself has confirmed its need and intention to improve its merchandising capabilities. It told us that its Next Generation Retailing and Next Generation Distribution strategy (which includes a merchandising solution) would be PSS-agnostic and its internal documents show that, irrespective of the Merger, it will develop a PSS-agnostic merchandising solution.

62. We also consider that Sabre would have had the ability to realise these intentions and develop a credible PSS-agnostic merchandising solution within the next five years absent the Merger. Sabre's internal documents, and submissions to us, show that it has already made progress in developing its next-generation retailing offer, which is intended to include a PSS-agnostic merchandising solution.

63. In terms of its capabilities, Sabre has a track record of delivering solutions to a range of airlines. It provides GDS services to over 400 airlines. It therefore has strong relationships with airlines to which it can cross-sell its merchandising solution as Amadeus, which is in a similar position to Sabre, appears to have done. More generally, Sabre is one of the two main global players active in supplying both airline IT and distribution services to airlines, and it has significant resources and development capabilities and a deep knowledge of the airline booking system IT stack.

64. We therefore provisionally conclude that, absent the Merger, Sabre would be likely to have become a substantially stronger competitor in merchandising than it currently is and that it would have developed and offered a credible PSS-agnostic and NDC-compatible merchandising solution to airlines within the next three to five years.

Farelogix's position in merchandising

65. Farelogix continues to be successful in bidding for merchandising opportunities and has recently won significant tenders. Farelogix's marketing materials show that it continues to invest in improving its merchandising capabilities and to make sales.

66. We provisionally conclude that, absent the Merger, Farelogix would continue to be a strong provider of merchandising solutions and would have continued to make product improvements and compete effectively for new customers.

Sabre's position in distribution

67. The evidence we have assessed shows that Sabre's competitive position relative to the other GDSs has remained unchanged.

68. Sabre’s strategy documents also show that it has the intention, incentive and ability to develop distribution capabilities that are compatible with the NDC standard in order to protect the value of its GDS services. This includes GDS pass-through and NDC APIs.

69. As a result, we provisionally conclude that, absent the Merger, Sabre would likely continue its investment plans in NDC distribution solutions and therefore remain one of the three major GDS providers and, as such, one of the three major distributors of airline content.

Farelogix’s position in distribution

70. Our analysis of the most recent bidding data for NDC API provision shows that Farelogix continues to compete in the market for NDC distribution solutions and that it has continued to win bids in the recent past.

71. Moreover, Farelogix told us that it continued to anticipate a ‘tipping point’ in the market for NDC solutions as NDC gained acceptance and told us that it intended to remain in the distribution business for this reason.

Our assessment of merchandising solutions

72. The evidence shows that Farelogix is a strong established provider of merchandising solutions. Its effectiveness as a competitor is enhanced by the fact that it:

   (a) is one of only very few suppliers that currently offer a PSS-agnostic and channel-agnostic standalone solution, commercially independent of a GDS and PSS, with this distinct market positioning an important part of its attractiveness to airlines;

   (b) is widely perceived by Sabre, other competitors and airlines to be the leading provider in terms of functionality and innovation;

   (c) has a strong established reputation throughout the industry as a result of its proven track record of delivering; and

   (d) offers its merchandising product alongside a suite of related products, so it can engage in cross-selling to its customers.

73. Farelogix’s effectiveness as a competitor is further demonstrated by the fact that it has as customers some of the largest airlines in the world, and that it has continued to win major contracts recently. It also has not lost any existing customer of its merchandising solution to another competitor to date.

74. We recognise that Sabre is not a significant provider of merchandising solutions today and has not been competing closely with Farelogix in the provision of these services. Sabre's existing merchandising solutions are only available to its core PSS customers, whereas Farelogix offers a PSS-agnostic solution that can be integrated into any airline's IT systems. Sabre has a low market share in merchandising.

75. However, we consider that Sabre's current position does not reflect its competitive strength in merchandising in the absence of the Merger. As set out in our provisional conclusion on the counterfactual above, in our view Sabre would likely have become a substantially stronger competitor, following its development of a credible PSS-agnostic and NDC-compatible merchandising solution. The fact that Sabre would be able to offer a strong merchandising solution in conjunction with its core PSS would give it a particular competitive opportunity with airlines prepared to consider such a solution.

76. We recognise that Amadeus is a significant competitor in merchandising in some circumstances and it will continue to constrain the Parties. It has a large established customer base in part reflecting its position in core PSS, and it has been active and successful in competing for recent contracts. The strength of Amadeus is further supported by the fact that most competitors, including the Parties, monitor and identify it as a main competitive threat, and nearly all airlines consider it to be one of the leading providers of merchandising solutions.

77. However, we consider that, like Sabre, Amadeus will have weaker incentives to develop products that will diminish the value of its existing GDS business than a channel-agnostic provider such as Farelogix. It is also a less preferred option for those airlines that value having a channel-agnostic provider to control the ways in which they can create differentiated merchandising offers. Amadeus has a strong core PSS customer base which makes it less dependent than Farelogix on expanding sales of agnostic products by encouraging or supporting airlines to purchase such products.

78. We have found that the remaining channel-agnostic providers are currently substantially weaker competitors than Farelogix. They have less of a track record, as shown by the fact that the number and size of their customers are far less significant, and their reputations are less developed, as shown in airlines' evaluation of suppliers when procuring these solutions. The most significant of these competitors, Datalex, is currently facing financial challenges that are affecting its ability to win new customers and cause many industry participants to expect it to get weaker.

79. While some of these competitors have intentions to expand, this is likely to be on a much more limited scale than the expansion we expect from Sabre. We have not seen robust evidence that they have major expansion plans in place, and in our view their ability and incentive to expand is much weaker than Sabre's given the critical importance of merchandising to Sabre's existing business model, its level of resources and its reputation and relationship with airlines.

80. The other possible constraint in merchandising is that of airline self-supply, but the evidence is clear that this is very limited.

81. Based on this assessment, and compared to the counterfactual we have found, in our view the Merger would reduce the number of significant players offering merchandising solutions from three to two, with other providers exercising a much weaker constraint. In addition, it would remove the only significant independent, channel-agnostic, provider of merchandising solutions, which we consider to be an important attribute in driving innovation in both NDC-compatible retailing and distribution solutions.

82. Many airlines have expressed concerns about the merger's impact on competition and innovation in merchandising.

83. As a result, we provisionally find that the merger may be expected to result in a substantial lessening of competition in the supply of merchandising solutions on a worldwide basis including in the UK, subject to any countervailing factors. This loss of competition would lead to a reduction in innovation in merchandising solutions, meaning that fewer new features are likely to be developed and they may be released more slowly. It may also result in higher prices as a result of the loss of a strong independent competitor in merchandising procurement processes.

Our assessment of distribution solutions

84. We consider that Sabre is likely to continue to be a significant competitor in distribution. It is extensively used by airlines as one of the main GDSs, competitors consider Sabre to be a strong competitor in distribution and we have not seen evidence to suggest that its current position will weaken.

85. The remaining incumbent competitors in distribution are the other GDSs – Amadeus and, to a lesser extent, Travelport. Like Sabre, they are well established and used extensively by airlines, but the evidence suggests that, historically, competition between the three GDSs has been muted. For a number of years, the GDSs all resisted developing NDC-compatible solutions, and the existence of parity clauses between them and airlines may limit the

scope for price competition. Our view is that this is relevant for assessing the impact of the loss of Farelogix as an independent competitor. We recognise that some of these incumbents are beginning to offer their own APIs, but in our view, this will not materially increase competition between them as they will not have an incentive to compete aggressively in order to bypass their own GDSs.

86. In contrast, Farelogix is a differentiated competitor to the GDSs, with the advantages of being able to distribute NDC content and being focussed solely on serving airlines rather than balancing a two-sided offering. While we recognise this differentiation also means it is not a perfect substitute for the GDSs, as some travel agents value their wider functionality such as the ability to handle complex itineraries involving multiple airlines and support comparison shopping, in our view Farelogix is nevertheless an effective alternative for a substantial part of their airline customer base. In particular, its GDS bypass offerings appear to be well-suited to reaching OTAs and other travel agents who have high technological capability, including some TMCs and larger B&M agents. Collectively these represent a substantial share of Sabre's travel agent bookings.

87. In our view Farelogix has an established position in distribution and has demonstrated that it is a material competitive threat to the GDSs. We recognise that Farelogix's current booking volumes are much lower than those of Sabre and other GDS providers. However, we have found that it is likely that GDS bypass products will grow, and there is scope for this growth to be significant, especially if the GDSs do not facilitate distribution of NDC content. Moreover, as the leading provider, Farelogix is well placed to capture a significant share of these increased GDS bypass volumes. Specifically, we have found that Farelogix:

- *(a)* has more NDC API customers than any of its non-GDS rivals;
- *(b)* is the most successful supplier to the IATA's NDC Leaderboard, which includes airlines who are both industry leaders in migrating to NDC solutions and some of the largest airlines in the world;
- *(c)* has shown it can rapidly grow its share of passenger volumes for airlines which have already adopted its technology, such as Lufthansa;
- *(d)* is expected to grow by both Farelogix itself and Sabre; and
- *(e)* has airline customers that project their usage of GDS bypass to increase.

88. Moreover, in our view the competitive strength of Farelogix, its ability to further grow and its market influence, should not be assessed only in terms of

quantitative metrics such as current volumes and customer numbers, but in the light of other evidence as well. Through its wider commercial activities, Farelogix has existing customer relationships, a broad array of contacts, a track record of delivering to large airlines, and a reputation as a reliable provider and an innovator. We found that both potential customers of Farelogix and competitors (including Sabre) all considered these to be important and to strengthen Farelogix's position as a competitor in whatever market it participates in.

89. We consider the importance of the competitive constraint imposed by Farelogix is directly demonstrated by its role in driving the GDSs to enhance their offering to airlines, in particular by enabling GDS pass-through. Even if GDS bypass were to remain a relatively small part of the distribution market, this would only be because it has played (and continues to play) a significant role in pushing the GDSs themselves to introduce new services such as GDS pass-through so as to prevent the loss of greater GDS volumes to other channels. Absent Farelogix, the ability of airlines to pressure the GDSs to innovate and develop in this sphere would be significantly diminished.

90. While we found that there are a few other suppliers of distribution solutions based on the NDC API, the evidence makes clear that they are weaker than Farelogix and would not replace the constraint it imposes on the GDSs. They have fewer and less significant customers, a less well-developed track record and reputation, and are seen as less of a competitive threat by Sabre and other rivals.

91. We recognise that airline.com plays an important role in airlines' overall distribution strategies and imposes competitive pressure on the GDSs. However, we consider that its constraint on the Parties is likely limited by several factors: (i) the growth of airline.com has principally been at the expense of another direct channel (call centres) and appears to have slowed down in recent years; (ii) airline.com is a less effective alternative for airlines to distribute content to passengers who prefer the services of travel agents, particularly high-value business travellers who use TMCs, which are served by GDSs and to a lesser (though non-negligible) degree also by GDS bypass; (iii) suppliers in the indirect channel compete for travel agents while airline.com competes for passengers downstream; and (iv) we have also not seen evidence in Sabre's internal documents that airline.com has been a major driver, as Farelogix has been, for it to invest in upgrading its own capabilities.

92. Airlines told us that they wish to make differentiated and personalised offers available across all sales channels, including within the indirect one, and the ability to do this offered by Farelogix cannot be replaced with airline.com.

Travel agents are also responding to competition from airline.com for passengers. Farelogix provides an option that allows airlines to distribute differentiated offers to travel agents that were previously not available on GDS, and that are available with GDS pass-through only to a very limited extent to date. We consider that the Merger would remove one such option for travel agents.

93. We have found that self-supply of NDC APIs imposes some, more limited, constraint on the parties, though this is a particularly weak option for smaller airlines who may find the technical challenges and costs prohibitive. Even if self-supply would protect some larger airlines from price increases post-merger, the fact that prices are individually negotiated means this would not protect the large number of other airlines who do not have this option.

94. In weighing these various constraints, we also take into account the fact that in our view the threat Farelogix poses to Sabre in distribution is enhanced by its strong position in merchandising. The increasing use of Farelogix's merchandising solution in turn drives a need for NDC-compatible distribution. It therefore changes airlines' preferences over distribution channels and increases the risk that they may move away from Sabre, who has limited ability to distribute this content, and towards GDS bypass options, which do have this ability. Much of this business at risk could go to Farelogix's own distribution solution, particularly for airlines who may value its ability to offer this jointly integrated with its merchandising solution. However, even if airlines were to instead consider using other bypass options, this would still represent a significant risk to Sabre's GDS business, and one that has emerged (and absent the Merger would continue to emerge) because of Farelogix's role as a leading provider and innovator in the industry, as reflected in the Parties' documents. This risk of losing volumes to GDS bypass has driven Sabre to enable GDS pass-through, directly improving its distribution offering.

95. The importance of Farelogix as a competitor in distribution is underlined by the views of airlines. Many of the airlines responding to our questionnaires expressed concerns about the Merger's impact on distribution. In particular, airlines noted that the merger would remove a successful and growing innovator that has been an alternative to the GDSs, and as a result increase Sabre's market power and set back progress in developing NDC solutions.

96. We therefore provisionally conclude that the Merger may be expected to result in an SLC in the supply of distribution solutions to airlines on a worldwide basis including in the UK, subject to any countervailing factors. This loss of competition would lead to a reduction in innovation in distribution solutions, particularly in terms of the rate at which the GDSs develop their GDS pass-through capabilities, to the detriment of all airlines and travel

agents across the sector. It may also result in the GDSs charging higher prices to some airlines than they otherwise would by reducing airlines' ability to redirect volumes away from the GDSs to alternative channels, particularly because one of the reasons for airlines to adopt GDS bypass is to reduce their distribution costs.

Countervailing measures

Efficiencies

97. The Parties submitted that the Merger would result in rivalry-enhancing efficiencies which would offset any potential competition concerns.

98. They submitted that, by offering a PSS-agnostic merchandising module, the Merger would allow Sabre to offer a more compelling solution to airlines which use another provider's core PSS. The merged entity could therefore compete more strongly than can Sabre currently. The Parties also submitted that the merged entity could compete in NDC retailing more strongly as Sabre's acquisition of Farelogix's merchandising would improve the offerings of both Sabre and Farelogix.

99. We consider that, absent the Merger, Sabre would have a strong commercial incentive, and the ability, to develop its own PSS-agnostic merchandising module and the Merger is not the only means through which Sabre would be able to offer a PSS-agnostic merchandising module as part of its overall offer to airlines.

100. Moreover, we do not consider that the Merger is likely to enhance rivalry since airline customers are able to procure Farelogix's merchandising solution with Sabre's core PSS or would, in the longer term, be able to procure Sabre's own NDC merchandising solutions alongside Sabre's core PSS.

101. The Parties submitted that the Merger would accelerate the delivery of NDC content through the GDS, increasing competition amongst GDSs and inter-brand competition amongst airlines. However, we consider that the evidence shows Sabre would have developed its own merchandising and distribution capabilities using the NDC standard irrespective of the Merger.

102. We have provisionally found that that the Merger is not likely to result in rivalry-enhancing efficiencies that would prevent the SLCs that we have provisionally identified.

Countervailing buyer power

103. The Parties told us that airlines have a significant degree of countervailing buyer power as a result of their ability to use one or both of GDS and NDC solutions depending upon which solution is best to reach their travel agents; to divert volume to the direct channel to be distributed directly to travellers; and to develop their own in-house products to compete if they are not satisfied with the options available to them.

104. For the supply of merchandising solutions, our analysis of the effects of the Merger implies that airlines will have fewer credible switching options as a result of the Merger, thereby reducing their buyer power. The Parties did not provide any evidence to indicate that this is not the case.

105. In distribution, we have found in our competitive assessment that some airlines value the option of direct connects and that Farelogix is a significant provider in these. We consider that Sabre's ownership of Farelogix is likely to result in the loss of airlines' options.

106. In terms of airlines' ability to self-supply, our assessment shows that self-supply in merchandising was very limited. In any case, the potential for a small number of larger airlines to self-supply cannot be relied upon as a means of protecting other airline customers against the adverse effects of the Merger.

107. In distribution, we similarly noted that only a small number of airlines have developed, or are developing, their own NDC APIs and airlines generally told us that they faced significant challenges and costs in doing so. As above, while a small number of airlines may have the ability to build their own distribution solutions in-house, this will not protect other airline customers from the adverse effects of the Merger.

108. We have provisionally concluded that there is insufficient countervailing buyer power to prevent the SLCs that we have provisionally identified.

Barriers to entry and expansion

Merchandising solutions

109. The Parties submitted that there are relatively low barriers to entry in the supply of non-core PSS merchandising modules and that these products can be developed by any IT company.

110. They submitted that there are a number of providers currently in the market for merchandising modules, including Amadeus, Datalex, ITA, OpenJaw, PROS, DXC, JR Technologies and IBS, and that IATA was continually certifying and adding IT providers to its registry as order management capable. We have assessed these providers including their expansion ambitions in our competitive assessment.

111. Third party views expressed to us regarding development timescales indicate that new entry is unlikely to be timely, likely and sufficient to prevent either of the SLCs in this case.

112. Competitors to the Parties consistently told us that the importance of merchandising modules to airlines means that airlines are unlikely to switch to providers that do not have a proven track record and the ability to demonstrate the reliability of their solutions.

113. In our view, the high costs and lengthy development processes described by Sabre and the majority of its competitors demonstrate that there are significant challenges in developing a merchandising module to rival the product offerings of the industry leaders and that Sabre is better placed to overcome these challenges than are other competitors.

114. The evidence shows that customer perceptions of service providers are an important consideration in their decision-making process when awarding contracts. In our view, it is reasonable to expect that it would take a new entrant, or an existing smaller supplier, time to build its reputation and record for reliability, and that the obstacle of gaining a first major airline customer, and a track record in supporting that customer, is likely to represent a significant barrier, particularly to new entry.

Distribution solutions

115. The Parties submitted that barriers to entry and expansion in distribution solutions are low and that it is relatively simple to build an NDC API which can be used to distribute airline content. The Parties told us that, while GDSs benefit from significant network efforts, there were no specific or general technology barriers which must be overcome in order to compete for the provision of NDC API connections.

116. The Parties also told us that the supply of NDC APIs was becoming increasingly commoditised and submitted that this was clear from the large number of firms on the IATA registry of firms that are capable of creating an NDC API.

117. We consider that the evidence suggests that the introduction of the NDC standard has lowered barriers to entry in the supply of NDC APIs but that the development of competitive capabilities nonetheless requires specialist expertise and can require significant upfront investment. While these barriers are not insurmountable, we note the limited success of third party suppliers in winning significant contracts.

118. The large majority of airlines cited difficulties in building NDC APIs. This indicates that, while barriers may be lower than in the past, there remain difficulties in developing solutions to compete effectively with the market leaders.

119. We also consider that parity clauses may be barriers to entry and expansion for providers seeking to distribute airline content to travel agents via NDC APIs. This is because such clauses may place restrictions on incentivising or promoting the use of non-GDS distribution channels, restricting the ability of new entrants and expansion candidates to grow, and make it more difficult for entrants and expansion candidates to compete on content with GDS providers. In our view, the prevalence of contractual clauses represents a significant challenge that may be difficult for any new entrant or expansion candidate to overcome in order for it to effectively constrain the merged entity.

Provisional conclusion on barriers to entry and expansion

120. We are provisionally of the view that the markets for airline merchandising and distribution solutions are characterised by high barriers to entry and expansion.

Provisional conclusion

121. We have provisionally concluded that the anticipated acquisition by Sabre of Farelogix, if carried into effect, will result in the creation of a relevant merger situation.

122. We have provisionally concluded that the Merger may be expected to result in an SLC in the supply of merchandising solutions to airlines on a worldwide basis including in the UK. This loss of competition would lead to a reduction in innovation in merchandising solutions, meaning that fewer new features are likely to be developed and they may be released more slowly. It may also result in higher prices.

123. We have provisionally concluded that the Merger may be expected to result in an SLC in the supply of distribution solutions to airlines on a worldwide basis including in the UK. This loss of competition would lead to a reduction in

innovation in distribution solutions, particularly in terms of the rate at which the GDSs develop their GDS pass-through capabilities, to the detriment of all airlines and travel agents across the sector. It may also result in the GDSs charging higher prices to some airlines than they otherwise would by reducing airlines' ability to redirect volumes away from the GDSs to alternative channels, particularly because one of the reasons for airlines to adopt GDS bypass is to reduce their distribution costs.