

Anticipated acquisition by Sabre Corporation of Farelogix Inc

Provisional findings report

Notified: 7 February 2020

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The Competition and Markets Authority has excluded from this published version of the provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [X]. [Some numbers have been replaced by a range. These are shown in square brackets.] [Non-sensitive wording is also indicated in square brackets.]

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- A: Terms of reference and conduct of the inquiry
- B: Jurisdiction
- C: Transaction Background and valuation
- D: Evidence from the Parties
- E: Competitor evidence
- F: Airline evidence
- G: Travel agent evidence
- H: Bidding and market shares

Glossary

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, [X];
 - (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.

1. The reference

- 1.1 On 2 September 2019, the CMA, in exercise of its duty under section 33 of the Enterprise Act 2002 (the Act), referred the anticipated acquisition by Sabre of Farelogix for further investigation and report by a group of CMA panel members (the Inquiry Group).
- 1.2 In exercise of its duty under section 36(1) of the Act, the CMA 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 a substantial lessening of competition (SLC) within any market or markets in the UK for goods or services.
- 1.3 We are required to publish a final report by 12 April 2020.
- 1.4 Our terms of reference, along with information on the conduct of the inquiry, are set out in Appendix A. The terms of reference state that the CMA's Phase 1 competition concerns were in:
- (a) the supply of non-core passenger service systems merchandising modules; and
 - (b) the supply of services that facilitate the indirect distribution of airline content.
- 1.5 This document, together with its appendices, constitutes the Inquiry Group's provisional findings published and notified to Sabre and Farelogix in line with the CMA's rules of procedure.¹ Further information, including a non-commercially-sensitive version of the Parties' response to the Phase 1 Decision, can be found on our webpage.²
- 1.6 We note around a week before our provisional findings report the Parties submitted further internal documents as a part of their response to a previous request for information. We have not had time to review these documents for our provisional findings but will do so in time for our final report.

¹ Rules of procedure for merger, market and special reference groups (CMA17), paragraphs 11.1–11.7.

² Sabre/Farelogix merger inquiry webpage

2. The Parties

Sabre

- 2.1 Sabre, headquartered in Southlake, Texas, USA is a 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 PSS services to airlines and operates a GDS which distributes airline content to travel agents (these are explained in chapter 3) for the purpose of booking airline tickets. Sabre's turnover in 2018 was approximately £2.8 billion worldwide and approximately £[REDACTED] million in the UK.
- 2.2 Internally Sabre has two key divisions:
- (a) Sabre Travel Network (TN), which operates Sabre's business-to-business marketplace and consists primarily of Sabre's GDS activities; and
 - (b) Sabre Airline Solutions (AS), amongst other activities this business unit is responsible for core and non-core PSS solutions for airlines.
- 2.3 In its latest Annual Report, Sabre announced the creation of the Travel Solutions organization, which consists of Travel Network and Airline Solutions. The report said that the new structure reinforces Sabre's focus on the next generation of retailing, distribution and fulfilment.³

Farelogix

- 2.4 Farelogix, headquartered in Miami, Florida, USA, is a technology and software provider that supplies technology solutions for airlines, including non-core PSS modules and airline content distribution services using the NDC standard. Farelogix's turnover in 2018 was approximately £[REDACTED] million worldwide with no material turnover in the UK.⁴
- 2.5 Farelogix is owned by Sandler Capital Management (Sandler), a private equity fund. Sandler is the vendor in the Merger.

³ Sabre SEC filing form 10-K 2018, page 1.

⁴ We note that there is some revenue received and/or receivable in respect of the services provided to British Airways. See Chapter 5, Jurisdiction.

3. The industry

Introduction

- 3.1 Our inquiry centres on some of the IT solutions which are provided as a part of the global booking systems for airlines. Airlines use IT solutions within their booking system IT stack (the PSS). Airline content (ie information on the fare, availability, schedule and other aspects of the airlines' offer to passenger) is distributed to passengers directly and via travel agents. The main participants in this supply chain of how airlines sell their offers to passengers include GDSs, direct connects, aggregators and travel agents.
- 3.2 The creation, distribution and sale of airline content can be broken down into three stages:
- (a) Retailing: enables information on a number of aspects including the travel route, type of seat, schedule, availability and price, to be packaged so that a ticket can be sold to a passenger. This is also referred to as 'offer creation'.
 - (b) Distribution: transfers the offer to the passenger or travel agent in a way which allows the passenger or travel agent to assess that offer.
 - (c) Fulfilment: this refers to a booking being made with an airline but in the case of bookings via travel agents can refer to a number of associated post-booking services including travel agent back-office accounting and reporting, quality assurance, duty of care management, corporate policy compliance and reservation management in the event of a travel disruption.
- 3.3 These three stages are currently facilitated by a variety of technological solutions and involve a number of different parties. The following section describes the current supply chain and solutions, how these developed, the Parties' role in this and future industry development. We start by describing the airlines' booking system which is relevant for the retailing function. We then discuss the distribution of airline content including the role of the GDSs, alternatives to GDS distribution and the role of travel agents. Finally, we look forward to future industry developments which have substantial implications for all three functions of retailing, distribution and fulfilment.

The airline booking system IT stack

- 3.4 Both Parties provide airline IT solutions. The heart of an airline's IT system is the PSS, which is a complex set of IT systems that manage various tasks in

the booking process and other key functions. The industry norm is to refer to a discrete function, for example, pricing a particular offer, tracking the availability of seats or administering a customer loyalty scheme. An airline's PSS contains and manages certain information needed for the retailing function of the air travel booking process. This IT booking system can be broken down into two broad constituent parts: (i) core PSS modules and (ii) non-core PSS modules.

- 3.5 The following PSS modules are generally considered to constitute an airline's core PSS and are usually bundled together:
- (a) The airline reservation system or central reservation system, which controls the sale of seats, scheduling, passenger name records and the issuance of tickets.
 - (b) The airline inventory system, which provides information on available seats.
 - (c) The departure control system, which is used to check in passengers at the airport.
- 3.6 It is the PSS that enables key information on flight schedules, seat availability and pricing to be distributed to travel agents, passengers and intermediaries (as described below).
- 3.7 Sabre supplies core PSS solutions. Farelogix does not. Both Parties supply non-core PSS modules.
- 3.8 Non-core PSS modules enable airlines to offer services that are ancillary to the core PSS offer as well as helping airlines to manage their operations. The modules can, for example, provide IT solutions for data analytics and airline revenue management. Although these modules are ancillary to the core PSS they can be of critical importance to the effective and efficient management and operation of the airline.
- 3.9 There are many core and non-core PSS modules for the airlines to choose from. For example, Sabre offers over a hundred non-core PSS modules. Farelogix offers a narrower range of non-core PSS modules than Sabre.
- 3.10 Merchandising modules (or merchandising solutions) 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.

3.11 In order for an airline to sell tickets and offer various ancillary services, the core and non-core PSS components of the IT booking system need to work with each other. In some instances, airlines procure their core and non-core PSS from the same provider, in other instances they are supplied by different providers. Moreover, sometimes a non-core PSS module can be used in conjunction with a third party's core PSS module (a PSS-agnostic solution) but in other instances the non-core PSS offered by a core PSS provider cannot be used with a third party's core PSS (a PSS-dependent solution). Therefore, how PSS agnostic a provider's non-core PSS solution is will be relevant for the competitive dynamic between providers for some solutions. Sabre's merchandising modules are PSS-dependent and can today only connect with Sabre's PSS whereas Farelogix's modules are agnostic and can connect to many PSSs (including Sabre's).

The distribution of airline content

3.12 Airline content refers to fare, schedule and availability of flights, and any other information relating to flight and ancillaries which an airline wishes to make available to travel agents and passengers in order to sell a ticket and make a booking. In order for a passenger or travel agent to book a seat on a flight (and in some instances together with any ancillary services that the passenger may wish to buy) the relevant content from the airline must be distributed to the passenger or travel agent. This includes flights with complex itineraries which may involve code share arrangements between airlines and interline services which are marketed and operated separately by two or more airlines but sold under a single ticket.⁵

3.13 Airlines can deliver their content and sell tickets and services directly to passengers via their own call centre or website (referred to as the direct channel)⁶ or indirectly via travel agents (referred to as the indirect channel). Airlines typically can offer passengers greater choice when selling tickets via their own websites or call centres compared to selling tickets via travel agents. For example, they can allow the passenger to select specific aspects of their flight and can make dynamic price changes.

3.14 Although it varies across airlines, in total approximately 50% of global airline bookings were made via the direct channel in 2018 and 50% via the indirect channel.

⁵ Code sharing is an arrangement between airlines in which two or more airlines market the same flight and sell tickets for it under their own airline code.

⁶ Passengers can also book directly with some airlines via the airline call centre or kiosk.

- 3.15 Within the indirect channel, the distribution of content from an airline to a travel agent could be via a GDS or directly to a travel agent through what is known as a direct connect.⁷ Content may also be distributed to travel agents using a direct connect that goes via an aggregator (which also aggregates content from multiple airlines). 90% of airline bookings from the indirect channel are made via a GDS.⁸
- 3.16 The key provider types in the supply chain – GDS, direct connects, aggregators and travel agents – are discussed next.

GDS

- 3.17 The three largest GDSs are Sabre, Amadeus and Travelport, which together account for almost all GDS bookings worldwide (approximately 85%-95%).⁹

Services offered by GDSs and how they work

- 3.18 GDSs facilitate transactions between different travel services providers (airlines, hotels and car rental operators) and travel agents. They are therefore two-sided platforms with sellers of travel services on the one side of the platform and travel agents on the other. Our inquiry is not concerned with the hotel, car rental and other travel services not related to airlines aspects of the GDS business.
- 3.19 GDSs receive information from airlines' PSS on flight schedules and availability. The fare (pricing) information comes from a third party, the Airline Tariff Publishing Company (ATPCO).¹⁰ Of these pieces of information, only flight availability is available to the GDS in real time. GDSs receive this information from many airlines across the world.

⁷ The Parties told us that in Sabre's internal documents "Direct Connect" refers to an airline's connection to a TA without going via the GDS, which is distinguished from GDS pass-through or the supply of that information to the airline's own website. Farelogix's internal use of the term "direct connect" is much broader and may at times refer to the products through which an airline customer can connect to all three of those sales channels (i.e. GDS pass-through, Direct Connect (in the Sabre context) and sale of tickets via the direct channel). See Footnote 28, Merger Notice.

⁸ Excluding bookings through local GDS in China, Russia and Japan, see Chapter 8 Analysis of bidding and market shares, Distribution for full breakdown

⁹ Excluding passengers booked through local GDSs in Russia, Japan, and China (eg Travelsky, Axess, Infini). [X] estimates that the three major GDSs together account for 95% of worldwide GDS bookings (2019 Global Distribution System (GDS) & airline IT primer; from volume to value).

¹⁰ ATPCO is an airline-owned central clearing house for distribution of fare information. ATPCO collects fares and fare-related information from airlines and consolidates them into a single data file, which is distributed to the market every hour. Airlines use ATPCO to standardise fare and fare-related data, allowing this information to be provided to the market uniformly (which is important eg for interline or code-share flights, where more than one airline will form part of a single booking). Fares filed with ATPCO are referred to as 'static' fares, as they are only updated once the airline provides new fare data, rather than in response to individual booking queries.

- 3.20 The GDS consolidates this information about a specific airline with similar information on other airlines and distributes the information to travel agents in an aggregated display. This allows travel agents to compare information across airlines and book tickets. GDSs also manage some aspects of fulfilment including travel agent back-office accounting and reporting, quality assurance, duty of care management, corporate policy compliance and reservation management in the event of a travel disruption.
- 3.21 GDSs have access to data from a large number of airlines which facilitates large scale comparison shopping by travel agencies. Sabre's GDS, for example, gives travel agents access to more than 400 airlines and processes approximately 1.1 trillion messages and 700 billion transactions every year.¹¹
- 3.22 It is important to note that it is the GDSs, and not the airlines, that are responsible for creating the offer which the passenger receives via the travel agent in response to a travel query. The airlines themselves only have limited visibility over the package offered to the end-customer and little information about the customers themselves, preventing airlines from tracking customer data and adapting to their preferences. For example, airlines do not see what searches were undertaken before a booking is made, which is information that may help airlines hone and improve their services. Looking forward to being able to offer NDC solutions, Sabre's marketing material notes 'Fares are mainly constructed with no visibility into who is making the request, meaning that the ability to offer the right person the right fare at the right time is non-existent. Past shopping behaviour, consumer preferences and the possibility to sell additional products and services are unavailable to the airline, and the airline seat once again becomes a commodity'.¹²

Use of GDSs by airlines and travel agents

- 3.23 The GDS serves both the airline and travel agent. The airline is served by having its content widely distributed and therefore making it more likely to be sold to passengers. The travel agent is served by having access to content from a number of airlines which it can compare and present to passengers. The GDS benefits from indirect network effects. The value of a GDS to airlines is greater the more widely used it is by travel agents. Similarly, the value of a GDS to travel agents is greater the more airlines that connect to it.
- 3.24 The Parties submitted that many travel agents multi-home and can readily switch between GDSs, whilst many of the travel agents we heard from

¹¹ [REDACTED]

¹² [NDC to the power of Sabre: end-to-end personalized retailing and distribution](#)

indicated that across their group they did use two or three GDS there was a substantial proportion who indicated that they only used one GDS, or, if they contracted with multiple GDSs, they often used only one system and/or one GDS per region/corporate customer.¹³ This means that, for airlines to provide their offering to the largest number of travel agents, airlines need to contract with each of Sabre, Amadeus and Travelport and most airlines do this.

3.25 With regard to remuneration for GDS services, three payment models exist today:

- (a) Under the traditional revenue model, the airline pays the GDS a fee for each travel segment. The GDS in turn pays a fee to the travel agent that made the booking (referred to as an 'incentive fee'). The GDS receives the net amount which is the difference between the two. This model accounted for the vast majority of Sabre's GDS revenue from airlines in 2018.¹⁴
- (b) Under the wholesale model, the airline pays the travel agent directly and the travel agent in turn pays a technology fee to the GDS.¹⁵ In 2018, approximately [REDACTED] of Sabre's bookings were made under the wholesale model, most of which were with [REDACTED].
- (c) Under the private channel model, which Sabre has hosted for some airlines since 2017, airlines may provide different content to participating travel agents than to non-participating travel agents. Airlines incentivise travel agents to join a private channel by (i) imposing on them a surcharge on fees for content distributed outside of the private channel, and/or (ii) providing access to unique content that is not available outside the private channel. However, travel agents receive lower or no incentive payments from the GDS in the private channel. Currently private channels represent less than [REDACTED] of Sabre's share of bookings and revenue.¹⁶

Sabre's approach in pricing and contract negotiation with airlines and travel agents

3.26 Sabre's GDS charges airlines a fee (and pays travel agents an incentive fee) per booking (segment).¹⁷ For example, a return ticket booked through a GDS

¹³ Based on responses to % of bookings by channel just focusing on GDS bookings: [REDACTED].

¹⁴ [REDACTED].

¹⁵ [REDACTED].

¹⁶ [REDACTED].

¹⁷ In addition, Sabre (and other GDS) also charge for passive bookings as well as cancellation and ticketing fees.

will incur a fee charged to the airline for both the outward and return segments.¹⁸

- 3.27 Prices for GDS bookings are negotiated with each airline independently.¹⁹ As starting points for these negotiations, Sabre uses 'rack rates' which are published prices for participation in the Sabre GDS.²⁰ The rack rate varies with the point of sale location between home country (\$[X]), home region (\$[X]) and rest of world (\$[X]).²¹ For home country bookings, higher value tickets incur higher fees ([X]).²² In 2018, Sabre on average received \$ [X] from airlines and paid out \$ [X] in incentive fees to travel agents per segment.²³
- 3.28 Sabre told us that a range of factors may affect the negotiated fee levels. They include [X].²⁴
- 3.29 Parity clauses are widely used in the industry between GDSs and airlines. Although parity clauses cover different degrees of restrictiveness, they all ensure that airlines provide the same content to all of the GDSs with whom they have an agreement. The scope of parity agreement between Sabre and an airline is an important determinant of the level of fees. In general, airlines that prefer more flexibility to make separate content available outside Sabre pay higher booking fees to Sabre.²⁵

Direct connect, GDS bypass and GDS pass-through

- 3.30 Airlines can distribute content to travel agents outside the structure of a GDS in several ways.²⁶ They can establish 'direct connects' which are one-to-one connections between an airline and a third party (eg a travel agent). To do so, an airline has to provide the third party with access to parts of its IT system with an API (application programming interface). Some airlines have built and manage APIs in-house, but others use third-party providers of such solutions (such as Farelogix). Airlines generally pay these providers set-up and maintenance fees, as well as per-transaction fees. Direct connect offers airlines more control over the offer creation process, but direct connect

¹⁸ [X].

¹⁹ [X]

²⁰ [X]

²¹ [X]

²² [X]

²³ [X] Numbers based on total bookings, revenue and incentives paid in 2018.

²⁴ [X]

²⁵ [X] Booking fees are generally higher under parity clauses that allow airlines the freedom to offer better fare and content in non-GDS channels. [X].

²⁶ An application programming interface (API) is a protocol used to retrieve information from a server in a standardized format. [X]

providers generally facilitate more limited post-booking fulfilment functions than GDSs (eg back-office accounting functionality).

- 3.31 Airlines can also establish connections using the API with an aggregator (that is not a GDS), which – like GDSs – then combine content across airlines before distributing it to travel agents. An aggregator facilitates comparison shopping for travel agents. Examples of such aggregators include Travelfusion and TPConnects.
- 3.32 These connections using the API via direct connects to the travel agent or via aggregators are sometimes referred to as ‘GDS bypass’. GDS bypass accounts for around [0-5]% [✂] of total bookings worldwide.²⁷
- 3.33 Using an API, airlines can also distribute content via an existing GDS platform without requiring offer creation or other services from the GDS. The Parties refer to this as ‘GDS pass-through’. This can be used to connect to GDSs as a means of delivering NDC content (explained further below). The use of GDS pass-through is a small but growing feature in the industry. [✂]²⁸
- 3.34 The main third party providers of direct connect distribution solutions to help airlines build and manage APIs are Farelogix, OpenJaw, Datalex and Amadeus.

Remuneration models of direct connects

- 3.35 As with GDSs, a number of different remuneration models between airlines and travel agents exist in relation to distribution using direct connects. Airlines may pay travel agents directly per booking made through direct connect. To incentivise the use of direct connect, airlines may impose on travel agents a surcharge on tickets booked through the GDSs. However, the GDSs dispute the legality of these surcharges and Sabre, for example, is currently engaged in litigation with Lufthansa in connection with a surcharge that the Lufthansa Group imposed on GDS ticket sales.²⁹
- 3.36 In relation to connections via an aggregator, it is typical that aggregators charge travel agents a booking fee.³⁰
- 3.37 Farelogix typically charges airlines on a per ticket basis rather than a per segment basis. It often also charges airlines a subscription fee and, although

²⁷ See Chapter 8, Bidding and market shares, Distribution

²⁸ Parties initial submission, paragraph 2.8.

²⁹ Sabre SEC filing form 10-K 2018, page 5.

³⁰ [✂]

the fees are much lower than the GDS fees, the product and services provided are also different in some respects.³¹ In 2018 Farelogix on average earned around [REDACTED] booking fee per transaction.³² Unlike GDSs Farelogix makes no payment to travel agents, it is for the airlines to decide what, if any, payment is to be made to travel agents where content is supplied using a direct connect.

Travel agents

3.38 Travel agents offer services for passengers to search and book flights and provide a variety of aftercare services to manage the booking.

3.39 We consider three categories of travel agents in our provisional findings:

(a) Online Travel Agents (OTAs) which primarily (but not exclusively) target leisure customers with sales via the internet.³³

(b) Bricks and mortar travel agents (B&Ms) who are further segmented by:

(i) Travel Management Companies (TMCs) which primarily target corporate customers with a full-service offering. TMCs often provide an online booking tool for their corporate users (this may be built in-house or by a third-party such as SAP Concur). Bookings can be made online (most common), by phone, or email.

(ii) Other B&Ms, which typically focus on leisure customers or unmanaged business travel. This category is less concentrated and more geographically spread compared to OTAs and TMCs. They can sell via physical outlets, call centres or online.

3.40 The proportion of bookings for Sabre by type of travel agents are: OTAs ([REDACTED]), TMCs ([REDACTED]) and other B&M travel agents ([REDACTED]).³⁴

3.41 The services provided to a passenger by a travel agent will vary based on the category of agents, however in most cases the core air travel-related function of the agent will be to:

³¹ For example, Farelogix does not provide a two-sided platform which gives airlines ready access to travel agents and Farelogix does not aggregate content across airlines which would allow travel agents to comparison shop.

³² [REDACTED] – Total 2018 OC revenue divided by total GDS bypass tickets.

³³ OTA groups may have smaller TMCs or offline businesses, but these typically account for a small proportion of their overall business.

³⁴ [REDACTED].

- (a) offer a range of itineraries to the passenger based on the availability of flights (and accommodation if applicable), which may include complex flight itineraries including multiple airlines;
- (b) assist the passenger in selecting the best option;
- (c) enable the booking of an itinerary including flights and accommodation in one place; and
- (d) assist the traveller in finding alternative travel arrangements in the event of cancellations and emergencies.

3.42 In addition, TMCs play a role in helping corporate customers to fulfil their duty of care obligations to their employees and others and enforce their travel policies (for example as to authorised class of travel) through the provision of management information and other services.³⁵

Factors in travel agents choosing a GDS or alternative distribution channel

3.43 The Parties submitted that travel agents need the GDS to service their customers' broader needs,³⁶ in particular: mid-and back-office processing and support; comprehensive reservation management; 24-hour travel agency support; automation, scripting and other agency support functionality; and duty of care and reporting.

3.44 This is generally confirmed by travel agents' responses, with a number of TMCs and an OTA highlighting the ability of the system to help them manage bookings post-sale is a reason why their use their current service provider (GDS).³⁷

3.45 Another consideration is the level of incentive payments they receive for making bookings (as discussed in the GDS section above). Of the travel agents which gave us a breakdown of their revenues, based on a simple average, around 18% of travel agent revenue is earned from GDS incentive

³⁵ We approached 16 large corporates [REDACTED] to understand more about the way they purchase corporate air travel for their staff. We received responses from four corporates with combined spend on airline tickets over US\$1bn. All four corporates told us that they used a travel management company (TMC) with an online booking tool. They indicated that the reason for using the TMC was to fulfil their duty of care obligation. This was primarily in providing a data feed which allowed the corporate to track any incidents affecting their travellers. One corporate said that the TMC also allows them to ensure staff are only directed to services which are safe and secure and ensure bookings are in line with corporate policy.

³⁶ Para 1.26 Initial phase 2 submission

³⁷ [REDACTED] For example, one large TMC said their supplier 'facilitates highly efficient access to after-booking services and other important services such as sanctions compliance, data security, disaster recovery back-up systems, service level commitments, and duty of care support'.

payments and 25% from airlines.³⁸ [redacted]³⁹ Incentive payments are therefore a significant consideration in which channel, and which GDS, is used by travel agents.

- 3.46 In addition to commercial considerations, the technical quality of the service e.g. the speed, reliability and innovation of the technology was highlighted as being a factor in deciding on a supplier. One OTA told us that it evaluates each provider on the basis of technical capability, commercial terms and inventory made available through that connectivity.⁴⁰
- 3.47 Another key factor for many travel agents' is their requirement to access all available content from multiple airlines including the best available fares.
- 3.48 Travel agents appear to have a preference for accessing content through their GDS with many highlighting drawbacks with direct connects, including the impact on the agent's workflow if they have to undertake multiple searches.⁴¹ Nevertheless travel agents do appear willing to access content through direct connects if not available through the GDS.
- 3.49 In that context, accessing content from direct connects can involve different technological solutions for different travel agents. Travel agents with their own technology can integrate additional content sources into their front-end solution with some investment.⁴² For other travel agents, which either have less technological capability, or whose systems are more integrated with their primary GDS provider, accessing content from direct connects may require carrying out multiple searches using different tools.⁴³ Another option is to use third-party aggregators (eg Travelfusion) or third-party online booking tools (eg SAP Concur).

³⁸ Based on 9 responses from question in detailed questionnaire asking for: Sources of revenue in air travel (e.g. incentive payments from airlines, GDS providers, fees charged to travellers, etc – please specify and estimate proportions) and 4 responses from our online questionnaire which asked for % of revenue earned from airlines and % of revenue earned from other intermediaries e.g. GDS.

For the detailed questionnaire some agents responded with one number for airline and GDS incentives. These numbers have been excluded.

³⁹ [redacted]

⁴⁰ [redacted]

⁴¹ [redacted]

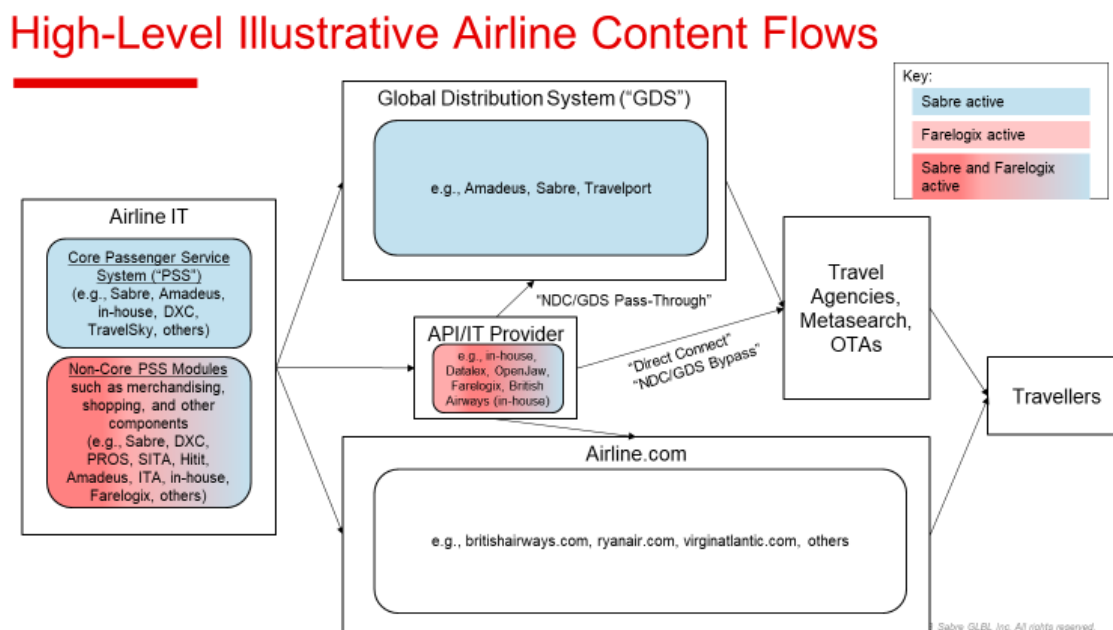
⁴² Most OTAs indicated they use property technology for searches [redacted] as well as some TMCs. For example, one TMC [redacted] said 'We use a proprietary system which pulls in content from the GDS and Non-GDS aggregators. All agents use this system for their bookings, and it enables them to fully service the client in one place'

An OTA [redacted] said 'We have created a proprietary algorithm that simultaneously searches all of the providers we are connected to searching for a) lowest fare; b) with "bookability"; c) with the fastest response time. The role of any one provider is the same unless the content is only available through a direct connection then our search will default to searching and booking via that direct connection'

⁴³ For example, one TMC [redacted] said that: 'GDS is primary due to majority of content. other sources only used if content not available. This is to reduce the number of connections that need to be managed, and ensure consultants only need to use one interface wherever possible. it is extremely time consuming and inefficient to have to use multiple interfaces or manage and maintain multiple connections.'

3.50 Figure 1 below shows the information flows which enable airline content to be distributed to end-customers. The diagram shows how airline content reaches end-customers through both the direct channel and the indirect channel.

Figure 1: distribution of airline content



Source: Sabre

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

- 3.51 The airline content collected by GDSs is typically communicated using the Electronic Data Interchange for Administration, Commerce and Transport (EDIFACT) messaging standard. The EDIFACT standard is decades old and was created to handle high transaction volumes while requiring only limited bandwidth. EDIFACT has substantial limitations in its ability to handle rich digital content and has not kept pace with the technology or product offerings of airlines. EDIFACT is limited to displaying basic information (eg fares and schedules)
- 3.52 GDSs currently have limited capabilities to distribute content provided using a different messaging standard). Even where a GDS does have the capability to distribute content using a different messaging standard (eg XML), non-EDIFACT based content (typically ancillaries) must still be provided to the GDS by airlines via ATPCO. This means that the content cannot be dynamically adapted depending on individual booking queries in real time.
- 3.53 The limitations of the messaging technology used by GDSs means that most airlines currently have limited ability to distribute dynamic, personalised offers (including ancillary products) in the indirect channel using GDSs, despite growing demand to do so. Further, and as mentioned above, airlines do not

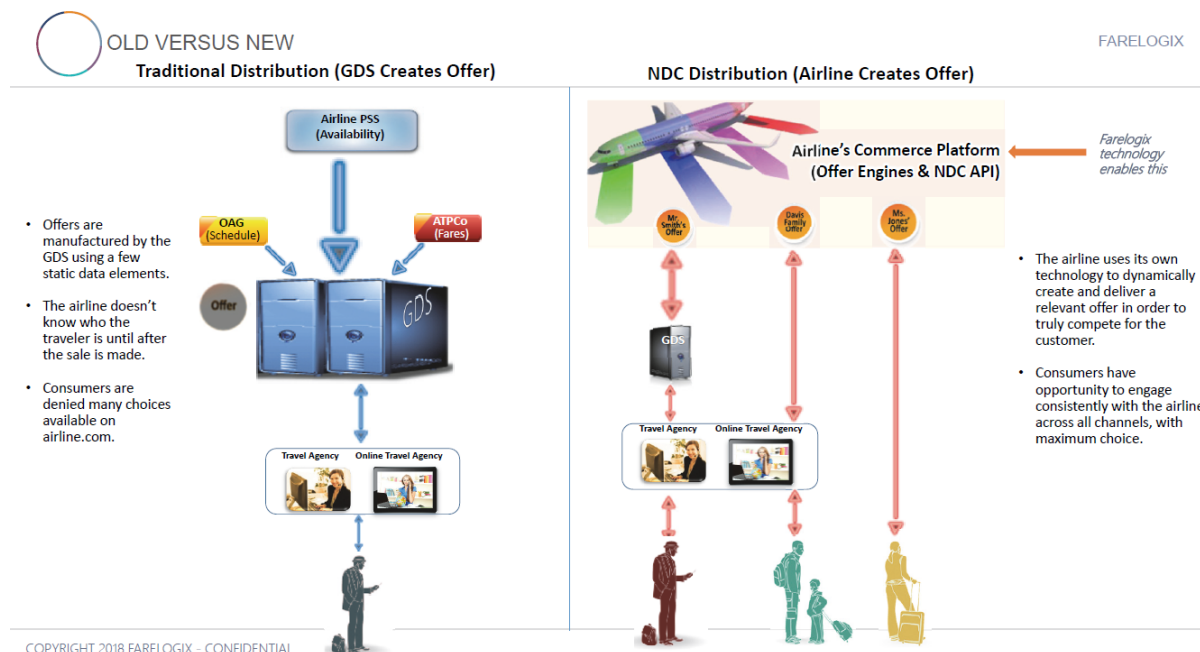
receive search data and only receive passenger data once a booking has been completed making it impossible or difficult to personalise content and offers.

- 3.54 In 2012, the International Air Transport Association (IATA) – a trade association of airlines - launched the NDC standard to address the industry's current distribution limitations.⁴⁴ The NDC standard is an XML-based computer messaging standard which originated from a messaging protocol developed by Farelogix and which was donated to (and subsequently developed by) IATA. The NDC standard enhances the capability of (and standardises) communications between industry participants and allows for dynamic and personalised offers to be created by airlines (instead of the GDS) and accessed by travel agents.⁴⁵
- 3.55 Under the traditional GDS distribution model, booking queries from travel agencies are received by the GDS. The GDS then constructs an offer based on schedule and fare information filed with ATPCO, before checking availability with the airlines and communicating the offer back to the travel agent. Under an NDC distribution model, offer requests are received by the airlines themselves (potentially via an aggregator, or directly from the travel agency). The airline then creates an offer for the travel agent in real time, without filing fares with third party information providers such as ATPCO. In short, the NDC standard aims to give airlines similar capabilities to construct more dynamic offers in the indirect distribution channel as those that are available through airline.com, but to do it across channels. Figure 2 below from Farelogix diagrammatically presents the industry participants which have migrated to using the NDC distribution standard.

⁴⁴ [IATA website: New Distribution Capability.](#)

⁴⁵ [IATA website: About NDC.](#)

Figure 2- Traditional versus NDC distribution models



Source: Farellogix (Preserving Consumer Choice and Innovation in Air Travel, 17 January 2018)

3.56 For distribution of content compatible with the NDC standard (NDC content), airlines require an NDC API through which to connect to third parties. As with other APIs, the NDC API can either be developed by the airline in-house or by using a third-party technology provider such as Farellogix. Connections are subsequently established between airlines and travel agents or aggregators to transmit the NDC content.

3.57 The majority of airlines submitted that they have a strategy to adopt the NDC standard (although progress varies). IATA's 'NDC Leaderboard' airlines⁴⁶ have committed to having 20% of their tickets distributed via an NDC API by the end of 2020 (although the evidence we have suggests that progress towards this target varies by airline).

3.58 Some airlines can use NDC API to connect and transmit content to GDSs. However, currently, GDSs are not yet fully able to consume and manage NDC content, meaning that GDS pass-through arrangements to date do not allow airlines to distribute fully dynamic offers in the same way as on their websites or using direct connects.

⁴⁶ See [NDC Leaderboard information pack](#). IATA invited airlines which want to grow their NDC volumes rapidly to join a group called the 'NDC Leaderboard'. It consists of 22 airlines (belonging to 17 airline groups): Aeroflot, Air Canada, Air France/KLM, American Airlines, Lufthansa, IAG, Cathay Pacific, China Southern, Finnair, JetBlue, Olympic, Qantas, Qatar, SAS, Singapore, Sun Express, United Airlines.

- 3.59 To date, travel agents have generally expressed an interest in consuming NDC content through their existing GDS although currently more consume NDC content through direct connects.⁴⁷
- 3.60 We understand that Sabre, Amadeus and Travelport are each working on developing their capabilities to consume and distribute NDC content through their GDS. Most travel agents responding to our questionnaire indicated that in the next 12 months they expected to be able to access NDC content through their GDS provider (ie using GDS pass-through).⁴⁸
- 3.61 Other technology providers have also developed IT solutions that are compatible with the NDC standard, focusing on various parts of the airline value chain (retailing, distribution, including aggregation, and fulfilment). For example, while some providers have developed or expanded their aggregation technology to allow travel agents to compare offers from several airlines' APIs (eg Travelfusion), others have focussed on developing shopping engines for airlines (eg ITA).

NDC and the future of the industry

- 3.62 It appears that the adoption of the NDC standard is a first step towards further significant industry changes in the coming years. The main features that we have found in our inquiry are listed below.
- (a) The development of NDC solutions encompassing elements currently forming part of an airline's PSS and its distribution technology (a so-called Offer and Order Management System). The adoption of the NDC standard will allow airlines to create dynamic, personalised offers fully using the NDC standard which can then be distributed (and managed) across all distribution channels using one provider.⁴⁹ Crucially, the airlines will be responsible for offer creation, not the GDS.
 - (b) Airlines will also get access to search and purchasing data generated by passengers which will help them further improve their services.
 - (c) Travel agents and passengers will be able to search for more complex bundles of products and services.

⁴⁷ Chapter 10, Evidence from travel agents, Views on accessing NDC content.

⁴⁸ [✂]

⁴⁹ Personalised offers can mean personalised pricing, offers of 'add-ons' and notification of new offers.

- (d) Content will be displayed to travel agents and passengers using images, pictures and videos which will allow them to better understand and compare offers between airlines.
- (e) The distinct components of the airlines' booking system IT stack which generate information for the GDSs on schedules, availability and fares will be replaced by a broader offer creation and management system.
- (f) Given that the offer creation function will move from GDS to airlines and involve a wider portfolio of services, retailing solutions, especially merchandising solutions, are likely to become even more valuable to airlines than they are today.
- (g) The IATA ONE Order initiative. This is an 'industry-led initiative intended to replace the multiple rigid and paper-based booking and ticketing records [...] by combining the contents into a single and flexible order record.'⁵⁰ IATA's website explains that ONE Order complements NDC and 'is extending the capability of the Order Management system.'⁵¹

3.63 We have been acutely mindful of these industry dynamics in making our provisional assessment of the Merger, as discussed further in Chapter 7.

4. The Merger and rationale

Transaction

4.1 On 14 November 2018, Sabre entered into an agreement⁵² (the Merger Agreement) to acquire the whole of the issued share capital of Farelogix for approximately \$360 million.^{53, 54} The Merger Agreement was announced publicly on the same day.⁵⁵ [REDACTED]⁵⁶ [REDACTED].⁵⁷ The Merger Agreement did not make completion conditional on UK clearance.⁵⁸ However, since the Phase 2 reference, section 78 of the Act prevents completion without the Inquiry Group's consent.

⁵⁰ <https://www.iata.org/whatwedo/airline-distribution/one-order/Pages/index.aspx> (accessed on 16 August 2019).

⁵¹ <https://www.iata.org/whatwedo/airline-distribution/one-order/Pages/index.aspx> (accessed on 16 August 2019).

⁵² [REDACTED].

⁵³ [REDACTED].

⁵⁴ Note all dollar figures quotes in this provisional decision are in US dollars.

⁵⁵ [Sabre announcement](#) (14 November 2018).

⁵⁶ [REDACTED].

⁵⁷ [REDACTED].

⁵⁸ [REDACTED].

4.2 The Parties notified the proposed acquisition of Farelogix by Sabre to the US Department of Justice (DOJ) on 6 December 2018. On 20 August 2019, the DOJ filed a complaint in US Federal Court, seeking a permanent injunction to prevent Sabre from acquiring Farelogix. The DOJ alleged that the proposed acquisition was likely to substantially lessen competition in violation of federal antitrust law.⁵⁹ At the time of this report the DOJ process was ongoing.

4.3 [REDACTED].

4.4 [REDACTED].

Events leading to up the Merger

4.5 Farelogix is majority owned by Sandler Capital Management (Sandler), a private equity fund which holds [REDACTED] of the issued share capital of Farelogix.⁶⁰ [REDACTED].⁶¹ [REDACTED].⁶²

4.6 In this context, since 2015 Farelogix has [REDACTED].⁶³ [REDACTED]. Details of previous expressions of interest and bids for Farelogix are discussed in Appendix C.

4.7 The Parties told us that [REDACTED].⁶⁴ The Parties told us that, [REDACTED].⁶⁵ Following further discussions and initial due diligence, [REDACTED].⁶⁶

4.8 Sabre told us that it was [REDACTED].⁶⁷ In October 2018, Sabre [REDACTED].⁶⁸ Further details regarding the 2018 sales process and the valuation of Farelogix are set out in Appendix C.

4.9 Sabre's Board approved the signing of the finalised transaction agreement on 10 November 2018 and Farelogix's Board of Directors approved the transaction agreement on 12 November 2018. On 13 November 2018, a majority of Farelogix's shareholders approved the proposed transaction by written consent.⁶⁹

⁵⁹ [REDACTED].

⁶⁰ [REDACTED].

⁶¹ [REDACTED]. See Appendix C for further details.

⁶² [REDACTED].

⁶³ [REDACTED].

⁶⁴ [REDACTED].

⁶⁵ [REDACTED].

⁶⁶ [REDACTED].

⁶⁷ [REDACTED].

⁶⁸ [REDACTED].

⁶⁹ [REDACTED].

Rationale

Sabre's rationale for the Merger

- 4.10 Sabre's announced rationale for entering into the agreement to acquire Farelogix was 'to accelerate delivery of [Sabre's] end-to-end NDC-enabled retailing, distribution and fulfilment solutions'.⁷⁰
- 4.11 In a presentation for investors on the day that the acquisition was announced, Sabre stated that the Merger was expected to accelerate its 'NDC-enabled strategy' by:⁷¹
- (a) speeding up delivery of 'more powerful and tightly integrated PSS and GDS-agnostic, end-to-end NDC-enabled' solutions;
 - (b) expanding Sabre's 'pool of outstanding travel technology talent, driving faster innovation'; and
 - (c) increasing the 'breadth of customers in NDC and next-gen retailing'.⁷²
- 4.12 In its call with equity analysts discussing the proposed acquisition, Sabre described Farelogix as a 'recognised innovator in the travel technology space with advanced offer management and NDC order capabilities'. Sabre noted that, in 2018, Farelogix had grown its revenues by approximately 25% versus the previous year and that Farelogix generated gross margins of approximately 85% and 2018 EBITDA⁷³ of around \$4 million. Sabre added that:
- (a) it expected strong growth for Farelogix in 2019;
 - (b) Farelogix's capabilities were built on a 'high scalable and interoperable SaaS⁷⁴ platform';
 - (c) Farelogix's solutions were used by many of the world's largest airlines;
 - (d) Farelogix was currently implementing NDC integrations with every global GDS;

⁷⁰ [Sabre announcement](#) (14 November 2018).

⁷¹ Sabre investor presentation: [Sabre to acquire Farelogix](#), 14 November 2018.

⁷² Sabre's plans to develop end-to-end NDC solutions consist of 'Next Generation Retailing' and 'Next Generation Distribution'. See Chapter 9 for a description of these plans.

⁷³ Earnings before interest, tax, depreciation and amortisation.

⁷⁴ Software as a Service.

- (e) it considered that Farelogix was ‘very well-positioned for a continued rapid growth’, as a result of a revenue model which combined highly recurring subscription revenue and transaction-based revenue.
- 4.13 A presentation made to the Sabre Board on 10 November 2018 (when the acquisition was recommended to the Board) explained in the speaking notes that Farelogix had [REDACTED]:⁷⁵
- (a) FLX M: [REDACTED]. Sabre stated that Farelogix was [REDACTED] and the [REDACTED].
- (b) FLX OC including the NDC API, which has [REDACTED]. Sabre stated that Farelogix had [REDACTED] and that [REDACTED].
- 4.14 The presentation to the Sabre Board noted in the speaking notes that Farelogix had developed all of its technology to work with all PSS and GDS platforms and that Sabre intended to maintain this agnostic approach.⁷⁶
- 4.15 Sabre submitted to us that the acquisition would enable it to develop integrated solutions that allow airlines to distribute NDC-compliant offers via Sabre’s GDS (as well as other direct and indirect distribution channels)⁷⁷ and that it [REDACTED].⁷⁸ Sabre told us that the Merger was the [REDACTED] for it to [REDACTED].⁷⁹
- 4.16 Sabre told us that, while it will maintain and continue to offer FLX OC to airlines, this technology was ‘not the key reason’ for the acquisition. Rather, Sabre told us that it considered the value of the Merger to be in ‘Farelogix’s strength in merchandising which will plug a gap in Sabre’s current capabilities and accelerate Sabre’s development of NDC solutions’.⁸⁰
- 4.17 Sabre submitted that its own merchandising product was [REDACTED].⁸¹ Sabre told us that its merchandising offer is fully integrated with its core PSS (ie it is “PSS-dependent” and incapable of being sold separately for use with other core PSSs)⁸² and that acquiring a merchandising module that is PSS-agnostic would enable it to compete for non-Sabre core PSS airlines.⁸³ Sabre told us that it requires a PSS-agnostic merchandising module because:

⁷⁵ [REDACTED].

⁷⁶ [REDACTED].

⁷⁷ [REDACTED].

⁷⁸ [REDACTED].

⁷⁹ [REDACTED].

⁸⁰ [Parties’ initial phase 2 submission](#), paragraph 1.13.

⁸¹ [Parties’ initial phase 2 submission](#), paragraph 4.3.

⁸² [REDACTED].

⁸³ [Parties’ initial phase 2 submission](#), paragraph 4.16.

- (a) core PSS opportunities are rare because of long term contracts; and
- (b) growth opportunities are primarily in the sale of non-core PSS modules which can be purchased outside of the PSS contracting cycle.⁸⁴

4.18 Sabre told us that, absent the Merger, it would take [REDACTED] to ‘organically develop a PSS-agnostic merchandising module comparable to the industry-leading solutions’. Sabre added that, [REDACTED].⁸⁵

Farelogix/Sandler’s rationale for the Merger

4.19 As described in paragraph 4.5 above, Sandler told us that [REDACTED]. Sandler submitted that, [REDACTED].⁸⁶ However, Sandler also told us that [REDACTED].⁸⁷

4.20 Sandler submitted that it had considered [REDACTED] alternatives to the proposed sale of Farelogix to Sabre [REDACTED].⁸⁸ Details of these proposals [REDACTED] are set out in Appendix C.

4.21 [REDACTED].⁸⁹ The valuation of Farelogix is discussed further in Appendix C.

⁸⁴ [REDACTED].
⁸⁵ [REDACTED].
⁸⁶ [REDACTED].
⁸⁷ [REDACTED].
⁸⁸ [REDACTED].
⁸⁹ [REDACTED].

5. Jurisdiction

- 5.1 An anticipated merger must meet the following two criteria to constitute a relevant merger situation (RMS) for the purposes of the Act:⁹⁰
- (a) First, the arrangements in progress or in contemplation will, if carried into effect, lead to enterprises ceasing to be distinct; and
 - (b) Second, either:
 - (i) the UK turnover associated with the enterprise which is being acquired exceeds £70 million (known as ‘the turnover test’),⁹¹ or
 - (ii) the enterprises which cease to be distinct supply or acquire goods or services of any description and, after the merger, together supply or acquire goods or services of any description at least 25% of all those particular goods or services of that kind supplied in the UK or in a substantial part of it. The merger must also result in an increment to the share of supply or acquisition (‘the share of supply test’).⁹²
- 5.2 The second limb of the jurisdictional test seeks to establish that the transaction has sufficient connection with the UK on the basis of the turnover test or share of supply test.

Enterprises ceasing to be distinct

Arrangements are in progress or in contemplation

- 5.3 As explained in paragraph 4.1 above, on 14 November 2018, Sabre and Farelogix entered into the Merger Agreement.
- 5.4 On that factual basis, we provisionally consider that the requirements of section 36(1)(a) of the Act regarding “arrangements (...) in progress or in contemplation” are satisfied, given the Parties have entered into a binding agreement, have announced their intentions publicly, and are engaging with the DOJ and the CMA merger review process.

⁹⁰ Section 23 of the Act. [Mergers: Guidance on the CMA's jurisdiction and procedure](#), paragraph 4.3.

⁹¹ See Enterprise Act 2002 (Merger Fees and Determination of Turnover) Order 2003, according to Article 2(b) ‘applicable turnover’ typically means the turnover of an enterprise in the preceding business year; see also paragraph 4.51 of [Mergers: Guidance on the CMA's jurisdiction and procedure](#).

⁹² See also paragraph 4.53 of the Guidance, which provides that the ‘share of supply test’ is satisfied if the merged 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 as a whole or in a substantial part of it.

Enterprises ceasing to be distinct

The concept of 'enterprise'

- 5.5 The Act in section 129(1) defines an “enterprise” as “the activities or part of the activities of a business”. A “business” “includes a professional practice and includes any other undertaking which is carried on for gain or reward or which is an undertaking in the course of which goods or services are supplied otherwise than free of charge”. CMA Guidance⁹³ in paragraph 4.6 also makes it clear that the enterprise in question need not be a separate legal entity.⁹⁴
- 5.6 A company that owns a business operating as a going concern with the necessary assets, employees and customer contracts would satisfy the factual requirements of ‘an enterprise’ for the purposes of the Act.
- 5.7 Our current view is that each of Sabre and Farelogix constitute an “enterprise” as defined under the Act.

The concept of “ceasing to be distinct”

- 5.8 The concept of “ceasing to be distinct” is described in section 26 of the Act. This provides that any two enterprises cease to be distinct if they are brought under common ownership or common control. “Control” is not limited to the acquisition of outright voting control but may include situations falling short of outright voting control. Section 26 of the Act distinguishes three levels of interest (in ascending order): (i) material influence (ii) de facto control, and (iii) a controlling interest (also known as “de jure”, or “legal” control). The Transaction is an acquisition of a controlling interest.
- 5.9 In light of the Merger Agreement (described above) our view is that in the present case there are arrangements in progress or in contemplation which, if carried into effect, will lead to two enterprises ceasing to be distinct. We provisionally consider that the first limb of the jurisdictional test is therefore met.

Turnover test

- 5.10 The turnover test is satisfied where the value of the turnover in the UK of the enterprise acquired exceeds £70 million.

⁹³ [Mergers: Guidance on the CMA's jurisdiction and procedure.](#)

⁹⁴ Nor is there a requirement that the transferred activities generate a profit or dividend for shareholders: indeed, the transferred activities may be loss making or conducted on a not-for-profit basis.

5.11 Section 28 of the Act provides a mechanism for determining what must be taken into account in determining the turnover of the “enterprise being taken over”. In particular, the turnover test is applied to the turnover of the enterprise being acquired that was generated from the sale of goods or services to customers in the UK in the business year preceding the date of completion of the merger.⁹⁵

5.12 In 2018, the turnover test in section 23(1)(b) was not satisfied.

The share of supply test

5.13 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.⁹⁶

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

5.15 In considering whether the share of supply test has been met, we have considered the following three key elements:

- (a) a product/service element: whether Sabre and Farelogix both supply or acquire goods or services of a particular description;
- (b) a geographic element: whether that supply or acquisition is made in the UK or a substantial part of the UK; and
- (c) a quantitative element: whether Sabre and Farelogix would, as a result of the merger, supply or acquire 25% or more of those goods or services.

5.16 Sabre supplies its GDS to airlines, including many UK airlines (ie airlines which hold a Type A Civil Aviation Authority (CAA) operating licence) (UK

⁹⁵ After the deduction of sales rebates, VAT and other taxes directly related to turnover (SI 2003/1370, as amended).

⁹⁶ Section 23 of the Act, paragraph 4.53 of [Mergers: Guidance on the CMA's jurisdiction and procedure](#).

Airlines)⁹⁷ in respect of a range of itineraries.⁹⁸ Farelogix (through its FLX OC and FLX NDC API (collectively referred to as the FLX Service)) supplies its FLX Service to one UK Airline, British Airways, in respect of one type of itinerary, interline bookings.⁹⁹ We therefore consider that both Sabre (through its GDS) and Farelogix (through the FLX Service) supply IT solutions to UK Airlines for the purpose of airlines providing travel services information¹⁰⁰ to travel agents to enable travel agents to make bookings.

5.17 We consider that Sabre's share (by revenue) in the supply of IT solutions to UK Airlines for the purpose of airlines providing travel services information to travel agents to enable travel agents to make bookings, is above 25% and that the Merger results in an increment.

5.18 Therefore, we provisionally consider that the share of supply test is satisfied.

Relevant background

5.19 As set out in Chapter 3, Sabre supplies its GDS to airlines on a worldwide basis, including many UK Airlines. Sabre enters into direct agreements with UK Airlines for the provision of its GDS. Sabre's services include the provision of IT solutions to airlines for the purpose of airlines providing travel services information to travel agents to enable travel agents to make bookings.

5.20 As also set out in Chapter 3, the FLX Service includes the provision of IT solutions to airlines for the purpose of airlines providing travel services information to travel agents to enable travel agents to make bookings. We consider that Farelogix supplies the FLX Service directly to British Airways, and that this service provision is underpinned by three commercial arrangements:

⁹⁷ A Type A Operating Licence is required by operators of aircraft with 20 or more seats (www.caa.co.uk/Commercial-industry/Airlines/Licensing/Licence-types/Operating-licences). The CAA's '[Licensing Airlines in the UK: the framework and criteria for granting Operating Licences, Route Licences and Air Transport Licences](#)' includes comprehensive guidance about the framework and criteria for granting Operating Licences. In 2018, the UK Airlines were British Airways plc; Virgin Atlantic Airways Ltd; Virgin Atlantic International Ltd; EasyJet UK Limited; Flybe Ltd; Ryanair UK Ltd ([REDACTED]); Wizz Air UK Limited; Air Kilroe Ltd (trading as Eastern Airways); Air Tanker Services Ltd; BA Cityflyer Ltd; British Midland Regional Ltd (which ceased activities in 2019); CargoLogicAir Ltd; DHL Air Ltd; Jet2.com Ltd; Loganair Ltd; Norwegian Air UK Ltd; Thomas Cook Airlines Ltd (which ceased activities in 2019); TUI Airways Ltd; and Titan Airways Ltd. For consistency with the approach adopted by the Parties, the UK Airlines list excludes small charter airlines (ie 2Excel Aviation Limited, Bae Systems (Corporate Air Travel) Limited, Jota Aviation Limited, and RVL Aviation Limited), one helicopter operator (ie Bristow Helicopters Limited), and an airline based in Switzerland ([REDACTED]) (TAG Aviation (UK) Limited) ([REDACTED]). The Parties included two airlines based in the Channel Islands holding a CAA air transport licence (ie [REDACTED]) within the definition of UK Airlines. [REDACTED]. However, we have excluded these two airlines from the definition of UK Airlines as these airlines do not hold a CAA operating licence. [REDACTED].

⁹⁸ For example, single airline bookings, codeshare bookings and interline bookings.

⁹⁹ See Part A of Appendix B for a description of interlining.

¹⁰⁰ Information on, eg, flight availability, schedules, fares, and ancillary offerings.

- (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, including British Airways (Direct Connect Services Agreement);¹⁰¹
- (b) the interline arrangement between American Airlines and British Airways;¹⁰² and
- (c) the existing 'FLX Interline Distribution Agreement' between Farelogix and British Airways entered into by British Airways [REDACTED], and to enable British Airways to receive supply of the FLX Service (the British Airways Agreement).¹⁰³

5.21 We provide further detail on each of these commercial arrangements in Part A of Appendix B.

Assessment of the product/service element of the share of supply test

5.22 With regard to the product/service element of the share of supply test, the Act confers on the CMA a broad discretion to describe a specific category of goods or services supplied or procured by the merging parties. In particular, section 23(8) of the Act states that 'the criteria for deciding when goods or services can be treated, for the purposes of this section, as goods or services of a separate description shall be such as in any particular case the decision-making authority considers appropriate in the circumstances of that case'.

5.23 The Guidance identifies a number of considerations to which the CMA will have regard when describing the category.¹⁰⁴ In particular, the Guidance provides that the share of supply test is not an economic assessment of the type used in the CMA's substantive assessment and need not amount to a relevant economic market. Rather, the Guidance states that the CMA will have regard to any reasonable description of a set of goods or services to determine whether the share of supply test is met.¹⁰⁵ Therefore, it is not necessary that the description of services for the purposes of the share of supply test aligns with our market definition analysis for the purposes of our substantive assessment.

¹⁰¹ [REDACTED]

¹⁰² [REDACTED]

¹⁰³ [REDACTED]

¹⁰⁴ [Mergers: Guidance on the CMA's jurisdiction and procedure](#), paragraph 4.56.

¹⁰⁵ [Mergers: Guidance on the CMA's jurisdiction and procedure](#), paragraph 4.56.

Supply of IT solutions to airlines for the purpose of airlines providing travel services information to travel agents to enable travel agents to make bookings

- 5.24 As explained in Chapter 3, airlines provide passengers with access to travel services information and the ability to make bookings either directly (via their website or call centres) or indirectly (via travel agents (including online travel agents and travel management companies)).
- 5.25 There are a number of different IT solutions that third-parties provide to airlines for the purpose of airlines providing travel services information to travel agents to enable travel agents to make bookings.¹⁰⁶ The most common is a GDS. But over recent years Direct Connect services and non-GDS aggregators have been providing alternative IT solutions for airlines to provide travel services information to travel agents for the purpose of making bookings. These IT solutions operate in different ways but they all ultimately allow travel agents to access relevant flight information and make bookings on behalf of passengers.¹⁰⁷
- 5.26 In assessing whether we are able to identify a reasonable description of goods or services that includes both Sabre and Farelogix, we have first considered the services supplied by each of the parties:
- (a) Sabre provides a GDS, ie an IT solution that connects airlines with a point of sale operated by a third-party retailer (such as travel agents and travel management companies). This connection enables airlines to transfer travel services information to the GDS (which subsequently consolidates and provides the travel services information to travel agents), and to sell tickets to passengers through travel agents.
 - (b) Farelogix (via its FLX Service) provides an IT solution that enables airlines to connect to a third party (including travel agents, non-GDS aggregators, and GDSs) or their own website. To do so, Farelogix builds an Application Programming Interface (API) that, upon the request of the airline, is exposed to third parties (eg the travel agent) to allow that third party to build a connection to the airlines systems. Occasionally, Farelogix also sets up a technical connection between the airline and certain of its interline partners (where such technical connection is required) to allow

¹⁰⁶ We note that airlines can also self-supply these connections in-house. For the purposes of the share of supply test we are considering services supplied to airlines by third-parties.

¹⁰⁷ As explained in Chapter 3. Within the indirect distribution channel, the distribution of content from an airline to a travel agent could be via a GDS or via a direct connect. Content may also be distributed using a direct connect that goes via a non-GDS aggregator (which then aggregates content from multiple airlines so that the travel agent can compare offers). Non-GDS aggregators cannot distribute content without the support of direct connects and therefore we consider the inclusion of non-GDS aggregators in our assessment for the purposes of the share of supply test to be conservative.

the interline partners to transfer travel services information to the travel agent, and to sell tickets to passengers through travel agents, via the FLX Service.

- 5.27 Accordingly, both Sabre (via its GDS) and Farelogix (via its FLX Service) supply IT solutions to airlines for the purpose of airlines providing travel services information to travel agents to enable travel agents to make bookings.¹⁰⁸ We consider that other providers of these services are the other main GDSs (Amadeus and Travelport), smaller GDSs (eg Host Direct),¹⁰⁹ and other Direct Connect providers and non-GDS aggregators^{110, 111}
- 5.28 Therefore, we have identified the supply of ‘an IT solution to airlines for the purpose of airlines providing travel services information to travel agents to enable travel agents to make bookings’ as the relevant description of services (the Relevant Description of Services) for the purposes of determining whether the share of supply test is met.
- 5.29 We consider that this is a reasonable description of services, and appropriate in the circumstances of this case, because:
- (a) it captures the key third-party services involved in an important airline distribution channel (ie the travel agent/travel management company channel);
 - (b) it encompasses IT solutions that allow airlines to connect to travel agents – ie GDS, or APIs for connection with travel agents through direct connect or non-GDS aggregators;¹¹² and

¹⁰⁸ Both Sabre and Farelogix are third party service providers (ie they provide their IT solutions to airlines who wish to avail of their services).

¹⁰⁹ Other GDSs (eg Host Direct) are similar to GDSs but are focused on certain geographic areas.

¹¹⁰ Non-GDS aggregators are providers of IT solutions that aggregate airline content from multiple airlines and transfer that content to a travel agent. In that sense, their functions are very similar to a GDS and therefore we consider it appropriate to include them in the Relevant Description of Services. We do not think that the fact that they do not necessarily connect directly to an airline affects our view as they are still a necessary and important component to the transfer of airline content to the travel agent.

¹¹¹ The Relevant Description of Services includes third party service providers (ie not self-supply) of an IT solution. The Relevant Description of Services also excludes the following services: (i) airline.com (it is not an IT solution provided to airlines (each airline has its own airline.com), it is generally accessed by travellers directly, and bookings under airline.com are made by travellers directly); (ii) Tour Operators (we consider that Tour Operators do not provide an IT solution to airlines); (iii) NDC Exchange (e.g. ATPCO) (an information tool which is limited to collection of fare information from airlines and distribution of that fare information to travel agents but does not allow travel agents to make bookings); (iv) suppliers of communications networks (e.g. Openreach) (such suppliers do not provide an IT solution to airlines); (v) Meta-search sites (they do not provide an IT solution to airlines for the purpose of airlines providing travel services information to travel agents but compare and present airline content to passengers); and (vi) EDIFACT (it is a messaging standard used within the aviation industry rather than an IT solution provided to airlines).

¹¹² Though we note that we have not, and are not required to, undertake a formal substitutability analysis as might be undertaken in a market definition exercise on the basis that the share of supply test is not an economic

- (c) it encompasses third-party services actually used and identified by UK Airlines to allow travel agents to access travel services information and make bookings.¹¹³

Supply of the Relevant Description of Services to UK Airlines

- 5.30 Consistent with the share of supply test framework, we have considered whether the Parties overlap in the supply of the Relevant Description of Services to UK Airlines.
- 5.31 Sabre supplies its GDS to airlines on a worldwide basis, including many UK Airlines. Therefore, we consider that Sabre supplies the Relevant Description of Services in the UK to UK Airlines.
- 5.32 As further explained below, we consider that Farelogix supplies the Relevant Description of Services in the UK to British Airways. In particular, we consider that Farelogix supplies the FLX Service directly to British Airways in order to enable British Airways to market Interline Segments (as defined in Part A of Appendix B) using the FLX Service under the interline arrangement with American Airlines.

Representations of the Parties

- 5.33 The Parties submitted that it is not appropriate for the CMA to consider that Farelogix supplies services to UK Airlines, either directly or indirectly. In particular, they submitted that:
- (a) Farelogix only supplies the FLX Service directly to non-UK airlines (eg American Airlines). It is not appropriate to treat British Airways as a customer of Farelogix as British Airways did not make a procurement decision for the FLX Service (the procurement decision was made by American Airlines in the United States).

- (b) [REDACTED];

assessment of the type used in the CMA's substantive assessment and need not amount to a relevant economic market.

¹¹³ The [REDACTED] asked them to provide 2018 booking estimates through the following distribution channels: (i) GDS services; (ii) Direct Connect (GDS bypass); (iii) NDC enabled GDS pass-through; (iv) airlines content aggregation services (non-GDS), eg Travelfusion or similar; and (v) Other content distribution services (please specify). Under the 'other' category, Jet2 and TUI identified their internal tour operators. However, as it is further explained below, Jet2 and TUI are vertically-integrated tour operators which the Parties excluded from their calculations. The Parties submitted that this constitutes a conservative approach to reflect that the majority of bookings made by vertically-integrated tour operators are for its own airline such that they might be considered as relating to the direct channel ([REDACTED]). The only providers identified by the UK Airlines to distribute their content through the indirect channel are the ones captured in the Relevant Description of Services.

- (c) [REDACTED] would indicate that British Airways cannot have made a relevant procurement decision and accordingly cannot be a customer of Farelogix;¹¹⁴ and
- (d) British Airways could have entered into direct agreements with Farelogix to obtain the FLX Service from Farelogix (as airlines such as American Airlines have done) but has so far chosen not to.¹¹⁵ It is artificial for the CMA to construct a supply relationship between Farelogix and interline airlines (such as British Airways) in circumstances where [REDACTED].¹¹⁶

5.34 We have considered the Parties' representations and further elaborate on why Farelogix provides the FLX Service to British Airways in this case below.

Farelogix directly supplies the Relevant Description of Services to British Airways on the facts of this case

5.35 Whilst Farelogix has not entered into a Direct Connect services agreement with British Airways for the provision of the FLX Service, we consider that Farelogix supplies the FLX Service directly to British Airways. This service provision is underpinned by three commercial arrangements: the Direct Connect Services Agreement in place between Farelogix and American Airlines; the interline arrangement in place between American Airlines and British Airways; and the British Airways Agreement. When assessing this evidence in the round we consider it is clear that Farelogix intends to supply its FLX Service to British Airways in the context of interlining and that British Airways made a relevant procurement decision, in the UK, to receive supply of the FLX Service. We elaborate below.

The Direct Connect Services Agreement

5.36 The Direct Connect Services Agreement primarily governs the supply of the FLX Service to American Airlines. However, the terms of the Direct Connect Services Agreement show that the services provided by Farelogix under this agreement are not intended to be only for the benefit of American Airlines, but also for the benefit of American Airlines' interline partners:

- (a) Under the agreement, the FLX Service can be used to provide travel agents with travel services information for both American Airlines flights and its interline partners' flights and to market through travel agents American Airlines' flights and the flights of its interline partners (subject to

¹¹⁴ [REDACTED].

¹¹⁵ [REDACTED].

¹¹⁶ [REDACTED].

the establishment of any required technical connections between American Airlines and its interline partners).¹¹⁷

- (b) The service specifications include requirements for Farelogix to support itineraries with other airlines.¹¹⁸
- (c) The Fee (as defined in Part A of Appendix B) paid by American Airlines under the agreement covers the distribution cost of the Interline Segment when the FLX Service is used to reserve the flights of interline partners.¹¹⁹

The interline arrangement between American Airlines and British Airways

- 5.37 As described in Part A of Appendix B, there is an interline arrangement in place between British Airways and American Airlines which enables British Airways to market Interline Segments using American Airlines' distribution channels, and enables American Airlines to issue tickets with a British Airways Interline Segment through its distribution channels.¹²⁰
- 5.38 As an interline partner of American Airlines, British Airways benefits from the FLX Service under the Direct Connect Services Agreement in respect of its Interline Segments. The FLX Service enables travel agents to access travel services information for British Airways Interline Segments and enables British Airways to market Interline Segments.¹²¹

The British Airways Agreement

- 5.39 The Parties submitted that the British Airways Agreement does not create a relevant supply relationship between Farelogix and British Airways as, even if Farelogix were supplying a service under the British Airways Agreement, the service would not fall within the Relevant Description of Services.¹²²
- 5.40 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 (via a third-party

¹¹⁷ This is supported by [REDACTED]. Farelogix submitted that it does not accept our interpretation of the provisions of the Direct Connect Services Agreement ([REDACTED]).

¹¹⁸ When such itineraries are constructed in combination with American Airlines and provided that the booking is e-ticketed on American Airlines' stock. This is supported by [REDACTED].

¹¹⁹ This is supported by [REDACTED], [REDACTED].

¹²⁰ In some cases, additional technical steps are required to give effect to interline arrangements through particular channels, as demonstrated by the fact British Airways first entered into the British Airways Agreement to establish the necessary technical bridge, before its Interline Segments could be marketed through the FLX Service.

¹²¹ As set out in paragraph 5.36 above, the Fee paid by American Airlines to Farelogix covers the distribution costs of the British Airways Interline Segments.

¹²² [REDACTED].

provider)¹²³ and that ongoing ‘services’ are not provided pursuant to the agreement. Therefore, the service provided by Farelogix to British Airways under the British Airways Agreement is not an equivalent of the FLX Service.

5.41 However, we consider that the British Airways Agreement does more than merely provide that technical bridge. The British Airways Agreement enables the supply of the FLX Service to British Airways in the context of its interline arrangement with American Airlines¹²⁴ and shows British Airways’ intention to receive supply of the FLX Service (as explained below).

5.42 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. This is supported by the following key evidence:

- (a) Prior to the British Airways Agreement, the GDS channel was used by American Airlines to issue tickets with a British Airways Interline Segment. British Airways told us that, at the time of entering into the British Airways Agreement, [REDACTED].¹²⁵ This shows that British Airways considered the competitive options available to market Interline Segments, [REDACTED], and actively chose the FLX Service.¹²⁶
- (b) British Airways signed an internal contract approval form on the same date as the British Airways Agreement was entered into.¹²⁷ The completed contract approval form shows that British Airways considered a number of issues relating to the use of the FLX Platform¹²⁸ (eg value and costs) to market its Interline Segments [REDACTED].¹²⁹ This further demonstrates that British Airways considered other competitive options to market its Interline Segments and actively chose the FLX Service.
- (c) British Airways also provided us with a [REDACTED].¹³⁰ [REDACTED].¹³¹ As with the contract approval form, we consider this to be positive evidence that British Airways made an active decision to establish a commercial relationship with Farelogix regarding the distribution of its interline content, with express regard to its commercial alternatives.

123 [REDACTED]
124 [REDACTED]
125 [REDACTED]
126 [REDACTED]
127 [REDACTED]
128 [REDACTED]
129 [REDACTED]
130 [REDACTED]
131 [REDACTED]

- (d) The recitals to the British Airways Agreement show that British Airways wanted to provide interline travel services information for its Interline Segments to travel agents and to market its Interline Segments through the FLX Service (not only via American Airlines but also via other airlines).¹³²
- (e) The British Airways Agreement envisages a direct technical connection (via a third-party supplier) between British Airways and Farelogix with respect to the FLX Service.¹³³
- (f) The British Airways Agreement specifies a fee payable by British Airways to Farelogix in respect of any Interline Segments marketed through the FLX Service (which is distinct from the Fee paid by American Airlines for tickets issued through the FLX Service) (see Part A of Appendix B).¹³⁴ [REDACTED].¹³⁵ Under GDS fee arrangements airlines also typically pay [REDACTED]. Therefore, we consider that this fee structure further emphasises that the commercial terms were influenced by reference to competitive (GDS) alternatives.
- (g) American Airlines told the CMA that it has interline relationships with ‘hundreds’ of airlines (other than British Airways) but only a limited number of interline partners market Interline Segments through the FLX Service. American Airlines told the CMA that this was in part due to the effort and costs required on the part of the interline partner and therefore an unwillingness of the interline partner to take the necessary steps to market its Interline Segments through the FLX Service (and therefore it tends just to be the bigger/most significant partners that decide to do so).¹³⁶ However, British Airways, by entering into the British Airways Agreement, took the necessary steps to market its Interline Segments through the FLX Service. We consider that this supports an active choice by British Airways to procure the FLX Service.

Combined effect of these arrangements

5.43 In light of the above, 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

¹³² See Part A of Appendix B.

¹³³ See paragraph 15 (a) and (c) of Part A of Appendix B. Farelogix does not accept our interpretation of the British Airways Agreement ([REDACTED]).

¹³⁴ The Parties have told us that Farelogix [REDACTED]. We consider that this is not determinative for the purposes of establishing a supply relationship between Farelogix and British Airways: [REDACTED] ([REDACTED]).

¹³⁵ An Interline Segment which a travel agent sells in the UK.

¹³⁶ [REDACTED].

provided to American Airlines' interline partners (including 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; and
- (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.

- 5.44 We therefore consider that Farelogix directly supplies the FLX Service to British Airways.
- 5.45 We consider that the extent to which Farelogix [REDACTED], is not determinative for the purposes of establishing a supply relationship between Farelogix and British Airways.¹³⁷
- 5.46 We also consider that the maintenance of records by [REDACTED] of each instance in which a ticket including a British Airways Interline Segment is issued through the FLX Service (as opposed to another channel such as GDSs) is not determinative for the purposes of establishing a supply relationship between Farelogix and British Airways. It is more relevant that [REDACTED] knows that [REDACTED] travel services information for Interline Segments is made available to travel agents through the FLX Service and that [REDACTED] can market its Interline Segments through the FLX Service. [REDACTED].
- 5.47 Finally, we consider that the fact that British Airways has not chosen to directly contract with Farelogix for the provision of the FLX Service in respect of other itineraries does not have any bearing on a finding that Farelogix supplies the Relevant Description of Services to British Airways in the context of interline bookings in partnership with American Airlines. We consider that it is possible for a company to have several suppliers of the same service with one of those suppliers accounting for the bulk of supply and the others accounting for a very small proportion and, as described above, we consider the supply relationship between Farelogix and British Airways is underpinned by several commercial agreements.
- 5.48 As explained above, when assessing the evidence in the round, we consider it is clear that Farelogix intends to supply its FLX Service to British Airways in

¹³⁷ [REDACTED].

the context of interlining and that British Airways made a relevant procurement decision, in the UK, to receive supply of the FLX Service.

Geographic element

The Parties supply the Relevant Description of Services in the UK

- 5.49 With regard to the geographic element, the Act does not provide specific rules on determining whether, and to what extent, an enterprise's activities should be deemed to be in the UK for the purposes of the share of supply test. The Guidance states that, as a general rule, goods or services are deemed to be supplied in the UK if customers are located in the UK. The Guidance also states that the CMA will apply this general rule in a flexible and purposive way, with regard to all relevant factors, including where relevant procurement decisions are likely to be taken and where, in turn, any competition between suppliers takes place, although our assessment is not constrained to consider only these factors.¹³⁸
- 5.50 The Parties do not dispute that Sabre provides its GDS in the UK. However, the Parties contend that Farelogix does not supply its FLX Service to any airline customers in the UK.¹³⁹ The Parties argue that the relevant procurement decision was taken by American Airlines, not British Airways and, accordingly, there is no UK nexus in the present case.¹⁴⁰
- 5.51 We acknowledge that the existence and/or location of a formal procurement decision is generally a relevant indicator to determine where the supply is taking place. As explained in paragraph 5.42 above, we consider that British Airways considered other competitive options and exercised an active choice to procure the FLX Service (and therefore to incur any associated costs) for the purpose of providing travel services information for its Interline Segments to travel agents and marketing its Interline Segments. British Airways is a UK Airline and there is therefore a clear UK nexus. We therefore consider that Farelogix supplies the Relevant Description of Services in the UK.

Quantitative element

The 25% threshold

- 5.52 The Act gives a wide discretion to the CMA to apply whatever measure (eg value, cost, price, quantity, capacity, number of workers employed), or

¹³⁸ [Mergers: Guidance on the CMA's jurisdiction and procedure](#), paragraph 4.58.

¹³⁹ In particular, the Parties submitted that the relevant procurement decisions for the Farelogix FLX Service took place outside the UK by American Airlines and competition takes place for the direct customer (ie American Airlines).

¹⁴⁰ [REDACTED].

combination or measures, it considers appropriate to calculate the merging parties' share of supply or procurement and to determine whether the 25% threshold is satisfied.¹⁴¹

- 5.53 In this case, we have looked at shares held by the Parties in the supply of the Relevant Description of Services to UK Airlines. Based on the data available from both the Parties and third parties, we consider that the share of supply test is satisfied by annual revenue received and receivable for the supply of the Relevant Description of Services to UK Airlines. We consider that revenue received is a reasonable measure as it represents compensation to the Parties for the supply of the Relevant Description of Services and corresponds to value, which is one of the measures explicitly identified in the Act to calculate shares of supply. Similarly, we consider revenue that a party is entitled to receive, but chooses not to do so for administrative or other reasons, as indicative of the value of the service provided and, therefore, an appropriate measure.
- 5.54 The Parties provided 2018 revenue data for Sabre and estimates for each of Amadeus, Travelport, Other GDSs (Host Direct),¹⁴² Direct Connect (excluding Farelogix), and Tour Operators (TOs).¹⁴³
- 5.55 We performed a number of checks and adjustments on the data submitted by the Parties to devise a robust set of revenue estimates:
- (a) *Exclusion of TOs:* As further explained in Part B of Appendix B, we consider that the activities of TOs (including non-VITOs) are not comparable to those performed by the Parties (and the other suppliers of similar services identified by the Parties) and should therefore be entirely excluded from the share of supply calculations.
 - (b) *Reliance on Amadeus and Travelport actual figures:* We have separately gathered 2018 revenue data, directly from Amadeus and Travelport, to represent the value of the relevant services provided by each of Amadeus

¹⁴¹ Section 23(5) of the Act.

¹⁴² Other GDSs (Host Direct) are GDSs whose operations are focused on certain geographic areas. They primarily distribute content of their home countries' major airlines as well as, but to a smaller extent, content of foreign airlines for flights to and from their home countries. As no Host Direct provider is based in the UK, as a conservative approach, Sabre estimated that no UK carrier would use any Host Direct services (Sabre's response to RF12).

¹⁴³ The Parties' market share calculations exclude vertically integrated TOs (VITOs) (ie TOs that operate an airline, such as TUI and Jet2) (Sabre's response to RF12). The Parties submitted that this constitutes a conservative approach to reflect that the majority of bookings made by a VITOs are for its own airline such that they might be considered as relating to the direct channel. In contrast, the Parties' market share calculations include non-vertically integrated TOs (non-VITOs) (ie TOs that do not operate an airline). The Parties submitted that non-VITOs aggregate content from several airlines by making such bookings and reselling them to the customer, essentially creating a separate indirect channel for content distribution ([REDACTED]).

and Travelport. We have relied on actual revenue data provided by each of Amadeus and Travelport, rather than the parties' estimates for the revenues of Amadeus and Travelport.

(c) *Improvements to the Direct Connect/aggregation/other GDS (Host Direct) services estimates based on airline data:* As further explained in Part B of Appendix B, we have gathered expenditure data from UK Airlines to estimate revenues for third-party Direct Connect (excluding Farelogix)¹⁴⁴ and non-GDS aggregators (eg Travelfusion). We think that the expenditure data from the UK Airlines is more reliable than the estimates for Direct Connect revenues submitted by the Parties because the Parties' estimate had a material risk of error.¹⁴⁵ We have also constructed (and relied on) our own estimate for other GDSs (Host Direct) revenues based on the expenditure data received from the UK Airlines.

- 5.56 The actions above adjusted the total UK revenue size of the Relevant Description of Services. The Parties' data estimated the total size of the Relevant Description of Services (by UK revenues) at [REDACTED]. Our estimate for total UK revenues is substantially smaller at [REDACTED]. The difference between the Parties and our estimates is mostly driven by the Parties' very high estimates of Amadeus and Travelport revenues.
- 5.57 On the basis of our 2018 revenues dataset which takes into account the adjustments explained in paragraph 5.55 above, the Parties' combined share of supply exceeds the 25% threshold on the basis of revenue (as illustrated in Table 1 below).

¹⁴⁴ Our estimates exclude expenditure derived from the in-house provision of direct connect (ie from an airline's own API) as we consider that only third-party suppliers fall within the definition of the Relevant Description of Services and should be considered as part of the test (see paragraph 5.27 above).

¹⁴⁵ The Parties estimate relies on an estimate of bookings made through direct connect at a global level which according to the source (T2RL) is 'purely estimated' due to airlines rarely publishing data in this area. It also relies on an assumption that there is a similar distribution mix at a UK level as globally and then further assumes all direct connect provides charge similar fees to Farelogix. Most significantly the parties estimate includes direct connect bookings delivered through in-house technology. It also does not include revenues for Non-GDS aggregators.

Table 1 – Shares of supply for IT solutions to airlines for the purpose of airlines providing travel services information to travel agents to enable travel agents to make bookings based on data from Sabre, Amadeus and Travelport and airline submissions (excluding non-VITOs)¹⁴⁶

Vendor	Revenues (\$)	Share of Supply
Sabre ¹⁴⁷	[REDACTED]	[30-40]%
Farelogix	[REDACTED] ¹⁴⁸	[0-10]%
Amadeus ¹⁴⁹	[REDACTED]	[40-50]%
Travelport	[REDACTED]	[20-30]%
Other GDS (Host Direct) ¹⁵⁰	[REDACTED]	[0-10]%
Direct Connect (excluding Farelogix) and Non GDS Aggregators ¹⁵¹	[REDACTED]	[0-10]%
Total ¹⁵²	[REDACTED]	100%

Source: Sabre, Amadeus and Travelport revenue submissions and airline expenditure submissions

5.58 Whilst we consider that, on the above basis, the share of supply test is met, we have also considered certain sensitivities to our analysis based on the submissions that have been made to us by the Parties (see Part B of Appendix B).

¹⁴⁶ As defined in paragraph 5.16 above.

¹⁴⁷ [REDACTED]

¹⁴⁸ The Farelogix revenue is discussed in paragraphs 5.61 – 5.69 below. We consider there are two possible ways to identify value for of the supply of the Relevant Description of Services to British Airways: by virtue of the revenues received from the Fee under the Direct Connect Services Agreement, and/or the revenues receivable from the right to payment under the British Airways Agreement. It is possible that these fee arrangements would be cumulative, were Farelogix to enforce its right to payment. To identify an upper range for Farelogix revenue we have multiplied the number of British Airways' interline tickets issued through FLX (ie [REDACTED]) by the [REDACTED] fee under the British Airways Agreement. This calculation results in a [REDACTED] revenue figure. We consider this to be an appropriate measure of the upper bound of possible Farelogix revenue as other possible approaches (eg identifying revenue (by attributing part of the [REDACTED] Fee) or making adjustments on the basis that some fees paid under the British Airways Agreement would be at the [REDACTED] rate) would fall within the [REDACTED] range.

¹⁴⁹ [REDACTED]

¹⁵⁰ Based on responses covering 95% of the market by bookings. This covers all but two of the CAA Type-A licensed airlines (ie Midland Regional Ltd and Thomas Cook) who both ceased trading in 2019. As these two airlines are not long-haul carriers, we assume there would not be any bookings through Host Direct.

¹⁵¹ The revenue calculations exclude in-house supply. Based on responses covering 95% of total bookings. This covers all but two of the CAA Type-A licensed airlines (ie Midland Regional Ltd and Thomas Cook) who both ceased trading in 2019. We note there is a possibility that Thomas Cook or Midland Regional Ltd may have had expenditure on third party direct connect providers or non GDS aggregators. However, based on responses from other UK airlines this seems unlikely (only two other UK airlines had such expenditure through [REDACTED]). Even if we were to make the assumption that all the [REDACTED] bookings for Thomas Cook and Midland Regional were made through this channel charging a similar fee per booking as Farelogix, the outcome of the test would not change, with the Parties share remaining above 25%. As Thomas Cook was a vertically integrated tour operator, most bookings would likely be excluded, and a significant proportion would also be direct channel bookings.

¹⁵² We include our upper bound estimate for Farelogix revenues ([REDACTED]) in the total revenue figure and the denominator of our share calculations

The Merger results in an increment

- 5.59 The merger must result in an increment to the share of supply or acquisition.¹⁵³ The Act does not prescribe a minimum increment and the CMA's guidance explicitly recognises that where an enterprise already supplies or acquires 25% of any particular goods or services, the test is satisfied so long as its share is increased as a result of the merger, regardless of the size of the increment.¹⁵⁴
- 5.60 We have obtained data from Sabre identifying the revenues received by Sabre from the UK Airlines for supply of its GDS. As illustrated in Table 1 above, we consider that Sabre has a share of supply of [30-40]% resulting from the supply of the Relevant Description of Services to UK Airlines and that this estimate is robust having considered the various sensitivities described in Part B of Appendix B.
- 5.61 The Parties submitted that the Merger does not result in an increment on a revenue share basis. However, we consider that Farelogix supplies the Relevant Description of Services to British Airways, and the Merger results in an increment. American Airlines told us that [redacted] British Airways interline bookings were made through the FLX Service in 2018.¹⁵⁵ We have identified the revenue resulting from Farelogix's supply of the Relevant Description of Services to British Airways by relying on the revenues received and receivable by Farelogix for supply of the FLX Service to British Airways. In particular, we have relied on:
- (a) the Fee payable by American Airlines to Farelogix under the Direct Connect Services Agreement (ie a source of received revenue);¹⁵⁶ and,
 - (b) Farelogix's right to payment under the British Airways Agreement (ie a source of receivable revenue).¹⁵⁷

The Fee mechanism

- 5.62 [redacted].¹⁵⁸

¹⁵³ [Mergers: Guidance on the CMA's jurisdiction and procedure](#), paragraph 4.54.

¹⁵⁴ [Mergers: Guidance on the CMA's jurisdiction and procedure](#), paragraph 4.54. This was illustrated in *Tesco/Spar* where the OFT considered that the share of supply test was met in circumstances where Tesco acquired a single store on the basis that this store would increase Tesco's share, even though the increase would be very substantially below 0.1%. Similarly, in *Carpetright/Allied Carpet*, the OFT noted that the merger satisfied the share of supply test based on an increment resulting from the acquisition of a single store.

¹⁵⁵ [redacted].

¹⁵⁶ See paragraph 5.36 and Part A of Appendix B.

¹⁵⁷ See paragraph 5.42 and Part A of Appendix B.

¹⁵⁸ [redacted].

5.63 However, we consider that the fact that American Airlines pays the [REDACTED] Fee [REDACTED] has no bearing on whether part of the fee is attributable to the services provided in relation to the British Airways Interline Segment where there is such a segment. As explained in paragraph 5.36 above, the terms of the Direct Connect Services Agreement show that Farelogix and American Airlines both intended that the FLX Service would extend to British Airways Interline Segments. Therefore, we consider that, in circumstances where there is a British Airways Interline Segment involved, Farelogix is also providing the FLX Service to British Airways and part of the Fee relates to the provision of that service. [REDACTED]¹⁵⁹ [REDACTED].¹⁶⁰

5.64 In addition, the cost sharing arrangement under the AJB Agreement described in Part A of Appendix B includes the Fee paid by American Airlines to Farelogix for any American Airlines transatlantic ticket issued through the FLX Service (including tickets with a British Airways Interline Segment).¹⁶¹ Therefore, British Airways does in practice share part of the costs associated with the Fee.¹⁶²

5.65 Therefore, we consider it appropriate for part of the Fee to be attributed, in value terms, to Interline Segments where applicable, and therefore is appropriately identified as revenue received for the FLX Service provided by Farelogix to British Airways for its Interline Segments. We consider that attributing a portion of the Fee in value terms to Interline Segments and therefore identifying that as revenue received for the service provided by Farelogix to British Airways logically flows from our finding that Farelogix supplies the Relevant Description of Services to British Airways, as explained above.

Farelogix's right to payment under the British Airways Agreement

5.66 As explained in paragraph 5.42 above and Part A of Appendix B, Farelogix is entitled to charge British Airways a fee of [REDACTED] per ticket with a British Airways Interline Segment issued using the FLX Service. [REDACTED].¹⁶³

5.67 However, we consider that it would be appropriate to take into account revenue receivable for the provision of the Relevant Description of Services to British Airways by virtue of the payment right in the British Airways Agreement. We consider that the right to receive revenue for a service can be, and is in this case, equivalent, for the purposes of the quantitative

¹⁵⁹ [REDACTED]

¹⁶⁰ [REDACTED]

¹⁶¹ [REDACTED]

¹⁶² [REDACTED]

¹⁶³ [REDACTED]

element, to the receipt of revenue. They are both measures of value attributable to the service. The fact that [✂], in our view, is not determinative for the share of supply test in this case, and would not reflect the value of the FLX Service provided by Farelogix to British Airways which we consider appropriate to take into account when assessing whether the share of supply test is met on the basis of revenue received or receivable from providing the Relevant Description of Services to UK Airlines.

No need to quantify the increment

- 5.68 In this case, we do not consider it necessary to specify precisely how much revenue is received or receivable for the supply of the FLX Service by Farelogix to British Airways (either by identifying an appropriate portion of the Fee and/or specifying the precise fees that would be payable under the British Airways Agreement). This is because the 25% is met on the basis of Sabre's share alone and it is sufficient that we can identify some increment that is for the supply of the Relevant Description of Services.
- 5.69 In 2018 only a small number of tickets including a British Airways Interline Segment were processed through the FLX Service and the revenue received and receivable from these bookings is also small. However, the Act does not require a minimum increment (see paragraph 5.59 above). In this case, we consider that Sabre's share clearly exceeds the 25% threshold and therefore even a very small increment from Farelogix is sufficient for the share of supply test to be met.
- 5.70 Farelogix also submitted that relying on the Fee to allocate UK revenue to Farelogix would be at odds with the rules set out in Enterprise Act 2002 (Merger Fees and Determination of Turnover) Order 2003¹⁶⁴ (the Determination of Turnover Order) and the provisions of the CMA's Guidance (and section C(V) of the European Commission's Consolidated Jurisdictional Notice¹⁶⁵ (the Consolidated Jurisdictional Notice) dealing with UK allocation of turnover.¹⁶⁶
- 5.71 However, we consider that the Determination of Turnover Order applies to determine the UK turnover for the purposes of applying the turnover test set out in section 23 of the Act.¹⁶⁷ The turnover test is clearly different from the share of supply test and does not allow the same statutory flexibility.

¹⁶⁴ SI 2003/1370.

¹⁶⁵ 2008C 95/01.

¹⁶⁶ [Mergers: Guidance on the CMA's jurisdiction and procedure](#), paragraphs 4.51 and footnote 68; paragraph 172; and paragraph 196.

¹⁶⁷ Section 11 of the Order.

Furthermore, the CMA's ability to rely on a broad range of measures¹⁶⁸ which would not involve a strict application of turnover calculation rules means that such rules are not applicable to the revenue calculations.

- 5.72 As explained in paragraph 5.61 above, in this case we have identified two possible means by which to identify revenue for the Relevant Description of Services provided by Farelogix to British Airways, ie the Fee received by Farelogix and the fee receivable directly from British Airways under the British Airways Agreement.

Provisional conclusion on the creation of a relevant merger situation

- 5.73 In light of the above, we provisionally find that the Merger will result in the creation of a relevant merger situation.

6. Market definition

Introduction

- 6.1 This Chapter examines the relevant markets for the assessment of the Merger. The purpose of market definition is to provide a framework for the analysis of the competitive effects of a merger. The relevant market is the market in which a merger may give rise to an SLC, and contains the products and/or services that are the most significant competitive alternatives available to the customers of the merged companies.
- 6.2 Market definition is a useful analytical tool but is not an end in itself, and identifying the relevant market involves an element of judgment. The boundaries of the market do not determine the outcome of our analysis of the competitive effects of a merger in a mechanistic way. The CMA may, for example, also take into account constraints outside the relevant market, segmentations within the market, or other ways in which some constraints are more important than others.¹⁶⁹
- 6.3 The relevant product market is identified primarily by considering the response of customers to an increase in the price of one of the products of the merger firms.¹⁷⁰ However, competition concerns may arise in non-price dimensions including the quality of products and services and the level of innovation and, in defining markets in such cases, it is important to have

¹⁶⁸ Section 23(5) of the Act.

¹⁶⁹ [Merger Assessment Guidelines](#), paragraphs 5.2.1 and 5.2.2.

¹⁷⁰ [Merger Assessment Guidelines](#), paragraph 5.2.7.

regard to evidence relating to non-price considerations rather than having an exclusive focus on customers who would be marginal to price changes.¹⁷¹ Concerns about the level of innovation are an important feature of our assessment in this case.

- 6.4 It is also important to consider ongoing dynamics in defining markets where the competitive conditions are expected to evolve. A relevant market should capture the most significant competitive constraints currently as well as those expected in the future. Where customer demands are changing, or suppliers are developing new capabilities, historical evidence such as customer switching or characteristics of existing products may provide limited value for defining markets for the assessment of the impact of a merger going forward.
- 6.5 Much of the evidence in determining the market definition is also relevant to the assessment of the competitive constraints between the Parties and their competitors. Where this is the case, we outline the relevant evidence in this section and cross refer to the competitive assessment evidence in Chapters 8 to 10 in which we provide further details.
- 6.6 In the remainder of this Chapter, we first consider the relevant product market. We then discuss the relevant geographic market.

Product market

- 6.7 The Parties compete to serve airlines in several ways. They both supply merchandising solutions. They also both supply distribution solutions which allow airlines to distribute content to travel agents and travellers. More broadly, their products perform certain functions which allow airlines to create offers and distribute them to passengers.
- 6.8 In this section, we consider the appropriate scope of the relevant markets by reference to the Parties' overlaps in each of merchandising and distribution solutions respectively. In Chapter 7 where we discuss nature of competition, we consider the interlinked dynamics between merchandising and distribution solutions in light of the evolving nature of airline demands.

¹⁷¹ Paragraph 274, *Tobii AB v. Competition and Markets Authority*, Competition Appeal Tribunal, 10 January 2020.

Merchandising

The Parties' products and services

- 6.9 The Parties overlap in the supply of merchandising solutions to airlines. Merchandising solutions refer to IT solutions that allow airlines to create and price flight offers with ancillaries (eg extra baggage, Wi-Fi and meal options). With more sophisticated merchandising solutions, airlines can create personalised and dynamic offers and sell a greater variety of ancillaries in a flexible way.¹⁷²
- 6.10 Sabre supplies two merchandising modules. Its 'Dynamic Retailer' module allows dynamic and personalised product pricing and bundling of ancillaries for distribution through the direct channel. Its 'Ancillary Services' module focuses on generating and managing the delivery of ancillaries.¹⁷³ These modules are PSS-dependent, which means they are only compatible with Sabre's PSS, although airlines that use the Sabre PSS are free to choose a third-party merchandising solution if they so wish. Sabre's merchandising modules are generally sold together.¹⁷⁴ They are currently not compatible with the NDC standard,¹⁷⁵ but Sabre has been investing in 'next generation retailing' capabilities including more sophisticated merchandising functions which allow airlines to sell ancillaries and customised offers in more flexible ways based on the NDC standard, as detailed in Chapter 9.
- 6.11 Farelogix supplies 'FLX M', a solution that allows airlines to create ancillary offers across multiple channels. This solution provides the functions of the two merchandising modules of Sabre described above as well as additional supporting features which allow airlines to sell merchandising offers flexibly.¹⁷⁶ However, it differs from Sabre's modules in that FLX M is PSS-agnostic, which means it can be (and has successfully been) integrated with any airline's PSS, not just Sabre's. Moreover, Farelogix's merchandising solution is compatible with the NDC standard whilst Sabre's is not.

The Parties' submission

- 6.12 The Parties submitted that the appropriate market definition in relation to merchandising is the supply of non-core PSS merchandising modules.

¹⁷² A 2018 whitepaper by IATA (Dynamic Offer Creation) defines dynamic offer as 'provided in real time, in response to a one-time request'.

¹⁷³ [REDACTED].

¹⁷⁴ [REDACTED].

¹⁷⁵ [REDACTED].

¹⁷⁶ [REDACTED].

However, they said Sabre's Ancillary Services module should be distinguished from Farelogix's solution because the former is 'more focussed on fulfilment aspects where Farelogix is not present', and for this reason, the Parties said their overlap is 'restricted only to services which assist with the generation and pricing of airline ancillaries'.¹⁷⁷

Our assessment

- 6.13 We first consider whether the relevant product market should be wider than the supply of merchandising solutions to include non-merchandising modules.
- 6.14 Merchandising and non-merchandising modules are not demand-side substitutes, as they serve distinct purposes. An airline cannot use another module (say, availability calculator) to perform merchandising functions (ie to create an offer with ancillaries), although merchandising and non-merchandising modules can be procured together as well as individually.
- 6.15 There is no supply-side substitutability between merchandising and other functions either. A 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. This is evident from the fact that Sabre, which currently supplies many non-merchandising modules, has had (or will have to) to make substantial additional investments to enhance its merchandising capabilities (and it ultimately decided to acquire Farelogix for this reason).¹⁷⁸
- 6.16 We have not seen evidence to suggest that the market should be narrower than the supply of merchandising solution. In any case, specific features within merchandising, eg different types of capability for airlines to create ancillaries or dynamic offers, are typically not supplied separately. We also note that Sabre is investing in new retailing capabilities, including in merchandising; we consider it appropriate to assess Sabre's position in merchandising beyond the existing features of its Dynamic Retailer and Ancillary Services modules, as further detailed in Chapters 9 and 11.
- 6.17 On this basis, we provisionally find that a relevant product market to assess the impact of the Merger is the supply of merchandising solutions to airlines. In the competitive assessment, we have regard to the similarities and differences between the solutions of the Parties and their competitors and, in

¹⁷⁷ [REDACTED].

¹⁷⁸ See Chapter 4 for detailed description of Sabre's rationale to acquire Farelogix.

light of airlines' evolving business needs and suppliers' ongoing plans to meet these, how their offerings might change in the future.

Distribution

The Parties' products and services

- 6.18 The Parties are active in the supply of distribution solutions to airlines. While they operate different business models using different technologies, they both facilitate the distribution of airline content to travel agents and passengers.
- 6.19 Sabre currently provides distribution services to airlines through its GDS platform. Its distribution services take place in the indirect channel because it allows airlines to distribute to passengers through an intermediary (mainly travel agents), rather than directly on their websites, kiosks or call centres (which are known as the direct channel).¹⁷⁹ Like other GDSs, Sabre connects multiple airlines with multiple travel agents on the same platform globally. Sabre markets its GDS platform to both airlines and travel agents.
- 6.20 Sabre's GDS performs other functions in addition to distribution. It creates offers for airlines by consolidating information about flight schedule, availability, fare and ancillary services. It also aggregates content across multiple airlines and distributes them to travel agents, which can then search for these offers and make bookings on the GDS platform. Sabre's GDS also manages certain fulfilment functions for travel agents, such as accounting and reporting, or management of travel disruption.¹⁸⁰
- 6.21 In addition to the existing distribution functions performed by its GDS, Sabre is developing 'next generation distribution' solutions. These solutions, which will be compatible with the NDC standard, aim to allow airlines to distribute personalised and dynamic offers to realise revenue potential, and to give travel agents access to these offers on the GDS.¹⁸¹ We discuss Sabre's plans in greater detail in Chapter 9.
- 6.22 Farelogix provides IT solutions that allow airlines to distribute content through any channel of their choice, including the direct and indirect channels. These solutions are known as FLX OC and FLX NDC API. Specifically, FLX OC integrates with an airline's PSS to enable content to be distributed to third parties, while NDC API is a programming interface that allows airlines to

¹⁷⁹ Chapter 3.

¹⁸⁰ [REDACTED]. See also Chapter 3.

¹⁸¹ [REDACTED].

distribute content such as dynamic offers with ancillaries. FLX OC and FLX NDC API are typically provided together.¹⁸² Farelogix is agnostic to the distribution channels used by an airline; the fees it charges to airlines are not dependent on the channel used.¹⁸³

- 6.23 Farelogix's distribution solutions are compatible with the NDC standard. As discussed in Chapter 3, they allow airlines to distribute NDC (or non-NDC) content to travel agents using four approaches: (i) 'direct connects' which are one-to-one connections between an airline and a travel agent; (ii) connections via an aggregator which then combines content from multiple airlines for distribution to travel agents; (iii) connection with a GDS platform (to the extent this is enabled by the GDS) from which travel agents can access such content; and (iv) through airline.com. Following the Parties' submission, we refer to the first two approaches as 'GDS bypass' and the third approach as 'GDS pass-through'.¹⁸⁴
- 6.24 Farelogix markets its distribution solutions to airlines but not to travel agents. It is the airlines which negotiate with the travel agents to establish a connection. This contrasts with Sabre which markets its GDS to both airlines and travel agents. However, Farelogix provides an interface (SPRK) which allows travel agents to make bookings from airlines with which it has established direct connects.¹⁸⁵

The Parties' submission

- 6.25 The Parties submitted that the appropriate relevant product market must either be (i) GDS services, which exclude the provision of APIs used for the indirect distribution of airline content; or alternatively (ii) all airline content distribution services including the direct channel and the indirect channel.¹⁸⁶
- 6.26 To support their contention for a 'GDS services' market, the Parties told us that there are material differences between GDS and direct connects which make them 'entirely non-substitutable'.¹⁸⁷ They reasoned that:

¹⁸² [REDACTED].

¹⁸³ Airlines who use Farelogix's distribution solutions pay both an annual licence fee and a per ticket fee. The levels of these fees do not depend on whether the content is distributed through direct connect, aggregator, or a GDS.

¹⁸⁴ The Parties told us that in Sabre's internal documents "Direct Connect" refers to [REDACTED]. Farelogix's internal use of the term "direct connect" [REDACTED].

¹⁸⁵ [REDACTED].

¹⁸⁶ [REDACTED].

¹⁸⁷ [REDACTED].

- (a) Direct connect is a one-to-one airline to travel agent connection and does not offer comparison shopping, while GDS is a two-sided platform with many-to-many connections on which comparison shopping can be done.
- (b) Direct connect does not offer 'critical' fulfilment services to travel agents, such as 'intelligence in itinerary creation', 'mid- and back-office support', or the ability to meet their 'duty of care to corporate travellers' that the GDSs offer.

6.27 In relation to the alternative candidate market proposed by the Parties to include both the direct and the indirect channels, they submitted that airline.com (the main form of distribution in the direct channel) competes with GDS for the following reasons:¹⁸⁸

- (a) passengers who might previously have booked through a traditional travel agent are instead increasingly booking online via a meta-search engine through an OTA or airline.com;
- (b) the majority of bookings which rely on Farelogix's solutions flow through OTAs and meta-search engines. According to the Parties, this means passengers who book such tickets are 'likely to be cost-conscious, internet-literate shoppers for whom airline.com is more substitutable than a traditional travel agent';
- (c) the Parties said 'the leverage that airlines use in negotiation is the threat of pulling some content out of the GDS and offering it exclusively on airline.com or through the airline's GDS private channel', which will strengthen as airline.com 'continues to grow', and which 'has absolutely nothing to do with Farelogix'.¹⁸⁹

Third-party submission

6.28 Amadeus submitted that 'GDSs compete in a market for airline ticket distribution that comprises all distribution channels'. It cited the following reasons to support its view: (i) structural shift in bookings from the indirect to direct channel'; (ii) 'surcharges and content withdrawals' diverting sales from the indirect to the direct channel, and (iii) UK consumers are willing to book via airline.com or OTA. Amadeus agrees with the inclusion of direct connect in the relevant market for assessing this Merger.¹⁹⁰

¹⁸⁸ [REDACTED].

¹⁸⁹ [REDACTED].

¹⁹⁰ [REDACTED].

6.29 We have not received representations specific to the market definition from other third parties. We incorporate other third-party evidence, where relevant, to our assessment of relevant market below.

Our assessment

6.30 This section first considers whether the distribution solutions based on GDS (supplied by Sabre) and those based on NDC API (supplied by Farelogix) used for GDS bypass compete in the same product market. It then examines whether the direct channel (in particular airline.com) should be included in the same relevant market as indirect channel.

- *Competition between distribution solutions based on GDS and on NDC API*

6.31 The extent to which GDSs compete with distribution solutions based on NDC API depends on: (i) whether a particular airline adopts (or intends to adopt) the NDC standard and distribution solutions based on the NDC API; and (ii) whether the airline uses these solutions as an alternative to GDS (ie GDS bypass) once it has adopted them.

6.32 In relation to (i), a large majority of the 29 airlines responding to our questionnaire said they have either adopted the NDC standard or planned to do so in the next few years.¹⁹¹ In particular, all major full service carriers serving UK consumers have made significant investments in distribution solutions based on the NDC API. For these airlines, competition between providers of GDS and NDC API solutions therefore occurs for bookings made through their respective channels (and the associated revenue).

6.33 To assess whether the degree of competitive constraint between GDS and GDS bypass is sufficiently strong to include them in the same product market, we consider the evidence on:

- (a) airlines' distribution strategies;
- (b) internal documents of distribution solutions suppliers;
- (c) use of GDS and GDS bypass by different types of travel agent.

¹⁹¹ Chapter 10, paragraphs 10.73 - 10.75.

- *Airlines' distribution strategies*

- 6.34 We find that airlines typically use a mix of distribution channels. Evidence from airlines indicate a general trend for them to use a 'portfolio' or 'omni-channel' distribution strategy, with GDS (including GDS pass-through), GDS bypass and airline.com being the main components.¹⁹² We consider that the share of bookings taken by each of the different channels can change depending on choices made by airlines, travel agents, and the outcome of competitive interactions between those channels.
- 6.35 The airline evidence indicates that while GDS will remain a significant distribution channel, there is a growing degree of adoption of GDS bypass and reduced use of GDS generally. An important factor is that airlines have a desire to take greater control of their retailing and distribution strategies (away from the GDS), and that solutions based on NDC API allow them to do so.
- (a) The volume of content distributed through GDS bypass is relatively small compared to GDS currently.¹⁹³ However, a large majority of the 29 airlines responding to our questionnaire said they plan to grow their usage of GDS bypass and reduce their usage of GDS. They generally reasoned that GDS bypass gives them more control and flexibility over the distribution of content outside GDSs, to ensure consistent passenger experience across all channels. However, nearly all airlines note that GDS will continue to play an important role.¹⁹⁴
- (b) Internal documents by two large airlines indicate they can save costs by reducing GDS usage. One of these airlines noted that it 'aims to lessen its dependence on GDSs through direct connect';¹⁹⁵ the other noted that 'NDC [API] will open up distribution to more complex agencies... allow to remove/further reduce the dependency on GDSs and lower distribution costs', and 'volume shifts to alternative aggregators will threaten GDS gatekeeper position'.¹⁹⁶
- (c) 13 of 24 responding airlines which have renegotiated their contracts with a GDS in the past three years told us that they have used the threat of using direct connect as a lever in negotiation.¹⁹⁷

¹⁹² Chapter 7, paragraph 7.13 and Chapter 10, paragraphs 10.93 - 10.97.

¹⁹³ Chapter 8, paragraphs 8.53 and Table 4.

¹⁹⁴ See Chapter 10, [§].

¹⁹⁵ [§].

¹⁹⁶ [§].

¹⁹⁷ Chapter 10, paragraph 10.99.

(d) Farelogix told us that it expects ‘a portfolio [of distribution channels] to exist’. It estimates that the use of GDS pass-through and GDS bypass will be broadly in the proportion of 80 to 20, in favour of the GDS-passthrough due to its ‘efficiencies’.¹⁹⁸

(e) The Parties submitted to the US DOJ that [REDACTED], as explained in paragraph 6.38(e) below.

- *Internal documents of distribution solutions suppliers*

6.36 Documents from distribution solution suppliers show that GDS bypass is expected to grow and is seen as a threat to the GDS.

(a) Sabre documents frequently refer to airlines’ use of direct connect as a [REDACTED].¹⁹⁹ This is also reflected in Sabre’s 2018 annual report which describes direct connect as a risk factor (alongside airline.com), allowing airlines to ‘apply pricing pressure’ and ‘negotiate travel distribution arrangements that are less favourable’ to its GDS business.²⁰⁰

(b) The threat of GDS bypass to Amadeus’ GDS business is also evident from its documents, as further explained in Chapter 10.

(c) A study commissioned by Datalex predicts [REDACTED].²⁰¹

- *Use of GDS and GDS bypass by different types of travel agent*

6.37 We find that the suitability of GDS and GDS bypass is in part influenced by the type of travel agents consuming the content and, related to this, the complexity of passenger requirements. It is also affected by the location of the travel agent.

6.38 The evidence indicates that GDS bypass is mainly used for distribution of content to OTAs who typically serve leisure passengers with simpler itinerary and fulfilment requirements. It is also used by TMCs and traditional bricks-and-mortar travel agents, but to a lesser degree currently.

(a) In 2018, the majority of bookings ([REDACTED]) facilitated by Farelogix’s NDC API were made on OTAs. A much smaller, but non-negligible, proportion of such bookings were made on TMCs ([REDACTED]), and traditional bricks-and-

¹⁹⁸ [REDACTED].

¹⁹⁹ Chapter 9, paragraphs 9.95 - 9.99.

²⁰⁰ Sabre SEC filing form 10-K 2018, page 5.

²⁰¹ [REDACTED].

mortar travel agents ([REDACTED]).²⁰² GDSs serve a broad range of travel agents; the proportion of bookings for Sabre by type of travel agents are: OTAs ([REDACTED]), TMCs ([REDACTED]) and other B&M travel agents ([REDACTED]).²⁰³

- (b) OTAs generally told us that they offer aggregation and comparison shopping services to passengers using their own IT capabilities, without having to rely on GDSs.²⁰⁴ This means the lack of aggregation or comparison shopping functions provided by a supplier of GDS bypass solutions does not prevent OTAs from consuming content via this channel.
- (c) Farelogix told us that an OTA is a ‘fairly non complex transaction’ where an airline can ‘get more things down’ with GDS bypass faster than a GDS, and where ‘GDS bypass might stay’.²⁰⁵
- (d) The use of direct connects by OTAs can grow rapidly. For example, the proportion of UK bookings made through direct connect on one [REDACTED] OTA [[REDACTED]] has grown from [REDACTED] in 2018, to [REDACTED] in 2019.²⁰⁶
- (e) The Parties told the US DoJ that [REDACTED].²⁰⁷

6.39 In contrast, TMCs typically offer complex itineraries, comparison shopping and fulfilment services to business passengers, and GDSs (but not suppliers of NDC API) perform these functions on their behalf.²⁰⁸

- (a) An IAG 2019 document on distribution strategy states that [REDACTED].²⁰⁹
- (b) However, four of the ten responding TMCs told us that they have direct connects with airlines to obtain content which is unavailable on the GDSs.²¹⁰

6.40 In addition, we find that the investments required in part explain why OTAs are better placed to use GDS bypass than smaller traditional bricks-and-mortar travel agents. OTAs are typically well-resourced global businesses and have already made investments to establish direct connects.

²⁰² [REDACTED].

²⁰³ Chapter 3, paragraph 3.40.

²⁰⁴ Chapter 3, Factors in travel agents choosing a GDS or alternative distribution channel

²⁰⁵ [REDACTED].

²⁰⁶ Chapter 10, paragraph 10.128.

²⁰⁷ [REDACTED].

²⁰⁸ Chapter 10, paragraphs 10.122 - 10.123.

²⁰⁹ [REDACTED].

²¹⁰ Chapter 10, paragraphs 10.118 - 10.120.

(a) Travel agents generally told us they need to make significant investments to establish direct connects and use GDS bypass, although these can be funded by the airlines.²¹¹

(b) Sabre estimated that although each travel agent would [REDACTED] direct airline connections to capture the majority of indirect volumes, the upfront investment costs required [REDACTED].²¹²

(c) However, the Parties also told the US DOJ that [REDACTED].²¹³

6.41 With regards to the location of travel agents, we recognise that GDSs are an important route for airlines to reach travel agents globally. However, airlines with a concentrated base of home country passengers can establish direct connects with home country travel agents to cover a large proportion of passengers. For example, Sabre submitted to the US DOJ that [REDACTED].²¹⁴

6.42 In summary, while Sabre's GDS performs wider functions and provides wider geographic coverage than Farelogix's NDC API, such differences matter less when airlines wish to distribute to OTAs or to home country travel agents. We consider that for these groups of travel agents (along with a material proportion of TMCs and B&M travel agents) airlines have a choice between using a GDS and using GDS bypass in order to distribute content.

- *Assessment on relevant market for distribution solutions based on GDS and on NDC API*

6.43 Overall, the evidence does not support the Parties' view that GDS and direct connects services are 'entirely non-substitutable'. We have provisionally found that distribution solutions based on NDC API, which enable GDS bypass, are a competitive threat to Sabre and to other GDSs. Both solutions facilitate distribution of content to travel agents rather than directly to travellers. Although the current volume of airline content distributed through GDS bypass is much smaller than through GDS, it is appropriate to take into account the likely growth of GDS bypass. We recognise there are differences which mean GDS bypass is less effective than GDS in serving travel agents with complex requirements (eg many, but not all, TMCs), but such differences have not impeded the growth of GDS bypass in some other travel agent segments (eg OTAs).

²¹¹ Chapter 10, paragraphs 10.126 - 10.127.

²¹² [REDACTED].

²¹³ [REDACTED].

²¹⁴ [REDACTED].

- 6.44 We also note the two-sided nature of Sabre’s business model, which differs from Farelogix’s ‘channel-agnostic’ model to supply distribution solutions to airlines and leave them to manage the travel agent relationship.²¹⁵ However, we consider that this difference is currently part of Farelogix’s business proposition which allows airlines greater control of their distribution strategies, and which makes it an alternative to GDSs for them. Therefore, we disagree with the Parties’ contention that their products constitute different markets simply because Sabre’s business is two-sided and Farelogix’s is not. Rather, we consider that competition between the Parties primarily occurs on the airline side and that the option that NDC APIs give airlines to directly manage the travel agent relationship, as an alternative to the GDS performing this role, is an important part of the competitive dynamic between these products.
- 6.45 Therefore, our provisional view is that distribution solutions for airlines based on NDC API, including those supplied by Farelogix, compete with GDSs in the same product market.
- *Competition between direct channel (including airline.com) and indirect channel*
- 6.46 This section examines whether direct channel should be included in the same product market as indirect channel (in which GDS and GDS bypass operate).
- 6.47 As described in Chapter 3, direct channel refers to airlines’ distribution of content to passengers directly. This can be done on an airline’s own website or mobile app (airline.com), airline kiosks or call centres. Direct channel accounts for around 50% of global bookings in 2018, and the share has remained relatively stable in recent years.²¹⁶ Within the direct channel, airline.com has grown in the past few years while call centres have declined. We focus on airline.com as it accounts for over 80% of volumes within the direct channel.
- 6.48 Airline.com and GDSs operate different models for airlines to distribute content to passengers. With airline.com, the airline distributes directly to passengers using an internet booking engine, which is typically built in-house and/or with other technology providers.²¹⁷ With a GDS, an airline sells indirectly to passengers via travel agents using the GDS platform and

²¹⁵ As explained in paragraphs 6.22 above and discussed further in Chapter 10, paragraph 10.105.

²¹⁶ Chapter 8, Table 8.

²¹⁷ T2RL, *The Market for Airline Internet Booking Engines*, April 2019: ‘The Internet Booking Engine [IBE] is the solution that most airlines tend to keep in-house as they prefer full control of their direct point of sale. Whereas the IBE is the relatively easier piece of technology to develop in-house, airlines tend to partner with other more specialised technology players in the area of shopping, pricing and merchandising to create a full online retailing solution.’

technologies. Airline.com serves passengers further downstream (ie it is a 'B2C' service) whereas a GDS serves airlines and travel agents (ie it is a 'B2B' service).²¹⁸

6.49 However, airline.com can exercise a constraint on GDS if passengers substitute between airline.com and travel agents that use GDSs. Specifically, an airline can use the threat of switching bookings to airline.com to negotiate better terms with a GDS,²¹⁹ which can be achieved for example by imposing a surcharge on, or withholding content from, the GDS, in anticipation that passengers who obtain inferior content from travel agents that rely on the GDS would book on airline.com instead. The more similar are the passengers served by airline.com and GDSs, therefore, the more credible the constraint of airline.com on GDS would be.

6.50 To understand the degree of constraints from airline.com on GDS, we consider the evidence on usage trend in GDS, airline.com and other direct channels, and differences in the functions and passenger type between GDS and airline.com.

- *Usage trend in GDS, airline.com and other direct channels*

6.51 The evidence on the usage trend between airline.com and GDS is mixed. While airlines have used the option of distributing through airline.com to negotiate terms with GDSs, the overall growth of airline.com appears to have slowed down in the recent past, and, in any event, the growth has been principally at the expense of other direct channels (eg call centres) rather than GDSs.

(a) Airlines generally told us that airline.com is an important part of their distribution strategies. In addition, 14 of 24 responding airlines which have renegotiated their contracts with a GDS in the past three years told us they have used airline.com as a lever in negotiation.²²⁰

(b) A presentation prepared for the Sabre Board in May 2017 stated that [redacted].²²¹

(c) A 2019 equity analyst report by Bank of America Merrill Lynch estimated that bookings have shifted from GDS to airline.com at the average rate of

²¹⁸ B2B stands for 'Business to business' and B2C stands for 'Business to consumer'.

²¹⁹ And to GDS bypass as explained in the preceding section.

²²⁰ Chapter 10, paragraphs 10.97-10.99.

²²¹ [redacted].

c.3.4% per annum between 2009 and 2018, but ‘this is likely to slow a bit going forward’.²²²

- (d) T2RL data shows that between 2015 and 2018, airline.com share of total bookings grew by 5pp (from 37% to 42%), while call centre share of bookings decreased by 4pp (from 12% to 8%) and the share of indirect channel decreased by 1pp (from 51% to 50%). This indicates that the growth of airline.com is more at the expense of other direct channels than the indirect channels.²²³
- (e) Our analysis of the distribution volumes for British Airways and Lufthansa shows that both airline.com and GDS bypass have gained share over GDS, after their introduction of surcharges on bookings on GDS and withdrawal of content from GDS respectively.²²⁴
- (f) As study commissioned by Datalex in July 2019 projects [redacted].²²⁵
- *Differences in the functions and passenger type between GDS and airline.com*

6.52 Similar to distribution solutions based on NDC API discussed above, airline.com allows airlines to control offer creation and distribution away from the GDS, but does not offer the range of comparison shopping, complex itineraries and fulfilment services that GDSs do. These limitations mean airline.com primarily focuses on leisure passengers, while GDSs serve a mix of leisure and corporate passengers.

- (a) A 2019 IAG distribution strategy document states that [redacted].²²⁶
- (b) TMCs and corporate customers generally told us they either do not use airline.com or do so to a very limited extent.²²⁷
- (c) An Amadeus document appears to show that, measured by the composition of the travel agents (OTA, TMC and B&M travel agent) and origins of passengers (ie whether they book online or offline), there is [redacted].²²⁸

²²² [redacted].

²²³ Table 8.

²²⁴ Chapter 10, paragraph 10.90.

²²⁵ [redacted]. See paragraph 6.51(f)

²²⁶ [redacted].

²²⁷ Chapter 10, paragraph 10.135 and Chapter 3, paragraphs 3.40 - 3.42.

²²⁸ [redacted].

(d) A 2019 equity analyst report by Bank of America Merrill Lynch states that in developed regions ‘bookings ripe for the switch (price sensitive leisure bookings in particular) have largely moved online already’.²²⁹

6.53 The above indicates that airline.com is likely an alternative channel to GDS in respect of leisure passengers, some of whom may otherwise book through an OTA (which in turn is served by GDS), but it is not an effective alternative for airlines to reach business passengers served by TMCs.

- *Assessment of competition between direct and indirect channels*

6.54 We consider airline.com is an important part of an airline’s distribution strategy alongside GDS (and increasingly GDS bypass), and it exercises a constraint on GDS. However, the degree of constraint from airline.com on the indirect channel is likely limited by the fact that: (i) suppliers in the indirect channel compete for travel agents while airline.com competes for passengers downstream directly, (ii) suppliers in the indirect channel (GDSs and to a lesser degree GDS bypass) serve a mix of corporate and leisure passengers through OTAs, TMCs and other B&M travel agents,²³⁰ while airline.com primarily serves passengers that do not require services of a travel agents such as some leisure travellers; and (iii) the growth of airline.com appears to have been slowing down and principally at the expense of call centres.

6.55 On balance, we consider it appropriate to assess direct and indirect channels in the same product market. However, it does not materially affect our conclusion whether or not the direct channel is included in the relevant product market as explained in Chapter 11.

- *Provisional conclusion on product market regarding distribution*

6.56 We provisionally conclude that a relevant product market for assessing this Merger is the supply of distribution solutions to airlines. This market includes the services provided by GDS, distribution solutions based on NDC API (including GDS bypass) and direct channel (primarily airline.com), for the sale of tickets and ancillary content to travel agents and/or passengers. In the competitive assessment, we have regard to their differences, and how the roles of GDS, GDS bypass, and airline.com are expected to evolve as a result of airlines’ wider changing business models which aim to take greater control of their retailing and distribution strategies.

²²⁹ [REDACTED].

²³⁰ Paragraph 6.42.

Geographic market

- 6.57 The Parties supply merchandising and distribution solutions to airlines globally. Airlines also typically procure these solutions from suppliers that are active globally.
- 6.58 However, we have heard from the Parties that local sales and engineering support and regional experience are relevant factors for customer choice of both solutions.²³¹ We also note that a supplier's competitive position can vary by region (eg Sabre's GDS is stronger in the US than in Europe, and the reverse is true for Amadeus; OpenJaw's customer base is primarily in Asia).
- 6.59 Moreover, specific to distribution, we note that travel agents in China, Japan and Russia are largely served by 'local GDSs' (or 'host direct') which operate exclusively within these countries.²³² Local GDSs do not provide airlines access to travel agents globally, and therefore they do not compete with Sabre and other GDS (Amadeus and Travelport) outside their home countries. Further, Farelogix does not compete with Sabre for business from travel agents, just airlines, and most international airlines have to do business with Sabre (and the other global GDSs) in order to have access to a broad network of travel agents.
- 6.60 The Parties submit that the relevant geographic scope for the supply of both merchandising and distribution solutions is worldwide.²³³
- 6.61 Overall, given the global nature of the Parties' businesses, we provisionally conclude that the relevant geographic scope is worldwide for both product markets. In the competitive assessment, we take into account any regional differences in the competitive strengths of suppliers, noting in particular the fact that local GDSs are likely to exercise limited constraints on the Parties. We also take account of global competitive dynamics to the extent that they have competitive effects in the UK, both currently and in the future.

Provisional conclusion on relevant market definitions

- 6.62 We provisionally conclude that the relevant markets for the assessment of the Merger are: (i) the supply of merchandising solutions to airlines worldwide, and (ii) the supply of distribution solutions to airlines worldwide.

²³¹ [REDACTED].

²³² See paragraph 3.24 and footnote 112, [REDACTED]. A few countries, including China, Russia, and Japan, are largely serviced by local GDSs (e.g. Travelsky, Infini, Axxess).

²³³ [REDACTED].

7. The nature of competition

7.1 To assess the competitive effects of the Merger we must first understand how competition operates. This chapter examines the nature of competition and discusses the theory of harm and analytical framework.

- (a) We first briefly outline the main parameters of competition.
- (b) We then discuss the context of the industry, including the ongoing demand from airlines to take greater control of their retailing offers, and the emergence of differentiated business models and new technology to meet such demands.
- (c) On this basis, we set out the theories of harm to assess this Merger.
- (d) Finally, we outline the structure of the assessment.

Parameters of competition

Merchandising

7.2 Airlines traditionally procure merchandising solutions either as part of a bundle with their core PSS, or as a separate module from a third-party provider and integrate it to the core PSS. More recently, some airlines procure merchandising solution as part of a retailing platform or 'NDC solutions'. In all these cases, procurement typically takes place through a bidding process, where an airline issues a request for information (RFI) or request for proposal (RFP) to potential suppliers, identifies a shortlist of suppliers that are compliant with its requirements, evaluates them based on criteria such as their technical and functional capabilities, timing of developing these solutions, reputation and costs, and then chooses a winner on this basis.²³⁴ Airlines can also procure merchandising solutions through bilateral negotiations with suppliers without a bidding process.

7.3 The Parties take different approaches in pricing their merchandising products. Sabre told us that as [REDACTED].²³⁵ Farelogix charges [REDACTED].

7.4 Suppliers of merchandising solutions compete for airlines by offering higher quality products and more favourable commercial terms (eg price).

²³⁴ See Appendix F for evidence from airlines in relation to their RFPs.

²³⁵ [REDACTED].

Distribution

- 7.5 In the supply of distribution solutions, competition takes place in multiple forms reflecting differentiated business models in the market. While the Parties' solutions allow airlines to ultimately distribute content to passengers, they operate different approaches which affect the ways in which they face constraints from each other and from other suppliers.
- 7.6 As described in Chapter 3, GDSs are two-sided platforms connecting airlines with travel agents. Price is a parameter of competition on both sides, and a GDS's revenue is determined by the difference between the fees they receive from airlines and the incentives they pay travel agents.
- (a) GDSs are remunerated by airlines with a fee per booking, which is subject to negotiations when an airline renews a contract with the GDS. Parity clauses limit an airline's flexibility to differentiate content between GDSs and distribution channels and affect the level of booking fees charged.²³⁶ While in principle GDSs can compete for airlines by reducing booking fees, in practice parity clauses may reduce their incentives to do so because they would not be able to gain volumes this way.²³⁷ However, GDSs face pricing pressure from other channels including GDS bypass or airline.com; the option of switching volumes to these non-GDS channels are used by airlines as levers in negotiations.²³⁸
- (b) GDSs offer an incentive to a travel agent for each booking made. This is funded by the booking fee from airlines. 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.
- (c) GDSs set booking fees and incentives to balance the demands of the two sides. While a higher incentive makes a GDS more attractive to travel agents, it creates upwards pressure on the booking fee which makes the GDS less attractive to an airline. Most airlines use all three GDSs (ie they 'multi-home') and do not normally switch from one GDS to another. Some travel agents use one GDS (ie they 'single-home') whilst others multi-home (such as OTAs).²³⁹

²³⁶ Chapter 3, paragraph 3.29 and [X].

²³⁷ Airlines cannot directly increase volumes of booking on a particular GDS even if the fee it pays is reduced. With parity clauses, airlines cannot differentiate fares across GDSs, and cannot set lower fares on a particular GDS to attract travel agents.

²³⁸ Chapter 10, paragraphs 10.98 et seq.

²³⁹ [X].

(d) It is the travel agents, not airlines, which choose the GDS or channel to make a booking on behalf of passengers. However, airlines can influence travel agents' decisions by withdrawing content from a GDS (eg Lufthansa) and/or by imposing a surcharge on a GDS (eg British Airways), provided that the parity clauses they agreed with the GDS allow them to do so.²⁴⁰

7.7 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.²⁴¹

7.8 As discussed in Chapter 6, airline.com allows airlines to distribute content to passengers directly (B2C), unlike GDSs or GDS bypass where airlines distribute content to travel agents through a platform or technology (B2B). Airlines do not pay fees to sell on their own websites, but they incur other expenditure to market online.²⁴²

7.9 We note that on the airline side, GDSs compete primarily for full service carriers. Low cost carriers distribute their content mainly through airline.com and they do not use GDSs to any material degree, nor do they use NDC APIs to distribute content.²⁴³

Ongoing changes in airline business models

7.10 This Merger takes place against the background of the airline industry changing the services they sell and the way they sell them to passengers. This has also been changing the ways in which suppliers facilitate airlines to sell with new capabilities.

Changes in airlines' demand in response to passengers' requirements

7.11 On the demand side, airlines are responding to passengers' requirements for differentiation and customisation of their travel experience. Full service carriers are also reacting to competition between one another, and with low cost carriers. The latter introduced a business model which unbundles a flight booking to a basic seat with optional extras, such as checked baggage,

²⁴⁰ Paragraph 3.24. See also [REDACTED].

²⁴¹ Paragraph 7.13 and Chapter 10, paragraph 10.90.

²⁴² Paragraph 6.48.

²⁴³ [REDACTED].

reserved seats and other ancillaries, being made available to passengers at additional cost. Many full service carriers have adopted this business model (to varying degrees).

7.12 Airlines' demands can be broadly summarised under the following four areas:

- (a) new revenue opportunities to create more personalised services and travel experiences with ancillaries;
- (b) greater use of dynamic (or flexible) pricing, as well as more personalised pricing, based on an understanding of individual customers' needs and willingness to pay;
- (c) greater control over their retailing offers, compared to what has been possible using the solutions provided by GDS and PSS traditionally; and
- (d) distribution of the offers they create consistently across all sales channels.

7.13 Internal documents of a range of full service carriers, including large network carriers and regional airlines, frequently describe their wish to enhance their retailing capabilities along the dimensions described above.²⁴⁴

- (a) An IAG strategy document describes its vision as to [REDACTED].²⁴⁵
- (b) Another airline strategy document highlights its intention to adopt the NDC standard in order [REDACTED]. It has strategic goals to [REDACTED].²⁴⁶
- (c) An American Airlines document indicates that distribution through NDC API, where an airline creates its shopping offer to a customer, provides new data to airlines, which is no longer held by GDS.²⁴⁷
- (d) A Lufthansa document states [REDACTED].²⁴⁸
- (e) A SAS document described its vision as 'full control' of retailing, [REDACTED].²⁴⁹
- (f) An Etihad document states that its aim is to develop its 'Retail Platform and Merchandising Engine', which 'drives ancillary revenues through personalization across all touchpoints of the customer journey.'²⁵⁰

²⁴⁴ These views are further explained in airlines' responses to our questionnaires as detailed in Appendix F.

²⁴⁵ [REDACTED].

²⁴⁶ [REDACTED], see Appendix F.

²⁴⁷ [REDACTED].

²⁴⁸ Lufthansa also submitted that '[REDACTED].'

²⁴⁹ [REDACTED].

²⁵⁰ [REDACTED].

(g) A LATAM document notes the changing way airlines market their products and customer demands for personalisation, which requires it to [REDACTED].²⁵¹

7.14 These business model changes require airlines to acquire new capabilities that allow them to create, manage and distribute personalised and flexible offers across all sales channels. There are many aspects to this transition, but adopting merchandising and distribution capabilities are important aspects, and which many airlines are already pursuing. The adoption of the NDC standard by airlines – allowing the same rich content to be created and distributed across multiple channels in the same format – has been an important driver of a process which is both gradual and remains ongoing as explained in Chapter 3.

7.15 Farelogix told us that airlines' implementation of these changes today is 'probably not 20 per cent down the road of how that is going to look in five years from now'.²⁵²

Suppliers responses to meet airline demands

7.16 Airline demands have driven changes on the supply side. Suppliers generally recognise the particular importance of merchandising capabilities which allow airlines to realise new and growing revenue opportunities from ancillaries.

(a) Farelogix estimated that airline ancillary revenue has grown from \$18 billion in 2011 to \$57 billion in 2017.²⁵³

(b) Sabre told us that merchandising is [REDACTED].²⁵⁴ At a call with M&A analysts on the Merger rationale, [REDACTED] (CEO of Sabre) highlighted [REDACTED].²⁵⁵

(c) A 2017 Amadeus document described the future of NDC as [REDACTED], and noted that the [REDACTED].²⁵⁶ Indeed, [REDACTED].²⁵⁷

(d) A 2019 Bank of America/Merrill Lynch equity analyst report on the global travel IT industry states that 'around 10% of airline revenues are from

²⁵¹ [REDACTED].

²⁵² [REDACTED].

²⁵³ [REDACTED].

²⁵⁴ [REDACTED].

²⁵⁵ [REDACTED].

²⁵⁶ [REDACTED].

²⁵⁷ See Paragraphs 10.18 et seq. [REDACTED].

ancillaries, and that is clearly dragged down by the FSCs [full service carriers] [...] over time upselling is only going to increase'.²⁵⁸

- (e) A survey of IT providers commissioned by IATA in 2019 indicates that air ancillary services (merchandising) bring the most value to airlines, followed by personalisation and dynamic pricing.²⁵⁹
- (f) A 2019 study on the 'Airline Retailing Market' commissioned by Datalex finds that 'customer centricity is key...airlines looking to move business logic away from PSS to allow greater agility and higher level of innovation and independence from the PSS'.²⁶⁰

7.17 GDSs appear to have been initially reluctant to facilitate the distribution of NDC content on their platforms. To realise these opportunities, airlines are looking for new ways outside the traditional PSS and GDS to achieve differentiation as discussed in paragraph 7.13. This has given rise to opportunities for other non-GDS suppliers to provide innovative solutions.

- (a) In 2013, Sabre urged the US Department of Transportation to block approval of the NDC standard.²⁶¹ A Sabre representative said at a conference in 2012 that 'we do not see how the proposed NDC approach would work in the real world without sacrificing fare transparency, limiting comparison shopping and compromising data privacy rights'.²⁶²
- (b) An Amadeus representative said at an industry conference in 2015 that 'NDC has derailed industry discussion', 'ill conceived', and 'has not contributed to the efficiency of the industry'.²⁶³ However, Amadeus told us that the primary causes of delay in NDC development have been the failure of IATA to involve all the relevant stakeholders in the standard setting process and the lack of standardisation in the industry.²⁶⁴
- (c) A 2012 press release of Travelport stated that 'much of the IATA NDC statement appears only conceptual in nature, based on high level principles that do not necessarily incorporate the input of all the critical

²⁵⁸ [redacted].

²⁵⁹ [redacted].

²⁶⁰ [redacted].

²⁶¹ [redacted].

²⁶² World Passenger Symposium 2012 in Abu Dhabi, <https://www.arabianindustry.com/design/news/2012/nov/11/iatas-ndc-wont-work-in-the-real-world-sabre-3417193/> (accessed on 16 August 2019).

²⁶³ CAPA World Aviation Summit 2015. <https://centreforaviation.com/news/amadeus-says-iatas-ndc-has-wasted-time-and-energy-489455> (accessed on 16 August 2019).

²⁶⁴ [redacted].

components of the travel value chain from supplier to travel agent to consumer'.²⁶⁵

(d) In a January 2018 presentation to the [REDACTED].²⁶⁶

(e) In July 2018, Farelogix told [REDACTED].²⁶⁷

7.18 Farelogix has developed products compatible with the NDC standard which have enabled airlines to evolve their business models. Its market positioning highlights that it gives airlines greater flexibility to control their retail offers, to control the data to optimise such offers, and to distribute them on, and outside, the GDS environment.²⁶⁸ Other providers such as Datalex operate a similar model, using the NDC standard and being independent of the GDS.

(a) An important aspect of Farelogix's merchandising solution is that it provides airlines with the means to control offer creation and gives them the flexibility to create and change personalised offers rapidly.

(b) Farelogix also provides a distribution solution (NDC API / OC) for airlines to distribute differentiated offers across multiple sale channels.

(c) Farelogix considers the NDC standard to be 'the bedrock of airline retailing innovation' as it forces 'a connection between airline systems/offer engines and retailing channels/ touchpoints' and 'enables airlines to make offers in response to customer requests, including in the indirect channel'.²⁶⁹ It is also investing [REDACTED].²⁷⁰

7.19 GDSs appear to have responded to airlines' demand to enable the distribution of NDC content in more recent years. However, the evidence shows that these solutions are still in development and/or have been used to a limited extent to date.

(a) While each of Sabre, Amadeus and Travelport has hundreds of airlines distributing content on their traditional GDS platforms, only a limited number of airlines have distributed NDC content on these GDSs to date using GDS pass-through and/or implemented NDC API solutions supplied by the GDSs.²⁷¹

²⁶⁵ <http://ir.travelport.com/news-releases?item=854> (accessed on 16 August 2019).

²⁶⁶ [REDACTED].

²⁶⁷ [REDACTED].

²⁶⁸ Chapter 9, How Farelogix markets itself to airlines, paragraphs 9.129 et seq.

²⁶⁹ A Farelogix blog published on 18 November 2019 (<https://blog.farelogix.com/a-glimpse-into-the-airline-retailing-future>).

²⁷⁰ [REDACTED].

²⁷¹ See paragraph 8.6 for Sabre; paragraph 8.9 for Amadeus and paragraph 8.12 for Travelport in relation to their current or planned capabilities in the distribution of NDC content.

(b) A 2019 Bank of America/Merrill Lynch equity analyst report explains that ‘the rise of low cost carriers and the resultant fragmentation of a previously bundled offer has led to the current situation where airlines want something the GDSs are struggling to provide’. It further notes the industry’s initial ‘scepticism on whether the GDSs would want to engage with NDC; but that today ‘all three GDSs are working on NDC connectivity’ and have been Level 3 certified (allowing fully customisable offer and order management) since 2018 or 2019.²⁷²

(c) A 2018 Farelogix presentation [REDACTED].²⁷³

7.20 In summary, the industry today is undergoing lengthy and complex changes as airlines are looking to take greater control of their retailing and distribution functions away from the GDSs. This has given rise to demand for suppliers with alternative technologies and business models, and responses from traditional GDS suppliers, and the process appears to have much further to evolve in the future.

Theories of harm for assessing this Merger

7.21 The theory of harm describes the possible ways in which an SLC could arise as a result of a merger. The theory of harm provides the framework for our analysis of the competitive effects of a merger.

The Parties’ submissions

7.22 The Parties submitted that this Merger ‘is not on any conceivable basis a killer acquisition’ (e.g. by discontinuing the target’s pipeline product or controlling an early stage product), and ‘poses no harm to potential competition or innovation competition’. In the Parties’ view, this is because ‘direct connect is not a viable alternative to GDSs, and that Farelogix is primarily a complement as an IT solutions provider and not a potential substitute to the GDSs’, and Sabre ‘needs Farelogix to accelerate its development of NDC distribution and non-core PSS merchandising capabilities and to be able to keep up with Sabre’s largest competitors’.²⁷⁴

Our view on theories of harm

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

²⁷² [REDACTED].

²⁷³ [REDACTED].

²⁷⁴ [REDACTED].

solutions, both on a worldwide basis. These are our two theories of harm and are categorised as horizontal unilateral effects. Unilateral effects can arise in a horizontal merger where one firm merges with a direct competitor that provides and/or is expected to provide a competitive constraint. Unilateral effects are more likely where the merger eliminates a significant competitive force or where customers have little choice of alternative suppliers.²⁷⁵

- 7.24 We consider that competition between suppliers occurs when merchandising suppliers bid against each other to win individual contracts, and distribution suppliers seek to increase their share of distribution revenues.²⁷⁶ However, we also consider that, competition occurs over the longer term where a key parameter is a supplier's ability to meet airlines' ongoing needs to exercise greater control of their offers and to respond to changing passenger needs.
- 7.25 Our assessment therefore 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.²⁷⁷
- 7.26 We are mindful of the different business models of Farelogix and Sabre. In distribution, while Farelogix serves airlines and allows them to manage their relationship with travel agents, Sabre's GDS serves both airlines and travel agents and balances the demands between the two on a two-sided platform. Moreover, while Farelogix offers merchandising and distribution as separate products, these are often purchased together and together allow airlines to take control of the offer creation process away from the GDS and distribute content to travel agents and passengers in ways that have not been possible on the GDS in the past. Sabre's GDS (with which it supplies distribution and some offer creation functions) therefore faces dual threats from Farelogix's NDC API/FLX OC distribution solution on the one hand and from its FLX M solution on the other. Where appropriate, we consider the interlinked dynamics between these markets in assessing the theories of harm in each of merchandising and distribution and in considering the strength of rivals.

²⁷⁵ [Merger Assessment Guidelines](#), paragraph 5.4.12

²⁷⁶ Paragraphs 7.2-7.9.

²⁷⁷ [REDACTED].

Structure of the assessment

7.27 In the remainder of our provisional findings report, we examine the evidence gathered during the course of our inquiry and provide our assessments of the Merger based on the two theories of harm described above. It is structured as follows:

- (a) evidence on current suppliers (Chapter 8);
- (b) evidence from the Parties, in particular their internal documents (Chapter 9);
- (c) evidence from third parties, including competitors, airlines and travel agents (Chapter 10);
- (d) our assessment of the Merger, including the relevant counterfactual, and the competitive effects (Chapter 11).

8. Evidence on current suppliers

- 8.1 This Chapter provides an overview of the capabilities of suppliers of merchandising solutions and distribution solutions. It assesses the current strengths of different suppliers, by examining which suppliers major airlines currently use and sets out the evidence on market shares and our analysis of recent bids in airline tenders.
- 8.2 We have exercised caution when interpreting these findings in our assessment of the impact of the Merger occurring in the market as airline business models continue to evolve. These are assessed in later chapters.

Overview of suppliers' capabilities and customers

- 8.3 This section provides an overview of the major suppliers of merchandising and distribution solutions to airlines and their customers. We have distinguished suppliers between GDS, IT providers, and other smaller suppliers that are less frequently mentioned by airlines.

GDS providers

Sabre

- 8.4 Sabre today offers merchandising solutions through its AS division and global distribution solutions through its TN division.

- 8.5 Sabre's merchandising solutions (Ancillary Services and Dynamic Retailer) can only be sold to airlines that use Sabre's PSS.²⁷⁸ Ancillary Services has basic distribution capabilities and is focussed on fulfilment aspects (ie ancillaries' catalogue, inventory and ticketing). Dynamic Retailer performs personalised product pricing, bundling and ancillary distribution through the direct channel, but it has [REDACTED] (Chapter 3). Sabre has [REDACTED] airline customers for Dynamic Retailer.²⁷⁹ Sabre's merchandising solutions are not NDC-compatible.
- 8.6 As regards distribution solutions, Sabre is one of the three major GDS. It has not yet completed the build for NDC APIs for airlines but has been investing in solutions that allow airlines to distribute NDC content, as further detailed in Chapter 9. Sabre is currently developing capabilities to build and manage NDC APIs for airlines. Regarding GDS pass-through, it has launched a pilot in April 2019 that allows United Airlines to connect to Sabre's GDS with United's NDC API which was built by Farelogix.²⁸⁰

Amadeus

- 8.7 Amadeus today provides a full suite of core and non-core PSS solutions, including merchandising solutions. Amadeus runs two PSSs: 'Altéa' and 'New Skies' (the latter owned by Navitaire which was acquired by Amadeus in 2016). Altéa primarily targets full-service carriers whereas New Skies targets low cost carriers.²⁸¹ Through Altéa, it supplies an NDC-compatible merchandising solution known as 'Amadeus Anytime Merchandising' (AAM) to [REDACTED] current customers.²⁸² Navitaire does not have an NDC-compatible merchandising solution.²⁸³
- 8.8 Amadeus' merchandising solutions are currently PSS-dependent. Amadeus submitted that:²⁸⁴

(a) [REDACTED];

(b) [REDACTED];²⁸⁵

²⁷⁸ [REDACTED].

²⁷⁹ Sabre's Dynamic Retailer customers are: [REDACTED].

²⁸⁰ See paragraph 9.102; Phase 2 Initial submission [REDACTED].

²⁸¹ [REDACTED].

²⁸² AAM full suite customers (* denotes in implementation): [REDACTED].

²⁸³ Amadeus submitted that it provides airlines' ancillary services and Fare Families to travel agents based on ATPCO fare filing (not NDC compatible). Including the airlines using those services ([REDACTED]), it has [REDACTED] (Altéa) [REDACTED] (Navitaire) merchandising customers.

²⁸⁴ [REDACTED].

²⁸⁵ [REDACTED].

(c) [REDACTED].²⁸⁶

8.9 Regarding distribution, Amadeus operates the largest GDS globally. In addition, Amadeus supplies the following NDC-compatible distribution solutions which enable GDS bypass or GDS pass-through:²⁸⁷

(a) GDS bypass: Amadeus provides and manages NDC APIs for [REDACTED] airlines ([REDACTED] in production and [REDACTED] under implementation) through the product 'Altéa NDC', and for [REDACTED] through the product 'Navitaire NDC Gateway'.²⁸⁸ These NDC APIs support direct connects to travel agents and connections to aggregation platforms (including MSEs).²⁸⁹ Amadeus submitted that its NDC API can be sold on a standalone basis to all airlines whether they use Amadeus PSS or not.²⁹⁰

(b) GDS pass-through: Amadeus told us it has introduced services to allow NDC content to be distributed through its GDS for a number of airlines: [REDACTED].²⁹¹

Travelport

8.10 Travelport is one of the three major GDSs although it is the smallest by global revenue.

8.11 Travelport does not actively market merchandising solutions to airlines. [REDACTED].²⁹² [REDACTED].²⁹³

8.12 Concerning its capabilities in GDS pass-through, Travelport was the first GDS to manage the booking of flights by a travel agent using the NDC standard (in October 2018).²⁹⁴ [REDACTED].²⁹⁵ [REDACTED].²⁹⁶

²⁸⁶ [REDACTED].

²⁸⁷ [REDACTED].

²⁸⁸ Altéa NDC customers (* denotes in implementation): Finnair, Singapore Airlines, Cathay Pacific, [REDACTED], Corsair, Avianca, Saudia, [REDACTED].

²⁸⁹ [REDACTED].

²⁹⁰ [REDACTED].

²⁹¹ [REDACTED].

²⁹² [REDACTED].

²⁹³ [REDACTED].

²⁹⁴ [Travelport's website](#). [REDACTED].

²⁹⁵ [REDACTED].

²⁹⁶ [REDACTED], [REDACTED].

IT providers

Farelogix

- 8.13 Farelogix today generates almost all of its revenue from [X] accounting for [X] and [X] of 2018 revenue respectively.²⁹⁷ Both solutions are NDC-compatible. As detailed in the following sections, Farelogix's merchandising solution is widely considered the best in the industry today and is second to Amadeus' by share. Unlike Amadeus' and Sabre's merchandising solutions, FLX Merchandise is PSS agnostic.
- 8.14 Farelogix sells these solutions to a range of airlines, including major airlines in Europe (Lufthansa Group), in the Gulf (Emirates, Etihad, Qatar Airways) and in North America (American Airlines, United Airlines, Air Canada). It is also the most successful supplier to the IATA's NDC Leaderboard, which includes airlines who are industry leaders in migrating to NDC solutions. Table 2 below provides further detail: currently Farelogix has [X] merchandising customers ([X] of which are Tier 1 airlines)²⁹⁸ and [X] NDC API/OC customers ([X] Tier 1 airlines), and [X] of these customers use both solutions.²⁹⁹

²⁹⁷ [X].

²⁹⁸ According to T2RL definition, Tier 1 airlines are the ones boarding more than 25 million passengers per year.

²⁹⁹ As detailed in Chapter 5, we note that Farelogix also supplies BA in relation to interline.

Table 2: Farelogix current customers

	Airline	Distribution	Merchandising	Other
1.	[X]	[X]	[X]	
2.	[X]	[X]	[X]	
3.	[X]	[X]	[X]	[X]
4.	[X]	[X]	[X]	
5.	[X]	[X]	[X]	
6.	[X]	[X]	[X]	[X]
7.	[X]	[X]	[X]	
8.	[X]	[X]	[X]	[X]
9.	[X]	[X]	[X]	
10.	[X]	[X]		[X]
11.	[X]	[X]		
12.	[X]	[X]		
13.	[X]	[X]	[X]	
14.	[X]		[X]	[X]
15.	[X]		[X]	
16.	[X]		[X]	
17.	[X]		[X]	[X]
18.	[X]		[X]	
19.	[X]		[X]	
20.	[X]	[X]	[X]	

Source: Farelogix (71027530_2_FLX Customer data 11 March 2019_Updated 558100432_2.xlsx)
(L) = Limited usage license connected with FLX NDC Open Connect Only

- 8.15 In distribution, Farelogix also provides a travel agency interface tool (SPRK) for booking and servicing. The product offers limited mid and back office support, and aggregation is only possible within airlines in the same airline group.
- 8.16 Farelogix has a channel-agnostic business model, as it earns revenues on bookings made through the APIs it provides to airlines irrespective of the distribution channels or the PSS used by the airline.
- 8.17 Other than distribution and merchandising solutions, Farelogix provides retailing solutions including a shopping and pricing engine (FLX S&P), an availability calculator (FLX AC) and a schedule builder (FLX SB). All these functions can be offered individually or as a full suite ('Airline Commerce Gateway').

Datalex

- 8.18 Datalex is a supplier of retailing and distribution solutions to airlines. It describes its market position as ‘Travel-specific eCommerce systems, independent from PSS providers.’³⁰⁰
- 8.19 Datalex supplies a merchandising solution through ‘Datalex Digital Commerce’ platform, which incorporates merchandising, pricing, shopping and payments services. Datalex submitted that its platform was initially built for airlines to sell in the direct channels and has been adjusted to suit the indirect channel with the growth of airlines’ adoption of the NDC standard.³⁰¹
- 8.20 Datalex’s merchandising solution is compatible with the NDC standard. Two airlines use this solution: JetBlue (only for indirect channels) and SAS (in implementation, for indirect channels).³⁰² In addition, Datalex provides merchandising services that are not compatible with the NDC standard to 13 other airlines (including six Chinese airlines), nine of which use it exclusively for airline.com but not for the indirect channel.³⁰³
- 8.21 Regarding distribution, Datalex provides and manages NDC APIs for two airlines, JetBlue and SAS (under implementation).³⁰⁴ It does not provide aggregation services. It submitted that it offers a ‘rudimentary agency management interface which is not connected to the GDS’s but allows airlines to manage agency accounts.’³⁰⁵
- 8.22 As explained in Appendix E, Datalex has been facing financial difficulties recently.³⁰⁶ In early 2019, a series of accounting irregularities were identified, leading to the suspension of its trading on the Irish Stock Exchange in May 2019. In October 2019, [REDACTED].³⁰⁷ Datalex submitted that it disputes the legality of the termination notice received from Lufthansa in September 2019 and that it has commenced proceedings to achieve resolution of the matter.³⁰⁸ According to the bidding data that Datalex submitted, although Datalex have continued to bid for airline contracts, it has not won any new customers since these financial problems arose.³⁰⁹

³⁰⁰ [REDACTED].

³⁰¹ [REDACTED].

³⁰² [REDACTED] [REDACTED].

³⁰³ [REDACTED].

³⁰⁴ [REDACTED].

³⁰⁵ [REDACTED].

³⁰⁶ See Appendix E, paragraphs 63-65.

³⁰⁷ [REDACTED].

³⁰⁸ [REDACTED].

³⁰⁹ See the analysis of bidding data in merchandising, paragraphs 8.61 et seq.

OpenJaw

- 8.23 OpenJaw is a wholly-owned subsidiary of TravelSky, a state-owned PSS and enterprise in China, listed on the Hong Kong Stock Exchange, which provides a range of IT services to the Chinese travel industry including PSS and GDS. OpenJaw supplies ‘t-Retail Platform’ which supports NDC API, merchandising, shopping and pricing functionalities for airlines. OpenJaw markets t-Retail Platform as a complete system.³¹⁰
- 8.24 In merchandising, OpenJaw provides an NDC-compatible solution to [REDACTED] currently used to enable sales through NDC on a meta-search engine,³¹¹ and it is working to enable additional connections in the indirect channel.³¹² Amadeus is another co-supplier of merchandising solution to Cathay Pacific. OpenJaw submitted that it will provide NDC-compatible merchandising solutions as part of a bundled retailing platform [REDACTED] to ANA (a leading airline in Japan) and TAP (the Portuguese flag carrier; supplied jointly with PROS),³¹³ and these will be used initially for the indirect channels.
- 8.25 In addition, OpenJaw provides B2B merchandising solutions that are not NDC-compatible to [REDACTED] Chinese airlines through a licence of its platform to TravelSky.³¹⁴ It also supplies merchandising [REDACTED] for use on airline.com, as well as to other travel brands for the sale of hotel, car rental and loyalty products, for example to British Airways and Aeroplan Inc. (a subsidiary of Air Canada).³¹⁵
- 8.26 In distribution, OpenJaw provides and manages NDC API for airlines as part of its t-Retail platform. The only airline ‘currently making NDC bookings’ with this product is Cathay Pacific. OpenJaw submitted that it plans to implement NDC API solutions for ANA, TAP [REDACTED], and these will be used initially for the indirect channels.

PROS

- 8.27 PROS is software provider with core businesses in selling improvement, pricing, revenue management and optimisation products. It has expanded its capability to provide airline IT solutions through the acquisition of Vayant (a

³¹⁰ OpenJaw submitted that the t-Retail Platform can also be sold as a general ecommerce platform for some customers who do not require NDC functionality (eg for hotel customers, loyalty programmes etc). [REDACTED].

³¹¹ Skyscanner.

³¹² [REDACTED].

³¹³ See paragraph 8.28

³¹⁴ [REDACTED].

³¹⁵ [REDACTED].

shopping and merchandising provider) in August 2017 and Traveaer (an eCommerce software company) in August 2019.

- 8.28 PROS told us that its merchandising solution is mainly aimed at powering airline.com. [REDACTED]. PROS' merchandising solutions are compatible with the NDC standard.^{316, 317}
- 8.29 Currently, PROS does not supply NDC-compatible distribution solutions. It submitted that it is working to integrate the technology purchased through Traveaer acquisition.³¹⁸ [REDACTED].³¹⁹

ITA Software (ITA)

- 8.30 ITA is an IT provider with shopping and pricing solutions as its main product.³²⁰ It was acquired by Google in 2011.³²¹
- 8.31 ITA provides a merchandising solution to handle the sale of ancillaries, which currently has two customers [REDACTED].
- 8.32 In distribution, ITA supplies an API for airlines to connect to metasearch engines (not to travel agents), but this solution is not NDC compatible.³²² ITA told us that it is currently working on the development of an NDC-compatible solution that will support the distribution of shopping and merchandising.³²³
- 8.33 In summary, five providers among the ones that were most frequently mentioned by airlines and by the Parties as relevant suppliers of merchandising and distribution solutions currently offer NDC-compatible merchandising solutions that are in use by airlines (ie Farelogix, Amadeus, OpenJaw, Datalex and ITA). Among these, four currently offer PSS-agnostic products, of which two are provided as standalone solutions (ie unbundled from other functionalities such as pricing, shopping, NDC APIs, etc).³²⁴ Four

³¹⁶ [REDACTED].

³¹⁷ [REDACTED]

³¹⁸ [REDACTED].

³¹⁹ [REDACTED]

³²⁰ IATA defines Shopping as: 'A process whereby a requestor is able to request offers from the airlines (ie flight and ancillaries) based on its desired search criteria and receive offers corresponding to its request. There are various types of shopping, including, for example Personalized/Anonymous and Attribute/Affinity shopping types'.

³²¹ Google also operates a meta-search engine which enables comparison shopping for travellers (Google Flight Search).

³²² [REDACTED].

³²³ [REDACTED].

³²⁴ OpenJaw's NDC-compatible merchandising solution is not sold on a standalone basis but as part of its t-Retail platform, which also include NDC APIs; Datalex's merchandising functionality is sold as part of its Digital Commerce Platform, which also include pricing, shopping and payment services.

providers currently offer NDC-compatible distribution solutions (ie Farelogix, Amadeus, OpenJaw, Datalex).³²⁵

Other suppliers of merchandising and distribution solutions

8.34 Below we provide an overview of other competitors identified by the Parties but less frequently mentioned by airlines and/or in the Parties' and other third parties' internal documents.³²⁶

Suppliers of both merchandising and distribution solutions

8.35 JR Technologies is an IT solutions provider specialised in airline retailing. [REDACTED].³²⁷

8.36 Interes is an IT provider of travel technology. [REDACTED].³²⁸

8.37 SAP provides [REDACTED].³²⁹

8.38 IBS offers a fully NDC compliant PSS solution (iFlyRes) as well as a merchandising platform (iCommerce).^{330, 331} As mentioned in Chapter 10, IBS has partnered with Sun Express for the building of an NDC API.³³² [REDACTED].³³³

Suppliers of distribution or related aggregation solutions

8.39 Travelfusion is a content aggregator [REDACTED].³³⁴

8.40 TPConnects is an IT provider of travel technology solutions and aggregator. [REDACTED]. In February 2019, Oman Air partnered with TPConnects in integrating the Oman Air NDC API to its Travel Aggregator Platform.^{335, 336}

³²⁵ PROS's merchandising solution is NDC-compatible [REDACTED]; Sabre does not offer NDC-compatible merchandising and has not yet completed the build for NDC APIs for airlines (it launched an NDC API product for United in partnership with Farelogix).

³²⁶ Chapter 9, paragraph 9.44 and 9.79-9.82 and Chapter 10, 10.83 and 10.100

³²⁷ [REDACTED], [REDACTED].

³²⁸ [REDACTED].

³²⁹ [REDACTED].

³³⁰ [IBS Software website](#)

³³¹ [IBS Software IATA profile](#)

³³² <https://www.t2rl.net/insight/display.asp?ID=450>

³³³ [REDACTED]

³³⁴ [REDACTED].

³³⁵ [Oman Air press release](#).

³³⁶ [TPConnects website](#). [REDACTED].

- 8.41 NDC Exchange is a partnership between ATPCO and SITA,³³⁷ which provides an NDC format translation technology for airlines and travel sellers. SITA submitted that the product is ‘capable of translating certain non-NDC APIs to NDC, but only in restricted cases. The airline must already have, or develop, the underlying API – NDC Exchange is only acting as a format translator in this respect.’³³⁸
- 8.42 DXC Technologies provides an orchestration and translation layer called NDC Adapter that act as an ‘orchestration and translation layer’ and ‘narrows the NDC standard to a unified dialect across all platforms and systems.’³³⁹ [redacted].³⁴⁰
- 8.43 RAMAX Group is a Russian IT provider focussed on system integration and software development.³⁴¹ As mentioned in Chapter 10, RAMAX has partnered with Aeroflot for the building of an NDC API.³⁴² No other airlines mentioned RAMAX in their responses.
- 8.44 We discuss self-supply of merchandising and distribution solutions by airlines when we consider evidence from airlines in Chapter 10.

Suppliers of merchandising and distribution solutions to major airlines

- 8.45 This section summarises the evidence on the providers of merchandising and distribution solutions for major airlines. It also provides an overview of the use of different distribution channels by each airline.

Current suppliers of merchandising solution and NDC API

- 8.46 To provide an overview of the suppliers of merchandising solutions and NDC API to major airlines, and the extent to which airlines purchase these solutions from the same supplier, Table 3 below sets out the information for each of the 20 largest network carriers operating in the UK for illustration.³⁴³ These airlines account for 45% of passengers to/from the UK and approximately

³³⁷ [redacted].

³³⁸ [redacted].

³³⁹ [DXC Technologies IATA profile](#)

³⁴⁰ [redacted].

³⁴¹ [RAMAX website](#).

³⁴² <https://www.ramax.ru/en/company/press-center/press-releases/225/>

³⁴³ The airlines include “Hybrid Carriers” and “Network Carriers” and excludes “Low-Cost Carriers”, as defined by T2RL. We have excluded low cost carriers because they use GDS only to a very limited extent, and do not use the NDC standard. Largest airlines based on passengers carried to, from and within the UK (based on CAA airport statistics 2018). See Appendix F, Table 1 for details of all airlines responding to our questionnaire.

30% of total bookings globally.³⁴⁴ We consider bidding and market shares data on the global market later in this chapter. Further details for other airlines can be found in Appendix F.

- 8.47 In relation to merchandising solutions, IAG is the only major airline group that self-supplies.³⁴⁵ Farelogix supplies the [REDACTED],³⁴⁶ as well as three others in the top 20 largest airline groups by operations in the UK. Amadeus serves Air Canada,³⁴⁷ Finnair, Singapore Airlines and [REDACTED]. The other suppliers present are ITA ([REDACTED]), Datalex (SAS, in development stage) and OpenJaw ([REDACTED])³⁴⁸.
- 8.48 In terms of distribution solutions based on NDC API, three airlines self-supply (IAG, [REDACTED], [REDACTED]). Farelogix supplies a range of large airlines across different geographies including [REDACTED]. It is followed by Amadeus which serves [REDACTED], Singapore Airlines and Finnair.³⁴⁹ OpenJaw has [REDACTED]. Datalex serves SAS (in development).
- 8.49 [REDACTED].³⁵⁰
- 8.50 Of the ten airlines that outsource their merchandising and NDC API solutions, eight purchase both from the same supplier, and only [REDACTED] and [REDACTED] purchase them from different suppliers.

Table 3: Supplier of merchandising and NDC API distribution solutions to top airlines operating in the UK (by 2018 passengers)³⁵¹

[REDACTED]

- 8.51 We also consider the current suppliers of NDC API solutions to airlines in the NDC Leaderboard.³⁵²

³⁴⁴ Source: T2RL data. Note that this also includes China airlines, which appear to operate in a different ecosystem regarding distribution based on 'host direct' GDSs. Excluding the largest four Chinese airline groups (China Southern, Air China, China Eastern and Hainan) from the total number of global bookings, the top 20 airlines operating in the UK, would represent 34% of total bookings globally.

³⁴⁵ However [REDACTED]. See 10.105(a).

³⁴⁶ [REDACTED], [REDACTED]. See 10.80(a).

³⁴⁷ [REDACTED].

³⁴⁸ [REDACTED].

³⁴⁹ Note that Amadeus NDC API allows airline to do both, GDS bypass and GDS pass-through.

³⁵⁰ [REDACTED]

³⁵¹ Note that a number of the airlines ([REDACTED]) presented in the table above would also feature in the top 20 airlines by global bookings. When global bookings are considered, four large Chinese airline groups (China Southern, Air China, China Eastern, Hainan) would also appear in the table. See Table 1 in Appendix F for further details of the suppliers of these airlines.

³⁵² The Parties submitted that this is not the relevant market to be assessed with many more airlines potentially in the market. We note this is not the full market, but this provides an illustration of Farelogix's strength among the airlines who are most advanced in the adoption of the NDC standard.

- (a) Farelogix supplies [redacted] out of 17 airline groups on the NDC Leaderboard,³⁵³ including [redacted]. These airlines represent around [redacted] of the total airline bookings on the leaderboard by passenger numbers.³⁵⁴ Farelogix also jointly supplies [redacted].³⁵⁵
- (b) Three airline groups self-supply: IAG, [redacted]. They account for around a third of the passengers on the leaderboard.
- (c) Amadeus supplies to [redacted]. They account for [redacted]% of passenger numbers of the Leaderboard.
- (d) Datalex supplies [redacted] representing [redacted]% of the passengers on the Leaderboard.

8.52 In addition, Aeroflot has partnered with an IT provider RAMAX³⁵⁶ and Sun Express with IBS.³⁵⁷

Airlines' current usage of different distribution channels

8.53 To understand the relative scale of each distribution channel across airlines, Table 4 provides an overview of the usage of airline.com, GDS, GDS bypass and GDS pass-through for each of the top 20 network carriers operating in the UK for illustration. Overall, we find that:

- (a) GDS and airline.com are the two main distribution channels for all airlines;
- (b) Airlines typically use all three GDS providers (Amadeus, Sabre and Travelport) to distribute content, ie. they 'multi-home'.³⁵⁸ Each GDS's share varies significantly across airlines;³⁵⁹
- (c) the proportion of bookings each airline makes through airline.com ranges from 21% (for [redacted]) to [redacted]% for TAP;

³⁵³ NDC Leaderboard consists of 22 airlines, we have counted airlines as part of the same group together. This includes: Air France and KLM being counted as one and Lufthansa, Austrian, Brussels, Swiss being counted together as Lufthansa group.

³⁵⁴ These numbers are total passenger numbers based on 2018 T2RL. Numbers do not reflect the extent to which airlines are making bookings through their NDC API but the maximum possible use for each airline. However, we note that the airlines supplied by Farelogix are typically the more advanced users of APIs.

³⁵⁵ Farelogix supplies [redacted], [redacted].

³⁵⁶ <https://www.ramax.ru/en/company/press-center/press-releases/225/>

³⁵⁷ <https://www.t2rl.net/insight/display.asp?ID=450>

³⁵⁸ For example, one airline explained the following: 'each GDS has a strong presence in a specific region; (ii) the number of GDS's subscribers and their geographic location, as not all travel agents are multi-GDS. In order to have as an extensive coverage as possible, it needs to be involved with all the GDSs'. [redacted]

³⁵⁹ See Table 3 in Appendix F.

(d) bookings through GDS bypass contributed to approximately 4% of all bookings, ranging from 0% to [redacted]% across the top 20 airlines. IAG is the largest user with GDS bypass accounting [redacted];³⁶⁰ and

(e) GDS pass-through has not been used materially, but several airlines have plans to develop it. For example, American Airlines is in a pilot mode.

8.54 Further details for other airlines are provided in Appendix F.³⁶¹ We also consider global market shares later in this chapter.

Table 4: Distribution of bookings through different channels for top airlines operating in the UK (by 2018 passengers), %

Airline Group	airline.com	GDS	GDS bypass*		GDS pass-through	Other †
			Direct connect	Aggregators		
IAG	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Lufthansa	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Norwegian						[redacted]
Virgin Atlantic	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Emirates	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Air France/ KLM	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
American Airlines	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
United Airlines	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SAS	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Qatar	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Air Canada	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Turkish Airlines						[redacted]
Etihad	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Delta	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Cathay Pacific	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Singapore						[redacted]
TAP	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Finnair	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Air Transat						[redacted]
IcelandAir						[redacted]
Total (all responding airlines) ‡	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: CMA analysis of airline submissions

* Also includes non-NDC GDS bypass solutions.

† Other channels include: metasearches, other direct channels such as airport counter, call centres.

‡ The total number is based on the data provided by airlines, responding to the CMA's questionnaire.

³⁶⁰ Some other airlines have a larger share of GDS bypass, such as [redacted].

³⁶¹ Appendix F, Table 2

Analysis of bidding data and market shares

- 8.55 This section sets out the findings of our analysis of past competition by analysing bidding data and market shares. We firstly examine competition for merchandising solutions before looking at the competition for NDC API solutions.
- 8.56 The bidding analysis provides insights on the extent to which Sabre and Farelogix have competed in the past, and the relative strengths of the Parties and their competitors. We look at the frequency with which each provider has won bids and the significance of the contracts won. We have taken the view that, in general, the more often a rival has won customers, the more significant such customers are and the more recent the acquisitions are, the more credible the rival is likely to be in competitively constraining the Parties after the Merger.
- 8.57 The current market share is another factor to be considered when assessing each supplier's strength as it indicates the extent to which the suppliers have an established customer base and have won customers in the past. We consider the relative importance of each piece of evidence as part of our competitive assessment.

Merchandising

- 8.58 In the supply of merchandising solution, we note that the set of competitors for a particular airline depends on its procurement approach.³⁶²
- (a) Sabre's merchandising solution today is PSS-dependent. It can compete for airlines that use Sabre's PSS which is considering between Sabre or a third-party for its merchandising module. It can also compete as part of a PSS bundle for airlines looking to procure core PSS. However, it cannot compete for airlines that use Amadeus' core PSS which are not planning to switch PSS. [X].
- (b) Farelogix, or other suppliers that offer a PSS-agnostic merchandising solution, can be used by any airline PSS. They can compete for all opportunities where the airline unbundles merchandising from its core PSS, it can therefore compete against Sabre and Amadeus where an airline is looking to add a merchandising module to its core PSS [X]. Farelogix cannot compete against Sabre or Amadeus where an airline is

³⁶² Chapter 7, paragraph 7.2.

seeking to acquire a core PSS and merchandising as a single bundle (as Farelogix does not supply a core PSS).

- 8.59 Therefore, the number of suppliers in the overall market may overstate the number of suppliers available to an individual airline. Sabre and Amadeus today only compete against each other for airlines seeking merchandising as part of a core PSS bundle, they do not compete for airlines using the other's core PSS, which seek to unbundle their merchandising modules. This means that the number and value of the merchandising solutions provided by each of Sabre or Amadeus may well reflect their broader positions and relative strengths in core PSS (where merchandising is supplied as part of a bundle with core PSS), rather than in merchandising alone.
- 8.60 We take these points into account in interpreting the bidding analysis and market shares when we assess each supplier's position in the supply of merchandising solution.

Analysis of bidding data in merchandising

- 8.61 We have analysed the opportunities data for merchandising solutions covering the period from 2014 to September 2019. To reflect airlines' different procurement approaches, our analysis considers two categories of bids: (i) merchandising bids unbundled from the core PSS, where Farelogix can compete with either Amadeus or Sabre (but Amadeus and Sabre are unable to compete against each other) and against other PSS-agnostic merchandising suppliers, and (ii) merchandising bids bundled with the core PSS, where Sabre and Amadeus can compete, but Farelogix cannot.
- 8.62 We next briefly consider the Parties' view on the bidding data, before setting out our assessment.

The Parties' view on merchandising bidding analysis

- 8.63 The Parties submitted in response to our bidding analysis working paper that:³⁶³
- (a) there is non-existent or negligible competitive interaction between the Parties;

³⁶³ Response to bidding analysis working paper – slide 2

- (b) Sabre is unable to compete for opportunities where Sabre is not the core-PSS provider which accounted for more than [REDACTED] of global Passengers Boarded in 2017;
- (c) for airlines that procure merchandising alongside core PSS (“broad” opportunities). Farelogix cannot compete since it is not able to offer a core PSS module and [REDACTED];
- (d) Sabre has [REDACTED] in “narrow” opportunities. The Parties have suggested that [REDACTED];³⁶⁴ and
- (e) the Parties serve different types of customers. Sabre is [REDACTED].

Our assessment

- 8.64 We note that Sabre historically has only been able to compete where it is the provider of the Core PSS system or bidding to be the provider. We also note that Farelogix is unable to compete for airlines that are looking to purchase merchandising as part of a core PSS bundle. To reflect these, we have considered separate categories of bids in our analysis below.
- 8.65 We exercise caution in interpreting the results because the bidding analysis reflects the current or past capabilities of merchandising suppliers but not necessarily their future capabilities, and the fact that Sabre and Amadeus cannot currently compete in merchandising alone for airlines using the other’s PSS, given the PSS-dependent nature of their merchandising solutions.
- *Merchandising bids unbundled from core PSS*
- 8.66 Table 5 below sets out the number of times each supplier has won a bid in relation to merchandising solutions unbundled from the core PSS. For these opportunities, Farelogix can compete with the core PSS supplier of the airline (either Amadeus or Sabre) alongside other PSS-agnostic merchandising suppliers.

Table 5 – Winning bids for merchandising by competitor, for bids unbundled with core PSS, 2014 to September

Known winner	Number of wins	Share of wins (%)	Weighted by number of passengers (%)	Number of wins by airline tier			
				Tier 1	Tier 2	Tier 3	Tier 4
Farelogix	[X]	[20-30] [X]	[30-40] [X]	[X]	[X]	[X]	[X]
Sabre	[X]	[5-10] [X]	[0-5] [X]	[X]	[X]	[X]	[X]
Amadeus	[X]	[5-10] [X]	[5-10] [X]	[X]	[X]	[X]	[X]
Datalex	[X]	[5-10] [X]	[10-20] [X]	[X]	[X]	[X]	[X]
ITA	[X]	[0-5] [X]	[10-20] [X]	[X]	[X]	[X]	[X]
[X]	[X]	[0-5] [X]	[0-5] [X]	[X]	[X]	[X]	[X]
Pros	[X]	[0-5] [X]	[0-5] [X]	[X]	[X]	[X]	[X]
Unknown	[X]	[30-40] [X]	[10-20] [X]	[X]	[X]	[X]	[X]
Total closed opportunities	[X]	100%	100%	[X]	[X]	[X]	[X]

Note: Tier 1 refers to airlines with over 25 million passengers, Tier 2 – between 10million and 25 million, tier 3 – 3million – 10 million and tier 4 less than 3 million³⁶⁵

Source: based on Sabre and Farelogix opportunities data excluding those opportunities in which Merchandising is bundled to core-PSS, adjustments made based on airline and competitor data if available. See Appendix H.

8.67 We find that Farelogix has won [X] bids, more than three times the number of bids won by any other competitor. In particular, Farelogix won significant bids [X]. These include wins in recent years: [X].³⁶⁶

8.68 Although several other competitors also have won notable airlines, the number of times and the size of airlines won by each of them are less significant than those of Farelogix overall.

(a) Amadeus recently won [X].

(b) Datalex have won [X].

(c) ITA was the only other supplier known to have won a contract with a tier 1 airline [X].

(d) Sabre has won [X].

(e) [X].³⁶⁷

8.69 There are [X] bids with unknown outcomes. This could reflect bids won by other suppliers, misclassified ongoing bids, tenders in which airlines have

³⁶⁵ Based on 2017 numbers from [X]

³⁶⁶ Farelogix told us [X].

³⁶⁷ [X]

decided to withdraw or self-supply without notifying the bidders, or unidentified duplicates.³⁶⁸ Most of the unknown bids relate to tier 2 and tier 3 airlines.

- 8.70 We have seen in airline RFPs that one element airlines look for is experience in connecting to the specific core PSS provider.³⁶⁹ Narrowing the bids down even further to examine unbundled bids just in relation to airlines using [REDACTED] [REDACTED]. We present further details on the frequency with which suppliers have bid against Sabre and Farelogix in Appendix H.

Market shares in merchandising

- 8.71 We briefly summarise the Parties' views on merchandising shares before setting out our analysis.

The Parties' view

- 8.72 The Parties submitted that:³⁷⁰

- (a) the supply shares demonstrate that Sabre's market position [REDACTED];
- (b) the Parties face competition from a number of major players, including Amadeus, airline self-supply, ITA, OpenJaw/Travelsky and Datalex. Each is larger than Sabre, as is the tail of unknown providers;
- (c) Self-supply accounts for a significant percentage and is similar in size to Farelogix and Amadeus, and accordingly the competitive constraint posed by in-house supply must be credible;
- (d) to the extent that the market shares seek to attribute 100% of passengers boarded to airlines that [REDACTED], this will materially overstate Farelogix's share.

- *Our assessment*

- 8.73 The Parties' data shows that Sabre today has a small market share and that Farelogix has the largest share relative to other non-PSS providers by number of passengers boarded.³⁷¹ We obtained additional data from airlines and competitors to improve upon the Parties' estimates.³⁷² The number of

³⁶⁸ For further details, see Appendix H.

³⁶⁹ See Appendix F, airline RFPs.

³⁷⁰ [REDACTED]

³⁷¹ Annex 6, [REDACTED].

³⁷² See Appendix H.

unknowns is reduced to 20% with no unknowns for the top [X] airlines.³⁷³

Table 6 presents the results.

Table 6 – Share of customers for the supply of merchandising for global airlines by passengers boarded³⁷⁴

Supplier	2017 PBs (millions)	Weighted share	Weighted Share excluding self-supply	Weighted share excluding self-supply and unknown
Farelogix	[X]	[10-20] [X]	[10-20] [X]	[10-20] [X]
Farelogix/Amadeus ³⁷⁵	[X]	[5-10] [X]	[5-10] [X]	[0-10] [X]
Sabre	[X]	[0-5] [X]	[0-5] [X]	[0-5] [X]
Amadeus ³⁷⁶	[X]	[20-30] [X]	[20-30] [X]	[30-40] [X]
OpenJaw ³⁷⁷	[X]	[0-5] [X]	[5-10] [X]	[5-10] [X]
[X] ³⁷⁸	[X]	[0-5] [X]	[0-5] [X]	[0-5] [X]
OpenJaw / In House ³⁷⁹	[X]	[0-5] [X]	[0-5] [X]	[0-5] [X]
ITA ³⁸⁰	[X]	[5-10] [X]	[5-10] [X]	[5-10] [X]
Datalex	[X]	[0-5] [X]	[5-10] [X]	[5-10] [X]
Other	[X]	[5-10] [X]	[5-10] [X]	[5-10] [X]
Unknown	[X]	[10-20] [X]	[10-20] [X]	
Self-supply	[X]	[10-20] [X]		
Total	[X]	100%	100%	100%

Source: X, competitor submissions, Parties submission, submissions from airlines.

8.74 When we consider this overall market position and exclude self-supply and the smaller unknown airlines, we find that:

- (a) Amadeus is the most significant competitor with [30—40] [X]% of customers passengers boarded, in addition to the [X]% they supply jointly with Farelogix. As noted in the bidding data, many of these customers will be acquired as part of a bundle with the core PSS;
- (b) Farelogix has [X],³⁸¹
- (c) Sabre has a limited share today. [X]; and

³⁷³ [X]

³⁷⁴ To reflect a forward-looking picture numbers are based on the most recent intelligence gained during the inquiry – responses from the parties, competitors and airlines received 2019H2

³⁷⁵ [X].

³⁷⁶ We include in Amadeus share all merchandising customers even when the service is part of a product integrated with their Core PSS.

³⁷⁷ [X]

³⁷⁸ [X]

³⁷⁹ [X] see paragraph 8.25.

³⁸⁰ [X]

³⁸¹ In some instances, airlines indicated they used Farelogix but [X]. In these cases, we list them together with the other supplier listed which in every instance was Amadeus.³⁸¹ We follow a similar approach for [X].

(d) there are a number of other competitors including OpenJaw, ITA and Datalex, who each have less than 10%.

- 8.75 However, as noted in paragraph 8.59 above, we exercise caution in interpreting the results as this overall picture is likely to overstate the options available to individual airlines, and in part reflects Sabre's or Amadeus' broader positions in core PSS rather than in merchandising alone. Sabre and Amadeus cannot currently compete in merchandising alone for airlines using the other's PSS given the PSS-dependent nature of their merchandising solutions.
- 8.76 We also note that a proportion of the airlines currently self-supply. We further discuss evidence on airline self-supply in Chapter 10.³⁸²
- 8.77 As a further check, we have considered 2018 revenue data received from the competitors and found that it shows a similar picture as the market share above.³⁸³ It shows that Farelogix and Amadeus have the largest merchandising revenues (\$[REDACTED] and \$[REDACTED] respectively) with ITA (\$[REDACTED]) and OpenJaw (\$[REDACTED]) having substantially less.³⁸⁴ Sabre also has a relatively weak position on this measure based on their Dynamic Retailer product (\$[REDACTED]) although we note that [REDACTED].³⁸⁵

Distribution

Analysis of bidding data in NDC API

- 8.78 We examine the opportunities data provided by Farelogix for NDC API solutions covering the period 2014 to July 2019. We focus on occasions when Farelogix has bid and supplement the data with additional information provided by airlines and competitors. Sabre does not currently offer an NDC API. As airlines typically contract with all GDS on an ongoing basis, there is not equivalent bidding data to examine the supply of GDS.
- 8.79 We briefly summarise the Parties' views on the bidding data before setting out our own analysis. We examine the extent to which each supplier has won.

³⁸² Paragraphs 10.85 et seq.

³⁸³ Revenue data for Datalex and the 'Other' smaller customers at the Merchandising product level was unavailable therefore we focus only on the available data as a check rather than calculating full shares.

³⁸⁴ Based on submissions from the parties, [REDACTED].

³⁸⁵ [REDACTED].

The Parties' view

- 8.80 The Parties submitted in relation to the bidding analysis of NDC APIs that:³⁸⁶
- (a) what matters is the competitive situation now, not when Farelogix first began selling NDC APIs. Bidding data is a much better tool to assess this than historic market shares (based on early-adopter airlines) or historic internal documents;
 - (b) the bidding data shows most NDC APIs are not built by Farelogix and that there are a range of alternative suppliers (including Amadeus, OpenJaw, Datalex as well as the option for airlines to develop an in-house solution);
 - (c) Farelogix's winning frequency has declined over time, consistent with other NDC API providers being a growing constraint. [REDACTED];
 - (d) measuring Farelogix's recent performance using passengers boarded (PB) weighted measures distorts the findings – this places undue weight on a single Farelogix customer [REDACTED] which did not represent a new customer win but a contract renewal in which Farelogix faced competition [REDACTED]; and
 - (e) third-party suppliers and in-house solutions are competitive across the carrier landscape and have won contracts, often beating Farelogix, to supply prominent airlines ([REDACTED]) with NDC APIs.

Our assessment

- 8.81 We note that other competitors, including Amadeus, OpenJaw and Datalex, are actively bidding to supply NDC APIs to airlines. We consider their positions relative to Farelogix in our analysis below. In addition, we consider that retaining existing customers (in particular significant airlines such as [REDACTED]) and increasing volume through these, is relevant for the assessment of Farelogix's strength. Similarly, we consider that passengers boarded provides a better measure (compared to, say, a simple airline count) as it reflects the potential use of an NPC API which charge on a per ticket basis.
- 8.82 In Chapter 11 we consider bidding data together with other pieces of evidence in the round and discuss the relative weight we place on each.

³⁸⁶ [REDACTED].

8.83 We analysed [redacted] bids from Farelogix’s opportunity dataset in relation to NDC APIs.³⁸⁷ Of these, Farelogix bid for [redacted] opportunities that have been closed. Table 7 sets out the number of times each supplier has won these bids.

Table 7 – Winning bids for NDC API solutions by competitor, 2014 to September 2019

Known winner	Number of wins	Share of wins (%)	% weighted by boarded passengers	Number of bids in each airline tier			
				Tier 1	Tier 2	Tier 3	Tier 4
Farelogix	[redacted]	[10-20] [redacted]	[20-30] [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Amadeus	[redacted]	[10-20] [redacted]	[10-20] [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
OpenJaw	[redacted]	[10-20] [redacted]	[10-20] [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
In-house	[redacted]	[0-5] [redacted]	[5-10] [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Datalex	[redacted]	[0-5] [redacted]	[0-5] [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Unknown	[redacted]	[50-60] [redacted]	[40-50] [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total closed opportunity	[redacted]	100%	100%	[redacted]	[redacted]	[redacted]	[redacted]

Source: based on Farelogix opportunities data in NDC API, adjustments made based on airline and competitor data if available

8.84 It shows that:

- (a) Farelogix has won the greatest number of bids [redacted]. Together, these airlines account for the largest number of passengers boarded compared to the customers won by each of the other suppliers;³⁸⁸
- (b) Amadeus won [redacted] bids [redacted]
- (c) OpenJaw won [redacted] bids [redacted].³⁸⁹ [redacted];
- (d) [redacted];
- (e) Other rivals ([redacted]) were not reported to have won any bids; and
- (f) [redacted] bids had unknown outcomes, these unknown outcomes could reflect:³⁹⁰ bids won by other suppliers, misclassified ongoing bids, tenders in which airlines have decided to withdraw or self-supply without notifying the bidders, or unidentified duplicates.³⁹¹

8.85 Looking at the most recent 12-month period in the data we find that Farelogix has won [redacted] bid ([redacted]) and Amadeus has also won [redacted] bid ([redacted]). Given the

³⁸⁷ See Appendix H for a description of the methodology.

³⁸⁸ Farelogix [redacted]. [redacted].

³⁸⁹ [redacted]

³⁹⁰ For further details see Appendix H.

³⁹¹ E.g. an opportunity which was recorded in multiple years in Farelogix/Sabre’s opportunities, but which were kept as separate bids as it was not clear they related to the same tender.

small number of closed bids in the period it is difficult to draw any firm conclusion from this.

- 8.86 Appendix H sets out further analysis on frequency of bidders competing against Farelogix, which provides another indicator of the extent it faces competition from other suppliers.

Market shares in distribution

- 8.87 This section provides an overview of the market shares in the supply of distribution solutions to airlines. This helps to provide context for the current scale of GDS bypass compared with the GDS as well as the extent to which airlines use direct and indirect channels.

- *The Parties' view*

- 8.88 In response to our working paper, the Parties submitted that:³⁹²

(a) Direct connect has been in the market for over a decade and has never gained significant market share. It has existed since before NDC and before Farelogix;

(b) Farelogix is still a very small player – [REDACTED] share by indirect bookings globally and only [REDACTED] of total GDS bookings. These shares would be considerably lower still if airline.com is included in the denominator;

(c) unlike Direct Connect, airline.com has constantly been a competitive constraint on the GDSs and has historically taken up a large [REDACTED] and growing proportion of airlines' annual bookings; and

(d) the T2RL data shows that we have not reached "peak airline.com": [REDACTED] of the bookings for Farelogix airline customers were made through airline.com implying large room for growth. In fact, data shows that the use of airline.com across FLX OC users has increased by [REDACTED] since 2015.

- *Our assessment*

- 8.89 We first look at the evolution of shares between direct and indirect channels, before looking at the breakdown by channel/supplier for the most recent year.

³⁹² [REDACTED]

We use the data provided by the Parties and supplement this with data from the other GDS providers.

- 8.90 Table 8 shows the relative share of bookings between direct and indirect distribution in 2015 to 2018. It shows that around half of all global airline bookings were made via the direct channel in 2018. Within this channel, bookings via airline.com have been growing, principally been at the expense of the other direct channel – call centres. The share of indirect and direct bookings remained relatively stable over the last four years. However, these proportions vary across airlines, as shown in Table 4 and in Appendix F.

Table 8 – Relative global share of booking for bookings in the direct and indirect channels

<i>Channel</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Indirect channel	[X]	[X]	[X]	[X]
Direct channel - Call centre	[X]	[X]	[X]	[X]
Direct channel - Airline.com	[X]	[X]	[X]	[X]

Source: T2RL for direct, indirect Parties submission based on Parties sales data, MIDT and T2RL

- 8.91 Table 9 shows estimates for the share of bookings by distribution channel and by supplier on a global basis. The three main GDSs make up [X] of all bookings in the indirect channel. Amadeus had the largest share followed by Sabre and Travelport.
- 8.92 There are also local GDSs (host direct) in China, Japan and Russia, which [X] of all bookings in the indirect channel due to the large size of these countries, but they which do not compete for travel agents outside of their home territories.

Table 9 - Global airline passenger bookings by booking channel/vendor 2018

Supplier/channel	Bookings (millions)	% share including direct	% share including direct excluding host direct	% share indirect	% share indirect excluding host direct
Sabre	[X]	[10-20] [X]	[10-20] [X]	[20-30] [X]	[30-35] [X]
Farelogix	[X]	[0-5] [X]	[0-5] [X]	[0-5] [X]	[0-5] [X]
Amadeus	[X]	[10-20] [X]	[10-20] [X]	[20-30] [X]	[30-40] [X]
Travelport	[X]	[0-10] [X]	[5-10] [X]	[10-20] [X]	[10-20] [X]
Host Direct ³⁹³	[X]	[10-20] [X]		[30-40] [X]	
Direct connect (excluding Farelogix) ³⁹⁴	[X]	[0-5] [X]	[0-5] [X]	[0-5] [X]	[5-10] [X]
Direct channel (airline.com and airline call centres)	[X]	[40-50] [X]	[50-60] [X]		
Total		100%	100%	100%	100%

Source: Parties submission; Parties sales data for Parties estimates, MIDT for Amadeus and Travelport, T2RL for other channels.

8.93 Given the large majority of bookings in the indirect channel take place on GDS, we have considered the relative positions between the three GDS suppliers, and their recent trends within this segment. ³⁹⁵ Sabre's share has been growing over the last 4 years from [X] in 2015 to [X] in 2018, alongside Amadeus whose share has remained stable at around [X] globally. Over the same period Travelport has seen a relative decline from [X] in 2015 to [X] share in 2018.

8.94 Direct connect was estimated to account for [0-5] [X]% of all booking volumes ([X]) in 2018. T2RL does not estimate the breakdown by individual suppliers of direct connects, but it notes that these are 'mainly used by low cost carriers to connect to OTAs'. ³⁹⁶ We note that low cost carriers have historically been users of (non-NDC) direct connects, and less reliant on GDS for distribution via travel agents, unlike full service carriers which are both served by the GDS and more recently begun to be supplied for NDC content through NDC APIs like Farelogix. For full service carriers, Farelogix, self-supply, Amadeus and to a lesser degree OpenJaw are currently the main suppliers of NDC APIs (see Table 3).

³⁹³ Axess (Japan), Infini (Japan), Sirena (Russia) and Travelsky. (China)

³⁹⁴ Direct Connect share relies on an estimate calculated by T2RL. T2RL calculate direct connect based on the remainder of bookings unallocated to other channels, this includes in house solutions and predominantly for low cost carriers.

³⁹⁵ Based on the parties submissions for Amadeus, Sabre and Travelport global bookings from 2015-2018 – see Table 13 in appendix H

³⁹⁶ Data provider T2RL in their methodology note relating to this data notes that 'These are mainly used by LCCs to connect to Online Travel Agencies'. There is also some uncertainty as to the accuracy of this overall figure as they note that: 'Airlines very rarely publish figures in this area and so data here is purely estimated. T2RL estimate the number of PBs being sold by the Direct Connect channel as those that are leftover when all other sources have been deducted from the total.'

8.95 Finally, we note that although Farelogix has been in the market for some years, there are recent and ongoing changes to the market including the move of airlines to adopt the NDC standard, and the commitments of the NDC leaderboard airlines, as discussed in Chapter 7. These mean Farelogix's current market share may not fully reflect its competitive potential. We discuss this further, along with our view on the constraint of airline.com, in Chapter 11.

Summary of evidence on current suppliers

Merchandising

8.96 Based on the evidence on current suppliers' capabilities, the number and size of airline customers, number of bids won and market shares, we consider that Farelogix is the most prominent and successful provider of merchandising solutions to date. It is followed by Amadeus and, to a lesser extent Datalex, although some airlines self-supply.

- (a) Among the main merchandising providers that were most frequently mentioned by airlines and competitors,³⁹⁷ Farelogix, Amadeus, Datalex, OpenJaw and ITA are the only ones that currently offer NDC-compatible merchandising solutions. Sabre's merchandising solutions are not NDC-compatible and, as Amadeus', not PSS-agnostic. Except for airlines looking to switch their core PSS providers, Amadeus is not a constraint in supplying merchandising to Sabre PSS airlines, and vice versa.
- (b) Considering suppliers of merchandising solutions to the largest network carriers operating in the UK, Farelogix and Amadeus are the most successful; OpenJaw, ITA and Datalex have much fewer customers in comparison. Currently, Sabre does not supply any major airlines.
- (c) Our analysis shows that Farelogix has been the most successful provider when bidding for merchandising contracts over the last five years. After Farelogix, Amadeus and Datalex have won some but fewer contracts than Farelogix. Sabre won only for very small airlines for which it was already the core-PSS provider.
- (d) Finally, looking at market shares, Amadeus is the most significant provider (which in part reflects its core PSS position), followed by Farelogix. OpenJaw, ITA, Datalex and Sabre have lower shares.

³⁹⁷ See Chapter 10 for evidence from airlines and from competitors.

Distribution

8.97 Based on the evidence on current suppliers' capabilities, the number and size of airline customers, number of bids won and market shares, we consider that Farelogix is the most prominent and successful provider of NDC-compatible distribution solutions, followed by Amadeus and, to a lesser extent, by OpenJaw. These providers are in turn followed by Datalex and PROS.

- (a) Among the main distribution solution providers that were most frequently mentioned by airlines and competitors, only Farelogix, Amadeus, Datalex and OpenJaw currently offer NDC APIs. Currently, Sabre does not have the capability to build NDC APIs.
- (b) Considering suppliers of NDC APIs solutions to the largest network carriers operating in the UK, Farelogix is the most successful followed by Amadeus and OpenJaw. Datalex has been less successful. Similarly, for airlines on IATA's NDC Leaderboard, Farelogix is the most successful supplier followed by Amadeus and Datalex. Several large airlines self-supply.
- (c) Our analysis shows that Farelogix has won the greatest number of bids for NDC APIs followed by Amadeus and OpenJaw. PROS and Datalex have been less successful.

8.98 Based on global market shares in the supply of distribution solutions including the direct and the indirect channels, we have found that:

- (a) Amadeus and Sabre are the largest providers by some distance. Travelport has a lower share than these two providers although its share is nevertheless far greater than any of the non-GDS distributors;
- (b) Direct connects (NDC or non-NDC) accounted for [0-5] % of bookings, with Farelogix accounting for less than [0-5] %; and
- (c) Direct channel accounts for half of the bookings. The channel's share remains relatively stable over time, but within this, airline.com has grown at the expense of call centres.

9. Evidence from the Parties

Introduction

9.1 In the previous chapter we examined the evidence on current suppliers, market shares and bidding data within the provision of merchandising and distribution solutions. In this chapter we consider the evidence submitted by

the Parties. It takes a more dynamic view than the previous chapter and considers the Parties' rationale for their respective business plans, their business strategies for the future and their perspectives of the competitive constraints that they face. We use as evidence the Parties' submissions regarding the Merger, their internal documents including strategy and investment documents, emails of the senior management team, external statements to investors and shareholders, transcripts of depositions conducted by the DOJ as part of its investigation into the Merger, as well as of its litigation with Sabre, where available, and other representations to us (eg from our hearings).

- 9.2 Our analysis of the Parties' internal documents forms the bulk of this chapter. Given this, and the importance of internal documents as an insight into the business decisions of the Parties and the factors that they take into account in their decision making, we first discuss how we have used internal documents in our inquiry. The Parties makes specific points about our use and interpretation of documents relating to specific theories of harm. We discuss these in our analysis sections on merchandising and distribution solutions below.
- 9.3 We then discuss the Parties' evidence on the supply of merchandising solutions to airlines and on the supply of distribution solutions.

Use of internal document evidence

- 9.4 Internal documents are a valuable source of evidence as they reflect how the merging parties assess the market in the ordinary course of business and when making strategic decisions. Moreover, where markets are dynamic and current competitive conditions (such as market shares and bidding) may not offer a good guide to competition in the future, internal documents allow us to get an insight into how the Parties view their strategic priorities and related investment plans.³⁹⁸ This forms an important part of how we assess likely future competitive conditions.
- 9.5 We reviewed the Parties' internal documents spanning the past four years to understand their assessment of competitive conditions, the rationale and drivers behind their competitive responses in the supply of merchandising solutions to airlines, and the supply of distribution solutions to airlines. We

³⁹⁸ See paragraph 11.16

have considered merchandising and distribution separately and also assessed how far the Parties' consider the two solutions to be related.

9.6 In assessing the content of an internal document, we take into account the purpose for which it was prepared, the context in which it appears and the extent to which views are consistent over time.³⁹⁹ In particular:

(a) we typically have placed greater weight on documents ultimately prepared to inform decision making by senior management as these are likely to be most reflective of the Parties' strategic thinking;

(b) similarly, when assessing the competitive constraints on the Parties we have considered the context in which information appears in a particular document. For example, the fact that a competitor's name appears in a document is less informative than the context in which it appears. We have considered the different treatment of competitors across different product and business lines and the extent to which different competitors are monitored across the total set of internal documents over time.

9.7 Both Sabre and Farelogix submitted that some of their documents that we have used warrant only historical interest at the very most and a significant proportion are over 18 months old.⁴⁰⁰ The Parties further submitted that we have built the majority of our analysis on selectively quoted, out-of-date 2017 documents and Farelogix told us that its views have changed in light of market developments.⁴⁰¹

9.8 [REDACTED].⁴⁰² The Parties submitted that these discussions were meant to explore and answer various key questions but did not purport to give definitive answers.⁴⁰³ The Parties submitted that several documents [REDACTED] Sabre's retailing and distribution strategies.⁴⁰⁴ The Parties submitted that Sabre [REDACTED].⁴⁰⁵ The Parties also submitted that [REDACTED], one of the authors of the [REDACTED] saw his role as [REDACTED].⁴⁰⁶

³⁹⁹ To fully understand the context and importance of the documents, we (i) requested background information about the documents including the date the document was produced, the name of the author and the names of the recipients, and/or (ii) requested that the Parties tailor their internal document submissions so as to only submit documents produced by individuals with the most relevant knowledge on particular aspects of our enquiry (as identified by the Parties), and/or considered the submissions of the Parties in response to the issues statement and annotated issues statement and working papers. We set out additional information on the internal documents in Appendix D.

⁴⁰⁰ [REDACTED].

⁴⁰¹ [REDACTED].

⁴⁰² [REDACTED].

⁴⁰³ [REDACTED].

⁴⁰⁴ [REDACTED].

⁴⁰⁵ [REDACTED].

⁴⁰⁶ [REDACTED].

- 9.9 The Parties submitted that [REDACTED], as illustrated in subsequent internal documents.⁴⁰⁷ The Parties submitted one example of this [REDACTED]. The Parties submitted [REDACTED] and that, conversely, [REDACTED].⁴⁰⁸
- 9.10 We are mindful that more recent documents are likely to accurately reflect up-to-date thinking of a business. However, we are also conscious that the competition reviews of the Merger in the UK and the US may have influenced the content of documents produced after the Merger was agreed. We note that merger discussions took place from [REDACTED] with disclosure about Farelogix and meetings between the Parties taking place in [REDACTED] and the Merger being announced in November 2018.
- 9.11 We also consider that documents produced in the period before Merger discussions (for example, but not exclusively, in 2017 and early 2018) offer good insight, untainted by merger considerations, into competition between the Parties, competitive conditions generally and future strategic plans of the Parties for the following reasons:
- (a) the evidence in Farelogix's internal documents on competitive conditions set out at paragraphs 9.61(a), 9.61(b), 9.121(a), 9.121(b) and 9.125(a)-9.125(c) below is consistent with statements made by Farelogix to Sabre and [REDACTED] in the context of the Merger negotiations and these were not corrected or amended by Farelogix prior to the announcement of the deal in November 2018; and
 - (b) the evidence suggests that adoption of NDC solutions by airlines has been slow overall with RFP processes and new product implementations often taking more than one year, meaning that fundamental shifts in the competitive landscape are, absent significant developments / events with respect to individual competitors (see eg Datalex), likely to be incremental. We consider that it is therefore unlikely that these documents would portray a fundamentally different competitive landscape to that which exists today;
 - (c) we consider that the evidence in its totality is not consistent with the explanation that Sabre's internal documents developing its NDC strategy are [REDACTED] given that:
 - (i) The Parties have provided no corroborating documentary evidence that the most senior staff had an opposing view (to that presented in the documents) or thought that the documents [REDACTED], and the

⁴⁰⁷ [REDACTED].

⁴⁰⁸ [REDACTED].

documents themselves do not include references to being deliberately provocative (which one might expect of such a document intended for senior management even if just in a footnote or covering note);

- (ii) concrete decisions, ie Sabre's significant investment into developing its own NDC solutions, were made on the basis of these documents;⁴⁰⁹ and
- (iii) the presentations were prepared by senior members of Sabre's staff over the course of several months, following research as well as internal and external interviews. We consider that it is unlikely that they would therefore contain a major misunderstanding of the fundamental aspects of competition in the industry, and in particular, that they would do so repeatedly.

Merchandising solutions

The Parties' submissions

- 9.12 The Parties have made a number of submissions and representations to us during our inquiry. Those which are specific to merchandising solutions are addressed at the appropriate part of this chapter whereas others are set out in sections of our provisional findings report where we address the issue in question (eg distribution solutions, the counterfactual or barriers to entry and expansion).
- 9.13 In general, for merchandising solutions as well as for other products and services, the Parties submitted that we have pooled together services with very different functionalities and very different customer requirements and competitor sets, conflating demand- and supply-side aspects of NDC, Next Generation Retailing (NGR) and Next Generation Distribution (NGD), resulting in a mischaracterisation of the Parties' competitive overlap both with respect to our analysis in distribution and merchandising.⁴¹⁰
- 9.14 Whilst it is true that NGR and NGD are broader than merchandising and distribution solutions, we consider that some of the documents discussed below make it clear when they relate to merchandising or distribution solutions. Other documents make clear that merchandising solution are of particular value within the suite of retailing solutions (eg those in paragraph

⁴⁰⁹ Paragraph 9.50.

⁴¹⁰ [REDACTED].

9.19). We first turn to Sabre's evidence starting with Sabre's investment in NDC solutions.

Evidence from Sabre

Sabre's investment in NDC solutions

- 9.15 We have found in our inquiry that the industry is moving to employing solutions based on the NDC standard. Moreover, important aspects of our theories of harm centre on the impact that the Merger might have on Sabre's incentives to continue to invest in NDC solutions apace. We therefore consider the evidence on Sabre's investment in NDC and its rationale for doing so.
- 9.16 Sabre has a strategy to develop NDC retailing and distribution solutions. The Parties submitted that this strategy is marketed as '*Beyond NDC*'. The Parties submitted that Sabre began developing this strategy in 2017 and is in the process of implementing it. We have found that a significant portion of [REDACTED]. We therefore have placed substantial weight on [REDACTED] documents in our internal document analysis that follows. In particular, we refer to:
- (a) [REDACTED] **dated 12 April 2017**, which was shared with Sabre's CEO;
 - (b) [REDACTED] **dated 22 May 2017**, which was prepared for a steering committee meeting and was circulated to attendees, including Sabre's CEO, Sabre's Executive Vice President and President of the Travel Network and Sabre's Head of Corporate Development and M&A ahead of the meeting;
 - (c) [REDACTED] **dated 4 August 2017**, which formed part of the pre-reading material and/or was presented at [REDACTED];⁴¹¹ and
 - (d) [REDACTED] **dated 15 August 2017**, which was circulated to Sabre's senior management (including its CEO) via email ahead of the Sabre annual strategic offsite meeting.
- 9.17 A number of supplementary but related presentations used to facilitate the understanding of the business case, the impact on Sabre's business, the implementation of the strategy etc. were produced during the same period. We have found that, while some of these presentations were in draft and/or did not form part of the final presentations at the [REDACTED] meetings, they contain consistent terminology and/or refer to the same concepts and considerations of the [REDACTED] presentations. We consider that the commentary in these

⁴¹¹ Refer to Appendix D for more detail.

presentations therefore provides relevant and supporting context which underpins the wider observations and proposals made in the [REDACTED] papers.

- 9.18 Throughout Sabre’s internal documents, Sabre often refers to its GDS as ‘Travel Network’ or ‘TN’, and its Airline Solutions business, ie its airline IT business which includes its core-PSS as well as other airline IT, as ‘AS’.

Sabre’s plans for a PSS-agnostic NDC merchandising solution

- 9.19 The evidence we have seen clearly demonstrates that a key part of Sabre’s NGR and NGD strategy is to develop NDC retailing solutions, and in particular NDC merchandising solutions, on a PSS-agnostic basis:

- (a) Sabre told us that [REDACTED].⁴¹²
- (b) Sabre also told us that [REDACTED];⁴¹³
- (c) Sabre also told us that [REDACTED]⁴¹⁴ [REDACTED];⁴¹⁵
- (d) A presentation titled ‘[REDACTED]’ dated 20 April 2018 confirms that [REDACTED];⁴¹⁶
- (e) As set out in Chapter 4, Sabre’s submissions and internal documents confirm that acquiring a PSS-agnostic merchandising module was a key rationale for the Merger with a [REDACTED] dated 10 November 2018 seeking approval for the Merger listing [REDACTED]⁴¹⁷ as an anticipated benefit of the transaction. The speaking notes to the presentation refer to Farelogix’s merchandising product as one of [REDACTED]⁴¹⁸ [REDACTED].⁴¹⁹ This was confirmed by Sabre in the hearing, where we were told that [REDACTED]⁴²⁰ as well as in a presentation to us which said that [REDACTED].⁴²¹

- 9.20 In this context, the available evidence shows that Sabre would absent the Merger have worked to make its Dynamic Retailer product PSS agnostic. In particular, Sabre’s internal assessment of potential synergies from the Merger stated that the acquisition of Farelogix would allow Sabre to save [REDACTED] that would otherwise be required to improve its merchandising product, Dynamic

412 [REDACTED]
413 [REDACTED].
414 [REDACTED]
415 [REDACTED]
416 [REDACTED].
417 [REDACTED].
418 [REDACTED].
419 [REDACTED].
420 [REDACTED].
421 [REDACTED].

Retailer, including 60,000 hours to make Dynamic Retailer PSS-agnostic, and that this was viewed as ‘investment that will need to be made’.⁴²²

9.21 The available evidence in this respect shows that Sabre envisioned [REDACTED].⁴²³

Rationale and incentive for Sabre investing in NDC merchandising solutions

9.22 Our analysis of the rationale and incentive for Sabre’s investment in products and services using the NDC standard is in Appendix D. This section summarises some of the key evidence and findings in this regard.

- *Protecting GDS business*

9.23 Sabre’s internal documents show that its investments into a PSS-agnostic merchandising solution and its investment into NDC-enabled distribution solutions (described further below) were interlinked. Sabre considered that there were complementary links between retailing and distribution with airlines wanting to distribute more sophisticated offers consistently across all channels, providing another incentive for Sabre to invest in both. In this context, Sabre’s internal documents show a significant concern that shifting control of offer creation to the airline would weaken its GDS, if it did not invest in both NGR and NGD products and services. In addition, internal Sabre discussions indicate that not investing into NDC distribution solutions could weaken its Airline Solutions business:

- (a) A slide in the [REDACTED] presentation dated 22 May 2017 sets out that ‘[REDACTED]’ The same slide notes that [REDACTED].⁴²⁴
- (b) The same presentation also sets out in its executive summary that [REDACTED]⁴²⁵ [REDACTED].⁴²⁶
- (c) Another presentation said that the ‘[REDACTED]’.⁴²⁷
- (d) An email chain including members of [REDACTED] dated 20 March 2018⁴²⁸ includes an assessment of [REDACTED]. The document indicates that [REDACTED].⁴²⁹

422 [REDACTED].
423 [REDACTED].
424 [REDACTED].
425 [REDACTED].
426 [REDACTED].
427 [REDACTED].
428 [REDACTED].
429 [REDACTED].

- (e) A similar point is made in an earlier presentation titled [REDACTED] and dated May 2017 which sets out in its executive summary that '[REDACTED]'. The slide further notes that [REDACTED].⁴³⁰ The executive summary recommended that [REDACTED].⁴³¹
- (f) A slide the [REDACTED] presentation dated 15 August 2017 notes in its executive summary that [REDACTED]⁴³² and that [REDACTED].⁴³³
- (g) A slide in the earlier [REDACTED] presentation dated 12 April 2017 describes the connection between merchandising and distribution, setting out that [REDACTED].⁴³⁴ [REDACTED].⁴³⁵

- *Protecting core and non-core PSS business*

9.24 We have found that Sabre considered [REDACTED]:

- (a) One document, from October 2018 (only a month before the Merger was agreed), said that [REDACTED].⁴³⁶ The document contains a graph showing that [REDACTED].⁴³⁷ This document suggests that an element of [REDACTED].
- (b) This point is made more explicitly in the [REDACTED] presentation dated 4 August 2017 which sets out that [REDACTED].⁴³⁸ This is repeated in a presentation titled [REDACTED].⁴³⁹
- (c) At the hearing, Sabre told us that [REDACTED].⁴⁴⁰

9.25 In that context, we have found that [REDACTED]. Furthermore, Sabre's internal documents include [REDACTED]. Documents from 2019 and 2018 as well as verbal statements to us include:

- (a) a presentation titled [REDACTED] dated December 2019, submitted to us [REDACTED] sets out that [REDACTED];⁴⁴¹
- (b) [REDACTED];⁴⁴² and

430 [REDACTED].
 431 [REDACTED].
 432 [REDACTED].
 433 [REDACTED].
 434 [REDACTED].
 435 [REDACTED].
 436 [REDACTED].
 437 [REDACTED].
 438 [REDACTED].
 439 [REDACTED].
 440 [REDACTED].
 441 [REDACTED].
 442 [REDACTED].

(c) a slide in the presentation titled [REDACTED] dated 12 April 2018 sets out [REDACTED].⁴⁴³

9.26 Furthermore, we have found that submissions from Sabre as well as its internal documents show that merchandising capabilities are critical component of an NDC retailing solutions for airline customers and that the industry is moving towards more sophisticated use of merchandising solutions using the NDC standard:

(a) Sabre described to us that [REDACTED]⁴⁴⁴, [REDACTED]⁴⁴⁵ [REDACTED].⁴⁴⁶

(b) Sabre also told us [REDACTED].⁴⁴⁷

(c) At a call with [REDACTED] dated 14 November 2018, [REDACTED].⁴⁴⁸

Competitive threats in Sabre's merchandising investment decisions

9.27 The previous section examined the evidence on Sabre's rationale and incentives for investing in NDC merchandising solutions. This section examines the evidence on what role Farelogix and other rivals play (and continue to play) in these investment decisions.

9.28 The Parties submitted that the merged entity would be constrained by a number of strong established players, including Amadeus, OpenJaw, Datalex, ITA and more recent entrants such as PROS, JR Technologies, and Interes,⁴⁴⁹ as well as airline self-supply.⁴⁵⁰ Moreover, the Parties submitted that, in many instances, smaller competitors sit within large corporate technology companies such as PROS/Vayant, Google/ITA, HP/DXC and SAP and benefit from their investment and technological prowess. Therefore, absent the Merger, the Parties submit that other players will be significantly better placed to compete for future business.⁴⁵¹

9.29 In this section we discuss the internal document evidence on these providers. We start by considering Farelogix. We also note that with respect to its competitors, we have found that Sabre's internal documents often discuss the competitive landscape in high level terms typically referring to competitors and

443 [REDACTED].

444 [REDACTED].

445 [REDACTED].

446 [REDACTED].

447 [REDACTED].

448 [REDACTED].

449 [REDACTED].

450 [REDACTED].

451 [REDACTED].

business plans within 'NDC' or 'NGR/NGD' rather than by specific product offering.

- *Farelogix*

9.30 With regard to Farelogix, the Parties submitted that being GDS independent did not make Farelogix a uniquely strong competitive constraint in merchandising solutions. They submitted that the majority of airlines do not purchase non-core PSS modules and content distribution services from the same supplier and there is no distinct field of competition where independent providers operate and core-PSS providers do not.

9.31 The Parties submitted that Farelogix has a market leading merchandising module and some talented people [REDACTED].⁴⁵²

9.32 The Parties submitted that Farelogix is [REDACTED], and that our investigation has placed undue weight upon this theory, largely based on a small number of references taken out of context from out-of-date internal documents.⁴⁵³ The Parties further submitted that it is clear from an analysis of the Parties' internal documents that [REDACTED],⁴⁵⁴ [REDACTED].⁴⁵⁵

9.33 Sabre's [REDACTED] show that Sabre perceived Farelogix as one of its [REDACTED] key competitors [REDACTED]:

(a) The [REDACTED] presentation (22 May 2017) said '[REDACTED]'.⁴⁵⁶

(b) The [REDACTED] presentation also included an analysis of Farelogix over several slides, including a [REDACTED]. Further slides in the appendix include [REDACTED]⁴⁵⁷ [REDACTED]⁴⁵⁸ [REDACTED] (see Appendix D).

(c) A slide in the [REDACTED] dated 4 August 2017 compares [REDACTED] (see Figure 3 below). It showed [REDACTED].

Figure 3 – [REDACTED]

(d) Another slide in the appendix to the presentation sets out [REDACTED].⁴⁵⁹

452 [REDACTED].
453 [REDACTED].
454 [REDACTED].
455 [REDACTED].
456 [REDACTED].
457 [REDACTED].
458 [REDACTED].
459 [REDACTED].

(e) A slide the [REDACTED] presentation (15 August 2017) repeats a version of the slide from the [REDACTED] document described at paragraph (a) above, stating that [REDACTED].⁴⁶⁰ [REDACTED].⁴⁶¹

9.34 Furthermore, several of Sabre's internal documents prepared during the development and implementation of its NDC strategy include specific references to [REDACTED]:

(a) An email chain including members of Sabre's senior management sets out that [REDACTED].⁴⁶²

(b) The presentation [REDACTED] dated 12 April 2018, highlights [REDACTED]. The presentation includes several slides on [REDACTED].⁴⁶³

(c) A presentation titled [REDACTED] dated May 2017 sets out in its executive summary [REDACTED].⁴⁶⁴

(d) The presentation titled [REDACTED] dated 25 September 2017 sets out that [REDACTED].⁴⁶⁵

9.35 We have also found that more recent internal documents show that Sabre continued to view Farelogix as a strong competitor as against other available alternatives across retailing and distribution generally as well as with regard to its merchandising capabilities:

(a) A presentation prepared for Sabre's senior management in the context of the Merger titled [REDACTED] dated 10 November 2018 sets out in its speaking notes that [REDACTED].⁴⁶⁶

(b) Another Sabre presentation titled [REDACTED] also dated 10 November 2018 which asks [REDACTED].⁴⁶⁷

(c) An investment presentation centred on [REDACTED] dated 11 September 2018⁴⁶⁸ sets out [REDACTED].

(d) A presentation titled '[REDACTED]'.⁴⁶⁹

⁴⁶⁰ [REDACTED].

⁴⁶¹ [REDACTED].

⁴⁶² [REDACTED].

⁴⁶³ [REDACTED].

⁴⁶⁴ [REDACTED].

⁴⁶⁵ [REDACTED].

⁴⁶⁶ [REDACTED].

⁴⁶⁷ [REDACTED].

⁴⁶⁸ [REDACTED].

⁴⁶⁹ [REDACTED].

9.36 Finally, in two recent Sabre internal documents discussing Sabre's [REDACTED]:

(a) The first, from 30 March 2018, [REDACTED].⁴⁷⁰ [REDACTED].⁴⁷¹ This document indicates that Sabre [REDACTED].

(b) In the second, a presentation titled [REDACTED] from 6 December 2018, [REDACTED].⁴⁷² This document therefore suggests that it is not the case that [REDACTED].

- *Amadeus*

9.37 Sabre's internal documents already discussed in the section on Farelogix above show that [REDACTED]. Additional evidence is below:

(a) Sabre's [REDACTED], explicitly sets out '[REDACTED]'.⁴⁷³

(b) The [REDACTED] presentation dated 22 May 2017 includes several standalone slides on [REDACTED]⁴⁷⁴, [REDACTED].⁴⁷⁵ [REDACTED].⁴⁷⁶ [REDACTED].

(c) Sabre's [REDACTED] presentation dated 12 April 2017 notes that '[REDACTED]'.⁴⁷⁷

(d) A presentation titled [REDACTED] dated 12 April 2018 sets out in the context of [REDACTED],⁴⁷⁸ [REDACTED].⁴⁷⁹

(e) The investment presentation centred on [REDACTED] dated 11 September 2018 described in more detail [REDACTED].⁴⁸⁰

- *Datalex*

9.38 We have found that Sabre's internal documents that discussed Datalex were prepared in the context of Sabre developing its NGR/NGD strategy. These discussions were at broad level and generally did not distinguish between Datalex's merchandising or retail products and its distribution products.

9.39 Sabre's internal documents show that in 2017, it considered that Datalex had [REDACTED], with the [REDACTED] presentations referring to [REDACTED]. However, we have also

⁴⁷⁰ [REDACTED].

⁴⁷¹ [REDACTED].

⁴⁷² [REDACTED].

⁴⁷³ [REDACTED].

⁴⁷⁴ [REDACTED].

⁴⁷⁵ [REDACTED].

⁴⁷⁶ [REDACTED].

⁴⁷⁷ [REDACTED].

⁴⁷⁸ [REDACTED].

⁴⁷⁹ [REDACTED].

⁴⁸⁰ [REDACTED].

found that Sabre's NGR/NGD strategy documents did not [REDACTED]. For example, [REDACTED]:

- (a) A slide in the [REDACTED] presentation dated 12 April 2017 sets out that Datalex [REDACTED].⁴⁸¹
- (b) The executive summary to the [REDACTED] presentation dated 22 May 2017 notes that [REDACTED].⁴⁸²
- (c) Another slide in the same documents highlights [REDACTED].
- (d) The appendix to the [REDACTED] presentation also includes [REDACTED].⁴⁸³ [REDACTED].
- (e) A slide in a presentation titled [REDACTED] dated 15 August 2017 repeats [REDACTED].⁴⁸⁴

9.40 In the context of the Merger, a presentation prepared for Sabre's senior management dated 29 August 2017 includes [REDACTED].⁴⁸⁵

9.41 With regard to documents on Sabre's implementation of its NDC strategy after 2017, we have found some references to Datalex. However, contrary to references to Farelogix in Sabre's more recent internal documents, Datalex is often referred to within larger lists of competitors without specific commentary or appraisal. Datalex is also not mentioned [REDACTED]:

- (a) The investment presentation centred on [REDACTED] dated 11 September 2018⁴⁸⁶ described in more detail at paragraph 9.35(c) above shows that [REDACTED].⁴⁸⁷
- (b) Datalex is listed as one of the competitors to Sabre in the presentations described at paragraph 9.43(a) and 9.43(c) below.
- (c) However, in Sabre's most recent [REDACTED] document for the year 2020 dated 21 July 2019, [REDACTED].⁴⁸⁸

- *Other competitors*

9.42 Generally, we have found that Sabre's NGR/NGD strategy documents only sporadically refer to other competitors and that Sabre's internal documents do not consistently refer to other competitors across internal documents. In particular, Sabre has not conducted in-depth assessments of other

481 [REDACTED].
482 [REDACTED].
483 [REDACTED].
484 [REDACTED].
485 [REDACTED].
486 [REDACTED].
487 [REDACTED].
488 [REDACTED].

competitors with regard to their NDC merchandising or distribution capabilities, and discussions of competitors are generally high-level without reference to any particular product or business line.

9.43 With regard to threats to Sabre's Airline Solutions business, Sabre's internal documents also [REDACTED]:

(a) The investment presentation on [REDACTED].⁴⁸⁹

(b) A further slide in the same presentation sets out [REDACTED].⁴⁹⁰

(c) A Sabre presentation by [REDACTED]⁴⁹¹ titled [REDACTED] dated 18 October 2018 discusses [REDACTED].⁴⁹² [REDACTED].⁴⁹³

- *Self-supply by airlines*

9.44 We found that self-supply by airlines in merchandising is not referenced or discussed in Sabre's internal documents. We therefore consider that the available evidence from Sabre's documents do not show that Sabre considers self-supply by airlines to be a competitive constraint.

Sabre's progress in developing a PSS-agnostic NDC merchandising solution

9.45 The previous sections discussed Sabre's (ongoing) investment in NDC merchandising solutions and the rationale for these investments including the competitive threats which incentivised Sabre to undertake these investments. This section considers the evidence on Sabre's progress to date and its ability to implement an NDC merchandising solution in the foreseeable future.

9.46 [REDACTED].⁴⁹⁴ More detailed evidence on the delays to Sabre's strategy can be found in Appendix D.

9.47 Sabre further submitted that [REDACTED].⁴⁹⁵ In the phase 1 Merger Notice, the Parties submitted that, but for the Merger, [REDACTED].⁴⁹⁶ In phase 2, the Parties submitted that [REDACTED].⁴⁹⁷

489 [REDACTED].

490 [REDACTED].

491 [REDACTED].

492 [REDACTED].

493 [REDACTED].

494 [REDACTED].

495 [REDACTED].

496 [REDACTED].

497 [REDACTED].

- 9.48 Whilst we have found Sabre’s internal documents show that there have been [REDACTED], the documents also show that Sabre is [REDACTED].
- 9.49 In this context, Sabre submitted that it had spent between [REDACTED]⁴⁹⁸ and that, in 2019, its investment into NDC products was projected to be [REDACTED], including for [REDACTED]⁴⁹⁹. Sabre submitted that this was [REDACTED] the 2018 spend⁵⁰⁰ and that it forecasted [REDACTED] of development resources staffing would be spent on NDC for the full year 2019.⁵⁰¹
- 9.50 Sabre told us that it had also made [REDACTED].⁵⁰² Sabre told us that its NDC budget represented [REDACTED].⁵⁰³
- 9.51 Furthermore, the available evidence indicates that [REDACTED]. [REDACTED].⁵⁰⁴ In this context, the [REDACTED].⁵⁰⁵ [REDACTED].⁵⁰⁶
- 9.52 This is consistent with Sabre’s statements in the Merger Notice and Sabre’s most recent investment plan which sets out Sabre’s timeline for implementing its NDC strategy:
- (a) In the Merger Notice, Sabre told us [REDACTED].⁵⁰⁷
- (b) This is consistent with Sabre’s most recent investment plan which sets out [REDACTED].⁵⁰⁸ [REDACTED].⁵⁰⁹ [REDACTED].⁵¹⁰
- 9.53 With regard to any delays to the implementation of its NDC strategy, Sabre’s submissions and its internal documents confirm that it had made a prioritisation decision to modernise its mainframe capabilities ahead of fully implementing its NDC strategy and that its plans in the context of the Merger played a role in this:⁵¹¹
- (a) At the main party hearing Sabre told us that the modernisation of its mainframe capabilities ‘[REDACTED]’.⁵¹²

498 [REDACTED].

499 [REDACTED].

500 [REDACTED].

501 [REDACTED].

502 [REDACTED].

503 [REDACTED].

504 [REDACTED].

505 [REDACTED].

506 [REDACTED].

507 [REDACTED].

508 [REDACTED].

509 [REDACTED].

510 [REDACTED].

511 See also Appendix D.

512 [REDACTED].

(b) An April 2018 presentation [REDACTED].⁵¹³

(c) A presentation titled [REDACTED] dated 21 July 2019 sets out [REDACTED]⁵¹⁴ [REDACTED].⁵¹⁵

9.54 Sabre’s marketing material on NDC also emphasises that Sabre is ‘not starting from scratch’ and that ‘*Digital merchandising, customer data and revenue management have been key investments at Sabre. We feel very confident about validating our strategy with our customers, the investments we have made and what’s coming during the next few years.*’⁵¹⁶

9.55 On this basis, we provisionally consider that absent the Merger, Sabre would have developed and offered a credible PSS-agnostic and NDC-compatible merchandising solution to airlines within the next three to five years.

Evidence from Farelogix

Farelogix’s merchandising solution

9.56 The previous discussions focussed on Sabre’s incentives and abilities to develop an NDC enabled PSS-agnostic merchandising solution. In this section we examine the evidence from Farelogix on the factors that it considers makes its merchandising solutions successful.⁵¹⁷

9.57 Unlike Sabre, Farelogix has already developed a suite of products using the NDC standard. We have found that Farelogix’s documents consistently highlight the ability of its product offering (including its merchandising solution) to give airlines control of the offer and retailing process and thereby reduce dependency on legacy systems:

(a) In the [REDACTED] provided to Sabre (June 2018), [REDACTED]. In this context, the slide sets out that [REDACTED]⁵¹⁸ [REDACTED].

(b) A later slide in the same presentation sets out that in the traditional airline distribution model [REDACTED].⁵¹⁹ [REDACTED].⁵²⁰ [REDACTED].⁵²¹

⁵¹³ [REDACTED].

⁵¹⁴ [REDACTED].

⁵¹⁵ [REDACTED].

⁵¹⁶ NDC to the power of Sabre – Chapter 3: Innovating Beyond NDC (<https://www.sabre.com/ndc/ndc-to-the-power-of-sabre-chapter-3-innovating-beyond-ndc/>).

⁵¹⁷ [REDACTED].

⁵¹⁸ [REDACTED].

⁵¹⁹ [REDACTED].

⁵²⁰ [REDACTED].

⁵²¹ [REDACTED].

- (c) Farelogix marketing materials reference the airline's ability to control the offer when using Farelogix's products too:
- (i) In a presentation titled [REDACTED], dated August 2018, Farelogix sets out [REDACTED].⁵²² [REDACTED].⁵²³ [REDACTED].⁵²⁴
 - (ii) A marketing presentation titled [REDACTED] dated February 2018 includes a section titled [REDACTED]. The presentation emphasises that Farelogix's offer products are [REDACTED].⁵²⁵
 - (iii) Another marketing presentation [REDACTED].⁵²⁶ [REDACTED].

9.58 Farelogix also frequently highlights its independence from the PSSs and neutrality on how airlines use or distribute offers as a key selling points of its merchandising (and other NDC) products:

- (a) In the context of the Merger, in a presentation titled '[REDACTED]' dated 11 October 2018, Farelogix reiterates that '[REDACTED]'.⁵²⁷ [REDACTED].⁵²⁸
- (b) In the [REDACTED] provided to Sabre dated June 2018, Farelogix sets out in a section titled [REDACTED].⁵²⁹
- (c) Similarly, a slide deck prepared for [REDACTED] titled [REDACTED] dated 27-28 June 2018 slide notes that with regard to Farelogix's [REDACTED].⁵³⁰

9.59 We have also found that Farelogix considered that it had additional advantages in competing for airline customers, including established customer links, interoperability with other suppliers and a proven track record in implementing NDC solutions (including its merchandising platform) with airlines:

- (a) In the [REDACTED] provided to Sabre (June 2018), Farelogix sets out that it has [REDACTED]⁵³¹. [REDACTED].

522 [REDACTED].
523 [REDACTED].
524 [REDACTED].
525 [REDACTED].
526 [REDACTED].
527 [REDACTED].
528 [REDACTED].
529 [REDACTED].
530 [REDACTED].
531 [REDACTED].

- (b) Another slide repeated in both the [REDACTED] and the presentation to [REDACTED] repeats that '[REDACTED]'.⁵³²
- (c) In the presentation titled [REDACTED] dated 11 October 2018, Farelogix sets out that [REDACTED].⁵³³

Evidence on Farelogix's competitors

9.60 We have provisionally found that Farelogix's internal documents show that in merchandising, Farelogix regularly monitored a limited range of market participants, namely PROS, ITA, Amadeus, Sabre and TravelSky.⁵³⁴

9.61 In this context, the internal documents show that it perceived Amadeus, Sabre and TravelSky to be competitors due to their established customer relationships with the vast majority of Farelogix's customers and target airlines, and their presumed ability to re-position their existing offer creation engines to meet airline demand for NDC solutions. The internal documents further show that Farelogix perceived a threat from PROS due to its recent acquisitions as well as its existing revenue management customer relationships with more than 80 airlines worldwide:⁵³⁵

- (a) A Farelogix document titled [REDACTED] dated 20 February 2018 authored by Farelogix's CEO⁵³⁶ sets out that [REDACTED].⁵³⁷ The same document [REDACTED].
- (b) Another document prepared by Farelogix's CEO in or after May 2018⁵³⁸ sets out [REDACTED]⁵³⁹. '[REDACTED]'⁵⁴⁰ [REDACTED].⁵⁴¹ [REDACTED].⁵⁴² [REDACTED]⁵⁴³ '[REDACTED]'.⁵⁴⁴
- (c) Similarly, a slide deck prepared for [REDACTED] titled [REDACTED] dated 27-28 June 2018 in response to a question from [REDACTED] on who Farelogix views as the 'key competitors' for each product sets out: [REDACTED].⁵⁴⁵ [REDACTED].⁵⁴⁶

⁵³² [REDACTED].

⁵³³ [REDACTED].

⁵³⁴ We note in this context that Farelogix's internal documents discuss OpenJaw and TravelSky as separate competitors, even though OpenJaw is owned by TravelSky.

⁵³⁵ In this context we note that Farelogix generally describes competitors to its offer engines (ie its merchandising, shopping, scheduling and availability modules) together. Unless the context indicates otherwise, we have therefore taken references in Farelogix's internal documents to its offer engines to include its merchandising product.

⁵³⁶ [REDACTED].

⁵³⁷ [REDACTED].

⁵³⁸ [REDACTED].

⁵³⁹ [REDACTED].

⁵⁴⁰ [REDACTED].

⁵⁴¹ [REDACTED].

⁵⁴² [REDACTED].

⁵⁴³ [REDACTED].

⁵⁴⁴ [REDACTED].

⁵⁴⁵ [REDACTED].

⁵⁴⁶ [REDACTED].

Summary of Parties' evidence on merchandising solutions

- 9.62 We have found that Sabre has been investing in NDC merchandising solutions in order to protect its GDS and PSS business. In particular, Sabre's internal documents show that it was concerned that shifting control of offer creation to the airline would weaken its GDS. As a result, Sabre has been investing in developing a PSS-agnostic NDC merchandising solution and absent the Merger would have had the ability to do so in the next three to five years.
- 9.63 Sabre's internal documents, including those developing its PSS-agnostic NDC merchandising solution, consistently discuss Farelogix and Amadeus showing that they are significant threats in merchandising.
- 9.64 We have also found that other competitors are only considered within Sabre's internal documents in a more limited and caveated manner. In particular, we have not found any in-depth assessment of any other competitor (such as [REDACTED]) that compares to the analyses and assessments Sabre conducted with regard to [REDACTED] when developing its NGR/NGD strategy.
- 9.65 In that context, we have found that Sabre and Farelogix's internal documents show it is an effective competitor as a result of its:
- (a) PSS-agnostic and channel-agnostic standalone solution which is commercially independent from PSS and GDS;
 - (b) its leading position in terms of functionality and innovation; and
 - (c) its established reputation and strong track record with customers.
- 9.66 We have also found that Farelogix considered the GDSs with PSS capabilities (ie Sabre and Amadeus) to be competitors its merchandising solution. In particular, we have provisionally found that although Farelogix perceived Amadeus and PROS to be more significant threats in merchandising than Sabre, Sabre was nonetheless one of only a few credible competitors to Farelogix in this space.
- 9.67 We have not found evidence in the Parties' internal documents that [REDACTED].

Distribution solutions

The Parties' submissions

- 9.68 The Parties submitted that Sabre does not offer an NDC API while Farelogix does not offer a GDS. The Parties submitted that NDC APIs and GDSs are

worlds apart and that neither Party is the other's closest competitor by some distance.

Direct connects

- 9.69 The Parties submitted that [REDACTED].⁵⁴⁷ The Parties told us that Farelogix is only one small technology supplier within direct connect.
- 9.70 In particular, the Parties submitted that it is now clear that [REDACTED].⁵⁴⁸
- 9.71 The Parties also submitted that Sabre's later internal documents confirm that [REDACTED]. Indeed, they said that any assertion that GDSs would not pursue GDS pass-through but for an external non-GDS threat is unsupported by economic logic or factual evidence. In particular, the Parties submitted that GDS pass-through creates value for airlines and travel agents, which the GDS has an interest to foster, as it is a complementary solution to its own services. The Parties further submitted that the assertion that GDSs might develop GDS pass-through solutions for fear of losing control of the offer creation to airlines also does not stand because GDSs will remain an essential part of the distribution space, given the scale of their networks, and their offerings in terms of fulfilment and after-sales services to travel agents. The Parties submitted that this means that there is an overriding incentive to promote a complementary solution such as GDS pass-through.⁵⁴⁹
- 9.72 The Parties submitted that this is reflected in Sabre's most recent strategy reports – for example, [REDACTED]⁵⁵⁰ [REDACTED].⁵⁵¹ [REDACTED].⁵⁵²
- 9.73 The Parties further submitted that [REDACTED].⁵⁵³ The Parties submitted in this context that [REDACTED].⁵⁵⁴
- 9.74 The Parties further submitted that the documents we rely on are clearly insufficient to establish an SLC given that they show airlines have [REDACTED] to apply competitive pressure on Sabre and multiple sources of innovation.⁵⁵⁵

⁵⁴⁷ [REDACTED].
⁵⁴⁸ [REDACTED].
⁵⁴⁹ [REDACTED].
⁵⁵⁰ [REDACTED].
⁵⁵¹ [REDACTED].
⁵⁵² [REDACTED].
⁵⁵³ [REDACTED].
⁵⁵⁴ [REDACTED].
⁵⁵⁵ [REDACTED].

Pressure from other competitors and airline.com

9.75 The Parties submitted that airline.com poses a much more tangible threat to the GDSs, taking up a large and growing share of airlines' bookings. The Parties submitted that while there was significant headroom for airline.com to continue to grow, there is no direct evidence that direct connect will ever overcome the technological and economic barriers that have prevented it gaining a material share of bookings to date.⁵⁵⁶

9.76 The Parties submitted that [REDACTED].⁵⁵⁷

Competitors

9.77 With regard to NDC distribution solutions, the Parties submitted that while Farelogix was somewhat of a 'first mover' in the development of NDC APIs during the early days, particularly in terms of public advocacy, there is now a large and increasing number of providers active in the NDC space ([REDACTED])⁵⁵⁸ and that [REDACTED].⁵⁵⁹

9.78 The Parties further submitted that the industry is rapidly evolving, and that [REDACTED] in the coming months and years whilst other [REDACTED].⁵⁶⁰ For instance, the Parties submitted that [REDACTED].⁵⁶¹

9.79 The Parties further submitted that what matters is the competitive situation now, not what it was when Farelogix first began selling NDC APIs and that bidding data (discussed in the previous chapter) is a much better tool to assess this.⁵⁶²

9.80 The Parties also submitted that they would be constrained by airline self-supply.⁵⁶³

Dynamic assessment

9.81 The Parties submitted that there is no evidence to suggest that Farelogix would become a competitively stronger presence than it is today, but [REDACTED].⁵⁶⁴

⁵⁵⁶ [REDACTED].

⁵⁵⁷ [REDACTED].

⁵⁵⁸ [REDACTED].

⁵⁵⁹ [REDACTED].

⁵⁶⁰ [REDACTED].

⁵⁶¹ [REDACTED].

⁵⁶² [REDACTED].

⁵⁶³ [REDACTED].

⁵⁶⁴ [REDACTED].

9.82 With regard to Sabre, the Parties submitted that it remains [REDACTED].⁵⁶⁵ Even if it were able to meet this target, the Parties submitted that it would still lag behind its competitors who would also continue to develop their own offerings during that time.⁵⁶⁶

Innovation

9.83 The Parties submitted that there is no support for any theory that innovation might be lost as a result of the Merger. The Parties submitted that the evidence does not support current competition concerns in either distribution or merchandising and furthermore does not support the suggestion that Farelogix could emerge to become a broader dynamic threat in distribution or on the PSS side.⁵⁶⁷

9.84 In addition, the Parties submitted that Farelogix is not a [REDACTED] competitor whose independence is key to continued industry innovation in NDC solutions in retailing or distribution and is in fact using [REDACTED].⁵⁶⁸

9.85 The Parties submitted that the evidence shows that there is effective innovation competition with the major GDSs currently in a race to roll out NDC, and with numerous other parties offering NDC solutions (including both NDC merchandising solutions and NDC APIs in addition to the range of product areas Farelogix is not active in). The Parties submitted that the Merger will in fact stimulate innovation.⁵⁶⁹

Linkages between merchandising and distribution

9.86 The Parties submitted that NDC, NGR/NGD, merchandising, GDSs, Direct Connect and Farelogix are all different things which must be addressed separately.⁵⁷⁰ The Parties submitted [REDACTED].

9.87 The Parties further submitted that [REDACTED].

9.88 The Parties further submitted that Sabre referring to Farelogix in its documents generally, rather than with respect to specific products misinterprets the nature of Sabre's initial brainstorming efforts. The Parties submitted that it was not relevant what specific products rivals had available to them when Sabre had no real NDC strategy and it is not surprising that

⁵⁶⁵ [REDACTED]

⁵⁶⁶ [REDACTED].

⁵⁶⁷ [REDACTED].

⁵⁶⁸ [REDACTED].

⁵⁶⁹ [REDACTED].

⁵⁷⁰ [REDACTED].

Sabre's internal documents would identify companies with a head-start in NDC developments, such as Farelogix. The Parties submitted that it was evident Sabre needed to catch up across the board. Furthermore, since Farelogix has only two major products, and only one (merchandising) where Sabre could potentially compete, the Parties submitted that there was no need to be more specific in these initial presentations.⁵⁷¹

9.89 The Parties submitted that [REDACTED].⁵⁷²

Evidence from Sabre

9.90 With respect to its distribution functions, we have found that Sabre's internal documents often discuss the competitive landscape in high level terms typically referring to competitors and business plans within 'NDC' or 'NGR/NGD' rather than by specific product offering. We have examined Sabre's documents to assess whether Sabre considered airline adoption of distribution solutions based on the NDC standard as a potentially critical threat to its GDS business (which is where its distribution activities sit).

Sabre's rationale and incentives investment into NDC distribution solutions

9.91 Our analysis of the rationale and incentive for Sabre's investment in products and services using the NDC standard is in Appendix D.

9.92 This subsection discusses our findings from Appendix D and draws out the key evidence on the extent to which Sabre considered airline adoption of NDC-enabled solutions could be a threat to its GDS. We have found in the documents that [REDACTED]. One document, from October 2018, noted that [REDACTED].⁵⁷³ This document clearly sets out in [REDACTED]. Our analysis, set out in Appendix D, discusses documents in which Sabre considers [REDACTED]. These estimates range from [REDACTED] million to [REDACTED] million (See Appendix D – Rationale and incentive for Sabre developing and implementing its NGR/NGD strategy). A further document sets out that Sabre has [REDACTED].⁵⁷⁴

9.93 We also found that Sabre's [REDACTED] showed [REDACTED]. The relevant documents are set out in Appendix D (Rationale and incentive for Sabre developing and

⁵⁷¹ [REDACTED].

⁵⁷² [REDACTED].

⁵⁷³ [REDACTED].

⁵⁷⁴ [REDACTED].

implementing its NGR/NGD strategy). However, by way of example, one document (April 2017) clearly sets out that [REDACTED]⁵⁷⁵ [REDACTED].⁵⁷⁶ [REDACTED].⁵⁷⁷ [REDACTED].⁵⁷⁸

- 9.94 In this context, several Sabre internal documents [REDACTED]. These internal documents also show that Sabre [REDACTED].⁵⁷⁹
- 9.95 We assessed whether Sabre's view of the threat of direct connect has changed over time. In this regard, we have found that Sabre's most recent Annual Report (for 2018) noted: 'Some travel suppliers that provide content to Travel Network, including some of Travel Network's largest airline customers, have sought to increase usage of direct distribution channels. For example, these travel suppliers are trying to move more consumer traffic to their proprietary websites, and some travel suppliers have explored direct connect initiatives [...]. This direct distribution trend enables them to apply pricing pressure on intermediaries and negotiate travel distribution arrangements that are less favorable to intermediaries.'⁵⁸⁰
- 9.96 We have also seen the [REDACTED].⁵⁸¹ It therefore appears that some threat from direct connect (together with airlines' own websites) continues to concern the Sabre business, although it may be less significant than in the past.
- 9.97 Furthermore, we have seen evidence that Sabre's assessment of [REDACTED]:
- (a) The document [REDACTED] dated February 2018 sets out that [REDACTED]. The presentation then states that [REDACTED].⁵⁸²
 - (b) Meeting notes authored by [REDACTED] from his meetings with [REDACTED] set out that [REDACTED].⁵⁸³
- 9.98 Regarding the airline.com channel, while the Parties have submitted evidence of [REDACTED], and within its internal documents, Sabre also refers to diversion to the direct channel as a result of airline commercial actions, and we have not seen evidence to suggest that airline.com has been a primary driver for Sabre to invest in its own NGR/NGD capabilities. In this context, a presentation for the [REDACTED] (May 2017) said [REDACTED]. The presentation further noted that '[REDACTED]'.⁵⁸⁴

⁵⁷⁵ [REDACTED].

⁵⁷⁶ [REDACTED].

⁵⁷⁷ [REDACTED].

⁵⁷⁸ [REDACTED].

⁵⁷⁹ See Appendix D.

⁵⁸⁰ Sabre SEC filing form 10-K 2018, page 5.

⁵⁸¹ [REDACTED].

⁵⁸² [REDACTED].

⁵⁸³ [REDACTED].

⁵⁸⁴ [REDACTED].

9.99 Finally, as set out at paragraph 9.23 above, Sabre’s internal documents show that [REDACTED] and its investment into NDC-enabled distribution solutions (described further below) were interlinked. As set out above, Sabre’s internal documents show a concern that [REDACTED], if it did not [REDACTED]. In addition, internal Sabre discussions indicate that [REDACTED].

9.100 Against this background, in parallel with its investment into merchandising, Sabre has invested into developing Next Generation Distribution solutions, including working on implementing GDS passthrough with airlines, and developing an NDC API.⁵⁸⁵ In April 2019, Sabre announced that it was testing live NDC offers with United Airlines⁵⁸⁶ and in September 2019 Sabre announced a collaboration with Singapore Airlines for the expansion of their NDC program providing select Sabre connected agents in Singapore with the ability to access and book unique NDC content from Singapore Airlines.⁵⁸⁷ In addition [REDACTED].⁵⁸⁸

Competitive constraints on Sabre’s investment decisions

9.101 In this subsection we examine the evidence from Sabre about the competitive threat of rivals in its distribution activities.

- *Farelogix*

9.102 Sabre’s [REDACTED] documents show that [REDACTED]:

- (a) the slide in the [REDACTED] (22 May 2017) and [REDACTED] (15 August 2017) presentations in which Sabre sets out that [REDACTED].⁵⁸⁹
- (b) the [REDACTED] (22 May 2017) presentation contains several slides on [REDACTED], which (amongst others) reference and discuss [REDACTED].⁵⁹⁰ and
- (c) the slide in the appendix to the [REDACTED] presentation dated 3 August 2017, which refers to [REDACTED] as [REDACTED].⁵⁹¹

⁵⁸⁵ [REDACTED].

⁵⁸⁶ [REDACTED].

⁵⁸⁷ Singapore Airlines Leverages Sabre to Propel NDC Offering to Travel Agents (<https://www.sabre.com/insights/releases/singapore-airlines-leverages-sabre-to-propel-ndc-offering-to-travel-agents/>).

⁵⁸⁸ [REDACTED].

⁵⁸⁹ [REDACTED].

⁵⁹⁰ [REDACTED].

⁵⁹¹ [REDACTED].

9.103 As set out at paragraph 9.36 above, in two recent Sabre internal documents discussing Sabre's [REDACTED], Sabre singles out Farelogix as a significant competitor.

9.104 In addition, Sabre, [REDACTED].⁵⁹²

9.105 Other recent documents specifically highlight [REDACTED]:

(a) A presentation by Sabre's Vice President of Product Management, Strategic Initiatives and Head of Sabre's NDC Strategy dated 27 September 2018 sets out [REDACTED].⁵⁹³ [REDACTED].⁵⁹⁴

(b) In an email chain from early January 2019, Sabre's former Senior Vice President, Air Line of Business Sabre Travel Network writes that '[REDACTED]'.⁵⁹⁵

9.106 In this context, Sabre's internal documents also highlight that it views Farelogix as a competitor (rather than a provider of complementary services) when implementing GDS passthrough solutions [REDACTED]:

(a) In an email dated August 2018 to (among others) Sabre's SVP, Product Management Commercial Solutions, Airline Solutions,⁵⁹⁶ Sabre's Vice President of Product Management, Strategic Initiatives and head of Sabre's NDC Strategy⁵⁹⁷ sets out that [REDACTED].⁵⁹⁸ [REDACTED].

(b) On 30 August 2018, Sabre's Vice President of Product Management, Strategic Initiatives and head of Sabre's NDC Strategy⁵⁹⁹ wrote in an email to Sabre's Head of Corporate and M&A⁶⁰⁰ and Sabre's SVP, Product Management Commercial Solutions, Airline Solutions⁶⁰¹ that [REDACTED].⁶⁰²

(c) In the context of [REDACTED], in August 2018 Sabre's Vice President of Product Management, Strategic Initiatives and head of Sabre's NDC Strategy wrote an email to Sabre's Head of Corporate and M&A noting that [REDACTED].⁶⁰³

592 [REDACTED].

593 [REDACTED].

594 [REDACTED].

595 [REDACTED].

596 [REDACTED].

597 [REDACTED].

598 [REDACTED].

599 [REDACTED].

600 [REDACTED].

601 [REDACTED].

602 [REDACTED].

603 [REDACTED].

- *Amadeus*

9.107 The internal documents show that Sabre perceived [REDACTED]:

- (a) the [REDACTED] presentation (22 May 2017) described at paragraph 9.33(a) above sets out that [REDACTED].⁶⁰⁴
- (b) as set out in more detail above (paragraph 9.33(a) and 9.33(e))9.33(a) above, both the [REDACTED] and [REDACTED] (15 August 2017) presentations describe [REDACTED].⁶⁰⁵
- (c) as set out at paragraph 9.102(c) above, Sabre's [REDACTED] presentation highlights [REDACTED].
- (d) the [REDACTED] presentation dated 4 August 2017 further includes a slide on thought-leadership which sets out that [REDACTED].⁶⁰⁶ A separate slide also notes that [REDACTED].⁶⁰⁷

9.108 We have also found that Sabre's internal documents discussing the implementation of its NDC strategy consider [REDACTED]:

- (a) [REDACTED] in the presentations described at paragraph 9.105(a) above.
- (b) A presentation titled [REDACTED] dated 12 April 2018 sets out in the context of Sabre's NDC distribution capabilities that [REDACTED].⁶⁰⁸

- *Travelport*

9.109 We have found that Sabre's internal documents discussing the implementation of the distribution component of NDC strategy (in particular GDS passthrough) consider [REDACTED] and that Sabre's internal documents [REDACTED]:

- (a) [REDACTED] in the presentations described at paragraph 9.105(a) above.
- (b) A presentation titled [REDACTED] dated 12 April 2018 sets out in the context of Sabre's NDC distribution capabilities that [REDACTED].⁶⁰⁹
- (c) A presentation dated 22 May 2018 titled [REDACTED] discusses [REDACTED].⁶¹⁰

604 [REDACTED].
613 [REDACTED].
606 [REDACTED].
607 [REDACTED].
608 [REDACTED].
609 [REDACTED].
610 [REDACTED].

- *Datalex*

9.110 We have discussed Sabre's internal documents regarding Datalex in the subsection on merchandising solutions (paragraphs 9.38 to 9.41 above). We noted that Sabre's discussions on Datalex were generally at a high level and did not distinguish between specific merchandising and distribution products. We therefore consider that these documents are also relevant to how Sabre viewed Datalex as a rival in distribution and that our observations above apply equally here.

- *Other competitors*

9.111 As noted above, we have found that Sabre's NGR/NGD strategy documents only sporadically refer to other competitors and that Sabre's internal documents do not consistently refer to other competitors across internal documents. In particular, Sabre has not conducted in-depth assessments of other competitors with regard to their NDC merchandising or distribution capabilities.

9.112 In this context, two of the [REDACTED] presentations compare other competitors unfavourably to Farelogix and Amadeus:

(a) A slide in the [REDACTED] presentation dated 22 May 2017 sets out [REDACTED].⁶¹¹

(b) A further slide in the [REDACTED] sets out that [REDACTED]. The slide sets out [REDACTED].⁶¹² A version of this slide is also included in the [REDACTED] presentation dated 15 August 2017.

9.113 In other instances, Sabre's internal documents refer to other competitors alongside Farelogix and Amadeus, although not referring to the same competitors consistently:

(a) As set out at paragraph 9.105(a) above, Sabre's most recent [REDACTED] document for the year 2020 dated 21 July 2019 sets out that with regard to NDC [REDACTED].⁶¹³

(b) A slide on thought-leadership in the [REDACTED] presentation dated 4 August 2017 sets out that [REDACTED].⁶¹⁴

⁶¹¹ [REDACTED].

⁶¹² [REDACTED].

⁶¹³ [REDACTED].

⁶¹⁴ [REDACTED].

9.114 Some presentations also provide general commentary on competitors:

(a) with regard to NDC Exchange, on 7 September 2018, Sabre's Vice President [REDACTED]⁶¹⁵ sent an email to individuals of Sabre's senior management, including its [REDACTED] regarding ATPCO's NDC Exchange setting out that [REDACTED];⁶¹⁶ and

(b) the [REDACTED] and [REDACTED] presentations include some commentary on competitors:

(i) [REDACTED];

(ii) [REDACTED];

(iii) [REDACTED];

(iv) [REDACTED]; and

(v) [REDACTED].⁶¹⁷

- *Self-supply by airlines*

9.115 We found that self-supply by airlines in NDC APIs [REDACTED].

Evidence from Farelogix

9.116 We now turn to assessing the evidence from Farelogix. We first examine the evidence on how Farelogix views airlines' use of different indirect distribution channels, before examining its competitive threats and then the evidence on how it perceives the links between its supply of merchandising solutions when it provides distribution solutions and how it markets itself to airlines in distribution.

Evidence on future indirect channel distribution mix

9.117 In the [REDACTED] provided to Sabre (June 2018), Farelogix sets out [REDACTED] and that '[REDACTED].'⁶¹⁸

⁶¹⁵ [REDACTED].

⁶¹⁶ [REDACTED].

⁶¹⁷ [REDACTED].

⁶¹⁸ [REDACTED].

9.118 Farelogix’s internal documents show that it was actively working with GDSs to implement GDS pass-through for airlines and expected revenue growth from this:

- (a) The [REDACTED] provided to Sabre dated June 2018 sets out that ‘[REDACTED]’.⁶¹⁹ Similar statements are repeated throughout the presentation and in a comparable presentation give to [REDACTED].⁶²⁰ This indicates that [REDACTED].
- (b) Both the confidential information memorandum dated June 2018 and a presentation provided to [REDACTED] in the context of the Merger set out that it assumed [REDACTED].⁶²¹
- (c) As set out in Appendix C, Farelogix management projected [REDACTED].

9.119 Nonetheless we have seen evidence which indicates that Farelogix considered that direct connect would continue to play a role within distribution strategies of airlines:

- (a) The presentation ‘[REDACTED]’ dated 27-28 June 2018 sets out that ‘[REDACTED]’.⁶²²
- (b) In an email from a Farelogix contact in the [REDACTED] to Farelogix’s CEO (amongst others) dated 9 July 2018, [REDACTED].⁶²³ [REDACTED].⁶²⁴
- (c) [REDACTED].⁶²⁵
- (d) As set out in Appendix C, Farelogix management projected its revenues from GDS bypass would continue to grow over the near term.

9.120 Furthermore, in an email from Farelogix’s CEO to [REDACTED] Group’s CEO dated 29 June 2018, Farelogix’s CEO described how [REDACTED].⁶²⁶ An internal document dated 15 August 2018 sent via email from Farelogix’s CEO to Farelogix’s CTO and Farelogix’s CFO discussing Farelogix’s different sale options also sets out that [REDACTED],⁶²⁷ suggesting that Farelogix’s products (including its NDC API) was still exercising competitive pressure on Sabre, even within the context of Sabre implementing GDS-pass-through.

619 [REDACTED].

620 [REDACTED].

621 [REDACTED].

622 [REDACTED].

623 [REDACTED].

624 [REDACTED]. We note that the [REDACTED] submitted to that its contract with Farelogix [REDACTED].

625 [REDACTED].

626 [REDACTED].

627 [REDACTED].

Competitive constraints on Farelogix

9.121 Within distribution, we have provisionally found that Farelogix’s internal documents show that it considered the GDS companies to be closer competitors than other NDC API providers such as Datalex and OpenJaw:

- (a) The Farelogix document titled [REDACTED] drafted by Farelogix’s CEO and dated 20 February 2018,⁶²⁸ discussing market drivers in offer creation and distribution sets out with respect to risk factors to Farelogix’s FLX OC product that [REDACTED].⁶²⁹ [REDACTED].⁶³⁰
- (b) Another document prepared by Farelogix’s CEO in or after May 2018,⁶³¹ sets out with respect to the threat posed by [REDACTED]⁶³² that ‘[REDACTED].’⁶³³ [REDACTED].⁶³⁴ [REDACTED].⁶³⁵ [REDACTED].⁶³⁶
- (c) A slide deck prepared for [REDACTED] titled [REDACTED] dated 27-28 June 2018 in response to a question from [REDACTED] on who Farelogix views as the ‘key competitors’ for each product sets out: ‘[REDACTED].’⁶³⁷ [REDACTED].⁶³⁸
- (d) with regard to NDC Exchange, a Farelogix internal note dated November 2018 describes the functionality of the product and then in a section titled [REDACTED] sets out that ‘[REDACTED].’⁶³⁹

9.122 The Parties submitted internal Farelogix emails in which Farelogix individuals comment on ongoing bids and RFPs both with regard to NDC APIs. While a number of these only list or make passing reference to other suppliers participating in the RFP,⁶⁴⁰ some discuss adapting Farelogix’s bids:

- (a) in submitting a final bid for [REDACTED] including potentially several Farelogix products including FLX OC and, FLX Shop & Price and FLX M, [REDACTED] is discussed in an email from Farelogix’s CFO dated 1 September 2017, who sets out that, [REDACTED]⁶⁴¹ [REDACTED].⁶⁴²

628 [REDACTED].
629 [REDACTED].
630 [REDACTED].
631 [REDACTED].
632 [REDACTED].
633 [REDACTED].
634 [REDACTED].
635 [REDACTED].
636 [REDACTED].
637 [REDACTED].
638 [REDACTED].
639 [REDACTED].
640 [REDACTED].
641 [REDACTED].
642 [REDACTED].

(b) when Farelogix competed to retain [REDACTED] for Farelogix Open Connect in 2017 (for which it was successful), an email from to Farelogix’s CEO dated 22 March 2017 sets out [REDACTED].⁶⁴³ [REDACTED].⁶⁴⁴

9.123 The Parties submitted that these internal documents support the conclusion that Farelogix faces strong competition from other airline IT companies. We note that both examples cited above are from 2017 (ie prior to the documents drafted by Farelogix’s CEO discussing the competitive landscape from 2018). We also note that comments on interactions on specific bids, which are limited in terms of frequency, may not be representative of competitive dynamics overall and may not provide an accurate indication of a supplier’s competitive threat and therefore need to be considered in light of all the evidence including from other internal document sources and third party evidence (see in this context our analysis on Datalex and DXC Technologies in Chapter 8 above).

9.124 With regard to more recent documents, we have only seen a very limited number of Farelogix documents discussing competitive conditions. Of those which do, we have found these to generally be less comprehensive in their assessment of competitive threats than the internal documents set out in the preceding section:

- (a) A document titled ‘[REDACTED]’ dated December 2018 (ie after the Merger was agreed) provided a graph setting out the competitors to each of Farelogix’s products, listing 12 companies as being able to compete for either merchandising, NDC APIs or both. However, the slide deck does not offer any commentary on the strength of each competitor (eg there is no mention that Sabre’s merchandising solution does not use the NDC standard).⁶⁴⁵
- (b) An internal presentation presented to Farelogix’s CEO on [REDACTED] (4 March 2019) sets out that Farelogix is [REDACTED].⁶⁴⁶ The speaking notes to the slide say ‘[REDACTED].’⁶⁴⁷

⁶⁴³ [REDACTED].
⁶⁴⁴ [REDACTED].
⁶⁴⁵ [REDACTED].
⁶⁴⁶ [REDACTED].
⁶⁴⁷ [REDACTED].

How Farelogix perceives links between merchandising and distribution

9.125 We have examined the extent to which Farelogix considers that demand by airlines for merchandising and distribution are linked as airlines require both, and that being able to offer both provided an advantage to Farelogix:

- (a) The Farelogix document titled [REDACTED] drafted by Farelogix's CEO and dated 20 February 2018⁶⁴⁸ on market drivers sets out [REDACTED].⁶⁴⁹ [REDACTED].⁶⁵⁰ [REDACTED]⁶⁵¹ [REDACTED].
- (b) In the same document Farelogix sets out that '[REDACTED]'.⁶⁵²
- (c) In the context of discussing competition from the GDSs, another document prepared by Farelogix's CEO in or after May 2018,⁶⁵³ sets out that [REDACTED].⁶⁵⁴
- (d) Similarly, a slide deck prepared for [REDACTED] titled '[REDACTED]' dated 27-28 June 2018, Farelogix sets out [REDACTED].⁶⁵⁵ [REDACTED].⁶⁵⁶

9.126 In this context, we have also found that linkages between merchandising and distribution as well as the ability for airlines to distribute offers in a channel agnostic manner are highlighted by Farelogix's marketing material, indicating that such linkages were important to airlines and that Farelogix enables airlines to distribute offers across multiple distribution channels:

- (a) A recent blog post by Farelogix dated 21 January 2020 sets out that there are four pillars of an airline business case for its retailing transformation, namely 'Increased revenue through advanced merchandising of ancillary products', 'Optimized revenue through dynamic pricing', 'Competitive advantage' and 'Maximizing distribution efficiency'.⁶⁵⁷
- (b) In a presentation titled [REDACTED] dated 20 March 2018, Farelogix presents [REDACTED].⁶⁵⁸

⁶⁴⁸ [REDACTED].

⁶⁴⁹ [REDACTED].

⁶⁵⁰ [REDACTED].

⁶⁵¹ [REDACTED].

⁶⁵² [REDACTED].

⁶⁵³ [REDACTED].

⁶⁵⁴ [REDACTED].

⁶⁵⁵ [REDACTED].

⁶⁵⁶ [REDACTED].

⁶⁵⁷ Trends, Ideas, and Musings to Kick off the New Year: The Final Chapter, <http://blog.farelogix.com/trends-ideas-and-musings-to-kick-off-the-new-year-asia-pacific-outlook>.

⁶⁵⁸ [REDACTED].

- (c) A presentation titled [REDACTED] dated February 2018 [REDACTED].⁶⁵⁹
- (d) In a presentation given to [REDACTED] in August 2018 titled [REDACTED], Farelogix includes within a set of slides on the NDC business case that it provides the airlines with [REDACTED]⁶⁶⁰ [REDACTED].⁶⁶¹

How Farelogix markets itself to airlines

9.127 As with merchandising, we have found that Farelogix’s [REDACTED] provided to Sabre (June 2018) setting out that [REDACTED] includes that NDC is able to [REDACTED] and adds that NDC [REDACTED].⁶⁶² Another slide sets out that [REDACTED].⁶⁶³ The next slide sets out that [REDACTED].⁶⁶⁴

9.128 Farelogix’s documents also highlight its neutrality on how airlines use or distribute offers, its independence from the PSSs and GDSs and its lack of conflicts of interest as key selling points of its NDC (including its distribution) products:

- (a) A slide deck prepared for [REDACTED] titled [REDACTED] dated 27-28 June 2018 provides some insights on Farelogix’s competitive position in the market, noting that its advantages over competitors in [REDACTED] are that it has [REDACTED].⁶⁶⁵
- (b) In a marketing presentation titled [REDACTED] (August 2018), Farelogix sets out that it [REDACTED].⁶⁶⁶
- (c) In a marketing presentation titled [REDACTED] (20 March 2018), one of the benefits of Farelogix’s Airline Commerce Gateway (including its merchandising and distribution products) is set out to be [REDACTED].⁶⁶⁷
- (d) Another marketing presentation titled [REDACTED] dated 5 February 2018, Farelogix presents its FLX OC and FLX NDC API products and sets out under the heading [REDACTED] that they provide [REDACTED].⁶⁶⁸ [REDACTED].⁶⁶⁹

9.129 As set out at paragraph 9.59 above, we have also found that Farelogix considered that it had additional advantages in competing for airline

⁶⁵⁹ [REDACTED].
⁶⁶⁰ [REDACTED].
⁶⁶¹ [REDACTED].
⁶⁶² [REDACTED].
⁶⁶³ [REDACTED].
⁶⁶⁴ [REDACTED].
⁶⁶⁵ [REDACTED].
⁶⁶⁶ [REDACTED].
⁶⁶⁷ [REDACTED].
⁶⁶⁸ [REDACTED].
⁶⁶⁹ [REDACTED].

customers, including established customer links, interoperability with other suppliers and a proven track record in implementing NDC solutions (including its distribution solutions) with airlines:

(a) In the [REDACTED] provided to Sabre (June 2018), Farelogix sets out that it has [REDACTED]⁶⁷⁰. [REDACTED].

(b) In the presentation titled [REDACTED] dated 11 October 2018, Farelogix sets out that [REDACTED]⁶⁷¹ [REDACTED].⁶⁷²

Evidence on Farelogix's [REDACTED]

9.130 The Parties submitted that Farelogix [REDACTED].⁶⁷³ The Parties told us that [REDACTED].⁶⁷⁴
The Parties told us that [REDACTED].⁶⁷⁵ The Parties submitted that [REDACTED].⁶⁷⁶

9.131 The Parties told us that these issues were demonstrated by Farelogix [REDACTED].⁶⁷⁷
The Parties also provided [REDACTED] which indicated that [REDACTED].⁶⁷⁸

9.132 However, some of the information that we have received from Farelogix indicates that [REDACTED] are not substantially affecting its business:

(a) Farelogix circulated internal communications stating that [REDACTED].⁶⁷⁹

(b) At its hearing with the CMA, Farelogix told us that [REDACTED].⁶⁸⁰

9.133 Further, to the extent that Farelogix was [REDACTED] did not prevent it from competing for new customers, nor from continuing to develop new product features (see also the bidding data above):

(a) A presentation delivered to Farelogix's board in April 2019 stated that Farelogix was working on new sales opportunities with the following airlines: [REDACTED].⁶⁸¹ [REDACTED].⁶⁸²

670 [REDACTED].
671 [REDACTED].
672 [REDACTED].
673 [REDACTED].
674 [REDACTED].
675 [REDACTED].
676 [REDACTED].
677 [REDACTED].
678 [REDACTED].
679 [REDACTED].
680 [REDACTED].
681 [REDACTED].
682 [REDACTED].

- (b) Farelogix told us that, since the production of the April 2019 board presentation, it was pursuing further pipeline opportunities including possible deals [REDACTED].⁶⁸³
- (c) Internal emails dated March 2019 show that Farelogix discussed which airline customers it could target as “moon shots”, identifying [REDACTED] and [REDACTED] as potential opportunities.⁶⁸⁴
- (d) Farelogix marketing materials show that it introduced a new ‘FLX Seat Manager’ functionality to FLX Merchandising in July 2019 and that it announced new features for FLX Merchandising at the same time.⁶⁸⁵

9.134 Farelogix internal documents show that it had plans to address [REDACTED] and that it had already taken some steps to [REDACTED].⁶⁸⁶ For example, in an update for the board in April 2019, Farelogix stated that it [REDACTED]. The presentation also stated that Farelogix:⁶⁸⁷

- (a) [REDACTED];
- (b) [REDACTED];⁶⁸⁸ and
- (c) [REDACTED]. The presentation noted that Farelogix had already [REDACTED] and agreements were pending with [REDACTED].

9.135 We note that Farelogix subsequently told us that these actions were merely a starting point to [REDACTED].⁶⁸⁹ Specifically, Farelogix told us that individual hires were not sufficient to [REDACTED].⁶⁹⁰

9.136 Finally, we note that Sandler told us that [REDACTED],⁶⁹¹ [REDACTED].⁶⁹² We consider that, if [REDACTED], Sandler would have been more willing to consider alternative bids, [REDACTED], or to instruct [REDACTED]. However, contemporaneous evidence regarding the events leading up to the Merger demonstrates that Sandler [REDACTED] and [REDACTED].⁶⁹³

⁶⁸³ [REDACTED].

⁶⁸⁴ [REDACTED].

⁶⁸⁵ [REDACTED].

⁶⁸⁶ [REDACTED].

⁶⁸⁷ [REDACTED].

⁶⁸⁸ [REDACTED].

⁶⁸⁹ [REDACTED].

⁶⁹⁰ [REDACTED].

⁶⁹¹ [REDACTED].

⁶⁹² See Appendix C.

⁶⁹³ See Appendix C.

Summary of Parties' evidence on distribution solutions

- 9.137 We have found that Sabre considered that the airlines move to demanding NDC solutions represented a threat to Sabre's business. It estimated that without investing in NDC solutions [REDACTED].
- 9.138 We have found that Sabre's internal documents show that its [REDACTED].⁶⁹⁴ These documents also indicate that, 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 passthrough so as to prevent the loss of greater GDS volumes to other channels. In addition, Farelogix's internal documents see growth in GDS passthrough but also a continued role for GDS bypass in some airlines' distribution strategies.
- 9.139 Sabre and Farelogix's internal documents show that Farelogix's competitive position in distribution is enhanced by its strong in merchandising. Both Sabre's and Farelogix's internal documents make reference to the ability to [REDACTED]. Farelogix documents also recognise in the context of airlines seeking to move away from legacy models, merchandising and distribution are key to this and that the use of merchandising in turn drives a need for NDC-compatible distribution and vice versa. Farelogix is therefore well placed to capture sales from this changing demand by being active in both merchandising and distribution. Furthermore, we have also seen evidence in Sabre's internal documents that specially links Farelogix's competitive advantage in merchandising to its ability to offer distribution services and that [REDACTED].
- 9.140 While we note that there is some evidence that Farelogix has [REDACTED] [REDACTED] we consider that the available evidence supports a view [REDACTED], [REDACTED]. We also note that Farelogix's internal documents stated that [REDACTED]. This is also consistent with evidence from Sandler's sales process. As noted above, if Farelogix were [REDACTED]. [REDACTED] We have seen evidence that there would likely

⁶⁹⁴ [REDACTED]

⁶⁹⁵ Chapter 9, section on 'Evidence on Farelogix's [REDACTED]'.

be credible, alternative purchasers of Farelogix in such a scenario. We also note that [REDACTED].

9.141 Sabre's internal documents also indicate that Sabre also views Amadeus as a significant competitor and Travelport as a relevant competitor in distribution. We have found that Sabre's internal documents do not refer to other competitors with as much frequency or in as much depth as [REDACTED].

9.142 We have found that Farelogix views the GDSs to be stronger competitors than NDC API providers (such as Datalex and OpenJaw).

9.143 With regard to the threat of airline.com, we note that [REDACTED].

9.144 We have also found that self-supply by airlines of NDC APIs are not discussed in Sabre's internal documents in any meaningful way.

10. Evidence from third parties

10.1 This Chapter presents evidence we have gathered from third parties, including competitors, airlines and travel agents.

Evidence from competitors

10.2 This section sets out the evidence we have gathered from the Parties' competitors, drawing from competitors' internal documents, and their responses to our questionnaires and calls.⁶⁹⁶

(a) We first present the evidence relating to merchandising.

(b) We then examine the evidence relating to distribution.

(c) Finally, we consider competitors' views on the Merger.

10.3 For each of the merchandising and distribution markets, we consider competitors' views on the competitive landscape, the strengths of individual suppliers or channels, and their strategy and growth plans regarding the development of NDC solutions. Some of the evidence is common to both merchandising and distribution markets; we identify these instances where

⁶⁹⁶ We have received responses to our questionnaires from 14 providers of merchandising and/or distribution solutions. We have had calls with six providers and held a hearing with Amadeus. In addition, we have received senior management-level internal documents in relation to strategy, growth plans and competitors monitoring from six providers: Amadeus, Travelport, OpenJaw, Datalex, PROS and ITA. Throughout the report, we specify whether each piece of evidence is drawn from questionnaires, calls, or internal documents.

appropriate. Further details from competitors' internal documents are set out in Appendix E.

Evidence from competitors on merchandising

Competitive landscape and strength of merchandising suppliers

- *Competitors' internal documents*

- 10.4 We consider how suppliers of merchandising solutions monitor rivalry between one another in their internal documents, to understand their perceptions of the competitive constraints in the market, including the threats from Sabre and Farelogix. Broadly speaking, we find that Farelogix is closely monitored by other competitors, followed by Datalex, Amadeus and Sabre. OpenJaw and PROS are also mentioned but less frequently. Moreover, Datalex's recent financial issues is recognised by competitors.⁶⁹⁷
- 10.5 We note that competitors take different approaches in monitoring rivalry, with some focusing on merchandising while others considering airline retailing more broadly. They are summarised for each supplier below.
- 10.6 Amadeus considers Sabre, Farelogix, Datalex, OpenJaw and in-house solutions as its key competitors in merchandising and Farelogix [REDACTED]. In recent documents, Amadeus also mentions [REDACTED].

(a) [REDACTED].⁶⁹⁸

(b) In a presentation from December 2018, Amadeus benchmarks itself against Farelogix across Merchandising, NDC (IT) and Shopping functions. The slide states that [REDACTED].⁶⁹⁹

(c) [REDACTED].⁷⁰⁰

(d) [REDACTED].⁷⁰¹

(e) [REDACTED].⁷⁰²

697 [REDACTED].

698 [REDACTED].

699 [REDACTED].

700 [REDACTED].

701 [REDACTED].

702 [REDACTED].

- 10.7 Datalex monitors rivalry in *'airline retailing'* which includes merchandising and distribution. It considers Farelogix, OpenJaw and PROS as its main *'independent'* competitors, and PSS providers such as Amadeus and Sabre (together with Farelogix and itself) as *'leaders'* in this space.^{703, 704} In a November 2019 document, Datalex describes itself as *'uniquely positioned'* in the independent travel-specific eCommerce system and indicates that Farelogix and OpenJaw are transitioning from being *'independent from PSS providers'* to *'extension to PSS systems.'*⁷⁰⁵
- 10.8 OpenJaw also monitors competition in *'airline retailing'*. It considers [REDACTED] as its main competitors in airline retailing. However, in a recent presentation, OpenJaw acknowledges [REDACTED] weakened position due its financial difficulties.⁷⁰⁶
- 10.9 PROS provided detailed competitive analysis reports on the technical capabilities of Farelogix, Amadeus and Sabre. The report on Farelogix focuses on its merchandising solution, while the other two concern Sabre and Amadeus revenue management solutions.⁷⁰⁷ In a document from August 2019, PROS has identified Datalex's weakened position, [REDACTED] and Amadeus' minimal investments in UI/Mobile as market dynamics that PROS should take advantage of.⁷⁰⁸
- 10.10 Both Amadeus and OpenJaw documents highlighted Farelogix as a provider that is independent from a GDS and PSS and mentioned that this role could be lost as a result of the Merger.
- (a) An OpenJaw document states that [REDACTED].⁷⁰⁹ OpenJaw told us that the document did not necessarily represent the current view of the company. As such, we have not placed significant weight on this evidence.⁷¹⁰
- (b) While assessing the proposed acquisition, Amadeus notes that [REDACTED].⁷¹¹

⁷⁰³ [REDACTED].

⁷⁰⁴ [REDACTED].

⁷⁰⁵ [REDACTED].

⁷⁰⁶ [REDACTED].

⁷⁰⁷ PROS submitted that Sabre, Farelogix, Amadeus and Air Revenue Management are *'PROS' main travel industry competitors.'* See attachment to PROS' email to the CMA on 5 February 2020.

⁷⁰⁸ [REDACTED].

⁷⁰⁹ [REDACTED].

⁷¹⁰ [REDACTED].

⁷¹¹ [REDACTED].

- *Competitors' submitted views*
 - *Views on main competitors in merchandising*

10.11 We asked competitors to identify who they consider their main competitors of merchandising. Farelogix, Amadeus and Sabre are the most frequently mentioned, and Datalex is also frequently identified. OpenJaw and PROS are also mentioned but to a lesser extent. ITA was not identified as a competitor by other suppliers.⁷¹²

(a) Amadeus listed Farelogix, Sabre, Datalex, OpenJaw and in-house airline IT as its main competitors in merchandising and NDC compatible solutions and considered Farelogix a *'very strong'* competitor in non-core PSS merchandising modules.⁷¹³ At the hearing, Amadeus told us that *'there is a price discussion'* in merchandising and that it competes in pricing. It also told us that [REDACTED].⁷¹⁴

(b) OpenJaw listed [REDACTED] as its main competitors in merchandising. It defined [REDACTED] as *'quite a strong player'* and *'a leader in NDC enablement'* albeit with a *'narrow focus on direct connect and GDS bypass'*. It also submitted that Sabre and Amadeus have incumbency with airlines, that [REDACTED] many customers in the [REDACTED] give it potential to win others and that although functionally strong, [REDACTED] is currently under financial stress.⁷¹⁵

(c) PROS listed Sabre, Farelogix and Amadeus as its main competitors in merchandising.⁷¹⁶

(d) ITA listed *'PSS providers'*, Farelogix and Datalex as its main competitors in merchandising. It submitted that its merchandising offering is comparable to FLX M, despite the smaller volume of business/impacted passengers or tickets.⁷¹⁷

(e) [REDACTED] submitted that [REDACTED] other competitors are *'OpenJaw, Datalex and Amadeus and Sabre, (not because of their technology, but because of*

⁷¹² Phase 2 CMA competitor questionnaire, Q4(c): *'If you supply Merchandising module, please provide the following information in relation to your Merchandising modules: (c) who your main competitors are in the supply of Merchandising modules'* – eight competitors provided a response, among which one submitted it does not provide merchandising – and Phase 1 CMA service provider questionnaire, Q5(c): *'For each of the following non-core PSS modules you provide, please set out in the table below: (c) who your main competitors are worldwide and (if different) in Europe'* – the table listed *'Merchandising, Scheduling, Inventory and availability, Shopping and pricing'* and eight competitors provided a response.

⁷¹³ [REDACTED].

⁷¹⁴ [REDACTED].

⁷¹⁵ [REDACTED].

⁷¹⁶ [REDACTED].

⁷¹⁷ [REDACTED].

*their presence and contractual access to system environment, RFPs etc.).*⁷¹⁸ [redacted] told us that it sees Farelogix as a direct competitor in merchandising.⁷¹⁹

(f) [redacted] told us that it does not see Farelogix, Sabre or Amadeus as its competitors in airline retailing as it focuses on a different space [redacted]. It told us that [redacted].⁷²⁰

(g) Both [redacted] and SITA submitted that Farelogix, Sabre, Amadeus, Datalex and OpenJaw are their main competitors in merchandising.

- *Views on self-supply of merchandising*

10.12 We have asked competitors to what extent they consider self-supply by airlines (ie building merchandising solutions in-house) to be a constraint.⁷²¹ Most competitors said airlines increasingly focus on core competencies and outsource IT and that the constraint from in-house solutions is limited as only large airlines have the resources and capabilities to develop merchandising internally.

(a) OpenJaw submitted that, although airline inhouse IT teams are always a competitor, many airlines are moving towards focussing on core competencies and outsourcing IT.⁷²²

(b) PROS submitted that *'only the very largest airlines (ie United, Delta, etc) have the interest/resources to develop modules in-house.'*⁷²³

(c) [redacted].⁷²⁴

(d) [redacted] submitted that very few airlines have the ability to build non-core PSS modules in-house.⁷²⁵

⁷¹⁸ [redacted].

⁷¹⁹ [redacted].

⁷²⁰ [redacted].

⁷²¹ Phase 1 CMA service provider questionnaire, Q17: *'To what extent do you consider airlines' in-house solutions, ie the ability to build non-core PSS modules constrain technology and software companies such as yourself, Sabre or Farelogix? For example, do airlines use the possibility to build their in-house solutions when negotiating for contracts?'* – 10 providers replied. Although the exact question concerned more generally *'non-core PSS modules'* we consider that, being merchandising a non-core PSS module, this is relevant for us to draw inferences on merchandising.

⁷²² [redacted].

⁷²³ [redacted].

⁷²⁴ [redacted].

⁷²⁵ [redacted].

(e) SITA submitted that the constraint from in-house merchandising is 'limited' as airlines tend to engage with external providers.⁷²⁶

10.13 Only one competitor (Amadeus) said in-house merchandising solutions are a feasible/credible alternative for airlines, which constrain its 'market behaviour and negotiations.'

- *Summary on competitive landscape in merchandising*

10.14 In summary, competitors' internal documents and responses indicate that Farelogix, Amadeus and Sabre are mentioned as the main providers in merchandising, followed by Datalex, whose financial difficulties are acknowledged, and to a lesser extent by OpenJaw and PROS. Self-supply by airlines of merchandising solutions is generally not seen by suppliers as a particularly strong constraint except for Amadeus.

Competitors' strategy in developing NDC-compatible merchandising solutions

10.15 We consider competitors' strategies in developing merchandising solutions, to understand the extent to which they have constrained and will continue to constrain the Parties. Our assessment focuses on Amadeus, Datalex, OpenJaw, PROS and ITA, as [REDACTED], as described in the preceding section on the competitive landscape. We consider their internal documents and responses to our questionnaires and calls.

10.16 All these suppliers have NDC strategies that include merchandising and distribution, as well as other elements of airline retailing more broadly. We set out their overall strategies in this section. Elements of their plans specific to distribution will be discussed when we present evidence relating to distribution from paragraph 10.37.

10.17 As Amadeus is generally considered further ahead in the development of its NDC strategy than Sabre, we have also assessed how Amadeus' NDC strategy has evolved over time as well as its plans going forward, the factors that drove Amadeus' strategic choices and the extent to which it has responded to the potential disruption of its business model. We consider this to be relevant as to inform our analysis of Sabre's drivers in developing an NDC strategy and its future evolution in the counterfactual.

⁷²⁶ [REDACTED].

- *Amadeus*

10.18 Amadeus' internal documents on the evolution of its NDC strategy and related investments show that the value of merchandising as airlines adopt the NDC standard drove it to invest in related capabilities. In doing so, Amadeus consistently benchmarked itself against [REDACTED].⁷²⁷

10.19 [REDACTED].

(a) [REDACTED].⁷²⁸

(b) [REDACTED].⁷²⁹

(c) [REDACTED].⁷³⁰

10.20 In terms of its plans going forward, Amadeus submitted that it has today completed most of its investment in its merchandising capabilities and plans [REDACTED].⁷³¹ Amadeus told us that [REDACTED].⁷³² Amadeus submitted that [REDACTED].⁷³³ Amadeus told us that [REDACTED].⁷³⁴ Amadeus added that it continues to invest to ensure that its NDC-capable products evolve in line with the IATA NDC standard.⁷³⁵

10.21 Amadeus submitted that the CMA's Phase 1 Decision did not reflect its role as one of the 'leading innovators and technology champions' in the sector and that the extent of its commitment to NDC had been underrepresented.

- *Datalex*

10.22 Datalex told us that, in the context of its recently publicised financial issues,⁷³⁶ it had undergone a substantive reorganisation in the past twelve months and that it was reviewing its entire business with a view to breaking even in 2019 before aiming for growth from 2020 onwards.⁷³⁷ Datalex told us that it had

⁷²⁷ [REDACTED].

⁷²⁸ [REDACTED].

⁷²⁹ [REDACTED].

⁷³⁰ [REDACTED].

⁷³¹ [REDACTED].

⁷³² [REDACTED].

⁷³³ [REDACTED].

⁷³⁴ [REDACTED].

⁷³⁵ [REDACTED].

⁷³⁶ See [Datalex investor relations website](#). [REDACTED].

⁷³⁷ [REDACTED].

internal strategy plans in place to stabilise the business⁷³⁸ and that it anticipated [REDACTED] growth across merchandising and NDC [REDACTED].⁷³⁹

10.23 Datalex provided a series of documents which described [REDACTED].⁷⁴⁰ Datalex also submitted [REDACTED].⁷⁴¹ The evidence that we received from Datalex's internal documents and further details on its recent financial issues are set out in Appendix E.

10.24 We consider that the documents provided by Datalex indicate [REDACTED]. In particular, we consider that [REDACTED].

- *OpenJaw*

10.25 OpenJaw told us that it saw an increasing pipeline of opportunities for its platforms and that it expected to compete strongly as the market shifts towards airline-controlled retailing and NDC.⁷⁴² It provided [REDACTED].⁷⁴³

10.26 OpenJaw's internal documents showed that it [REDACTED].⁷⁴⁴

10.27 We also note that OpenJaw considered that [REDACTED]. OpenJaw told us that [REDACTED].⁷⁴⁵

10.28 Overall, we consider that the documents provided to us by OpenJaw indicate that it [REDACTED], and that its plans [REDACTED].

- *PROS*

10.29 PROS told us that it had plans to improve its product features and functionality in NDC-compatible solutions in the coming years.⁷⁴⁶ [REDACTED].⁷⁴⁷

10.30 PROS told us that it would likely face a number of difficulties in seeking to expand, which applies to the supply of merchandising and distribution solutions, including:

⁷³⁸ [REDACTED].

⁷³⁹ [REDACTED].

⁷⁴⁰ [REDACTED].

⁷⁴¹ [REDACTED].

⁷⁴² [REDACTED].

⁷⁴³ [REDACTED].

⁷⁴⁴ [REDACTED].

⁷⁴⁵ [REDACTED].

⁷⁴⁶ [REDACTED].

⁷⁴⁷ [REDACTED].

- (a) Difficulty in accessing airline information owned or controlled by the major PSS providers, from both a technical and commercial perspective;⁷⁴⁸
- (b) Anti-competitive tactics by PSS providers to block airline use of third party technology offerings;⁷⁴⁹
- (c) Operational complexity associated with global privacy and data protection compliance;⁷⁵⁰ and
- (d) The availability of technical personnel with relevant airline industry experience.⁷⁵¹

10.31 Consistent with its submissions on its strategic priorities, PROS was able to provide only a limited number of relevant strategy documents. The documents provided by PROS [REDACTED]. Our detailed review of the documents provided by PROS is set out in Appendix E.

- *ITA*

10.32 ITA told us that it has plans to invest more in NDC, dynamic pricing and cache-based shopping products in the future.⁷⁵² [REDACTED].⁷⁵³

10.33 ITA told us that it was still considering its strategy in NDC solutions and that its plans were at an early stage in development.⁷⁵⁴ [REDACTED]⁷⁵⁵ and we note that an internal document described Farelogix as the market leader in this regard and stated that [REDACTED].⁷⁵⁶

10.34 ITA also told us that, while it did not see major obstacles to its plan going forward, it anticipated that there may be difficulties caused by the length of negotiations for new contracts and that the technical process of changing shopping and pricing systems could present challenges for airlines.⁷⁵⁷ [REDACTED].⁷⁵⁸

10.35 The document that we have reviewed from ITA shows that [REDACTED].⁷⁵⁹ [REDACTED].

748 [REDACTED].
 749 [REDACTED].
 750 [REDACTED].
 751 [REDACTED].
 752 [REDACTED].
 753 [REDACTED].
 754 [REDACTED].
 755 [REDACTED].
 756 [REDACTED].
 757 [REDACTED].
 758 [REDACTED].
 759 [REDACTED].

- *Summary on competitors' NDC strategies related to merchandising*

10.36 Amadeus continues to invest in its future NDC-compatible merchandising capabilities. Non-GDS competitors to the Parties have the intention to expand their presence in merchandising, but the evidence that we have received does not indicate that they would be likely to expand significantly in the period under consideration in our counterfactual.

Evidence from competitors on distribution

Competitive landscape and strength of distribution suppliers

10.37 We consider the evidence relating to the strengths of individual distribution suppliers, distribution channels and airline self-supply, based on competitors' documents and their responses to our questionnaires and calls.

- *Competitors' internal documents*

10.38 We consider how suppliers of distribution solutions monitor rivalry in their internal documents, to understand their perceptions of the competitive constraints in the markets including the threats from Sabre and Farelogix.

10.39 The documents indicate that the GDSs primarily monitor each other (and other aggregators to a lesser degree) but they also acknowledge the emerging threat of 'direct connect' and 'NDC' providers including Farelogix. Other IT providers (ie Datalex and OpenJaw) look at NDC compatible distribution solutions in the broader context of airline retailing alongside GDS. The documents also indicate that Farelogix is a recognised leader in NDC-compatible distribution solutions which allows airlines to establish direct connects.

10.40 Amadeus' documents show that it considers itself to be ahead of the other two GDSs in distribution and perceives Sabre as the main competitive threat. The documents identify Farelogix as an established leader in NDC and direct connect and Travelfusion as a leading 'aggregator'.^{760 761}

(a) [REDACTED].⁷⁶²

⁷⁶⁰ [REDACTED].

⁷⁶¹ [REDACTED].

⁷⁶² [REDACTED].

(b) [REDACTED].⁷⁶³

(c) [REDACTED].⁷⁶⁴

10.41 In relation to distribution channels more generally, Amadeus' internal documents confirm that it sees both airline.com and direct connect as competitive constraints. [REDACTED].⁷⁶⁵

10.42 [REDACTED].

10.43 As mentioned above, Datalex and OpenJaw look at distribution in the broader context of airline retailing solutions and NDC.

(a) OpenJaw highlights GDS/PSS (Amadeus, Sabre), travel retailing platforms (eg OpenJaw, [REDACTED]), standalone NDC Providers (Farelogix) and in-house solutions as the different options for airlines to enable NDC. It states that GDS/PSS providers have strong market position to win NDC deals due to the '*commercial levers they can pull with airlines*', that [REDACTED].⁷⁶⁶

(b) A July 2019 document analysing the airline retailing market submitted by Datalex sets out that '*airline distribution is rapidly changing*' as an opening statement and describes NDC and One Order as part of the '*enhanced airline retailing*' that more than '*190 airlines will be looking to implement over the next 5 years.*'⁷⁶⁷

10.44 [REDACTED].⁷⁶⁸

- *Competitors' submitted views*
 - *Views on use of GDS bypass and airline.com*

10.45 We have asked competitors whether airlines have used the possibility of switching to, or increasing their use of, other distribution channels (airline.com or direct connects) in negotiations, to understand whether these channels are seen as a competitive constraint on distribution suppliers.⁷⁶⁹

⁷⁶³ [REDACTED].

⁷⁶⁴ [REDACTED].

⁷⁶⁵ [REDACTED].

⁷⁶⁶ [REDACTED].

⁷⁶⁷ [REDACTED].

⁷⁶⁸ [REDACTED].

⁷⁶⁹ Phase 2 CMA competitor questionnaire, Q9: '*Please explain how airlines negotiate contracts with you for (ii) Services for indirect content distribution. In particular, please describe any mechanisms or leverages airlines*

10.46 Both GDS competitors submitted that airlines use the threats of both airline.com and direct connects to get more favourable commercial terms.

(a) Amadeus said that airlines use both airline.com and GDS bypass (direct connect and aggregators) as negotiation levers with Amadeus.⁷⁷⁰ It also submitted that:

(i) it faces ‘*direct pressure*’ from airline.com because airlines have been successful in changing their business model to the detriment of GDSs (eg with surcharges and content withdrawal), and there has also been a structural shift in bookings from the indirect to the direct channel in the past few years,^{771, 772} whereby large airlines have been ‘*very aggressive in pushing their direct channel at the expense of indirect channels*’ and seek to marginalise neutral indirect distribution to avoid comparison shopping;⁷⁷³

(ii) [REDACTED] and that direct connects have become more frequent in recent years as ‘*several large airlines have sought to drive business away from the GDS channel.*’⁷⁷⁴

(b) [REDACTED].⁷⁷⁵

(c) PROS submitted that airlines use the possibility of switching or increasing the airline’s use of airline.com ‘*as a ‘carrot’ to pre-negotiate volume discounts*’ and that ‘*some airlines offer incentives through the form of commissions for selling direct content.*’ On direct connect, PROS submitted that it does not see that used as a negotiation lever as PROS’ solutions are already ‘*a method for bypass of GDS.*’⁷⁷⁶

- *Views on main competitors in distribution*

10.47 We asked competitors to identify who they consider their main competitors in distribution. Their responses indicate that Amadeus and Sabre are most frequently mentioned as main competitors, with Farelogix and Datalex also

have used in negotiations with you with an aim to obtain more favourable contract terms or discounts (including leveraging from one product to another). Please provide examples and indicate whether the negotiations resulted in more favourable contract terms for the airline or not.’ The levers listed in the table provided below the questions included: ‘*the possibility of using Direct Connect*’ and ‘*The possibility of switching or increasing the airline’s use of the direct channel (ie airline.com)*’ – seven providers replied.

⁷⁷⁰ [REDACTED].

⁷⁷¹ [REDACTED].

⁷⁷² [REDACTED].

⁷⁷³ [REDACTED].

⁷⁷⁴ [REDACTED].

⁷⁷⁵ [REDACTED].

⁷⁷⁶ [REDACTED].

frequently identified as ‘direct connect’ or ‘NDC’ competitors, followed by OpenJaw but to a lesser extent. An aggregator, Travelfusion, is also mentioned but mainly by GDSs and small aggregators.⁷⁷⁷

- (a) Amadeus mentioned the direct channel and direct connect among the significant competitive constraints. It listed Sabre, Travelfusion, Travelport, Travelsky, Ypsilon, Sirena, TPConnects and Atrii as its ‘*direct competitors*’ in NDC compatible distribution services.⁷⁷⁸ Amadeus also told us that Farelogix is one of several providers that airlines can use to distribute content including GDSs, OpenJaw, JR Technologies, TP Connects, PROS and Airlines Technology,⁷⁷⁹ but it does not see Farelogix as ‘*an important innovator*’ and ‘*significant disruptive force*’ in the distribution market.⁷⁸⁰
- (b) [REDACTED].⁷⁸¹
- (c) OpenJaw listed [REDACTED] as its main competitors. It also submitted that [REDACTED] is very difficult to compete with [REDACTED] and that it has ‘*strongly embraced NDC (which no doubt they initially saw as a threat to their business model* [REDACTED].⁷⁸²
- (d) PROS listed Farelogix, Datalex and OpenJaw as its main competitors.⁷⁸³ PROS told us that it would not be able to bypass the GDS (as Farelogix is trying to do) as it opted for a different commercial strategy and that it does not view itself as a replacement for the PSS.⁷⁸⁴
- (e) ITA listed Farelogix and Datalex as its main competitors⁷⁸⁵ and said it sees its technology as having an advantage compared to Farelogix in terms of performance and infrastructure.⁷⁸⁶
- (f) [REDACTED] as main providers in travel distribution but noted that [REDACTED] and referred to the [REDACTED].⁷⁸⁷

⁷⁷⁷ Phase 2 CMA competitor questionnaire, Q5(c): ‘*If you provide Services for indirect content distribution, please provide the following information in relation to the Services for indirect content distribution that you offer: (c) who you consider to be your main competitors*’ – 11 providers replied. [REDACTED].

⁷⁷⁸ [REDACTED].

⁷⁷⁹ [REDACTED].

⁷⁸⁰ [REDACTED].

⁷⁸¹ [REDACTED].

⁷⁸² [REDACTED].

⁷⁸³ [REDACTED].

⁷⁸⁴ [REDACTED].

⁷⁸⁵ [REDACTED].

⁷⁸⁶ [REDACTED].

⁷⁸⁷ [REDACTED].

(g) [REDACTED]. SITA submitted that it is only active in distribution with the standalone 'translation service' provided through NDC Exchange and that it is 'not aware of any direct competitor for this standalone service.'⁷⁸⁸

- *Views on airline self-supply of distribution solutions*

10.48 We have asked competitors to what extent they are constrained by airline self-supply of distribution solutions, and whether airlines use this option to negotiate better terms.⁷⁸⁹ Amadeus is the main supplier which identifies self-supply to be a constraint; the responses from most other competitors generally show that the extent for airlines to self-supply distribution solutions is limited.

(a) OpenJaw said airlines are moving towards focussing on core competencies and outsourcing IT.⁷⁹⁰

(b) PROS does not consider in-house distribution solutions by airlines as a constraint.⁷⁹¹

(c) [REDACTED].⁷⁹²

(d) [REDACTED] submitted that, although airlines might be able to write the solutions' specifications, they will typically need a supplier to build connection services.⁷⁹³ SITA submitted that the constraint from in-house distribution is 'limited' as airlines are 'reliant on their Core PSS and Non-Core PSS providers to enable connection between the various distribution channels.'⁷⁹⁴

(e) SITA submitted that the constraint from in-house distribution is 'limited' as airlines are 'reliant on their Core PSS and Non-Core PSS providers to enable connection between the various distribution channels.'⁷⁹⁵

- *Summary on competitive landscape*

10.49 In summary, competitors' internal documents and submissions indicate that Farelogix, Sabre, Amadeus and, to a less extent, Datalex are seen as the

⁷⁸⁸ [REDACTED].

⁷⁸⁹ Phase 1 CMA service provider questionnaire, Q17: 'To what extent do you consider airlines' in-house solutions, ie the ability to build connection services constrain technology and software companies such as yourself, Sabre or Farelogix? For example, do airlines use the possibility to build their in-house solutions when negotiating for contracts?' – 10 providers replied.

⁷⁹⁰ [REDACTED].

⁷⁹¹ [REDACTED].

⁷⁹² [REDACTED].

⁷⁹³ [REDACTED].

⁷⁹⁴ [REDACTED].

⁷⁹⁵ [REDACTED].

main providers in distribution, In addition, competitors submissions indicate that self-supply by airlines of distribution solutions is not seen as a particularly strong constraint to providers and that the possibility of switching booking volumes to airline.com and Direct Connect is frequently used by airlines as a negotiation lever.

Competitor strategy in developing distribution solutions

10.50 As discussed in paragraphs 10.15 to 10.36 above, all suppliers have NDC strategies that include merchandising and distribution, as well as other elements of airline retailing more broadly. This section discusses elements of their strategies specific to distribution.

- *Amadeus*

10.51 Amadeus' NDC strategy has evolved in the past five years. As discussed in paragraph 10.18, [REDACTED].

10.52 In general, Amadeus documents show that, in developing its NDC strategy, Amadeus was reacting to:

(a) [REDACTED];

(b) [REDACTED].

(i) A presentation from 2017 states that [REDACTED].⁷⁹⁶

(ii) A more recent presentation from July 2019 lists among the reasons why airlines are pushing for NDC the strategic aim to [REDACTED].⁷⁹⁷

10.53 Moreover, Amadeus documents indicate that [REDACTED].

(a) [REDACTED].⁷⁹⁸

(b) [REDACTED].⁷⁹⁹

10.54 Regarding future investment plans, Amadeus submitted that it considers that a significant amount of investment is required to integrate new content sources, including NDC, in a way that maximises efficiency for content providers and that it is also investing to develop other aspects of its indirect

⁷⁹⁶ [REDACTED].

⁷⁹⁷ [REDACTED].

⁷⁹⁸ [REDACTED].

⁷⁹⁹ [REDACTED].

distribution offer, such as search optimisation and interface improvement.⁸⁰⁰ Amadeus told us that it plans to invest around [REDACTED] in its indirect distribution services over [REDACTED] and that it is investing heavily in NDC and working with other industry players to enhance NDC standardisation.^{801, 802}

- *Datalex*

10.55 Datalex told us that it [REDACTED].⁸⁰³

- *OpenJaw*

10.56 OpenJaw provided [REDACTED] and [REDACTED] which showed that [REDACTED].⁸⁰⁴

- *PROS*

10.57 PROS told us that it had plans to improve its product features and functionality in both merchandising and distribution in the coming years, but these are not a top strategic priority for PROS overall and it faces difficulties in expanding as discussed in paragraph 10.29 above.⁸⁰⁵

- *ITA*

10.58 [REDACTED].⁸⁰⁶ [REDACTED].⁸⁰⁷ ITA told us that it would initially target existing customers of its shopping tool but noted that many of these customers already had NDC API agreements with Farelogix.⁸⁰⁸

- *Summary on competitors' strategy in developing distribution solutions.*

10.59 Amadeus has significant ambitions for its distribution solutions and is continuing to invest heavily to enhance its ability to integrate NDC content. The submissions and documents that we received from non-GDS competitors show that their future plans [REDACTED] and do not indicate that they would be likely to expand significantly in the period under consideration in our counterfactual.

800 [REDACTED].

801 [REDACTED].

802 [REDACTED].

803 [REDACTED].

804 [REDACTED].

805 [REDACTED].

806 [REDACTED].

807 [REDACTED].

808 [REDACTED].

Competitors' views of the Merger

Evidence from competitor internal documents

10.60 Several providers analysed the impact on their businesses of the Merger in their internal documents. They generally considered it would strengthen Sabre's strategy in developing NDC-compatible solutions in both merchandising and distribution and give it the possibility to cross-sell FLX M to its customers but result in the loss of Farelogix as an independent provider, which some of them see as an opportunity for themselves.

(a) Amadeus seems to consider Sabre's acquisition of Farelogix both a threat and an opportunity:

(i) Amadeus notes that [REDACTED]. It also notes that Farelogix's independence from a GDS and PSS (which is a key competitive advantage for Farelogix) could be challenged. [REDACTED].⁸⁰⁹

(ii) Another presentation states that [REDACTED].⁸¹⁰

(b) [REDACTED].⁸¹¹

(c) [REDACTED].^{812, 813} OpenJaw told us that the document did not necessarily represent the current view of the company. As such, we have not placed significant weight on this evidence.⁸¹⁴

(d) [REDACTED].⁸¹⁵

Competitors' submitted views

10.61 When asked about the impact of the Merger on their organisation, on competition and innovation, several competitors have expressed concerns regarding distribution.⁸¹⁶

⁸⁰⁹ [REDACTED].

⁸¹⁰ [REDACTED].

⁸¹¹ [REDACTED].

⁸¹² [REDACTED].

⁸¹³ [REDACTED].

⁸¹⁴ [REDACTED].

⁸¹⁵ [REDACTED].

⁸¹⁶ See competitors' responses to Phase 2 competitor questionnaire, question 36 'Please indicate whether you have any comments or concerns (and provide reasons) about this merger's impact on: (a) your organisation; (b) competition in the supply of (i) Merchandising modules and (ii) Services for indirect content distribution; and (c) innovation in the industry.' and Phase 1 competitor questionnaire, question 28 (same question with only terminology changes: 'non-core PSS' instead of 'merchandising' modules and 'content distribution' instead of

- (a) PROS submitted that it would expect less innovation, as Farelogix was a *'frontrunner for NDC and direct open connect as a cost-effective alternative to legacy GDS providers.'*⁸¹⁷
- (b) [REDACTED] submitted that *'the only established alternative to Amadeus and Sabre'* as well as *'the most important vendor and enabler of direct connect solutions'* would disappear, but some airlines might shift demand to other vendors to avoid working with Sabre.⁸¹⁸
- (c) OpenJaw submitted that it has concerns about the Merger's impact on competition in distribution due to the possible bundling of Sabre's products with Farelogix APIs and a *'lack of ability to offer content distribution via a non-Farelogix API.'*⁸¹⁹
- (d) [REDACTED] submitted that they are concerned by the merger's impact on competition and innovation.⁸²⁰

10.62 Others were either unconcerned or expressed mixed views.

- (a) Amadeus submitted that the Merger will [REDACTED], as the combination of the Parties creates [REDACTED]. It also stated that the Parties are *'complementary in the merchandising space.'* On distribution, it submitted that airlines may lose a PSS- and GDS-agnostic player but *'there are other third-party suppliers.'*⁸²¹
- (b) [REDACTED].⁸²²
- (c) ITA, which currently focuses on shopping solutions and does not have an NDC API product yet, submitted that it is not concerned by the Merger as it competes *'only moderately with the Parties'* and sees *'limited overlap'* between them in non-core PSS solutions. On distribution and innovation, ITA submitted that it is not concerned but noted that *'as of today Farelogix is the primary non GDS/PSS provider.'*⁸²³

'services for indirect content distribution.' Competitors that were asked this question in Phase 1 were not asked again in Phase 2. Combining Phase 1 and Phase 2 responses, 12 providers replied.

⁸¹⁷ [REDACTED].

⁸¹⁸ [REDACTED].

⁸¹⁹ [REDACTED].

⁸²⁰ [REDACTED].

⁸²¹ [REDACTED].

⁸²² [REDACTED].

⁸²³ [REDACTED].

- (d) SITA submitted that it is not concerned as it does ‘*not compete with Farelogix functionality or address the same markets in any significant way*’.⁸²⁴
- (e) [REDACTED] either noted that this merger should be ‘*carefully monitored*’ [REDACTED] or that they are not affected by the potential effects on competition [REDACTED].^{825, 826}
- (f) [REDACTED] submitted that the Merger will have ‘*no impact*’ but did not provide any reasoning.⁸²⁷

10.63 In summary, we note that competitors’ views on the Merger depend on how directly their own business will be affected. In particular, IT providers most closely situated to Farelogix’s offering in both merchandising and distribution (ie OpenJaw and PROS) expressed concern, either in relation to innovation or to their ability to compete to the merged entity. Amadeus, which is closely situated to Sabre in both merchandising and distribution and therefore can be expected to have similar incentives, did not express concern. Others either submitted they do not see themselves as close competitors to the Parties or that they do not expect to be impacted.

Overall summary of competitor evidence

Merchandising

10.64 In summary, we note that competitors’ internal documents and responses indicate that Farelogix, Amadeus and Sabre are main providers in merchandising, followed by Datalex, whose financial difficulties are acknowledged, and to a lesser extent by OpenJaw and PROS and that self-supply by airlines of merchandising solutions is generally not seen by suppliers as a particularly strong constraint.

10.65 Concerning competitors’ NDC strategies related to merchandising, we note that Amadeus continues to invest in its future NDC-compatible merchandising capabilities and that Non-GDS competitors to the Parties have the intention to expand their presence in merchandising. However, the evidence that we have received does not indicate that they would be likely to expand significantly in the period under consideration in our counterfactual.

⁸²⁴ [REDACTED].

⁸²⁵ [REDACTED].

⁸²⁶ [REDACTED].

⁸²⁷ [REDACTED].

10.66 On competitors' views on the Merger, we note that they generally consider that the acquisition would strengthen Sabre's strategy in developing NDC-compatible merchandising solutions and give it the possibility to cross-sell Farelogix's merchandising product to its customers. However, several noted that it would result in the loss of Farelogix as an independent provider.

Distribution

10.67 On distribution, competitors' internal documents and submissions indicate that Farelogix, Sabre, Amadeus and, to a less extent, Datalex are seen as the main providers in distribution, that self-supply by airlines of distribution solutions is not seen as a particularly strong constraint to providers and that the possibility of switching booking volumes to airline.com and Direct Connect is frequently used by airlines as a negotiation lever.

10.68 Concerning competitors' NDC strategies related to distribution, we note that Amadeus has significant ambitions for its distribution solutions and is continuing to invest heavily to enhance its ability to integrate NDC content while the submissions and documents that we received from non-GDS competitors show that their future plans are limited to making incremental upgrades to their distribution capabilities.

10.69 On competitors' views on the Merger, we note that they generally consider that the acquisition would strengthen Sabre's strategy in developing NDC-compatible distribution solutions but also that it would result in the loss of Farelogix as an independent provider of direct connects.

Evidence from airlines

10.70 Airlines are customers of both Parties. It is their decision making and preferences that drive the competitive process that leads to the development, quality and price of the solutions provided by the Parties. Understanding their demand characteristics and preferences is therefore important for the merger assessment.

10.71 This section presents the evidence gathered from airlines through their responses to our questionnaires, calls and their internal documents. These airlines serve a material proportion of passengers globally as well as in the UK.⁸²⁸

⁸²⁸ These 35 airlines together account for 45% of passengers to/from and within the UK (based on CAA Airport Statistics data 2018). See Appendix F for further details on the coverage of our questionnaires.

10.72 The section is structured as follows.

- (a) First, we present evidence regarding airlines' adoption of the NDC standard and procurement of related solutions. This applies generally to both merchandising and distribution markets.
- (b) Second, we consider evidence specific to merchandising, including airlines' views on the strengths of the Parties relative to competing suppliers, and on self-supply.
- (c) Third, we examine evidence relating to distribution, including airlines' use of distribution channels such as GDS, GDS bypass, GDS pass-through and airline.com, and their views on suppliers' strengths, and on self-supply.
- (d) Fourth, we examine airlines evidence on their preference for suppliers of merchandising and/or distribution solutions that are independent of the GDS or PSS.
- (e) Fifth, we consider airlines' general views on the Merger.
- (f) Sixth, we consider the Parties' submissions specific to airline evidence.
- (g) Finally, we provide a summary of the conclusions we draw from the airline evidence.

Airlines' adoption of the NDC standard and related NDC-compatible solutions

10.73 This section considers the extent of airlines' adoption of the NDC standard and related merchandising, distribution and other retailing solutions. This informs our understanding of the importance of NDC-compatible solutions and their implementation progress, in light of airlines' changing business models as discussed in Chapter 7.

10.74 The majority of airlines responding to our questionnaires, including major full-service carriers active in the UK, and regional or national carriers across the globe, told us they have adopted or plan to adopt the NDC standard. Many of these have already made investments in related NDC-compatible solutions in distribution, merchandising, and/or other retailing functions, and consider these to be important.

- (a) The significant majority of airlines (including all Tier 1 airlines) said they have developed or are developing capabilities to adopt the NDC standard;

only four smaller regional airlines said they have no such plan.⁸²⁹ In particular, 13 airlines have already made or committed investments to do so for the next few years.⁸³⁰

(b) Nearly all airlines said NDC-compatible solutions are important to them,⁸³¹ frequently identifying better customer experience (ie personalisation and differentiation) and airline control of the offer as the benefits.

10.75 In this context, Tier 1 airlines appear to be more advanced than smaller airlines in adopting NDC distribution solutions. Some large airlines told us that they support IATA's 'NDC Leaderboard' roadmap and NDC@Scale,⁸³² or are working towards the goal to achieve at least 20% of their sales in the indirect channel powered by an NDC API by the end of 2020.⁸³³ Three large airlines reasoned that NDC APIs provide alternative distribution channels to GDS, which can encourage innovation in distribution, improve their customer offerings, and gain more control over the offer creation.⁸³⁴

10.76 We have also reviewed the request for proposal (RFPs) from 11 airlines to suppliers of NDC-compatible solutions in the last three years, to understand what airlines require to fulfil their NDC strategy, and how they procure these. We found that there seems to be a trend for airlines to procure merchandising and/or pricing functions together with distribution (NDC API). For example, seven out of 11 RFPs relating to NDC solutions included at least merchandising and distribution.⁸³⁵ However, this approach is not universal as some RFPs focus on specific functions (eg merchandising only).⁸³⁶

Evidence from airlines relating to merchandising

10.77 In Chapter 7, we explained that merchandising, including the sale of personalised dynamic offers and ancillaries, is an important element under airlines' new business models. This section summarises the evidence from airlines regarding:

(a) evaluation of suppliers when airlines procure merchandising solutions;

⁸²⁹ [REDACTED]. The following airlines said they have no such plans: [REDACTED].

⁸³⁰ [REDACTED].

⁸³¹ Nine airlines said it is crucial or very important in achieving their future goals: [REDACTED].

⁸³² NDC@Scale is a set of criteria that will demonstrate that airlines (and their IT providers), aggregators and travel sellers have a minimum set of recognized capabilities to drive volumes of NDC transactions towards 2020. (IATA website: <https://www.iata.org/en/programs/airline-distribution/ndc/ndc-scale/>, accessed 27.01.2020).

⁸³³ [REDACTED].

⁸³⁴ [REDACTED].

⁸³⁵ [REDACTED].

⁸³⁶ For example, [REDACTED] in merchandising; [REDACTED] in NDC API and direct connect but not in offer creation modules; [REDACTED] on merchandising and pricing solutions (as they already had NDC API); and [REDACTED] in merchandising, but [REDACTED].

- (b) their responses to our questionnaires/calls on supplier strengths;
- (c) their ability to self-supply.

10.78 As explained in paragraph 10.76, some airlines procure merchandising and distribution solutions together and they evaluate suppliers of both solutions collectively. Where this is the case, we present the evidence in this section.

Airlines' evaluation of merchandising suppliers

10.79 In Chapter 8 we have analysed bidding data which provides an overview of the frequency of suppliers bidding for and winning merchandising contracts. This section further considers the qualitative evidence on airlines' choice of supplier, including the reasons for their choice or the scores they gave to individual suppliers. We have reviewed the evaluation of supplier for seven airlines which procured merchandising solutions in the last three years using RFPs or negotiations.⁸³⁷

10.80 Two very large airlines evaluated suppliers of standalone merchandising solutions. Both have chosen Farelogix.

- (a) [REDACTED] evaluated Farelogix and [REDACTED] and chose Farelogix, whereas [REDACTED] did not qualify because 'their solution did not meet up to the requirements'.⁸³⁸ It did not evaluate other suppliers.

- (b) [REDACTED],⁸³⁹ [REDACTED].⁸⁴⁰ [REDACTED].

10.81 The following five airlines evaluated suppliers for NDC solutions including both merchandising and distribution together, among other retailing functions.

- (a) SAS (a Tier 1 airline in Scandinavia, 2017-2018) evaluated [REDACTED].⁸⁴¹ [REDACTED].⁸⁴²

- (b) TAP (a Tier 3 airline in Portugal, 2017) evaluated Amadeus, Datalex, Farelogix, OpenJaw, PROS and Travelfusion. Datalex and [REDACTED] obtained the highest overall score, but TAP selected [REDACTED].⁸⁴³ Farelogix was placed ahead of [REDACTED], while [REDACTED].

⁸³⁷ Further details are provided in [REDACTED].

⁸³⁸ [REDACTED].

⁸³⁹ [REDACTED].

⁸⁴⁰ [REDACTED].

⁸⁴¹ [REDACTED].

⁸⁴² [REDACTED].

⁸⁴³ TAP explained that their decision to go on with [REDACTED] was related to [REDACTED].

(c) [REDACTED].⁸⁴⁴ [REDACTED].

(d) Etihad (2017, a Tier 2 airline) received proposals from [REDACTED], Datalex and Farelogix. It gave Farelogix the highest score of [REDACTED] against Datalex [REDACTED] which was the only other shortlisted bidder.

(e) [REDACTED].

10.82 We consider the airlines' RFP evaluation evidence above shows that Farelogix has a strong reputation in merchandising and in NDC solutions, is regularly shortlisted by airlines in their evaluation of suppliers and has the ability to win contracts to supply very large airlines. Amadeus, Datalex and OpenJaw were also regularly among the shortlisted suppliers, while other providers are rarely among the shortlisted suppliers.

Airlines' submitted views on merchandising supplier strength

10.83 We asked airlines for their views on Farelogix, Sabre and suppliers of merchandising solutions other than the Parties (to which 21 airlines responded). We also asked airlines to identify the suppliers that they consider will become stronger or weaker competitor to either of the Parties in the next five years, based on their expectations of developments in the industry (to which 19 responded). Their responses are summarised for each supplier below.

(a) **Farelogix.** Airlines in general noted Farelogix's broader functionality and capabilities in merchandising compared to other suppliers. This includes 'innovative nature' and 'leading in developing technology' in NDC, merchandising and related services. Five airlines describe it as 'disruptor'.⁸⁴⁵ Five responding airlines identified Farelogix as becoming stronger in merchandising,⁸⁴⁶ due to reasons such as 'established position in the industry' and 'forward thinking'.⁸⁴⁷ No airline identified Farelogix as becoming weaker.

(b) **Sabre.** Airlines typically noted that Sabre has less developed merchandising solution and is PSS-dependent. However, six responding

⁸⁴⁴ [REDACTED].

⁸⁴⁵ [REDACTED].

⁸⁴⁶ [REDACTED] one airline nuanced that Farelogix would become stronger if there is competition between Sabre, Farelogix and Amadeus. In addition to these airlines, [REDACTED] submitted that jointly Sabre and Farelogix will become stronger; we did not include [REDACTED] in the count.

⁸⁴⁷ Note that the question asked which suppliers would become stronger/weaker competitors to either of the Parties and therefore the numbers of airlines identifying either Farelogix or Sabre would be understated as airlines are likely to have focused on providers they considered to be competitors to the Parties.

airlines identified Sabre to become stronger in merchandising,⁸⁴⁸ because of its established role as GDS and a PSS, substantial financial resources and a valued merchandising product. One large European airline made these comments in anticipation of the Merger,⁸⁴⁹ while a Latin American airline⁸⁵⁰ said Sabre would be stronger if there was competition from Farelogix and Amadeus. One large airline mentioned Sabre among suppliers becoming weaker because ‘their innovation pace is too slow.’⁸⁵¹

- (c) **Amadeus** is identified by nearly all (20) responding airlines as an alternative to the Parties.⁸⁵² Three large airlines considered Amadeus in particular as a close competitor to Farelogix,⁸⁵³ while other airlines noted Farelogix’s broader functionality and more flexible offering than Amadeus’. Nearly all (17) responding airlines identified Amadeus as becoming stronger in merchandising due to their established position as PSS, mature capabilities and capital investments. No airline identified Amadeus as becoming weaker.
- (d) **Travelport** was rarely mentioned as an alternative to the Parties.⁸⁵⁴ In the three cases it was mentioned, two airlines considered Farelogix to have better functionality and flexibility than Travelport.⁸⁵⁵
- (e) **Datalex** was considered an alternative to the Parties by 13 responding airlines across a range of sizes and geographies.⁸⁵⁶ Five of these highlighted Farelogix’s advanced capabilities compared to Datalex.⁸⁵⁷ Two airlines ([REDACTED]) identified previous issues with delivery of Datalex product as its weakness.⁸⁵⁸ Moreover, five⁸⁵⁹ airlines identified Datalex to become weaker,⁸⁶⁰ noting its recent issues around financials and Lufthansa’s contract termination as a concerning factor which may detract

⁸⁴⁸ [REDACTED]. In addition to these airlines, [REDACTED] submitted that jointly Sabre and Farelogix will become stronger; we did not include [REDACTED] in the count.

⁸⁴⁹ [REDACTED].

⁸⁵⁰ [REDACTED].

⁸⁵¹ [REDACTED].

⁸⁵² However, four airlines which do not use Amadeus PSS systems indicated Amadeus as an alternative but noted that Amadeus merchandising works best or that it is integrated into Amadeus PSS, indicating that Amadeus product may not be easily available to them.

⁸⁵³ [REDACTED].

⁸⁵⁴ One airline [REDACTED] identified Travelport among suppliers which could become weaker, but did not provide reasons.

⁸⁵⁵ [REDACTED] noted limited functionality and flexibility.

⁸⁵⁶ [REDACTED].

⁸⁵⁷ [REDACTED].

⁸⁵⁸ [REDACTED].

⁸⁵⁹ Note that in addition to the five airlines, [REDACTED] identified Datalex as both becoming stronger and weaker explaining that this would depend whether they manage to solve their current financial problems.

⁸⁶⁰ [REDACTED].

them from using Datalex.^{861, 862} Only one airline identified them as becoming stronger.⁸⁶³

- (f) **OpenJaw** was identified as an alternative to the Parties by seven responding airlines,⁸⁶⁴ including large European airlines. While three airlines said it is a close alternative,⁸⁶⁵ others said it is a limited or moderate alternative or noted limited functionalities of OpenJaw relative to Farelogix. Five responding airlines considered OpenJaw would become stronger in merchandising,⁸⁶⁶ with reasons such as 'getting more NDC contracts'⁸⁶⁷ and ownership by Travelsky.⁸⁶⁸ One⁸⁶⁹ major airline mentioned OpenJaw among the providers that will become weaker.
- (g) **PROS** was considered to be an alternative to the Parties by 12 responding airlines.⁸⁷⁰ However, they generally said PROS lacks behind Farelogix in functionality and noted that PROS merchandising solution is still under development. Five responding airlines submitted that PROS will become stronger,⁸⁷¹ highlighting its recent acquisition, effort to improve solution and revenue optimisation capabilities. One airline submitted it will become weaker as its merchandising solutions need to be 'flexible and easily integrated into PSS'.⁸⁷²
- (h) **ITA/Google** was referred as an alternative by six responding airlines, most of which are in North America.⁸⁷³ While two large US airlines said ITA as a close alternative to Farelogix,⁸⁷⁴ other airline comments indicated ITA/Google's limited product offering. Only a few (three) responding airlines told us that ITA will become stronger in merchandising in future,⁸⁷⁵ [REDACTED], although this airline did not include ITA in a recent shortlist of potential suppliers.⁸⁷⁶ One airline said Google/ITA will become

⁸⁶¹ See paragraph 10.81(a) regarding submissions from [REDACTED], and [REDACTED].

⁸⁶² [REDACTED].

⁸⁶³ [REDACTED].

⁸⁶⁴ [REDACTED]. [REDACTED] listed OpenJaw as an alternative but submitted that it has 'not evaluated OpenJaw, Datalex, Google/ITA, IBM, Expedia or DXC in regard to non-core PSS services, and cannot comment on the extent to which they compete with Sabre and Farelogix' and hence we have not counted its response.

⁸⁶⁵ [REDACTED].

⁸⁶⁶ [REDACTED].

⁸⁶⁷ [REDACTED].

⁸⁶⁸ [REDACTED].

⁸⁶⁹ [REDACTED].

⁸⁷⁰ [REDACTED], but it also submitted that they have not done functional comparison.

⁸⁷¹ [REDACTED].

⁸⁷² [REDACTED].

⁸⁷³ [REDACTED].

⁸⁷⁴ [REDACTED].

⁸⁷⁵ [REDACTED].

⁸⁷⁶ Paragraph 10.81(c)

weaker as the airline is not 'sure they will continue to invest in their products'.⁸⁷⁷

- (i) Some other providers were mentioned several times by responding airlines as an alternative provider to either Farelogix or Sabre; and these included:⁸⁷⁸ SAP,⁸⁷⁹ IBS,⁸⁸⁰ JR Technologies,⁸⁸¹ TP Connects.⁸⁸² These suppliers were not in general referred by airlines as providers which could become stronger in future.⁸⁸³

10.84 The above shows that Farelogix is considered by airlines as the strongest provider of merchandising solutions, having mature capabilities, followed by Amadeus. PROS and Datalex were identified as weaker alternatives, with Datalex considered becoming even weaker in the future. OpenJaw and ITA/Google were considered as more limited alternatives. While there is a list of other providers, they are not in general considered as alternative suppliers.

Airlines' submitted views on self-supply of merchandising solutions

10.85 Of all the 35 responding airlines, only three airlines (which are Tier 1 or 2) self-supply merchandising solutions.⁸⁸⁴ Of these, one uses its in-house solutions in combination with Sabre's,⁸⁸⁵ one has recently outsourced to Farelogix,⁸⁸⁶ and one large airline expects to procure a third-party solution to replace its in-house tools 'to deliver increased functionality and a lower cost of ownership' and considers Farelogix as a 'strong contender'.⁸⁸⁷

10.86 Eight airlines said they have not considered self-supply of merchandising solutions⁸⁸⁸ The reasons included they 'do not have the resources to produce the [merchandising] tool, drive continuous innovation and provide the proper support', whilst 'external vendors can leverage specialized skill set';⁸⁸⁹ or that

⁸⁷⁷ [REDACTED].

⁸⁷⁸ DXC, IBM and Expedia were mentioned by [REDACTED], but it submitted that it has not evaluated their products.

⁸⁷⁹ [REDACTED] (but noted SAP/PROS), [REDACTED].

⁸⁸⁰ [REDACTED].

⁸⁸¹ [REDACTED].

⁸⁸² [REDACTED].

⁸⁸³ Except for JR Tech, which was considered by [REDACTED] while TP Connects was considered by [REDACTED] among providers becoming stronger competitor in future in merchandising.

⁸⁸⁴ [REDACTED].

⁸⁸⁵ [REDACTED].

⁸⁸⁶ Farelogix will replace part of its B2C e-commerce solution ([REDACTED])

⁸⁸⁷ [REDACTED].

⁸⁸⁸ [REDACTED]. A few other airlines responded in more general terms and submitted that they have considered, but decided against, developing non-core PSS modules in general: [REDACTED].

⁸⁸⁹ [REDACTED].

it 'requires significant resource investment for maintenance and regular development' which is not their 'core competency'.⁸⁹⁰

10.87 None of the airlines said they have plans to develop their own merchandising solutions. However, six airlines (of various tiers) said that they would consider self-supply,⁸⁹¹ some were caveated with cost and skill considerations. The following reasons were provided:

- (a) [redacted] said it has chosen to outsource over self-supply because of time to the market (as building would have taken several years and costed several millions).⁸⁹²
- (b) [redacted] said it 'would be able to develop these in-house if we had the right knowledge and resources.'⁸⁹³
- (c) Lufthansa Group would consider to develop in-house (e.g. with Lufthansa Systems) in case of issues with the current provider or if there is the opportunity to develop a product that can be sold to other airlines.

10.88 The above shows that airlines generally do not consider self-supply of merchandising solutions to be a credible option.

Evidence from airlines relating to distribution

10.89 This section summarises the evidence from airlines specific to distribution. We consider airlines' distribution strategy and their current and future use of various distribution channels. This evidence assists our understanding of the relative significance of each distribution channel, how they are expected to change in future, and accordingly, the significance of Farelogix, Sabre and other suppliers of distribution solutions. We summarise the evidence on:

- (a) volume shift from GDS to GDS bypass and airline.com;
- (b) airlines' submitted views on expected use of various distribution channels;
- (c) airlines' negotiations with GDSs;
- (d) airlines' submitted views on strength of suppliers; and
- (e) self-supply.

⁸⁹⁰ [redacted].

⁸⁹¹ [redacted].

⁸⁹² [redacted].

⁸⁹³ [redacted].

Volume shift from GDS to GDS bypass and airline.com

10.90 British Airways and Lufthansa are two major European airlines which have adopted GDS bypass using NDC API for several years. We have considered how the shares of bookings on British Airways and Lufthansa have changed, in particular since these airlines introduced surcharges on the GDS or withdrew content from the GDS. We found that both airline.com and GDS bypass have gained shares from the GDS, for these airlines.

- (a) British Airways introduced a technology charge on bookings made on GDS in November 2017. Between Q4-2017 and Q3-2019, [REDACTED],⁸⁹⁴ [REDACTED].
- (b) Lufthansa withdrew content from GDS in April 2018, after which it saw an increase in the share of bookings through GDS bypass by 5pp and increase in airline.com by 2pp between Q1-2018 and Q3-2019, at the expense of the GDS. Prior to this, Lufthansa introduced Distribution Cost Charge (ie a charge for bookings made on GDS) in September 2015. Considering this longer period between Q3-2015 and Q3-2019, the GDS share has decreased by 18pp (from 71% to 53%), and the correspondingly share of airline.com has [REDACTED] and GDS bypass [REDACTED].

10.91 Internal documents of [REDACTED] show that their strategies are to increase usage of distribution solutions based on the NDC API and airline.com, away from the traditional GDS platform.

- (a) An IAG Board update in 2018 states that [REDACTED].⁸⁹⁵ [REDACTED].⁸⁹⁶
- (b) A [REDACTED] 2019 3-year plan states that direct channel is its preferred sales channel.⁸⁹⁷ [REDACTED] plans shifting more bookings from GDS to direct channels and notes that if [REDACTED] decides to introduce GDS surcharges, then it would need to offer an alternative booking solution such as direct connect (GDS bypass) as an alternative to GDS for travel agents to make bookings.⁸⁹⁸

10.92 The above shows that airline.com plays a role in winning volumes from the GDS platform. For airlines that have already adopted or are adopting NDC APIs, GDS bypass also plays a role and is expected to continue to do so.

⁸⁹⁴ The difference does not show up as 6pp due to rounding.

⁸⁹⁵ [REDACTED].

⁸⁹⁶ [REDACTED].

⁸⁹⁷ [REDACTED].

⁸⁹⁸ [REDACTED].

Airlines' submitted views on expected use of various distribution channels

10.93 We asked airlines about their views on the expected use of distribution channels in future, to which 29 airlines responded. They generally expect to reduce the share of GDS (although this would remain an important channel) and increase the use of GDS bypass and airline.com. Many also plan on using or growing GDS pass-through.

- *GDS*

10.94 Nearly all 29 responding airlines told us that they project reducing the share of bookings through GDS.⁸⁹⁹ Some airlines noted that GDS may become more of an aggregator and no longer creating the offer,⁹⁰⁰ while seven airlines (including large European and US airlines) said GDS will stay important in the indirect channel as they provide the ability to distribute at scale or are preferred by TMCs.⁹⁰¹ Five large European and North American airlines noted that GDSs have been slow in innovating and developing technology (based on the EDIFACT standard, with one describing it 'outdated'⁹⁰²), which limits their ability to enhance customer offer to respond to customer needs.⁹⁰³

- *GDS bypass*

10.95 Nearly all 29 responding airlines project increasing their usage of both direct connect and aggregators (and reduce usage of GDS),⁹⁰⁴ some noting that it has created competitive pressure on the GDS to adapt.

- (a) A range of airlines, including large and mid-sized ones,⁹⁰⁵ noted that having a GDS bypass has brought competitive pressure on GDSs and encouraged them to develop their NDC solutions. They reasoned that direct connect introduces competitive pressure on indirect distribution (and the GDSs that are so entrenched in the necessary content flow between airlines, travel agents and passengers).⁹⁰⁶ Another flag carrier

⁸⁹⁹ [REDACTED] submitted that they plan to grow GDS, but the responses indicate that in absolute volume rather than grow the share of bookings; [REDACTED] did not indicate their usage plans of GDS. [REDACTED] submitted that they plan to grow GDS (but they also indicate that they plan to grow at least one other channel).

⁹⁰⁰ [REDACTED].

⁹⁰¹ [REDACTED].

⁹⁰² [REDACTED].

⁹⁰³ [REDACTED].

⁹⁰⁴ Only [REDACTED] submitted that it plans to keep share of direct connect as it is currently, but grow share through aggregators. All other airlines indicated that they plan to grow both or either of the channels; except the following airlines which did not indicate their plans towards GDS bypass: [REDACTED].

⁹⁰⁵ [REDACTED].

⁹⁰⁶ [REDACTED].

said ‘if GDS do not continue to invest in technology enablement for NDC, they expect to see more interest in GDS bypass’.⁹⁰⁷

(b) In relation to aggregators, IAG told us that ‘it would be primarily aggregators that would drive most of our NDC value’, and that it does not expect GDS bypass to fully replace traditional GDS distribution at least in the short/medium term.⁹⁰⁸ [REDACTED] seeks to grow the use of aggregator ‘to be double digits in the next 5 years’.

- *GDS pass-through*

10.96 Slightly more than half of the 29 responding airlines said they plan to either start using or grow GDS pass-through.⁹⁰⁹ Three airlines qualified that this would be the case only if GDS keep innovating and adopting the NDC standard.⁹¹⁰ As noted in paragraph (a) above, airlines has told us GDS pass-through is part driven by GDS bypass.

- *Airline.com*

10.97 Nearly all of 29 responding airlines plan to grow their share of bookings through airline.com,⁹¹¹ but some larger airlines noted that direct channels are not suitable for all customers and there might be limited substitution with the indirect channel.⁹¹² For example, IAG told us that there are some products⁹¹³ that they ‘do not offer on our website and that we do offer through the GDS and now via the NDC. So, the website would have only been a small alternative’⁹¹⁴ and ‘don’t expect travel agencies to book on the B2C website.’⁹¹⁵

Evidence from airline negotiations with GDS

10.98 Airline [REDACTED] two to ten [REDACTED].⁹¹⁶ The extent to which different outside distribution options or suppliers have been used as a negotiating lever can provide insights into understanding their degree of constraints on the GDS.

⁹⁰⁷ [REDACTED].

⁹⁰⁸ 3rd party hearing, IAG.

⁹⁰⁹ [REDACTED].

⁹¹⁰ [REDACTED].

⁹¹¹ Three airlines did not provide response ([REDACTED]), but this information [REDACTED].

⁹¹² [REDACTED].

⁹¹³ Such as special rates for corporate customers or package holiday deals to travel agents.

⁹¹⁴ [REDACTED].

⁹¹⁵ [REDACTED].

⁹¹⁶ [REDACTED].

10.99 We asked airlines to identify the levers they used in negotiating contractual terms with GDS in the last three years, to which 24 airlines responded.⁹¹⁷ A range of airlines told us they have used GDS bypass as a negotiating lever when they renew their contracts with the GDS, in addition to the use of airline.com.

- (a) 13 airlines (including eight Tier 1 airlines) have used the threat of utilising direct connect as a lever in negotiating with the GDS, of which six airlines said they referenced Farelogix specifically. Nine of these 13 airlines also used airline.com as a lever. Most airlines using both levers rank direct connect as equally important as airline.com.
- (b) Five other airlines said they used airline.com but not direct connect as a lever.
- (c) Six other airlines did not use either airline.com or direct connect as a lever.

Airlines' submitted views on strength of distribution solution suppliers (NDC API and GDS)

10.100 This section summarises airlines' responses on their views on the suppliers which could supply them with services required to establish GDS bypass and their capabilities (to which 21 airlines responded). We also asked airlines to identify suppliers which they expect to become stronger or weaker than either of the Parties in the next five years (to which 23 airlines responded). Their responses are summarised for each supplier below.⁹¹⁸

- (a) **Farelogix:** Airlines typically noted that Farelogix has advanced connection and NDC API capabilities, experience with integration to PSS and travel agency implementation. Two airlines also highlighted it has the scale required to serve large airlines.⁹¹⁹ Seven airlines considered Farelogix will become stronger,⁹²⁰ due to the industry transition to an NDC adoption and Farelogix's growth of technology offerings and direct distribution.⁹²¹ Only one airline⁹²² submitted that Farelogix (together with

⁹¹⁷ [REDACTED].

⁹¹⁸ [REDACTED].

⁹¹⁹ [REDACTED].

⁹²⁰ [REDACTED].

⁹²¹ Note that the question asked which suppliers would become stronger/weaker competitors to either of the Parties and therefore the numbers of airlines identifying either Farelogix or Sabre would be understated as airlines are likely to have focused on providers they considered to be competitors to the Parties.

⁹²² [REDACTED].

Datalex and OpenJaw) might be weaker as they cannot handle ‘the rush of demand.’

- (b) **Sabre:** Airlines generally consider Sabre to have a strong market position as a GDS; five have identified it as a supplier to provide GDS bypass services,⁹²³ but responses noted its ‘low interest in providing direct connect’,⁹²⁴ ‘dependency on PSS’⁹²⁵ or worse capabilities.⁹²⁶ Four airlines said Sabre will become stronger due to its established position and technical and financial resources.⁹²⁷ Four⁹²⁸ airlines submitted that GDS would become weaker in their traditional role if they fail to evolve, innovate or adopt NDC, but airlines did not indicate that, among other GDSs, only Sabre would become weaker.
- (c) **Amadeus:** 11 airlines referred to Amadeus as a supplier for GDS bypass services.⁹²⁹ Of these, four commented that Farelogix has better functionality than Amadeus,⁹³⁰ and three prefer Farelogix due to its independence from a GDS,⁹³¹ while two said Amadeus is cheaper.⁹³² Most airlines (14) expect Amadeus to become stronger in future due to its technology investments and position as a GDS and PSS provider. In addition, one airline submitted that Amadeus would become stronger than Sabre, unless Sabre acquires Farelogix.⁹³³ One⁹³⁴ airline submitted that it will become weaker.⁹³⁵
- (d) **Travelport.** Two airlines in Europe referred to Travelport as a supplier to provide GDS bypass services,⁹³⁶ although we note that Travelport does not offer an NDC API solution. More generally regarding its GDS business, 11 airlines expected Travelport to become weaker,⁹³⁷ due to reasons such as not having a PSS, is already the weakest among the

⁹²³ [REDACTED].

⁹²⁴ [REDACTED].

⁹²⁵ [REDACTED].

⁹²⁶ [REDACTED].

⁹²⁷ [REDACTED]. In addition to these airlines, [REDACTED] submitted that Sabre would become stronger than Amadeus if they acquire Farelogix.

⁹²⁸ [REDACTED].

⁹²⁹ [REDACTED].

⁹³⁰ [REDACTED] although the comparison is to GDS altogether rather than specifically to Amadeus), [REDACTED].

⁹³¹ [REDACTED] (the comparison is to GDS altogether rather than specifically to Amadeus), [REDACTED].

⁹³² [REDACTED].

⁹³³ [REDACTED].

⁹³⁴ [REDACTED].

⁹³⁵ In addition, four airlines [REDACTED] submitted that legacy GDSs will become weaker in their traditional role.

⁹³⁶ [REDACTED] (note that while it named the main GDS as an alternative, the comparison to Farelogix was on general basis, without specifics to Travelport).

⁹³⁷ [REDACTED] referred to GDS, among which it named Amadeus, Sabre and Travelport, becoming weaker if they do not innovate and adopt.

GDSs, continues to lose market share, and faces financial challenges. Only three airlines expect it to become stronger.⁹³⁸

- (a) **Datalex.** 11 airlines considered Datalex as a supplier to provide GDS bypass services,⁹³⁹ but of these, four noted Datalex has more limited functionality and offering than Farelogix,⁹⁴⁰ and two also noted Datalex's focus on airline.com.⁹⁴¹ Seven airlines considered that Datalex would become weaker.⁹⁴² Three airlines⁹⁴³ submitted that Datalex will become stronger because NDC would lower barriers to entry and because they are among the ones growing in terms of their technology offering.

- (e) **OpenJaw:** Six out of 21 responding airlines considered OpenJaw as a supplier for GDS bypass services.⁹⁴⁴ A large European airline said OpenJaw has focus on airline.com and in Asian regions, but is 'probably the next best alternative to Farelogix despite a different technical setup.'⁹⁴⁵ Three large airlines considered its small scale and ownership by Chinese GDS TravelSky as limiting its competitiveness,⁹⁴⁶ but one of these said it is developing quickly.⁹⁴⁷ Three airlines⁹⁴⁸ submitted that OpenJaw will become weaker because it is niche, cannot handle the rush in demand or do not have as good technology as Farelogix, but two airlines⁹⁴⁹ submitted that it will become stronger.

- (f) A limited number of airlines identified TPConnects,⁹⁵⁰ JRTechnology or Travelfusion,⁹⁵¹ and none considered ITA to as a supplier for GDS bypass services. Further details are set out in Appendix F.

Airlines' submitted views on self-supply of distribution solutions (NDC API)

10.101 Seven airlines, including large and mid-size airlines in Europe and the US told us that they have developed or are developing their NDC APIs in-

⁹³⁸ [REDACTED] (stronger compared to Farelogix, but position should not change against Sabre), [REDACTED].

⁹³⁹ [REDACTED].

⁹⁴⁰ [REDACTED].

⁹⁴¹ [REDACTED].

⁹⁴² [REDACTED].

⁹⁴³ [REDACTED].

⁹⁴⁴ [REDACTED].

⁹⁴⁵ [REDACTED].

⁹⁴⁶ [REDACTED].

⁹⁴⁷ [REDACTED].

⁹⁴⁸ [REDACTED].

⁹⁴⁹ [REDACTED].

⁹⁵⁰ The airlines noted that TP Connects is a content aggregator.

⁹⁵¹ The airlines noted that Travelfusion's business is in aggregation.

house,⁹⁵² but that doing so was complicated and involved significant costs and challenges. Those provided detailed reasoning include:

- (a) IAG cited ‘no suitable provider’ and ‘desire to be in control of their distribution’ as reasons for self-supplying NDC API solution, although it considered this ‘a complex, expensive process that involves many stages and requires a long time to develop comprehensive functionality.’⁹⁵³
- (b) [REDACTED].⁹⁵⁴
- (c) Delta is currently building NDC APIs but said ‘it is complicated, time-consuming and expensive.’⁹⁵⁵
- (d) [REDACTED] found that it was ‘very difficult and expensive to keep them updated’ and has chosen Farelogix to provide its NDC API for the full suite to free up its IT resources.⁹⁵⁶

10.102 Seven other airlines told us that, although they would consider developing NDC APIs,⁹⁵⁷ they have chosen to outsource it to a third-party provider generally due to the financial and maintenance costs, and expertise required. Specific reasons provided include:

- (a) American Airlines has decided not to self-supply given the significant costs, which it estimated to be \$40 million to develop and \$25 million yearly to maintain and it would take two to three years to develop and another two years to replace connections. It said the required resources for developing NDC solutions would not be available for other projects.⁹⁵⁸
- (a) [REDACTED] said ‘it is not a software developer enterprise’ and cannot afford the ‘high cost’ to develop, implement, maintain, evolve NDC protocol’.
- (b) [REDACTED] it would ‘only consider in-housing if we felt it could deliver a cost or strategic advantage’, compared to capability of external service providers.⁹⁵⁹

952 [REDACTED].

953 [REDACTED].

954 [REDACTED].

955 [REDACTED].

956 [REDACTED].

957 [REDACTED] not counted as it submitted ‘not considered at the moment, but open to reconsider if ROI works on’.

958 [REDACTED].

959 [REDACTED].

10.103 The remaining airlines told us that they have not considered in-house supply, similarly citing a lack of expertise and significant costs as the main reasons.⁹⁶⁰

10.104 The airlines' responses above show that self-supply of NDC API may be a viable option for larger airlines. However, self-supply incurs significant costs and requires IT expertise which many other airlines consider they do not have and/or are less economical than sourcing from a third-party.

Preference for a channel-agnostic provider of merchandising and/or distribution solutions

10.105 In airlines' submitted views and internal documents about suppliers of merchandising and/or distribution solutions, they often consider a supplier's independence from the GDS and PSS as an important factor. They particularly refer to Farelogix's independent or channel-agnostic role as its strength and identify the removal of such role as a concern of this Merger. This section summarises this evidence.

- (a) IAG told us [REDACTED].⁹⁶¹
- (b) [REDACTED] told us that while Amadeus is a possible alternative to Farelogix in merchandising, it 'wanted to be less dependent on their current PSS and on GDS'.
- (c) Lufthansa told us (in relation to direct connect) that Amadeus Altea is not an option because 'owned by our PSS and main GDS provider, it provides almost no independent solution from IT perspective to challenge GDS legacy business model'. It also told us that it explored investing in Farelogix because of 'the perceived value of maintaining an independent player in an otherwise highly concentrated market'.
- (d) Etihad expressed a concern relating to this Merger that 'one of the best non GDS controlled providers are becoming a GDS controlled provider; Farelogix help airlines to facilitate an advanced direct connect to the travel trade'.
- (e) Alitalia told us that Farelogix is 'pioneer and most successful firm in NDC Offer and Order solutions for GDS by-pass and pass-through' for its innovative approach and independency from GDS', and it was concerned that 'competition in the NDC non-core solutions might be impacted by the

⁹⁶⁰ [REDACTED].

⁹⁶¹ [REDACTED].

acquisition reducing independency of Farelogix decisions and prioritization.’

- (f) [REDACTED] said the Merger ‘removes from the market one of the largest non PSS vendors offering merchandising technology and direct connect NDC technology’.
- (g) [REDACTED] told us that ‘if [FLX-M] were removed from the market as a free-standing solution, most airlines would be challenged to effectively replace it.’
- (h) Norwegian told us that ‘Farelogix could benefit from being an independent, PSS agnostic suppliers, offering “best of breed” components, complementary to the traditional PSS suppliers.’
- (i) [REDACTED] told us that ‘non-GDS affiliated companies such as Farelogix enable non-GDS aggregators to intermediate in the offer of attractive services to customers’.
- (j) [REDACTED].⁹⁶²
- (k) [REDACTED], said GDSs tend to have a conflict of interest when it comes to providing GDS bypass solutions.

Airlines’ views on the Merger

10.106 About half of the responding airlines expressed concern about the Merger, some told us that they are not concerned and around a quarter either did not express a view or provided ambiguous responses (eg raised concerns conditional on something happening, or noted both advantages and disadvantages). Of the airlines who expressed a view one way or the other, over half expressed concerns about the Merger’s impact on the competition in merchandising, distribution and innovation. The paragraphs below summarise their reasoning, with further details set out in Appendix F.

- (a) Nearly half of airlines (12 out of 27) raised concerns regarding non-core PSS solutions⁹⁶³ (of which merchandising is a module).⁹⁶⁴ The reasons include no viable alternative, removal of a leading and independent (non-PSS) provider of merchandising and NDC solutions, or stifling innovations

⁹⁶² [REDACTED].

⁹⁶³ Note that the summary incorporates responses from Phase 1 and Phase 2. In Phase 1 we have asked airlines about their views on the merger’s impact on non-core PSS services. The airlines responding to Phase 2 only questionnaire were asked about the merger’s impact on merchandising solutions.

⁹⁶⁴ [REDACTED].

by Farelogix. Specific comments included that the Merger would make the competition in the already limited space worse,⁹⁶⁵ remove 'from the market one of the largest non-PSS vendors offering merchandising technology and direct connect technology,'⁹⁶⁶ and airlines would be challenged to effectively replace Farelogix's 'leading retailing solution' from the market 'as a free-standing option'.⁹⁶⁷

- (b) Two further airlines expressed concerns regarding airline IT services in general,⁹⁶⁸ submitting that [REDACTED].⁹⁶⁹
- (c) About half of airlines [13 out of 27] raised concerns regarding distribution, contending that the Merger would remove an experienced and / or independent supplier in the market with limited competition;⁹⁷⁰ that Farelogix is the only provider with the required expertise; would provide Sabre with market power which may lead to price increases or reduction in innovation;⁹⁷¹ and which is viewed as a disruptor.⁹⁷²

10.107 The airlines which expressed concerns also identified the Merger's impact on innovation more generally due to Farelogix's record as an innovator. Reasons cited include 'innovations may slow down due to the influence of Sabre's policy, corporate structure or its position in the market',⁹⁷³ 'Sabre's different interests or incentives as a GDS';⁹⁷⁴ 'Farelogix has provided competitive pressure for GDS to invest more in developing NDC capabilities'⁹⁷⁵ and Farelogix is a 'disruptor'.⁹⁷⁶

10.108 [REDACTED] expressed concerns on non-core PSS services, distribution and innovation. In particular [REDACTED] submitted that the number of providers which have a competitive offer for NDC, direct connect and merchandising solutions is limited. Farelogix is one of the strongest providers that can compete with the leading PSS and GDS providers.

965 [REDACTED].

966 [REDACTED].

967 [REDACTED].

968 [REDACTED].

969 [REDACTED].

970 [REDACTED]. Of the airlines expressing concerns regarding distribution, only one airline [REDACTED] did not have concerns regarding non-core PSS solutions.

971 [REDACTED].

972 [REDACTED].

973 [REDACTED].

974 [REDACTED].

975 [REDACTED].

976 [REDACTED].

10.109 On the other hand, some airlines were not concerned in non-core PSS (eight out of 27 airlines)⁹⁷⁷ or distribution (six airlines).⁹⁷⁸ Of these airlines, four airlines said the Merger would make the Parties more effective,^{979, 980} or it would be beneficial to them by introducing NDC content into the GDS. One airline qualified that the Merger impact would be positive (as it provides funds required to Farelogix) if Farelogix is kept as separate company.⁹⁸¹

The Parties' submissions specific to airline evidence

10.110 In response to our working papers, the Parties made the following submissions regarding the airline evidence:

- (a) The NDC standard does not provide airlines with additional “control” as is merely an XML-based communications protocol that allows airlines to distribute their product on a consistent basis.⁹⁸²
- (b) ‘Being “independent” (i.e. non-GDS) does not make Farelogix a uniquely strong competitive constraint in merchandising’⁹⁸³
- (c) Airlines ‘control the release/availability of a Direct Connect API, but they cannot unilaterally decide to grow usage,’ which is controlled by travel agencies; and ‘there is no evidence that the buyer population intends to grow their usage of Direct Connects.’⁹⁸⁴
- (d) The airline questionnaire responses need to be put in context: ‘Sabre does not offer an NDC API and therefore ‘Sabre may be an alternative to Farelogix, but Farelogix is not a substitute for Sabre and the Parties are primarily providing complementary solutions.’⁹⁸⁵
- (e) NDC API market is characterised by significant growth and change in recent years and ‘airline views are less reliable as the airlines surveyed by the CMA will necessarily include both (i) airlines who procured NDC APIs several years ago and therefore may have an out-of-date view of competitive conditions; and (ii) airlines who are yet to procure NDC APIs,

⁹⁷⁷ [REDACTED].

⁹⁷⁸ [REDACTED].

⁹⁷⁹ [REDACTED].

⁹⁸⁰ American Airlines, while concerned regarding the impact of the merger on content distribution and on innovation, with regards to the impact on merchandising, it submitted the merger may be beneficial because Sabre could rely on Farelogix’s technology to improve their own technological capacities. This would create competitive pressure on the other providers.

⁹⁸¹ [REDACTED].

⁹⁸² [REDACTED].

⁹⁸³ [REDACTED].

⁹⁸⁴ [REDACTED].

⁹⁸⁵ [REDACTED].

and may not have engaged fully with the current competitive environment and the range of credible options available to them.’⁹⁸⁶

Our assessment of the Parties’ submissions

10.111 Based on the evidence considered above, our view in response to the Parties’ submissions are summarised below.

- (a) Airlines internal documents and their responses indicate airlines’ intention to take control.⁹⁸⁷ These show that the adoption of the NDC standard, including the merchandising and distribution solutions compatible with NDC, are enabling them to take greater control of the offer creation and distribution processes away from the GDS.
- (b) Airlines’ responses show that they value the independent and channel-agnostic role played by Farelogix in both merchandising and distribution, and more generally.⁹⁸⁸
- (c) We acknowledge that airlines cannot unilaterally decide to grow usage of direct connect. However, the evidence on airlines’ distribution strategy shows that they can incentivise usage, eg through surcharge on or withdrawing content from GDS, and their ability to do so is enhanced by having both airline.com and GDS bypass as alternative options to GDS.⁹⁸⁹
- (d) As explained in Chapter 7 and further evidenced in this section based on airlines’ responses,⁹⁹⁰ we consider that Farelogix’s distribution solutions allow GDS bypass and therefore exercise a constraint on Sabre’s GDS, even though there are differences between these distribution solutions.
- (e) We have considered evidence from a wide range of airlines of various sizes and regions, including those who have recently procured NDC API solutions.⁹⁹¹ While the markets are undergoing changes, procurement and implementation of NDC API solutions are typically long processes that can take months or more than a year.⁹⁹² Therefore, in our view, the responses from airlines that have made purchases in the past few years,

⁹⁸⁶ [REDACTED].

⁹⁸⁷ Chapter 7 (paragraphs 7.11-7.13) and in paragraphs 10.73-10.76 above.

⁹⁸⁸ Paragraph 10.105.

⁹⁸⁹ Paragraphs 10.90-10.92.

⁹⁹⁰ Paragraphs 10.95; 10.99; 10.100(a)

⁹⁹¹ Paragraph 10.81

⁹⁹² For example, several airlines went through the selection process of its NDC supplier (NDC API, merchandising and other revenue management solutions) in 2018, but the solutions are still being developed. (SAS, [REDACTED])

those who in the process of making purchases, or expected to do so in future are informative to our assessment.

Summary of airline evidence

10.112 In summary, the evidence from airlines' submitted views and their internal documents considered above shows that:

- (a) Airlines generally considered that NDC-compatible solutions in merchandising, distribution and other retailing functions are important to their strategy and have either already made investments or had plans to do so.⁹⁹³
- (b) In merchandising, Farelogix is considered to be a leading provider, with broad functionality and strong reputation, followed by Amadeus. Datalex and OpenJaw are the also considered providers, but as weaker alternatives.⁹⁹⁴ Airlines in general do not consider self-supply of merchandising solutions to be a credible option.⁹⁹⁵
- (c) In distribution, airlines strategies are to increase usage of distribution solutions based on the NDC API (including GDS bypass) and airline.com and reduce use of the GDS (although this would remain an important channel).⁹⁹⁶ Both GDS bypass and airline.com are important levers used by airlines to negotiate with a GDS.⁹⁹⁷
- (d) Amongst providers of NDI API solutions, Farelogix is considered to have advanced capabilities. Amadeus and Datalex were most often considered to be an alternative to Farelogix.⁹⁹⁸ Some large or mid-sized airlines can self-supply, although this incurs significant costs.⁹⁹⁹
- (e) In both merchandising and distribution, airlines generally value channel-agnostic providers (including specifically Farelogix) for their independence from the GDS and PSS.¹⁰⁰⁰
- (f) Around half of airlines we contacted have expressed concerns about the Merger's impact on the competition in merchandising, distribution and

⁹⁹³ Paragraphs 10.74 et seq.

⁹⁹⁴ Paragraphs 10.79 et seq. and 10.83 et seq.

⁹⁹⁵ Paragraphs 10.85 et seq.

⁹⁹⁶ Paragraphs 10.93 et seq.

⁹⁹⁷ Paragraph 10.99.

⁹⁹⁸ Paragraphs 10.100 et seq.

⁹⁹⁹ Paragraphs 10.101 et seq.

¹⁰⁰⁰ Paragraph 10.105

innovation (the rest of airlines either provided ambiguous responses or did not have concerns).¹⁰⁰¹

Evidence from travel agents

10.113 This section sets out the evidence we have gathered from travel agents. Travel agents do not procure merchandising modules from either of the parties, so our questions focus on distribution. As Farelogix does not market to travel agents we have primarily relied on responses from Sabre's travel agent customers.

10.114 While Farelogix submitted it does not have travel agents as customers, its solutions allow airlines to bypass the GDS and distribute content to travel agents. The more willing travel agents are to use GDS bypass, the more credible Farelogix's distribution solutions will be. Therefore, travel agents' willingness to access content using GDS bypass is a relevant element for the assessment of Farelogix's significance as a competitor in the supply of distribution solutions.

10.115 As set out in Chapter 3, we consider three different types of travel agents OTAs, TMCs and other B&M travel agents. Each of these three market segments are material to Sabre's business model. The proportion of bookings for Sabre by type of travel agents are: OTAs ([REDACTED]), TMCs ([REDACTED]) and other B&M travel agents ([REDACTED]).¹⁰⁰²

10.116 We sent detailed questionnaires to over 50 travel agents including OTA, TMCs and other B&M travel agents we received responses from over 20 travel agents [REDACTED].¹⁰⁰³

10.117 We consider the following evidence from travel agents in further detail:

- (a) current use of GDS bypass via direct connects or aggregators;
- (b) travel agent views on differences between GDS vs GDS bypass;
- (c) costs to establish direct connects;
- (d) future use of GDS bypass by travel agents;
- (e) travel agent views on travellers using airline.com;

¹⁰⁰¹ Paragraphs 10.106 et seq.

¹⁰⁰² [REDACTED].

¹⁰⁰³ We sent a detailed phase 2 questionnaire as well as a simpler online questionnaire and had already received responses as part of our phase 1 inquiry. Further details in [REDACTED].

(f) views on accessing NDC content;

(g) views on the Merger.

10.118 We consider differences by travel agent segments where views appear to differ.

Current use of GDS bypass

10.119 We found that OTAs are the main segment of travel agents that use GDS bypass currently. By contrast, usage of GDS bypass by TMCs and other B&M travel agents is more limited.

(a) All OTA respondents indicated they used direct connects. Their use of these varied from 1% of bookings for [REDACTED] to 30% for [REDACTED] in 2018.¹⁰⁰⁴ In some cases, they account for a high proportion of bookings with a specific airline. For example, 80% of one OTA's bookings [REDACTED] were via direct connects and another two OTAs had airlines for which over 95% of their bookings were done via direct connects.¹⁰⁰⁵ Most responding OTAs also said they use aggregators.¹⁰⁰⁶ These aggregator bookings accounted on average for 20% of the OTAs global bookings.¹⁰⁰⁷ None of the OTAs which responded indicated they had used airline.com to book flights.

(b) Less than a third of the responding TMCs have established direct connects,¹⁰⁰⁸ and these accounted for less than 2% of each travel agent's airline bookings in 2018.¹⁰⁰⁹ More than half used aggregators, generally this accounted for less than 10% of each TMCs total bookings,¹⁰¹⁰ although one [REDACTED] TMC indicated that 54% of their bookings were through aggregators.¹⁰¹¹

(c) Of the (non-TMC) B&M travel agents we received responses from, the majority had established direct connects. The highest user of direct

¹⁰⁰⁴ All eight OTAs which responded to our questionnaires had used direct connects in 2018. [REDACTED].

¹⁰⁰⁵ [REDACTED].

¹⁰⁰⁶ Six out of eight OTAs recorded bookings through aggregators in 2018, [REDACTED].

¹⁰⁰⁷ Based on a simple average of four OTAs who provided estimates of booking use by channel on a global basis. There is significant variation with one OTA [REDACTED].

¹⁰⁰⁸ Four TMCs [REDACTED] indicated they had used direct connects in 2018]. This was out of 13; including eight phase 2 detailed questionnaire responses and two call notes, two online questionnaire responses and a phase 1 response.

¹⁰⁰⁹ TMC users of aggregators included [REDACTED].

¹⁰¹⁰ 8 out of 13 TMCs recorded bookings through non-GDS aggregators (including 2 call notes, 2 online questionnaire results and a phase 1 response) [REDACTED].

¹⁰¹¹ [REDACTED].

connects placed 6% of their bookings through direct connects in 2018.¹⁰¹² Two B&M travel agents indicated that they used aggregators although for less than 1% of bookings.¹⁰¹³ Three B&Ms also indicated they made some bookings direct using the airline's website this appeared to be in relation to certain budget airlines.¹⁰¹⁴

10.120 The main reasons given by travel agents across all segments for using direct connects and aggregators was to access content that was not available on their GDS, or due to surcharges imposed on GDS bookings.¹⁰¹⁵ In addition, one OTA said it was a result of a commercial negotiation with airlines,¹⁰¹⁶ and a TMC also told us it has a direct connect due to a client mandate.¹⁰¹⁷

10.121 We also asked travel agents how they have accessed NDC content in the past. Just under half of the travel agents which responded indicated they had accessed NDC content via GDS bypass, including TMCs, OTAs and B&M travel agents. A small number indicated they had accessed NDC content through their GDS.¹⁰¹⁸

Travel agent views on differences between GDS vs GDS bypass

10.122 To understand their willingness to use GDS bypass, we asked travel agents to explain the differences between GDS and GDS bypass services discussing advantages and drawbacks of each. Most travel agents including TMCs, OTAs and B&M travel agents highlighted at least some drawbacks with the functionality of non-GDS services.¹⁰¹⁹ Most commonly this included

¹⁰¹² Five out of seven other B&M travel agents said they had direct connects in 2018 – one said that 6.3% of their bookings were through direct connect [REDACTED], another travel agents [REDACTED] listed 8 airlines it had direct connects with each with between 0-2% of bookings. [REDACTED], and two responded to our phase 1 questionnaire indicated they had direct connects [REDACTED].

¹⁰¹³ [REDACTED].

¹⁰¹⁴ [REDACTED].

¹⁰¹⁵ [REDACTED].

¹⁰¹⁶ [REDACTED].

¹⁰¹⁷ [REDACTED].

¹⁰¹⁸ 6 Out of the 14 responding travel agents which responded to the question had consumed via direct connects, [REDACTED]. Reasons given included having access to a 'without baggage price, more extended variations of prices bundled with pre-packed services', [REDACTED] and 'surcharge free and light fares'. Only 3 out of 14 indicated they had accessed NDC content through their GDS in the last 12 months. [REDACTED] When asked to explain the additional content gained one travel agent explained that they accessed NDC content for testing purposes but currently there is no differentiated content that is not available through traditional legacy connections. In addition, five travel agents told us they had accessed NDC content via a Non GDS aggregator [REDACTED] one via airline.com [REDACTED].

¹⁰¹⁹ [REDACTED] 10 out of 13 responses (based on 15 ph2 responses – 2 did not answer)

travel agents highlighting limitations with making complex bookings involving multiple carriers;¹⁰²⁰ and post-booking services.¹⁰²¹

10.123 Some TMCs also highlighted limitations with comparing multiple airlines;¹⁰²² managing agent workflows /taking longer;¹⁰²³ and/or managing operations with other systems such as safety and security tracking tools.¹⁰²⁴

10.124 Two travel agents also highlighted differences with incentive payments. One B&M travel agent [redacted] said that they currently receive incentives from the GDS to use their platform and a TMC [redacted] suggested 'the main drawback of aggregators is that it is typically a paid for option'. An OTA [redacted] also noted that one of the benefits of direct connect was being able to obtain additional content such as more ancillary services.

10.125 In our online questionnaire we also asked respondents to rank the most important features when it comes to making a booking. Three out of the four respondents indicated availability of content was most important, with ease of comparison shopping being the next most highly ranked feature before the level of incentives, level of fulfilment support, mid/back office capabilities and ability to book with other items (e.g. accommodation).¹⁰²⁵

Costs to establish direct connects

10.126 We asked travel agents to estimate the costs to establish direct connects with airlines. Most respondents did not provide financial estimates; of those two travel agents who did the range varies: one OTA suggested costs start at \$100,000,¹⁰²⁶ and another estimated it to be \$1 million.¹⁰²⁷ A few TMCs told us that a direct connect requires significant investment from both a technical and process perspective.¹⁰²⁸ A B&M travel agent said they had two developers at the time of implementation.¹⁰²⁹ As regards timing to establish

¹⁰²⁰ [redacted].

¹⁰²¹ [redacted].

¹⁰²² [redacted].

¹⁰²³ [redacted].

¹⁰²⁴ [redacted].

¹⁰²⁵ Availability of content ranks 1st three times and 2nd once. Ease of comparison shopping ranked 2nd three times and 1st once. Level of incentives ranked third twice and fifth once, level of fulfilment support ranked fourth twice, mid/back office support ranked fifth twice and fourth once. Ability to book other items, ranked sixth twice and 3rd once.

¹⁰²⁶ [redacted].

¹⁰²⁷ [redacted].

¹⁰²⁸ [redacted].

¹⁰²⁹ [redacted].

direct connects, we received a range of responses from travel agents which vary widely from a few months to 18 months.¹⁰³⁰

10.127 However, airlines can fund these investments for the travel agents. For example, one OTA received over [REDACTED] as an 'NDC set up bonus' from an airline in relation to the implementation and maintenance of NDC direct connects.¹⁰³¹

Future use of GDS bypass

10.128 We asked travel agents about their current pipeline of GDS bypass under implementation, and their views on future usage of GDS bypass. We found that the use of GDS bypass is likely to grow further for the OTA segment.

- (a) The majority of OTAs we received responses from anticipated using direct connects more often in the future and all of them mentioned content restrictions as reason to establish direct connect.¹⁰³²
- (b) Three OTAs have further direct connects in the implementation stage,¹⁰³³ however one OTA suggested they had declined five airlines because of implementation costs.¹⁰³⁴
- (c) The proportion of UK bookings made through GDS bypass on a [REDACTED] OTA [REDACTED] grew from less than [REDACTED].

10.129 Responses from TMCs were mixed and did not indicate that there was likely to be large growth:

- (a) Over quarter of TMCs which answered the question indicated they anticipate an increase in direct connects usage,¹⁰³⁵ including one which had a new direct connect at the implementation stage.¹⁰³⁶

¹⁰³⁰ For example, one agent said agents suggested 'this could take anywhere from 12 months for new NDC airlines but only 8 weeks for players with established connections' [REDACTED]. Other responses included: 9-18 months', 2-3 months, 6 – 9 months [REDACTED] and up to a year. [[REDACTED] and [REDACTED]]

¹⁰³¹ [REDACTED].

¹⁰³² [REDACTED] 3 OTAs indicate the proportion of bookings likely to grow over next 5 years, the other responses are unclear. [REDACTED].

¹⁰³³ [REDACTED].

¹⁰³⁴ [REDACTED].

¹⁰³⁵ [Out of 8 TMCs responding to phase 2 detailed questionnaire. [REDACTED] 2 thought their use of direct connects would likely increase] and 2 TMCs responded to our online questionnaire – [REDACTED] predicted substantial increase, [REDACTED] one didn't know.

¹⁰³⁶ [REDACTED]

(b) Others appeared less certain about increasing the use of direct connects; one said it would make the decision on a case by case basis.¹⁰³⁷ Another told us it would use an aggregator rather than direct connect to access restricted content.¹⁰³⁸

10.130 Of the four B&M travel agents which responded to questions about their future usage of GDS bypass, two said they were unsure,¹⁰³⁹ the other two predicted substantial increases.¹⁰⁴⁰

10.131 We also asked travel agents to explain under what circumstances they would increase bookings through direct connect. Where travel agents responded to this question it was in relation to airlines putting more content outside the GDS or increase surcharges on content available via the GDS.¹⁰⁴¹ Although one TMC suggested their use of direct connects would increase if it added value and could be incorporated into their workflow without increasing costs.¹⁰⁴²

10.132 We also asked travel agents for their views on how they think they will likely access NDC content in the next 12 months.

10.133 In contrast to their historic usage on a forward-looking basis 9 of the 13 respondents indicated that they expected to access NDC content in the next 12 months through their GDS providers including most the TMCs and two OTAs.¹⁰⁴³ Only four travel agents suggested they planned to access NDC content through GDS bypass in the next 12 months and none of these were TMCs.¹⁰⁴⁴ Two travel agents told us they would be looking to access via an aggregator,¹⁰⁴⁵ and none via airline.com.

10.134 Four smaller travel agents also responded via our online questionnaire,¹⁰⁴⁶ three said NDC content would be not at all important but

1037 [REDACTED]

1038 [REDACTED]

1039 [REDACTED]

1040 [REDACTED] indicated that it would increase from 9% to 20% in the next five years, [REDACTED] in response to our online questionnaire predicted a 'substantial increase' in the next five years.

1041 [REDACTED].

1042 [REDACTED].

1043 [REDACTED]. One of these later indicated that they expected this to be in the next 12-18 month.

1044 [REDACTED].

1045 [REDACTED].

1046 [Online questionnaire responses: responses: [REDACTED]].

one said it would be very important and very positive.¹⁰⁴⁷ There was a mix of future use envisaged across both direct connect and GDS.¹⁰⁴⁸

Travel agents views on travellers using airline.com

10.135 We also asked travel agents for their views on the extent to which they thought their customers would consider booking directly with airlines.

10.136 TMCs mostly responded to suggest that their customers would not consider this for example due to their needs in relation to duty of care reporting or highlighted that many of their customer are part of mandated travel programmes.¹⁰⁴⁹ A couple of TMCs also highlighted that some of their customers do check other sources to check they are getting a good deal.¹⁰⁵⁰ Four TMCs said they access some content via airline.com [REDACTED], but this was for 1% or less of bookings for three agents although a small UK based TMC [REDACTED] indicated they used airline.com for 10% of their bookings.

10.137 Both B&M agents which responded to the question indicated that there is a growing trend to book via a metasearch provider,¹⁰⁵¹ however one noted that less than 10% of their customers would likely consider airline.com due to the singular product as well as some fares not being available on that channel.¹⁰⁵²

10.138 OTAs mostly highlighted the fact that their consumers often search multiple platforms and often use metasearch providers before making a purchase and will often decide based on the lowest price.¹⁰⁵³

Views on accessing NDC content

10.139 We asked travel agents for their views on the future of the industry and what role NDC would play.¹⁰⁵⁴ The travel agents which responded in relation to growth all indicated that the role of NDC was likely to increase in importance in the future. In relation to whether this would be positive or negative travel agents have expressed a range of views, with more identifying

¹⁰⁴⁷ [REDACTED].

¹⁰⁴⁸ Through which channel do you plan to access airline content that aligns with the NDC standard in the next 2 years? GDS and Direct connects were both listed twice, Airline websites/portal was listed 3 times and non GDS aggregator was listed once with one of the travel agents unsure who they would access the content.

¹⁰⁴⁹ 2 [REDACTED] Travel agents said their customers would not be interested in booking direct, 4 highlighted the additional services their clients get from using a TMC, [REDACTED], 4 highlighted customers use of mandated travel programmes i.e. travellers have to book through a TMC [REDACTED].

¹⁰⁵⁰ 2 highlighted customers checking other sources [REDACTED].

¹⁰⁵¹ [REDACTED].

¹⁰⁵² [REDACTED].

¹⁰⁵³ [REDACTED].

¹⁰⁵⁴ Phase 1 travel agent questionnaire – 14 responses from OTAs, TMCs and B&M

benefits of NDC content, whilst a small number expressed concerns. For example:

- (a) A number of travel agents including TMCs, OTAs and a B&M travel agent highlighted the positives around having more personalised content.¹⁰⁵⁵
- (b) Two travel agents highlighted the importance of NDC to the industry. One small TMC suggested NDC was ‘vital to move the industry forward.’¹⁰⁵⁶ And a large B&M travel agent suggested that the further development of NDC is ‘Critical to ensure that all airline content can be retailed to all customers and to ensure that customers booking via a travel agency don’t have a degraded experience.’¹⁰⁵⁷
- (c) One OTA expressed mixed views; it said that NDC content benefits passengers and helps it attract customers, but GDS bypass is less efficient than GDS.¹⁰⁵⁸
- (d) Another OTA told us that airlines use ‘NDC’ to reduce distribution cost, surcharging content on GDS to ‘enforce travel agents to move out of the GDS.’¹⁰⁵⁹
- (e) One smaller TMC was more concerned hoping the technology would not come to fruition.¹⁰⁶⁰

10.140 In addition to evidence from our engagement with travel agents we also looked at The Beat Research report June 2019 (sponsored by Delta) titled “TMC NDC Adoption Barometer”, which is based on a survey of 30 multinational and regional TMCs on the adoption of the NDC standard.¹⁰⁶¹ This report found that most TMCs view NDC adoption as positive, but fewer than half of the respondents planned to build their own direct connects to airlines to get NDC content. TMCs expect to access NDC content via multiple channels including GDS (100%), non-GDS aggregators (67%) and direct connects (40%) in the next 12 months. It also noted that TMCs in Europe

¹⁰⁵⁵ [redacted].

¹⁰⁵⁶ [redacted].

¹⁰⁵⁷ [redacted].

¹⁰⁵⁸ [redacted]. ‘It is positive for our end-customers because airlines are offering differentiated pricing, which allows us to offer a more competitive price [...] helps us attract new customers.’ but noted that [GDS bypass] is a negative for our business. The GDS has better end-to-end capabilities, is far, far more efficient and has superior technology.’

¹⁰⁵⁹ [redacted].

¹⁰⁶⁰ [redacted].

¹⁰⁶¹ The Beat Research report titled “TMC NDC Adoption Barometer” – available at <https://interactive.thebeat.travel/TMC-NDC-Adoption-Barometer>

have often gone outside of GDS and multi-sourced content in relation to low cost carriers, and so aggregating contents from multiple sources is not new.

Travel agents' views on the Merger

10.141 We have received responses from 23 travel agents expressing their views about the impact of the merger on competition.¹⁰⁶²

- (a) Eleven travel agents including four TMCs, three OTAs and four B&M agent did not have concerns but did not suggest the impact of the Merger would be positive.¹⁰⁶³
- (b) A further seven travel agents did not have concerns (five TMCs and two OTAs) and indicated that the Merger could be positive for competition,¹⁰⁶⁴ citing reasons including: 'this merger will likely help innovation',¹⁰⁶⁵ 'bring a scalable solution to the NDC space',¹⁰⁶⁶ 'help Sabre in developing systems for NDC content'¹⁰⁶⁷ and 'get greater content at a competitive price'.¹⁰⁶⁸
- (c) Three travel agents raised concerns about the impact of competition including one TMCs, one OTA and one B&M travel agent.¹⁰⁶⁹ This included a suggestion that the Merger could 'slow down both competitors becoming a competitive alternative',¹⁰⁷⁰ and might put users of other GDS at a disadvantage.¹⁰⁷¹

10.142 A metasearch engine provider said the Merger will reduce the number and variety of providers in the market and continue to 'cement the market power of Sabre'.¹⁰⁷²

¹⁰⁶² In total across phase 1 and phase 2 including our online questionnaire, 23 travel agents provided a view on the Merger, 4 responded that they didn't know or didn't answer the question. This included 10 TMCs, 7 OTAs and 6 B&M. In addition, there were views from a meta-search provider.

¹⁰⁶³ Two travel agents responded that they did not have concerns without listing reasons. [REDACTED]. Seven travel agents had no concerns, [REDACTED] and listed reasons such as (i) travel agents not having commercials with Farelogix/ the merger not impacting them [the travel agent]. (ii) not all airlines using Farelogix / many using in house. (iii) All the GDS developing in this Space/ Sabre is catching up with Amadeus /the other GDS can also merge

¹⁰⁶⁴ [REDACTED].

¹⁰⁶⁵ [REDACTED].

¹⁰⁶⁶ [REDACTED].

¹⁰⁶⁷ [REDACTED].

¹⁰⁶⁸ [REDACTED].

¹⁰⁶⁹ [REDACTED]. All responses are from our phase 1 questionnaire

¹⁰⁷⁰ [REDACTED].

¹⁰⁷¹ [REDACTED].

¹⁰⁷² [REDACTED].

The Parties' submissions relating to travel agent evidence

10.143 In response to our working papers, the Parties made the following submissions regarding the travel agent evidence:¹⁰⁷³

- (a) Travel agents think the merger will help 'accelerating GDSs' adoption of NDC',
- (b) views of travel agents are 'most likely to represent the potential risk to consumers of the transaction'.
- (c) Travel agents 'universally identify significant weaknesses about direct connects when compared to a GDS' and for travel agents the primary purpose of direct connects is 'to obtain access to fares that were only otherwise available on airline.com or to get access to NDC content'.
- (d) Travel agents 'unanimously expect use of NDC content in the next 12 months to be via their GDS', with a minority (40%) expecting to receive NDC content via a direct connect'.
- (e) Travellers whose bookings pass through an FLX API would be expected to be mostly leisure travellers served by OTAs, which compete with airline.com.

10.144 We have regard to travel agents' views, especially on their usage of different distribution channels including GDS bypass and airline.com. However, we note that travel agents are not users of merchandising solutions. In Chapter 11, we consider the travel agent evidence with other evidence in the round in our overall competitive assessment and discuss the relative weight we put on evidence from travel agents and airlines.

Summary of travel agent evidence

10.145 In summary, the evidence from travel agents shows that:

- (a) Currently OTAs is the main segment that use GDS bypass. Some TMCs and other B&M travel agents also use this channel, but to a lesser degree. Travel agents typically use GDS bypass to obtain better content.¹⁰⁷⁴
- (b) Most travel agents highlight drawbacks in relation to using GDS bypass currently and costs to establish direct connects can be high, although this

¹⁰⁷³ [redacted].

¹⁰⁷⁴ Paragraphs 10.119 et seq.

varies depending on the circumstance and in some cases may be covered by airlines.¹⁰⁷⁵

- (c) Travel agents typically view the role of NDC in the industry as growing, and this will improve content available and their ability to sell more ancillaries. More travel agents expect to be able to access content via their GDS than GDS bypass (and to do so within the next 12 months).¹⁰⁷⁶
- (d) GDS bypass appears particularly likely to continue to grow amongst OTAs, but responses from TMCs and B&M are more mixed.¹⁰⁷⁷
- (e) TMCs, which serve corporate customers, use airline.com only to a very limited extent, and said their customers typically do not book on airline.com because they require services from TMCs such as duty of care reporting.¹⁰⁷⁸
- (f) Most travel agents we have contacted do not have concerns about this Merger (they are either neutral or positive); only a small number have expressed a concern.¹⁰⁷⁹

11. Our assessment of the Merger

- 11.1 This section provides our provisional assessment of the Merger. Throughout we draw on and refer back to the evidence discussed above.
- 11.2 First, we set out some introductory points, covering the context of the Merger, the weight we place on each piece of evidence and the Merger's relevance to the UK.
- 11.3 Second, we provide our assessment of the relevant counterfactual. Given this Merger takes place in the context of ongoing changes in airlines' demand and suppliers' strategies, we assess this in light of all of the evidence set out in previous sections.
- 11.4 Third, we provide our assessment of the competitive effects of the merger. This is before taking into account any countervailing factors, which we discuss in the following section.

¹⁰⁷⁵ Paragraphs 10.126 et seq.

¹⁰⁷⁶ Paragraphs 10.139 et seq.

¹⁰⁷⁷ Paragraphs 10.128 et seq.

¹⁰⁷⁸ Paragraphs 10.135 et seq.

¹⁰⁷⁹ Paragraphs 10.141 et seq.

Introduction to our assessment

The context of the Merger

- 11.5 This Merger takes place against the background of the airline industry changing the services they sell, and the way they sell them, as discussed in Chapter 3.
- 11.6 We explained that, on the demand side, airlines are reacting to competitive pressures from one another, including low cost carriers, as well as to changing passenger expectations. In doing so, they seek to differentiate their retailing offers by: (i) creating more personalised services and travel experiences with ancillaries; (ii) making greater use of dynamic or flexible pricing, as well as more personalised pricing based on an understanding of individual customers' needs; (iii) taking greater control over their retailing offers compared to what has been possible using the solutions traditionally provided by GDSs and PSSs traditionally; and (iv) distributing personalised and flexible offers they create consistently across all sales channels.¹⁰⁸⁰
- 11.7 We have found that these business model changes require airlines to acquire new capabilities. Merchandising capabilities, which allow airlines to create the relevant content, is a necessary one. Distribution capabilities matter in their own right, and play an important complementary role to merchandising, because, together, these allow airlines to deliver content to travel agents and travellers.
- 11.8 We have also found that these have given rise to opportunities for suppliers to offer innovative solutions to allow airlines to achieve differentiation. The adoption of the NDC standard, and solutions compatible to NDC, with which airlines can create content in more flexible ways and distribute it across multiple channels, have been an important driver of the process.
- 11.9 In Chapter 9 we explained that Farelogix has developed products which have enabled airlines to evolve their business models in this way. An important aspect of its merchandising solution, which is NDC compatible, is that it facilitates airlines to control offer creation. Farelogix also provides an NDC-compatible distribution solution (FLX NDC API / OC) for airlines to distribute differentiated offers across multiple sales channels.¹⁰⁸¹

¹⁰⁸⁰ Chapter 7, Changes in airlines' demand in response to passengers' requirements.

¹⁰⁸¹ Chapter 9, paragraphs 9.120, 9.121 and 9.128

- 11.10 We have found that while GDSs were initially reluctant to facilitate the distribution of NDC content on their platforms, they have been investing in such capabilities in more recent years.¹⁰⁸² These investments appear to be a response to airlines' attempts to use NDC distribution solutions to bypass the GDSs and sell to travel agents directly, which pose a disintermediation threat to the GDSs whose business models rely on the balancing of demand between airlines and travel agents.¹⁰⁸³
- 11.11 Given the implementation of the NDC standard is still nascent, merchandising and distribution solutions (as well as other services that support the broader trends towards airline control of offer creation and personalisation) have much further to evolve in the future. Indeed, Farelogix told us that the implementation process is 'probably not 20 per cent down the road' in five years from now.¹⁰⁸⁴
- 11.12 Our assessment of both the counterfactual and the competitive effects of the merger therefore focus on these ongoing and future competitive dynamics.

The weight to be placed on each piece of evidence

- 11.13 The dynamic context in which this Merger takes place means that the competitive conditions are likely to evolve as airlines continue to change their business models, passengers' needs evolve, and airline technology develops. Unlike mergers in some other industries, in which current competitive conditions provide a good guide to future competitive constraints, in this context, we have more limited evidence from past market outcomes, and have exercised our judgement to evaluate the weight to be placed on each piece of evidence to inform ongoing and future competitive dynamics.
- 11.14 Because of this, we give weight in our assessment to the Parties' internal documents, in particular those produced to inform business strategies, investment decisions and competitor monitoring. We consider that these documents provide important insights into the Parties' intentions and incentives to compete, their perception of competitive threats, and the context of market developments and competitive dynamics that drive their strategies. We also put weight on the Parties' communications with investors and equity analysts, as well as their submissions regarding the rationale of their business strategies. These have further assisted our understanding of their strategies

¹⁰⁸² Chapter 7, paragraphs 7.17-7.19.

¹⁰⁸³ Chapter 9 for Sabre; Chapter 10 (paragraph 10.18 et seq for Amadeus); Paragraph 7.6 in relation to GDS business model.

¹⁰⁸⁴ Paragraph 7.15.

set out in internal documents, and their incentives. This evidence has been considered extensively in Chapter 9.

11.15 Similarly, we have considered evidence from competitors' internal documents, which set out their competitive strategies and growth plans discussed in Chapter 10.¹⁰⁸⁵ This evidence is informative of competitors' market positioning relative to the Parties', the strength of their constraints on the Parties, and how these might change in the future.

11.16 We do also place weight on evidence on the track record of the Parties and rivals in serving customers and/or winning significant contracts, particularly in the more recent past. We consider this assists our understanding of a firm's wider credibility and reputation in the markets, which is relevant to our assessment of its competitive strengths. In doing so, we have also taken into account recent developments which may impact each supplier's strength.¹⁰⁸⁶ We have taken historical market shares into account but give these less weight than some other evidence, because we consider them to be imperfect indicators of future competitive positions, as airlines continue to change their business models and different suppliers have varying plans and incentives to develop their offerings. Such evidence is detailed in Chapter 8.

11.17 Regarding customer evidence, we consider it appropriate to put more weight on evidence from airlines than from travel agents.¹⁰⁸⁷ The Parties have pointed out to us that airlines have business interests they wish to protect. We recognise that this is the case as it is also the case for travel agents, the GDSs and other competitors, and we have given appropriate consideration to all representations we have received. However, the reasons we give greater weight to airline evidence than that of travel agents are:

(a) The merchandising and distribution solutions considered for this Merger assessment are purchased by airlines. While airlines have to have regard to travel agent needs, we consider that it is airline decision making and preferences which primarily drive the competitive process that leads to the development, quality and price of these solutions. Airlines are therefore well placed to comment on their preferences for different types of solutions and the capabilities of suppliers, in particular in terms of driving innovation.

(b) In particular, we place more weight on evidence from airlines' internal documents and responses which provide insight into their actual

¹⁰⁸⁵ Section on Evidence from competitors.

¹⁰⁸⁶ For example, we have taken into account Datalex's recent financial difficulties and its own customer concerns about its future viability. See paragraph 8.22.

¹⁰⁸⁷ Chapter 10, respectively in sections 'Evidence from airlines' and 'Evidence from travel agents.'

purchasing decisions and business models. Wherever we have been able to, we have placed more weight on the evidence from airlines who are more likely to drive investment in NDC-compatible merchandising and distribution solutions in the near future, including large airlines (e.g. Tier 1 airlines) as well as those in IATA's NDC Leaderboard.¹⁰⁸⁸

- (c) We have carefully considered evidence on travel agents' demand for different distribution solutions. However, we have put less weight on travel agents' overall views on the Merger, as they are customers of Sabre but not Farelogix, and they are not purchasers of merchandising solutions which means they are less important drivers of the competitive process in both markets than airlines.
- (d) Moreover, we note that travel agents have a direct financial interest in the prevailing GDS distribution model as recipients of considerable payments from GDSs,¹⁰⁸⁹ which may be threatened if airlines shift to other distribution channels. This does not invalidate their evidence or opinions but requires us to consider these in context.

11.18 The remainder of the section provides our assessment of the evidence according to the weights described above.

Relevance of the merger to the UK

11.19 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.

11.20 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 was responsible for almost [X] via travel agents in the UK in 2018.

¹⁰⁸⁸ However, we have not treated IATA Leaderboard as a comprehensive list of such airlines.

¹⁰⁸⁹ Paragraphs 3.45; 7.6.

- (b) Farelogix is the IT provider with the highest share of both merchandising and distribution solutions among the top 20 network carriers operating flights to/from the UK. [REDACTED].¹⁰⁹⁰
- (c) Over [REDACTED] UK PoS bookings were made through connections using the Farelogix API in 2018.
- (d) UK airlines paid booking fees of around [REDACTED] in the indirect channel in 2018.¹⁰⁹¹

Assessment of the counterfactual

- 11.21 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. The latter is called the counterfactual.¹⁰⁹² Developments which have arisen, or are likely to arise, as a result of the merger will not form part of the counterfactual assessment.¹⁰⁹³
- 11.22 The choice of counterfactual requires a judgement on the likely future situation in the absence of a merger. We may examine several possible scenarios to determine the appropriate counterfactual, one of which may be the continuation of the pre-merger situation. Ultimately only the most likely scenario based on the facts available to us, and the extent of our ability to foresee future developments, will be adopted.¹⁰⁹⁴
- 11.23 As a preliminary point, we note that how the industry adopts the NDC standard, and the merchandising and distribution solutions compatible with it (which is of importance to the inquiry), is a process that is likely to take a number of years. For example, Sabre has submitted to us that it would take beyond [REDACTED] for it to produce an NDC merchandising solution that was ready for commercial retailing and estimated that it would take a similar period of time to produce an NDC distribution solution. Given this, 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-compatible solutions, and thereby to assess the counterfactual.

¹⁰⁹⁰ Chapter 8, Table 3.

¹⁰⁹¹ Chapter 5, Jurisdiction, Table 1.

¹⁰⁹² [Merger Assessment Guidelines](#), paragraph 4.3.1

¹⁰⁹³ [Merger Assessment Guidelines](#), footnote 37

¹⁰⁹⁴ [Merger Assessment Guidelines](#), paragraph 4.3.6

Merchandising counterfactual

Sabre

- 11.24 In Chapter 9 we considered Sabre's strategy documents which show that, absent the Merger, it had both the incentive and the intention to become a stronger merchandising provider. Whilst currently Sabre may [REDACTED], it has a strategic imperative to enhance its merchandising capabilities, 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.¹⁰⁹⁵
- 11.25 We have found that a key driver for Sabre is the need to protect the value of its GDS, as we explained in Chapter 9. Traditionally, a GDS such as Sabre generates value not only by distributing content but also by performing offer creation functions, i.e. combining price, schedule and availability content for the airlines in order to allow passengers, via their travel agent, to choose a flight which best suits their requirements.¹⁰⁹⁶ 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.¹⁰⁹⁷ Sabre's internal documents ([REDACTED]) confirm this.¹⁰⁹⁸
- 11.26 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 with a stronger merchandising component, [REDACTED], particularly given that an effective merchandising offering is of growing importance when competing for broader NDC retailing bundles. It would 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.¹⁰⁹⁹
- 11.27 Sabre 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.¹¹⁰⁰

¹⁰⁹⁵ Chapter 9, section 'Rationale and incentive for Sabre investing in NDC merchandising solutions'.

¹⁰⁹⁶ Chapter 7 and paragraph 2.2 (i), the Parties' Initial Phase 2 Submissions.

¹⁰⁹⁷ Chapter 9, section 'Protecting GDS business'.

¹⁰⁹⁸ [REDACTED].

¹⁰⁹⁹ Paragraphs 9.26.

¹¹⁰⁰ Paragraphs 9.20 and 9.21.

- 11.28 We explained in Chapter 9 why we believe that Sabre would have had the ability to realise these intentions and develop a credible PSS-agnostic merchandising solution within the next 5 years absent the Merger. Sabre's internal documents, and submissions to us, show that it has already made progress in developing its NDC-enabled next-generation retailing offer, which is intended to include a PSS-agnostic merchandising solution,¹¹⁰¹ and that since [REDACTED] Sabre has invested [REDACTED] in this, as well as [REDACTED]. [REDACTED].¹¹⁰² Recently, Sabre has made proposals to airlines to develop NDC retailing and distribution capabilities (including in merchandising) within a short timeframe, demonstrating its confidence and commitment to do so.¹¹⁰³
- 11.29 In terms of its capabilities, we consider Sabre has a track record of delivering solutions to a range of airlines. It [REDACTED] provides GDS services to over 400 airlines. It has strong relationships with airlines to which it can cross-sell its merchandising solution in the same way as Amadeus appears to have done.¹¹⁰⁴ 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.
- 11.30 Turning to the issue of when this enhanced Sabre merchandising offering would have become available absent the Merger, we explained in Chapter 9 that Sabre told us that, [REDACTED], it could develop a minimally viable product by [REDACTED], with a product potentially ready for commercial retailing by [REDACTED]. In terms of whether these timelines remain achievable, we note that the Merger itself may have led to Sabre slowing its own investment in the expectation of adopting Farelogix's technology,¹¹⁰⁵ but our assessment of the counterfactual considers the situation without the Merger, i.e. if Sabre had been pursuing its stand-alone investment plans since November 2018. We also note Sabre's strategy is to [REDACTED].¹¹⁰⁶
- 11.31 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 3 to 5 years.

¹¹⁰¹ Paragraphs 9.50 to 9.55.

¹¹⁰² Paragraphs 9.50 and 9.51.

¹¹⁰³ Paragraph 9.52.

¹¹⁰⁴ For example, [REDACTED] – see footnote 347.

¹¹⁰⁵ Paragraph 9.20(e).

¹¹⁰⁶ Paragraph 9.53(b)

Farelogix

- 11.32 We found in Chapter 8 that Farelogix is an established provider that continues to be successful in bidding for merchandising opportunities and has recently won significant tenders.¹¹⁰⁷ Farelogix marketing materials show that it continues to invest in improving its merchandising capabilities¹¹⁰⁸ and we noted in Chapter 9 that Farelogix told us that, while [REDACTED],¹¹⁰⁹ this had not prohibited its ability to sell merchandising solutions, where it continued to make sales.¹¹¹⁰
- 11.33 On that basis, 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.

Distribution counterfactual

Sabre

- 11.34 The evidence we have assessed shows that Sabre's competitive position relative to the other GDSs has remained broadly unchanged.¹¹¹¹ While Sabre has flagged that its development of NDC compatible distribution solutions [REDACTED], we note that [REDACTED].
- 11.35 In Chapter 9 we found that 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 business (and broader PSS business).¹¹¹² This includes GDS pass-through and NDC APIs, which Sabre [REDACTED].¹¹¹³ We consider that Sabre's investments in distribution, like merchandising, are driven by airlines' changing business needs and the responses of rivals. We noted in Chapter 9 that Sabre has recently been competing for airline contracts with an NDC-compatible solution with distribution (and other retailing) functions, such as for [REDACTED] and [REDACTED].¹¹¹⁴
- 11.36 As a result, we consider that absent the Merger Sabre would likely continue its investment plans in NDC distribution solutions and therefore remain one of

¹¹⁰⁷ Paragraph 8.67.

¹¹⁰⁸ Paragraph 9.135(d).

¹¹⁰⁹ See Parties' submissions at paragraph 9.132.

¹¹¹⁰ Farelogix hearing transcript, page 23, lines 22-23.

¹¹¹¹ Chapter 8, paragraph 8.93.

¹¹¹² Paragraphs 9.94 and 9.95.

¹¹¹³ Paragraph 9.21 and Marlins Synergy Opportunity Summary (SABR- 000000124).

¹¹¹⁴ Paragraphs 9.52 and 9.102.

the three major GDS providers and, as such, one of the three major distributors of airline content.

Farelogix

- 11.37 Our analysis of the most recent bidding data considered in Chapter 8 showed that Farelogix continues to compete for NDC distribution solutions, and that it has won bids for new customers in the recent past.¹¹¹⁵
- 11.38 Moreover, Farelogix told us that it continued to anticipate a ‘tipping point’ in the market for NDC solutions as NDC gained acceptance, and that it intended to remain in the distribution business for this reason. In this context, we note that both Parties projected that [REDACTED].¹¹¹⁶ Furthermore, Sabre’s valuation ([REDACTED]) [REDACTED].¹¹¹⁷
- 11.39 While we noted in Chapter 9 that there is some evidence that Farelogix has [REDACTED],¹¹¹⁸ we consider that the available evidence supports a view that [REDACTED]. We also noted that Farelogix’s internal documents stated that [REDACTED].¹¹¹⁹ This is also consistent with evidence from Sandler’s sales process.¹¹²⁰ As noted in Chapter 9, if Farelogix were [REDACTED], we consider that Sandler would have been more willing to consider alternative bids or to instruct [REDACTED]. We have seen evidence that there would likely be credible, alternative purchasers of Farelogix in such a scenario.¹¹²¹ We also note that Sabre’s valuation shows that the [REDACTED].¹¹²²
- 11.40 As a result, we provisionally consider that absent the Merger, Farelogix would have continued to be a leading provider and developer of NDC distribution solutions, either under the ownership of Sandler or under different ownership.

¹¹¹⁵ Paragraph 8.85.

¹¹¹⁶ Appendix C.

¹¹¹⁷ Appendix C.

¹¹¹⁸ Chapter 9, paragraphs 9.132 and 9.133.

¹¹¹⁹ Chapter 9, section on ‘Evidence on Farelogix’s scalability’.

¹¹²⁰ Paragraph 9.138.

¹¹²¹ Appendix C, paragraphs 6-9 and paragraph 16.

¹¹²² Appendix C, paragraph 44.

Assessment of the competitive effects of the merger

Assessment of merchandising

11.41 The evidence presented in Chapters 8, 9 and 10 show 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;¹¹²³
- (b) is widely perceived by Sabre, other competitors and airlines to be the leading provider in terms of functionality and innovation;¹¹²⁴
- (c) has a strong established reputation throughout the industry as a result of its proven track record of delivering both merchandising and distribution products at scale; and
- (d) offers its merchandising product alongside a suite of related products, so it can engage in cross-selling to its customers.¹¹²⁵

11.42 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 (e.g. [X]), and that it has continued to win major contracts recently ([X]). It also has not lost any existing customer of its merchandising solution to another competitor to date.¹¹²⁶

11.43 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. Where the Parties

¹¹²³ Chapter 10, Preference for a channel-agnostic provider of merchandising and/or distribution solution (paragraphs 10.105 et seq); Chapter 9; How Farelogix markets itself to airlines (paragraphs 9.129 et seq.) and Chapter 10, Evidence from competitors (paragraph 10.10)

¹¹²⁴ Chapter 9, paragraphs 9.34 - 9.37; Chapter 10, paragraphs 10.4-10.9 and 10.11 (competitors); paragraphs 10.83(a); 10.80-10.81 (airlines).

¹¹²⁵ Paragraph 9.127.

¹¹²⁶ Chapter 8, 'Overview of suppliers capabilities and customers' and 'Suppliers of merchandising and distribution solutions to major airlines'; paragraphs 8.47, 8.6 and 8.73; Table 2; Table 3.

have competed recently for new merchandising opportunities, Sabre [X]. It has a low market share in merchandising as a result.¹¹²⁷

- 11.44 However, we also 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.
- 11.45 We recognise that Amadeus is a significant competitor in merchandising in some circumstances and will continue to constrain the Parties. As noted in Chapter 8, it has a large established customer base in part reflecting its position in core PSS, and it has been successful in competing for recent contracts. Amadeus is not currently capable of providing PSS-agnostic merchandising solutions to airlines on a standalone basis, but we consider that it has similar incentives to Sabre to build a PSS-agnostic product.¹¹²⁸ Amadeus has been [X].¹¹²⁹ 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.¹¹³⁰
- 11.46 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. Chapter 10 shows that 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.¹¹³¹ Amadeus has a strong core PSS customer base which makes it less dependent than Farelogix is on expanding sales of PSS-agnostic products by encouraging or supporting airlines to purchase such products.

¹¹²⁷ Chapter 8, 'Overview of suppliers capabilities and customers' and 'Suppliers of merchandising and distribution solutions to major airlines'; Table 2; Table 3.

¹¹²⁸ Chapter 10, Competitors' strategy in developing NDC-compatible merchandising solutions, Amadeus; and paragraph 8.8.

¹¹²⁹ Chapter 10, Competitors' strategy in developing NDC-compatible merchandising solutions, Amadeus.

¹¹³⁰ Paragraphs 9.38, 10.14, 10.83

¹¹³¹ Chapter 10, Preference for a channel-agnostic provider of merchandising and/or distribution solution (paragraphs 10.105 et seq) and Chapter 10, Evidence from competitors (paragraph 10.10)

- 11.47 We consider that Travelport is not, and will not be, a competitor in merchandising. It is not an active supplier of merchandising solutions and [✂] ([✂]).¹¹³²
- 11.48 We have found in Chapters 8 and 10 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.¹¹³³ Sabre's internal documents discussed in Chapter 9 show that they are featured less prominently and frequently than Farelogix.¹¹³⁴ The most significant of these competitors, Datalex, is currently facing financial challenges that are affecting its ability to win new customers and lead many industry participants to expect it to get weaker.¹¹³⁵
- 11.49 Chapter 10 shows that 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 both their ability and incentive to expand is much weaker than Sabre's given the critical importance of merchandising to Sabre's business model, its superior resources and its existing relationships with airlines.¹¹³⁶
- 11.50 The other possible constraint in merchandising is that of airline self-supply, but the evidence is clear that this is very limited.¹¹³⁷
- 11.51 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 merchandising and distribution.
- 11.52 Consistent with our assessment, we show in Chapter 10 that many airlines have expressed concerns about the Merger's impact on competition and

¹¹³² Chapter 8, 'Overview of suppliers' capability in merchandising and distribution solutions', Travelport.

¹¹³³ Chapter 8, 'Overview of suppliers' capability in merchandising and distribution solutions' and 'Suppliers of merchandising and distribution solutions to major airlines'; Chapter 10 'Airlines' evaluation of merchandising suppliers' and 'Airlines' submitted views on merchandising supplier strength'

¹¹³⁴ Chapter 9, paragraphs 9.43 and 9.44.

¹¹³⁵ Chapter 8, paragraph 8.22 and Appendix E; and Chapter 10, paragraph 10.83 and Appendix F

¹¹³⁶ Chapter 10, paragraphs 10.15-10.36 and Appendix E.

¹¹³⁷ Chapter 10, paragraphs 10.85 et seq.

innovation in merchandising. They submitted that Farelogix is a ‘disruptor’ and that post-merger Sabre may limit the innovation Farelogix has previously demonstrated.¹¹³⁸

11.53 As a result, we provisionally find that the Merger may be expected to result in an SLC in the supply of merchandising solutions, subject to any countervailing factors (assessed in Chapter 12 below). 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.

Assessment of distribution

11.54 As explained in Chapter 10, 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.¹¹³⁹

11.55 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,¹¹⁴⁰ and the existence of parity clauses between them and airlines may limit the scope for price competition.¹¹⁴¹ 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.

11.56 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

¹¹³⁸ Chapter 10, paragraph 10.106(a).

¹¹³⁹ Chapter 8, paragraph 8.93; Chapter 10, evidence from competitors on Competitive landscape and strength of distribution suppliers; Chapter 10, Airlines’ submitted views on strength of distribution solution suppliers; and Appendix F, Table 3

¹¹⁴⁰ Paragraph 7.17.

¹¹⁴¹ Chapter 7, paragraph 7.6.

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.¹¹⁴² Collectively these represent a substantial share of Sabre's travel agent bookings, for example OTAs account for nearly a third of all bookings.¹¹⁴³

11.57 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, as shown in Chapter 8, 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;¹¹⁴⁴
- (b) supplies [redacted] airlines operating in the UK;¹¹⁴⁵
- (c) 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;¹¹⁴⁶
- (d) has shown it can rapidly grow its share of passenger volumes for airlines which have already adopted its technology, [redacted];¹¹⁴⁷
- (e) is expected to grow by both Farelogix itself and Sabre ([redacted]);¹¹⁴⁸ and
- (f) has airline customers that project their usage of GDS bypass to increase.¹¹⁴⁹

¹¹⁴² Chapter 6, section on 'Use of GDS and GDS bypass by different types of travel agent'; Chapter 10, Evidence from travel agents, Current use of GDS bypass; Future use of GDS bypass.

¹¹⁴³ Chapter 10, Evidence from Travel agents, Para 10.115

¹¹⁴⁴ Chapter 8, Suppliers of merchandising and distribution solutions to major airlines

¹¹⁴⁵ Chapter 8, Table 3

¹¹⁴⁶ Chapter 8, paragraph 8.51

¹¹⁴⁷ Chapter 10, Paragraph 10.90

¹¹⁴⁸ Chapter 9, Evidence on Farelogix's [redacted].

¹¹⁴⁹ Chapter 10, Airlines' submitted views on expected use of various distribution channels

11.58 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.

11.59 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. Specifically, as shown in Chapters 9 and 10, Sabre's and [REDACTED] internal documents show that these investments were to a large extent motivated by the threat of GDS bypass, with Farelogix identified among the most important suppliers of these services.¹¹⁵⁰ These documents also indicate that, 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.¹¹⁵¹ Absent Farelogix, the ability of airlines to pressure the GDSs to innovate and develop in this sphere would be significantly diminished.

11.60 While we found in Chapter 8 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.

11.61 We recognise that airline.com plays an important role in airlines' overall distribution strategies,¹¹⁵² and imposes competitive pressure on the GDSs.¹¹⁵³ 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

¹¹⁵⁰ Chapter 9, paragraphs 9.34 et seq. See paragraphs 10.51-10.53 on Amadeus strategy in developing distribution solutions and Appendix E.

¹¹⁵¹ Paragraph 9.140. See paragraphs 10.51-10.53 on Amadeus strategy in developing distribution solutions and Appendix E.

¹¹⁵² Chapter 8, Table 9, airline.com share of distribution

¹¹⁵³ Chapter 10, Volume shift from GDS to GDS bypass and airline.com; and paragraphs 10.97-10.98.

down in recent years;¹¹⁵⁴ (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 GDS and to a lesser (though non-negligible) degree also by GDS bypass;¹¹⁵⁵ (iii) suppliers in the indirect channel compete for travel agents while airline.com competes for passengers downstream. Moreover, 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.¹¹⁵⁶

11.62 Airlines told us that they increasingly wish to make differentiated and personalised offers available across all sales channels, including within the indirect one,¹¹⁵⁷ 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.¹¹⁵⁸ We consider that the Merger would remove one such option for travel agents.

11.63 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. Several airlines that have outsourced this to a third-party supplier have expressly told us that they lack the financial resources and expertise to do this in-house.¹¹⁵⁹ In addition, even large airlines noted the significant costs involved and that this is less economical than sourcing from a third-party, with one having recently abandoned in-house supply and switched to an outsourced solution.¹¹⁶⁰ In any event, 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.

11.64 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.

¹¹⁵⁴ Paragraph 6.51; Table 8

¹¹⁵⁵ Chapter 10, paragraph 10.97; Evidence from Travel Agents (paragraphs 10.135 et seq.)

¹¹⁵⁶ Paragraph 9.100.

¹¹⁵⁷ Paragraph 7.13

¹¹⁵⁸ Paragraph 7.19

¹¹⁵⁹ Chapter 10, Paragraphs 10.101 et seq.

¹¹⁶⁰ Chapter 10, 10.101

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.¹¹⁶¹ This risk of losing volumes to GDS bypass has driven Sabre to enable GDS pass-through, directly improving its distribution offering.

11.65 The importance of Farelogix as a competitor in distribution is underlined by the views of airlines, presented in Chapter 10. Many of the airlines responding to our questionnaires expressed concerns about the Merger's impact on distribution, as did [X]. 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-enabled solutions.

11.66 We therefore provisionally conclude that the Merger may be expected to result in an SLC in the supply of distribution solutions to airlines, subject to any countervailing factors (assessed in Chapter 12 below). This loss of competition would lead to a reduction in innovation in distribution solutions, particularly in terms of the development of 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.

12. Countervailing factors

12.1 There are some instances when a merger may reduce competition substantially but for a countervailing factor. One countervailing factor might be because a merger allows the merger parties to realise efficiencies which enhance rivalry between the firms left in the market after a merger. Another is once the reaction by rivals or potential rivals is taken into account, by examining the likelihood of them entering into a market or expanding their

¹¹⁶¹ Chapter 9, paragraphs 9.24 et seq. for Sabre documents, and paragraphs 9.127 et seq. for Farelogix documents.

activities in it, an SLC is not likely to arise. A third is that customers have sufficient options available that they have countervailing buyer power which prevents an SLC (or an adverse effect resulting from an SLC) from coming about.

- 12.2 Therefore, before provisionally concluding on the Merger, in this section we assess whether there are any countervailing factors which would prevent an SLC from arising despite our competitive assessment discussed above.

Efficiencies

Introduction

- 12.3 CMA guidance states:

Efficiencies arising from the merger may enhance rivalry, with the result that the merger does not give rise to an SLC. For example, a merger of two of the smaller firms in a market resulting in efficiency gains might allow the merged entity to compete more effectively with the larger firms.¹¹⁶²

- 12.4 When considering the existence of any such efficiencies, the Guidance states that:

It is not uncommon for merger firms to make efficiency claims. To form a view that the claimed efficiencies will enhance rivalry so that the merger does not result in an SLC [...] the [CMA] must expect, that the following criteria will be met:

- (a) The efficiencies must be timely, likely and sufficient to prevent an SLC from arising (having regard to the effect on rivalry that would otherwise result from the merger); and
- (b) the efficiencies must be merger specific, ie a direct consequence of the merger, judged relative to what would happen without it.¹¹⁶³

Efficiency claims can be difficult for the Authorities to verify because most of the information concerning efficiencies is held by the merger firms. The Authorities therefore encourage the merger firms to provide evidence to

¹¹⁶² [Merger Assessment Guidelines](#), paragraph 5.7.2.

¹¹⁶³ [Merger Assessment Guidelines](#), paragraph 5.7.4.

support any efficiency claims whether as part of the SLC analysis or the consideration of relevant customer benefits.¹¹⁶⁴

- 12.5 In addition to the criteria stated above (ie timely, likely and sufficient to prevent an SLC from arising, and merger-specific), the guidance also explains that savings resulting from supply-side efficiencies, such as cost reductions, are not necessarily rivalry-enhancing if they are retained by the merged entity rather than affecting the consumer-facing proposition which would determine the degree of rivalry with competitors.¹¹⁶⁵
- 12.6 In line with the guidance set out above, when considering whether the Merger is likely to generate rivalry enhancing efficiencies, the Parties must provide compelling evidence that the claimed efficiencies will enhance rivalry so that the Merger will not result in an SLC. The CMA must expect, on the basis of that compelling evidence,¹¹⁶⁶ that the efficiencies will be:
- (a) timely, likely and sufficient to prevent an SLC from arising;
 - (b) merger-specific; and
 - (c) would result in increased rivalry in the relevant market(s).

Views of the Parties

- 12.7 The Parties submitted that the Merger would result in a range of efficiencies and customer benefits. Specifically, the Parties told us that the Merger would:
- (a) Allow Sabre to address market opportunities by immediately marketing a competitive PSS-agnostic merchandising module;¹¹⁶⁷ and
 - (b) accelerate the adoption of fully integrated end-to-end NDC solutions at scale across the airline industry.¹¹⁶⁸

Efficiencies arising from Sabre's acquisition of a PSS-agnostic merchandising module

- 12.8 The Parties submitted that, by acquiring a PSS-agnostic merchandising solution, Sabre will be able to offer a solution to airlines [REDACTED] and will be able to better serve airlines which prefer to procure merchandising alongside their

¹¹⁶⁴ [Merger Assessment Guidelines](#), paragraph 5.7.5.

¹¹⁶⁵ [Merger Assessment Guidelines](#), paragraph 5.7.9.

¹¹⁶⁶ [Merger Assessment Guidelines](#), paragraph 5.7.4.

¹¹⁶⁷ [REDACTED].

¹¹⁶⁸ [REDACTED].

core PSS.¹¹⁶⁹ As a result, the Parties told us the Merger would enhance rivalry with Amadeus as well as others.¹¹⁷⁰

12.9 The Parties told us that the Merger would lead to more robust competition in NDC retailing as Sabre's acquisition of FLX M would improve the offerings of both Sabre and Farelogix. The Parties told us that:

- (a) Sabre's expertise as a provider of a core PSS for airlines would enable it [REDACTED];¹¹⁷¹ and
- (b) the Merger would improve incentives to invest in enhanced interoperability as the merged entity would fully internalise benefits from incremental sales spurred by better integration.¹¹⁷²

12.10 The Parties also told us that the Merger would help resolve [REDACTED]¹¹⁷³ and that combining Sabre's global infrastructure with Farelogix's market-ready product would enable the merged entity to better compete with Amadeus and ITA, among others, for NDC merchandising opportunities.¹¹⁷⁴

Efficiencies arising from the acceleration of end-to-end NDC

12.11 The Parties told us that the Merger would accelerate the delivery of NDC content through the GDS, increasing competition amongst Sabre, Amadeus and Travelport, as well as promoting price transparency and inter-brand competition among airlines.¹¹⁷⁵

12.12 The Parties told us that Farelogix's NDC technology and NDC engineering skills would allow Sabre to improve the NDC support of its GDS and that, [REDACTED].¹¹⁷⁶ The Parties told us that this [REDACTED]:

- (a) [REDACTED];
- (b) [REDACTED]; and
- (c) [REDACTED].¹¹⁷⁷

¹¹⁶⁹ [REDACTED].

¹¹⁷⁰ [REDACTED].

¹¹⁷¹ [REDACTED].

¹¹⁷² [REDACTED].

¹¹⁷³ [REDACTED].

¹¹⁷⁴ [REDACTED].

¹¹⁷⁵ Sabre told us that [REDACTED] that the Merger would create greater rivalry as the GDSs begin to consume NDC content with greater frequency and volume. [REDACTED].

¹¹⁷⁶ [REDACTED].

¹¹⁷⁷ [REDACTED].

12.13 The Parties submitted that, by integrating Farelogix’s technology and engineering talent with Sabre’s infrastructure, the Merger would enable airlines to distribute, book and fulfil more sophisticated offers using the NDC standard at a global scale while fully integrating with the features and support of the Sabre GDS, and to do so more effectively and quickly than would be possible without the Merger.¹¹⁷⁸

Timeliness and likelihood

12.14 The Parties submitted that the efficiencies described above were likely and would materialise in a timely manner.¹¹⁷⁹ Sabre told us that it anticipated that incremental customers would be attracted by the merged entity’s improved product offering [REDACTED].¹¹⁸⁰

12.15 Specifically, Sabre told us that its financial model included the following assumptions:

(a) The addition of a “best-of-breed” NDC merchandising solution [REDACTED].¹¹⁸¹

(b) The merged entity would [REDACTED].¹¹⁸²

12.16 Sabre told us that its financial model demonstrated that [REDACTED]¹¹⁸³ and that Sabre would [REDACTED].¹¹⁸⁴

Sufficiency

12.17 The Parties told us that the full range [REDACTED].¹¹⁸⁵ As set out in Appendix C, [REDACTED]. Sabre told us that benefits were [REDACTED].¹¹⁸⁶

12.18 The Parties told us that [REDACTED]. The Parties told us that the [REDACTED].¹¹⁸⁷

12.19 The Parties also submitted that positive feedback on the proposed Merger from travel agents showed that efficiencies were significant and would benefit

1178 [REDACTED].
1179 [REDACTED].
1180 [REDACTED].
1181 [REDACTED].
1182 [REDACTED].
1183 [REDACTED].
1184 [REDACTED].
1185 [REDACTED].
1186 [REDACTED].
1187 [REDACTED].

end travellers, in particular through the acceleration of GDS NDC adoption.¹¹⁸⁸

Merger specificity

12.20 With respect to merger-specificity, the Parties cited four reasons why the efficiencies could not be realised absent the Merger:

- (a) First, Sabre was currently in the midst of a [REDACTED] to a [REDACTED], and [REDACTED].¹¹⁸⁹
- (b) Second, [REDACTED].
- (c) Third, since Farelogix does not offer a core PSS nor a GDS, [REDACTED].¹¹⁹⁰
- (d) Fourth, [REDACTED].¹¹⁹¹

Rivalry enhancing

12.21 The Parties submitted that the Merger will:

- (a) Enhance rivalry across the overall airline travel and booking industry, as the merged entity would have a stronger product portfolio and would be better able to compete with providers such as Amadeus;¹¹⁹²
- (b) enhance competition for PSS suites, as the merged entity would offer the option to combine a “best-of-breed” merchandising module with its PSS stack, where Amadeus was currently the only core-PSS provider offering a successful merchandising module;¹¹⁹³ and
- (c) allow Sabre to offer a GDS pass-through using the NDC standard and speed up its adoption of the NDC standard, closing the gap with other GDS providers, Amadeus and Travelport, on NDC solutions and challenging Amadeus in end-to-end NDC solutions.¹¹⁹⁴

1188 [REDACTED].
1189 [REDACTED].
1190 [REDACTED].
1191 [REDACTED].
1192 [REDACTED].
1193 [REDACTED].
1194 [REDACTED].

Our assessment

12.22 In this section, we assess the evidence provided by the Parties that the Merger would result in rivalry-enhancing efficiencies which would prevent the SLCs that we have identified from arising.

12.23 Overall, we consider that the Parties have not provided compelling evidence, as required by the Guidance, that the purported efficiencies are likely to be timely, likely and sufficient to prevent the SLCs from arising and that the efficiencies are Merger specific.¹¹⁹⁵

12.24 We assess the specific claims made by the Parties, and the evidence provided, in more detail in the following sections.

Sabre's acquisition of Farelogix's PSS-agnostic merchandising solution

12.25 The Parties submitted that, by offering a PSS-agnostic merchandising module, the Merger would allow Sabre to offer a more compelling solution to airlines [REDACTED] and that the merged entity would be able to better serve airlines which prefer to procure merchandising alongside their core PSS.

12.26 However, we consider that, absent the Merger, Sabre would have developed and offered a credible PSS-agnostic and NDC-compatible merchandising solution to airlines.¹¹⁹⁶ We consider that Sabre would be likely develop such a product in the counterfactual within the next five years and the Merger is not therefore the only means through which Sabre would be able to offer a PSS-agnostic merchandising module as part of its overall offer to airlines.

12.27 We also note that, in its submissions to the DOJ,¹¹⁹⁷ Sabre stated that:

(a) [REDACTED] and Sabre has indicated that it intends to offer Farelogix products separately for [REDACTED];

(b) [REDACTED];

(c) [REDACTED].

12.28 Sabre's submissions in paragraph 12.27 indicate that, post-Merger, Sabre will effectively be [REDACTED]. Therefore, it is unclear to us how the Merger could be considered to enhance rivalry compared with the counterfactual scenario, where customers would [REDACTED] be able to procure FLX M with Sabre's core PSS or would, in the longer term, be able to procure Sabre's own NDC

¹¹⁹⁵ [Merger Assessment Guidelines](#), paragraph 5.7.4

¹¹⁹⁶ Paragraph 11.31.

¹¹⁹⁷ [REDACTED].

merchandising solutions alongside Sabre's core PSS. We have seen little evidence that the Merger would make Sabre a stronger competitor to Amadeus in the short term and we consider that any short-term impact on rivalry between Sabre and Amadeus would be far outweighed by the loss of competition from the Merger.

- 12.29 While the Parties told us that [REDACTED], we consider that [REDACTED] provides only limited support to this claim and does not provide compelling evidence that any rivalry enhancing efficiencies would be timely, likely and sufficient to prevent an SLC from arising.¹¹⁹⁸ We consider that the evidence [REDACTED] shows that there would be limited beneficiaries from the Parties' claimed enhancements to competition for PSS suites and, moreover, [REDACTED] appears to indicate that any increase in revenue would result in increased profits to the merged entity, rather than providing benefits to customers.
- 12.30 We note that the Parties also submitted that the Merger would lead to more robust competition in NDC retailing as Sabre's core PSS/GDS expertise would be used to improve FLX M and Sabre's global infrastructure would enable the merged entity to better compete with Amadeus and ITA, among others, in merchandising.
- 12.31 However, the Parties described these efficiencies in very general terms only, and did not provide specific details nor supporting evidence of the types of product improvements which would be made to FLX M, the timing of such improvements, the likelihood of their success, the significance of the benefits to be expected, or the extent to which they are rivalry-enhancing and would prevent an SLC from arising. In addition, we consider that Farelogix would be able to obtain similar insights through alternative means, for example through collaborations with other core PSS providers or by developing its working relationships with these providers. Similarly, the Merger is not the only means through which Farelogix would be able to [REDACTED].¹¹⁹⁹
- 12.32 In short, the Parties have not articulated and have not provided evidence of why each Party has specific resources that cannot be replicated by the other in the absence of the Merger and how the Merger will deliver additional innovation and enhance rivalry in NDC retailing or for PSS suites.

¹¹⁹⁸ Appendix C. [REDACTED].

¹¹⁹⁹ We have provisionally found that, absent the Merger, Farelogix would continue to compete strongly in merchandising and distribution. See paragraphs 11.37 et seq. in particular, as regards [REDACTED].

Acceleration of end-end-NDC

- 12.33 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.
- 12.34 We first note that accelerating the implementation of a product or service that would have been implemented at a later date without a merger is not described as a type of efficiency in CMA Guidance.¹²⁰⁰ Indeed, taken at face value it would appear that if this were the case the purported efficiency is not specific to the Merger.
- 12.35 As described in our assessment of the counterfactual to the Merger, we consider that the evidence shows Sabre would have been likely to develop its own capabilities in NDC merchandising solutions and NDC distribution solutions irrespective of the Merger. Therefore, we consider the Parties' claimed efficiencies in respect of integrating end-to-end NDC solutions are not merger-specific.
- 12.36 We note that the Parties told us that [REDACTED]. However, they also told us that, prior to the Merger, [REDACTED],¹²⁰¹ as well as [REDACTED].¹²⁰² While the Parties told us that [REDACTED] were expected to be significantly more effective following the Merger,¹²⁰³ they did not provide further, more specific details on [REDACTED] that could be expected, nor the timings of those [REDACTED]. In this context, we also note that Farelogix's CEO told us that Farelogix currently had [REDACTED].¹²⁰⁴ We consider that it is not clear how additional improvements which facilitate GDS pass-through of NDC content are specific to the Merger, and therefore would not be achievable in the counterfactual.¹²⁰⁵
- 12.37 Finally, the Parties also made a number of submissions relating to customer benefits as a result of accelerated NDC adoption and told us that the Merger was pro-competitive because the comparison element of GDSs 'facilitates greater price transparency and competition between airlines to the benefit of travel agents and end customers'.¹²⁰⁶
- 12.38 However, the Parties' submissions on accelerated NDC adoption were limited to general statements about offering "a seamless and fully integrated end-to-

¹²⁰⁰ [Merger Assessment Guidelines](#)

¹²⁰¹ [REDACTED].

¹²⁰² [REDACTED].

¹²⁰³ [REDACTED].

¹²⁰⁴ [REDACTED].

¹²⁰⁵ We also note that [REDACTED]. See [REDACTED]. In our view, this further indicates the possibility for Sabre and Farelogix to collaborate and/or integrate with each other's products in a scenario where each business remained independent.

¹²⁰⁶ [Parties' response to CMA Issues Statement](#), paragraph 5.22.

end NDC solution” rather than setting out specific improvements which can only be achieved through the combination of Sabre and Farelogix. We have not seen persuasive evidence that any efficiencies arising as a result of any such product improvements will be timely, likely and sufficient to prevent the SLCs from arising, nor that they are specific to the Merger.

12.39 In terms of customer benefits through comparison shopping facilitated by Sabre’s GDS, and as explained in Chapters 7 and 10, we found that airlines’ adoption of NDC solutions, including GDS bypass/direct connect, is motivated by their desire to distribute differentiated offers across all channels consistently, in response to inter-airline competition and passenger demands. We recognise that GDSs provide comparison shopping functions that are preferred by some travel agents. However, we considered in Chapter 11 that the Merger would be likely to reduce GDSs’ incentives to invest in GDS-passthrough, and hence to reduce travel agents’ ability to consume NDC content on GDSs and take advantage of their comparison shopping functions. Moreover, we note that OTAs, the segment which is particularly well placed to use GDS bypass, perform comparison shopping using their own tools.¹²⁰⁷ Therefore, we do not consider the Merger is ‘pro-competitive’ because of comparison shopping functions performed by the GDS.

Provisional conclusion on efficiencies

12.40 The evidence submitted by the Parties provides insufficient support that these changes would be expected to result in an increase in rivalry compared to the counterfactual, or that potential efficiencies are merger-specific and timely, likely and sufficient to prevent the SLCs that we have provisionally identified from arising.

12.41 We therefore provisionally conclude that there is no compelling evidence that the Merger would result in rivalry-enhancing efficiencies that would be timely, likely and sufficient to prevent the SLCs that we have provisionally concluded may be expected to result from the Merger.

Countervailing buyer power of airlines

12.42 In some circumstances, an individual customer may be able to use its negotiating strength to limit the ability of a merged firm to raise prices or worsen quality.¹²⁰⁸ We refer to this as countervailing buyer power. The existence of countervailing buyer power may make an SLC finding less likely.

¹²⁰⁷ Paragraph 3.49.

¹²⁰⁸ [Merger Assessment Guidelines](#), paragraph 5.9.1

If all customers of the merged firm possess countervailing buyer power post-merger, then an SLC is unlikely to arise. However, often only some – not all – customers of the merged firm possess countervailing buyer power. In such cases, we assess the extent to which the countervailing buyer power of these customers may be relied upon to protect all customers.¹²⁰⁹

12.43 The extent to which customers have buyer power is dependent on a number of different factors. An individual customer's negotiating position will be stronger if it can easily switch its demand away from the supplier, or where it can otherwise constrain the behaviour of the supplier. Typically, a customer's ability to switch away from a supplier will be stronger if there are several alternative suppliers to which the customer can credibly switch, or the customer has the ability to sponsor new entry or enter the supplier's market itself by vertical integration. Where customers have no choice but to take a supplier's products, they may nonetheless be able to constrain prices by imposing costs on the supplier, for example by refusing to buy other products produced by the supplier.¹²¹⁰

12.44 Our Guidance notes that, even where a market is characterised by customers who are larger than the suppliers, it does not necessarily follow that there will be countervailing buyer power.¹²¹¹ In addition, where individual negotiations are prevalent in a market, our Guidance states that the buyer power possessed by any one customer will not typically protect other customers from any adverse effects that might arise from the Merger.¹²¹²

Views of the Parties

12.45 The Parties told us that airlines have a significant degree of countervailing buyer power as a result of their ability to:¹²¹³

- (a) Use one or both of GDS and NDC solutions, depending upon which solution is best to reach their travel agents;
- (b) divert volume to the direct channel to be distributed directly to travellers;¹²¹⁴ and

¹²⁰⁹ [Merger Assessment Guidelines](#), paragraph 5.9.1.

¹²¹⁰ [Merger Assessment Guidelines](#), paragraph 5.9.2 and 5.9.3.

¹²¹¹ [Merger Assessment Guidelines](#), paragraph 5.9.4.

¹²¹² [Merger Assessment Guidelines](#), paragraph 5.9.6.

¹²¹³ [REDACTED].

¹²¹⁴ Sabre told us that airline.com is a strong distribution alternative to indirect channels and this gave airlines bargaining power in negotiations. [REDACTED].

- (c) develop their own in-house products to compete if they are not satisfied with the options available to them. The Parties cited examples of British Airways building its own ‘end-to-end NDC capabilities’ and AFKLM building its own NDC API.¹²¹⁵

12.46 The Parties told us that airlines have also sought to develop preferential offerings available to travel agents through the private channel.¹²¹⁶ The Parties told us that these private channel arrangements showed that airlines are able to ‘force the market’ in certain directions by exercising their market power.¹²¹⁷

Views of third parties

12.47 In its response to our issues statement,¹²¹⁸ Amadeus told us that evidence showed that large airlines have market power in negotiations with GDSs. Amadeus told us that this view was supported by:

- (a) Commercial agreements which showed that large airlines, and even smaller airlines, were aware that their content was ‘must have’ to GDSs and were able to leverage that position to renegotiate terms with GDSs.¹²¹⁹
- (b) Large airlines’ ability to reserve certain ancillary services exclusively for their airline.com and/or channels using the NDC standard. Amadeus told us that airlines did this to make their websites more attractive to passengers¹²²⁰ and that evidence suggested that direct distribution was a significant constraint on indirect distribution, particularly in respect of business passengers.¹²²¹
- (c) [REDACTED] which showed that airlines had required Amadeus to agree to lower booking fees.¹²²²

Our assessment

12.48 The submissions that we received from the Parties and Amadeus related to airlines’ countervailing buyer power in relation to their distribution strategy

¹²¹⁵ [REDACTED].

¹²¹⁶ See paragraph 3.26(c) for a description of private channel arrangements.

¹²¹⁷ [REDACTED].

¹²¹⁸ [Amadeus response to CMA issues statement](#).

¹²¹⁹ [REDACTED].

¹²²⁰ [Amadeus response to CMA issues statement](#), paragraph 2.10(b).

¹²²¹ [Amadeus response to CMA issues statement](#), paragraph 2.8.

¹²²² [Amadeus response to CMA issues statement](#), paragraph 2.10(c).

only. Neither the Parties nor third parties made submissions that airlines have countervailing buyer power as relates to merchandising modules.

- 12.49 In our competitive assessment, we provisionally concluded that the Merger may be expected to result in an SLC in the supply of merchandising solutions. We have provisionally found that the Merger is likely result in the loss of a substantially stronger competitor and a credible alternative merchandising provider in Sabre.¹²²³ We analysed the competitive constraints that currently exist in the market for airline merchandising solutions and we have not seen evidence that other providers are likely to expand to replace the loss of Sabre's merchandising offering or, alternatively, to offer an agnostic merchandising product that would sufficiently replace that of Farelogix. While there exist alternative providers of merchandising modules, 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.
- 12.50 In terms of distribution, we found in Chapter 11 that while there are a few other suppliers of distribution solutions based on NDC APIs, they are weaker than Farelogix.¹²²⁴ In Chapter 10, we found that airlines consider the independence of a supplier from the GDS and PSS providers to be an important factor in choosing a direct connect provider,¹²²⁵ and that around half of airlines raised concerns that the Merger would remove an experienced and/or independent supplier from a market with limited competition.¹²²⁶ We consider therefore that Sabre's ownership of Farelogix is likely to result in the loss of a credible, independent alternative in airlines' negotiations with GDSs, reducing their buyer power.
- 12.51 In terms of airlines' ability to self-supply, we noted in our competitive assessment that self-supply in merchandising was very limited and that, although three larger airlines had developed their own merchandising modules, they each also used third party solutions.¹²²⁷ In any case, the potential for a small number of larger airlines to self-supply cannot be relied upon as means of protecting all airline customers against the adverse effects of the Merger. On that basis, we do not consider that airlines possess countervailing buyer power as a result of an ability to self-supply in merchandising and would face significant difficulties in attempting to do so.

¹²²³ Paragraphs 11.44 and 11.51.

¹²²⁴ Paragraph 11.60.

¹²²⁵ Paragraph 10.105.

¹²²⁶ Paragraph 10.106.

¹²²⁷ See paragraph 10.85.

12.52 In distribution, we similarly noted that only a small number of airlines have developed, or are developing, their own NDC distribution solutions, including NDC APIs, and airlines generally told us that they faced significant challenges and costs in doing so.¹²²⁸ 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.

12.53 Finally, we also note that the use of full content provisions in GDS contracts (see paragraph 12.93 for a description of full content provisions) with airlines does not indicate that airlines have significant negotiating power.

Provisional conclusion on countervailing buyer power

12.54 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

12.55 Our Guidance states that, as part of the assessment of the effects of a merger on competition, we look at whether entry by new firms or expansion by existing providers may mitigate or prevent an SLC.¹²²⁹

12.56 The Guidance states that, in assessing whether entry or expansion might prevent an SLC, the Authorities will consider whether such entry or expansion would be, timely, likely and sufficient. The Guidance notes that:

Potential (or actual) competitors may encounter barriers which adversely affect the timeliness, likelihood and sufficiency of their ability to enter (or expand in) the relevant market(s). Barriers to entry are thus specific features of the market that give incumbent firms advantages over potential competitors. Where entry barriers are low, the merged firm is more likely to be constrained by entry; conversely, this is less likely where barriers are high. 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.¹²³⁰

12.57 In this section, we assess the extent to which we consider that barriers to entry and expansion exist in the supply of merchandising and distribution solutions to airlines.

¹²²⁸ See paragraph 10.101.

¹²²⁹ [Merger Assessment Guidelines](#), paragraph 5.8.1.

¹²³⁰ [Merger Assessment Guidelines](#), paragraph 5.8.3 to 5.8.4.

Merchandising

Views of the Parties

- 12.58 The Parties submitted that there are relatively low barriers to entry in the supply of merchandising solutions and that these products can be developed by any IT company.¹²³¹
- 12.59 The Parties told us that there are accepted industry standards for certain non-core PSS modules, namely scheduling, shopping and pricing and availability modules and that, while merchandising modules are more recent and so do not benefit from such accepted standards, the technological know-how required to create a merchandising module does not differ from what is needed to create other non-core PSS modules.¹²³²
- 12.60 The Parties 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,¹²³³ and that IATA was continually certifying and adding IT providers to its registry as order management capable.¹²³⁴
- 12.61 As described in Chapter 4, we note that Sabre told us that development of a competitive PSS-agnostic merchandising module would [REDACTED]¹²³⁵ and that, even if it were to [REDACTED] developing a PSS-agnostic merchandising solution, it would [REDACTED] for Sabre to develop a product [REDACTED].¹²³⁶ However, Sabre also told us that it would not be correct to equate [REDACTED] with barriers to entry and expansion in the market more generally.¹²³⁷

Views of third parties

- 12.62 We asked competitors and customers of the Parties for their views on barriers to entry and expansion in the supply of merchandising modules. Competitors and customers consistently told us that new entrants would need to overcome financial, technical and commercial obstacles in order to compete successfully in merchandising. We have incorporated the views of these third parties into our assessment of barriers to entry and expansion in merchandising below.

¹²³¹ [REDACTED].

¹²³² [REDACTED].

¹²³³ [REDACTED].

¹²³⁴ [REDACTED].

¹²³⁵ See paragraph 4.18 and [REDACTED].

¹²³⁶ [Parties' response to the CMA's Issues Statement](#), paragraph 3.4.

¹²³⁷ [REDACTED].

Our assessment

12.63 Although the Parties submitted that there are low barriers to entry and expansion in merchandising solutions, we consider Sabre’s submissions setting out [REDACTED] indicate the existence of certain barriers, in relation to the development time, associated cost and expertise required to build a competitive merchandising product.

12.64 Sabre told us that [REDACTED].¹²³⁸ [REDACTED].¹²³⁹

12.65 We consider that this demonstrates the challenges in developing a competitive, PSS-agnostic merchandising solution. However, we also consider that Sabre is significantly better placed than other potential entrants to compete effectively in the provision of such solutions, as a result of Sabre’s significant resources, its established airline customer base and its position as a PSS and GDS provider which gives it a deep understanding of customer needs and of airline IT architecture. We also note that, as described in paragraphs 9.49 and 9.50, Sabre has already [REDACTED] and will have already overcome some of the barriers which other potential entrants starting today would still face, as well as having a greater incentive to do so.

- *Technological barriers*

12.66 Sabre’s submissions regarding the time and cost associated with developing a competitive PSS-agnostic merchandising module were consistent with the submissions that we received from other providers of non-core PSS merchandising modules:

(a) Amadeus told us that the development of complex non-core PSS modules required a relatively significant upfront investment.¹²⁴⁰ Amadeus submitted that it began its own NDC merchandising solutions programme in 2013, before it released a minimum viable product in [REDACTED].¹²⁴¹ Amadeus told us that it had [REDACTED] in merchandising and that [REDACTED].¹²⁴² Amadeus also told us that, [REDACTED].¹²⁴³ Amadeus continues to invest over [REDACTED] per year in its merchandising offering.¹²⁴⁴

¹²³⁸ [REDACTED].
¹²³⁹ [REDACTED].
¹²⁴⁰ [REDACTED].
¹²⁴¹ [REDACTED].
¹²⁴² [REDACTED].
¹²⁴³ [REDACTED].
¹²⁴⁴ [REDACTED].

(b) [REDACTED].¹²⁴⁵

(c) OpenJaw told us that it would take “over a decade and tens of millions of euros investment” to build out a sophisticated solution with sufficient functionality to meet the diverse needs of different airlines,¹²⁴⁶ and that it had taken the established providers of merchandising solutions years to establish themselves in the market.¹²⁴⁷

(d) ITA told us that the provision of non-core PSS merchandising modules was a complex process requiring investment in coding and development.¹²⁴⁸

(e) [REDACTED].¹²⁴⁹ We note that [REDACTED].¹²⁵⁰

12.67 Similarly, [REDACTED] told us that developing a competitive shopping, pricing and merchandising engine would require tens of millions of dollars in upfront investment¹²⁵¹ and the majority of airlines told us that they had not developed their own merchandising solutions as merchandising was complex, required specific expertise and airlines generally considered that they could not develop competitive products efficiently in-house.¹²⁵² However, we also note that [REDACTED] told us that there were many providers of non-core PSS services and that there were no technological barriers for new entrants.¹²⁵³

12.68 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. The [REDACTED] entry and/or expansion plans expressed to us by competitors to the Parties¹²⁵⁴ also indicate that barriers are significant and that entry or expansion in merchandising is difficult (although Sabre has already [REDACTED]¹²⁵⁵ and has a number of other significant advantages over other potential entrants).¹²⁵⁶

¹²⁴⁵ [REDACTED].

¹²⁴⁶ [REDACTED].

¹²⁴⁷ [REDACTED].

¹²⁴⁸ [REDACTED].

¹²⁴⁹ [REDACTED].

¹²⁵⁰ [REDACTED].

¹²⁵¹ [REDACTED].

¹²⁵² See paragraphs 10.85 and 10.86.

¹²⁵³ [REDACTED].

¹²⁵⁴ Paragraphs 10.22 to 10.35.

¹²⁵⁵ Paragraphs 9.50 and 9.51.

¹²⁵⁶ Although our assessment relates to a specific element of a PSS stack, we note that the European Commission found that barriers to entry in the market for PSS solutions is characterised by high barriers to entry, citing the significant costs involved in developing such solutions. See [European Commission Case M.7802: Amadeus/Navitaire](#), paragraph 5.1.4.3.

- *Credibility and reputation*

12.69 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 (eg by referring to live customer testimony). For example:

- (a) OpenJaw told us that, in general, most airlines are conservative, risk averse and operationally focussed and that this can make it difficult for new entrants to acquire new business. OpenJaw explained that airlines typically look for validation that a provider’s solution works for another airline and that this naturally presents challenges for new entrants without an established customer base.¹²⁵⁷
- (b) PROS told us that it was difficult for new providers to establish commercial relationships with airlines and that it was difficult for new entrants to gain credibility without an established presence in the industry.¹²⁵⁸ PROS told us that size, scale and reputation are significant factors in airlines’ procurement decisions and that airlines are often reluctant to do business with start-ups.¹²⁵⁹
- (c) [REDACTED] told us that it was currently unsuccessful in winning contracts and that it considered that this was due to a lack of “live customer references”.¹²⁶⁰ [REDACTED] told us that it entered the airline IT industry in [REDACTED] and that it had so far proven difficult to gain traction against the established competitors.¹²⁶¹
- (d) [REDACTED] told us that establishing relationships with airlines is crucial to success but that it is difficult for small suppliers to build a strong reputation.¹²⁶²
- (e) [REDACTED].¹²⁶³
- (f) [REDACTED] similarly told us that the complexity of established airline business processes and the inter-connectivity of systems makes it difficult to gradually replace or upgrade legacy business processes. [REDACTED] added that

1257 [REDACTED].
1258 [REDACTED].
1259 [REDACTED].
1260 [REDACTED].
1261 [REDACTED].
1262 [REDACTED].
1263 [REDACTED].

airlines are very risk-averse and that it is difficult to convince airlines to change solution provider.¹²⁶⁴

12.70 [REDACTED] also told us that customers in the airline industry are accustomed to relying on very large global players and that the need to gain airline trust, demonstrate reliability and establish partnerships with larger IT companies limited the ability of the parties' competitors to expand.¹²⁶⁵

12.71 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 is likely to represent a significant barrier, particularly to new entry. We also note that [REDACTED] told us that they have struggled to win customers in airline retailing and that they have found it difficult to build scale as a provider of merchandising solutions. We therefore consider that the need to build a reputation for reliability and to gain credibility with customers acts as a barrier to expansion as well as entry and that, after initial entry, many providers continue to find it difficult to expand significantly. In this context, we note that airlines generally considered alternative merchandising solutions to the Parties to be of more limited functionality than that of Farelogix, and only a limited number of airlines considered that alternative providers would become stronger in merchandising in the coming years.¹²⁶⁶

- *Switching costs*

12.72 Merchandising modules are becoming increasingly critical to airline profitability¹²⁶⁷ and customers of the Parties have told us that switching providers is a complex and expensive task:

(a) [REDACTED] told us that it was [REDACTED], and that this had been an expensive project that had affected [REDACTED]. [REDACTED] told us that switching modules was “not easy”.¹²⁶⁸

¹²⁶⁴ [REDACTED].

¹²⁶⁵ [REDACTED].

¹²⁶⁶ See paragraph 10.83.

¹²⁶⁷ In the context of flat or declining passenger seat revenue, the sale of ancillaries (eg priority boarding, seat choice) has been a major contributor to airline profitability. Merchandising modules facilitate the sale of ancillaries. [REDACTED].

¹²⁶⁷ [REDACTED].

¹²⁶⁸ [REDACTED].

- (b) [REDACTED] told us that switching non-core PSS modules would be a “daunting endeavour” but noted that this was less complex than switching core PSS.¹²⁶⁹
- (c) [REDACTED] told us that the difficulty associated with changing non-core providers depended on the amount of integration with other systems and told us that changes in systems such as a merchandising engine would require “medium to large projects”.¹²⁷⁰
- (d) [REDACTED] told us that it was [REDACTED] and that it expected this to be expensive, time consuming and complicated and that the switch would require extensive internal and external resources.¹²⁷¹
- (e) [REDACTED] told us that adding non-core PSS modules typically involved a lower level of risk than changing core PSS but that associated costs varied and could still be significant.¹²⁷²
- (f) [REDACTED].¹²⁷³

12.73 We note, however, that despite the submissions we have received regarding switching costs, some customers have changed providers in the recent past. In our view, the cost of switching is not insurmountable but may represent a challenge for certain providers, and for new entrants in particular, which have yet to establish relationships with large airlines and have yet to build a reputation for reliability. On that basis, we consider that the cost of switching merchandising provider would act as a barrier to entry or expansion in some circumstances but is not necessarily insurmountable.

Distribution

Views of the Parties

12.74 Sabre submitted to the US DOJ that [REDACTED].¹²⁷⁴ The Parties told us that Farelogix, however, is not a GDS and the fact that [REDACTED] did not mean that there were barriers to entry for IT services that facilitate indirect distribution of airline content,¹²⁷⁵ such as the building of an NDC API.

¹²⁶⁹ [REDACTED].
¹²⁷⁰ [REDACTED].
¹²⁷¹ [REDACTED].
¹²⁷² [REDACTED].
¹²⁷³ [REDACTED].
¹²⁷⁴ [REDACTED].
¹²⁷⁵ [REDACTED].

- 12.75 The Parties told us that it is relatively simple to build an NDC API which can be used to distribute airline content.¹²⁷⁶ 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.¹²⁷⁷
- 12.76 The Parties told us that the supply of NDC APIs was becoming increasingly commoditised¹²⁷⁸ 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.¹²⁷⁹ The Parties told us that IATA was continually certifying and adding IT providers as NDC capable and that the majority of providers had been added in the last two years.¹²⁸⁰
- 12.77 We note that Sabre also told us that its own efforts to build NDC APIs as part of its NDC strategy [REDACTED].¹²⁸¹ Sabre told us that that it remained at [REDACTED], and the product [REDACTED].¹²⁸² Sabre told us that, even if it was able to meet this timeframe, [REDACTED].¹²⁸³ However, Sabre told us that the [REDACTED] should not be equated to barriers to entry as regards NDC APIs as a whole.¹²⁸⁴

Views of third parties

- 12.78 We asked competitors and customers of the Parties for their views on barriers to entry and expansion in the supply of NDC APIs. These third parties told us that new entrants and expansion candidates would be likely to face similar challenges in competing for the supply of NDC APIs as for merchandising modules. That is, while the introduction of the IATA NDC standard was open to any third party to use, financial and commercial obstacles nonetheless represented significant obstacles that would need to be overcome. We have incorporated the views of these third parties into our assessment of barriers to entry and expansion in distribution below.

¹²⁷⁶ [REDACTED].

¹²⁷⁷ [REDACTED].

¹²⁷⁸ [REDACTED].

¹²⁷⁹ [REDACTED].

¹²⁸⁰ [REDACTED].

¹²⁸¹ [Parties' response to CMA issues statement](#), paragraph 3.3.

¹²⁸² [Parties' response to CMA issues statement](#), paragraph 3.3. We note however that Sabre has been representing to its airline customers that it is able to develop NDC merchandising capabilities within a relatively short time frame. See paragraph 9.52.

¹²⁸³ [Parties' response to CMA issues statement](#), paragraph 3.3.

¹²⁸⁴ [REDACTED].

Our assessment

12.79 Given that [REDACTED],¹²⁸⁵ our assessment of barriers to entry and expansion in distribution focusses on the barriers to the provision of NDC APIs.

- *Technological barriers*

12.80 Sabre submitted that it is not correct to equate [REDACTED] with barriers to entry more generally. Sabre told us that [REDACTED].¹²⁸⁶ Sabre also told us that [REDACTED] were not relevant for our assessment as [REDACTED].¹²⁸⁷

12.81 However, the Parties have also submitted that the technology underlying NDC APIs is the same, regardless of the channel to which the API connects¹²⁸⁸ (eg whether it connects directly to a travel agent or to a GDS, as Sabre is attempting to do). While we agree that [REDACTED], we consider that Sabre's submissions provide relevant evidence for our assessment in terms of the difficulties in competing against the market leaders.

12.82 We also note that Sabre's submission that it would [REDACTED],¹²⁸⁹ indicating that the provision of NDC APIs is not a purely commoditised supply and that there remains some differentiation between the products developed by different suppliers.

12.83 Consistent with Sabre's submissions on [REDACTED] developing a set of NDC APIs to compete with the market leaders, we note that competitors to the Parties told us that the investment required to develop NDC APIs was significant.¹²⁹⁰

12.84 Third party providers also told us that development time could be significant. Amadeus, for example, told us that its Altea NDC product may be used to facilitate direct connect and that it had started development in [REDACTED], achieving Level 4 IATA certification in 2019.¹²⁹¹ Amadeus told us that it had been continuing to develop its Altea NDC product since [REDACTED] and expected to see [REDACTED].¹²⁹² [REDACTED].¹²⁹³ ITA told us that building an NDC-enabled direct connect was

¹²⁸⁵ Paragraph 12.72.

¹²⁸⁶ [REDACTED].

¹²⁸⁷ [REDACTED].

¹²⁸⁸ [REDACTED]. See also [REDACTED] which states that: "both GDS bypass [Direct Connect] and GDS pass-through NDC API implementations rely on equivalent technology and are essentially the same product from a technical perspective, whether a particular NDC API connection constitutes a GDS bypass or GDS pass-through solution is simply a question of what the NDC API connects to (which is determined by the airline customer)".

¹²⁸⁹ [Parties' response to CMA issues statement](#), paragraph 3.3 and [REDACTED].

¹²⁹⁰ [REDACTED].

¹²⁹¹ [REDACTED].

¹²⁹² [REDACTED].

¹²⁹³ [REDACTED].

a complex process requiring investment in coding and development and that the limited associated revenues may disincentivise new entrants.¹²⁹⁴

12.85 However, some other providers told us that they considered that technological barriers to entry were low. OpenJaw told us that, as NDC is an open standard, any new entrant can technically develop a solution based on the standard at minimal cost.¹²⁹⁵ [REDACTED] told us that knowledge of the traditional airline technology industry was required to build NDC APIs but that there were no technological barriers to new entrants.¹²⁹⁶

12.86 We also note that all airlines that responded to our questionnaires (including those airlines that have developed, or are developing, their own NDC APIs) told us that building NDC APIs is a complex process involving significant challenges and costs, and requires specific expertise.¹²⁹⁷ In particular, we note that those airlines which have not already developed (or have not yet started to develop) in-house NDC APIs told us that they preferred to outsource to third parties as they lacked the expertise required.

12.87 Overall, we consider that the evidence suggests that the introduction of the NDC standard has lowered technical 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 players such as [REDACTED] in winning significant contracts to supply solutions based on NDC APIs to airlines¹²⁹⁸ and that the large majority of airlines, despite having an intricate understanding of airline IT architecture, 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.

- *Commercial barriers*

12.88 Third parties told us that NDC API providers, which enable GDS bypass, face specific commercial obstacles in competing against the traditional GDS content distribution model, as a result of certain features of the market and contractual provisions that have become prevalent in the industry.

¹²⁹⁴ [REDACTED].

¹²⁹⁵ [REDACTED].

¹²⁹⁶ [REDACTED].

¹²⁹⁷ Paragraph 10.101.

¹²⁹⁸ Paragraph 11.69.

12.89 [REDACTED], for example, told us that barriers to providing NDC direct connect solutions (facilitated by NDC APIs) were high¹²⁹⁹ and that it was difficult for providers to compete against the GDSs because:

- (a) restrictions in GDS contracts with many airlines, including full content agreements, limited the extent to which direct connect providers could compete as an alternative to GDS distribution;¹³⁰⁰
- (b) the historic business model of the GDSs involved GDSs paying incentive fees per segment booked to travel agents. [REDACTED] told us that travel agents were therefore reluctant to switch away from the GDSs to direct connect solutions;¹³⁰¹
- (c) GDSs often provide middle- and back-office solutions to travel agents integrated with the GDS. To date, [REDACTED] told us that it appeared that GDSs were not motivated, and may be unwilling, to integrate direct connect or other NDC API-based solutions with the middle- and back-office solutions that they provide to travel agents. [REDACTED] told us that this would likely act as a drag on the adoption of direct connect solutions by travel agents.¹³⁰²

12.90 [REDACTED] added that new and smaller players such as [REDACTED] would only be successful if their solutions can interact with the core PSS but that PSS providers may prevent this.¹³⁰³

12.91 Several airlines also told us that incentive payments to travel agents and clauses in GDS contracts acted as significant barriers to entry for providers seeking to distribute content directly to travel agents via NDC APIs. For example:

- (a) [REDACTED] told us that loyalty payments and minimum booking commitments in GDS agreements with travel agents and parity clauses in GDS agreements with airlines created significant obstacles to deploying NDC/Direct Connect amongst travel agents.¹³⁰⁴
- (b) [REDACTED] told us that:

GDSs are abusing their market power to protect their current business model but also in order to impose barriers to entry to their future NDC

1299 [REDACTED].
1300 [REDACTED].
1301 [REDACTED].
1302 [REDACTED].
1303 [REDACTED].
1304 [REDACTED].

aggregator position. Despite [X] refusal to apply non-discrimination / parity provision in the NDC aggregator scheme, the GDS are still trying to impose these restrictions which also constitute barriers to entry... If implemented in the new distribution world, such provisions would set high barriers to entry or expansion for any new entrants and existing non GDS aggregators.¹³⁰⁵

- (c) [X] told us that parity clauses created a barrier to entry for alternative providers of distribution solutions to travel agents, as they cannot compete on price against incumbent providers.¹³⁰⁶
- (d) [X] told us that “huge incentives” make it difficult to motivate travel agents to switch away from the GDS booking platforms.¹³⁰⁷
- (e) [X] told us that incentive payments made by GDSs to travel agents, coupled with parity clauses in GDS contracts, represented a significant obstacle for direct connect providers to overcome. [X] told us that these restrictions make it “contractually impossible” for its preferred channels to compete effectively.¹³⁰⁸

12.92 The views expressed to us by airlines in paragraph 12.91 above were consistent with the submissions that we received from third party airline IT service providers. OpenJaw told us that the large GDS/PSS providers were able to use commercial restrictions to limit the ability of new entrants to compete effectively.¹³⁰⁹ [X] told us that “restrictive PSS/GDS-to-airline contracts” were one of the main obstacles faced by new entrants and existing providers seeking to expand,¹³¹⁰ and PROS similarly identified “commercial blocking tactics” employed by GDS/PSS providers as a significant barrier to entry and expansion for direct connect providers.¹³¹¹

12.93 We are also aware that Sabre is in ongoing antitrust litigation with US Airways Inc., which filed a suit against Sabre in April 2011, including an allegation that Sabre’s use of ‘full content provisions’ in its GDS contracts with airlines created unlawful restrictions on trade.¹³¹² The US Airways suit stated that full content provisions comprised four elements which were central to its claims:¹³¹³

1305 [X].

1306 [X].

1307 [X].

1308 [X].

1309 [X].

1310 [X].

1311 [X].

1312 [US Airways, Inc. vs Sabre Holdings Corporation](#), page 11.

1313 [US Airways, Inc. vs Sabre Holdings Corporation](#), page 10.

- (a) No Better Benefits provisions which required US Airways to provide all of its fares to customers through the Sabre GDS.
- (b) No Discounts provisions which required any fares offered by US Airways through the Sabre GDS to be no more expensive, and no less comprehensive, than fares offered by US Airways through any other forum.
- (c) No Direct Connects provisions which prohibited US Airways from requiring or inducing any travel agent to book on the US Airways website, or otherwise circumvent the Sabre platform.
- (d) No Surcharge provisions which prevented US Airways from charging higher fees to travel agents for booking through the Sabre platform than for booking through other means.

12.94 In December 2016, the jury issued a verdict in favour of US Airways with respect to its claims relating to Sabre’s contracts with US Airways. Sabre strongly denies all allegations made by US Airways and the two parties remain in ongoing litigation, with Sabre and US Airways each filing appeals challenging the various judgements.¹³¹⁴

12.95 Of relevance to our assessment of barriers to entry and expansion in distribution, we note that, as part of the trial, Jim Davidson testified about Farelogix’s entry and expansion attempts and those of other potential competitors to the GDSs.¹³¹⁵ Jim Davidson testified that, despite the fact that Farelogix had developed more innovative and efficient technologies than those used by Sabre, anti-competitive barriers to entry – specifically the full content provisions challenged by US Airways – prevented Farelogix and others from introducing improved competitive technology in the distribution market.¹³¹⁶ However, we also note that, at Farelogix’s hearing with the CMA, Jim Davidson told us that, while he had been “very opinionated” on these contractual provisions in the past, he now considered that NDC rendered full content provisions irrelevant. Jim Davison told us that these contractual clauses were relevant when the industry depended on filed fares but that NDC meant that this would no longer be the case.¹³¹⁷

12.96 Based on the evidence set out above, we consider that full content provisions and other GDS contractual clauses may be a barrier to entry and expansion for providers seeking to distribute airline content to travel agents via NDC

¹³¹⁴ Sabre SEC filing form 10-k 2018, page 24.

¹³¹⁵ US Airways, Inc. vs Sabre Holdings Corporation, page 40.

¹³¹⁶ US Airways, Inc. vs Sabre Holdings Corporation, page 40.

¹³¹⁷ [REDACTED].

APIs. This is because such clauses may place restrictions on airlines incentivising or promoting the use of non-GDS distribution channels, restricting the ability of new entrants and expansion candidates to grow, and may make it more difficult for entrants and expansion candidates to compete on content with GDS providers. In our view, the prevalence of the contractual clauses described above represents a significant commercial 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

- 12.97 Based on the evidence set out above, we are provisionally of the view that the market for airline merchandising solutions is characterised by high barriers to entry and expansion, particularly as a result of the costly and lengthy development process and the need to establish a strong reputation and relationships with airlines.
- 12.98 We provisionally consider that technological barriers in the provision of NDC APIs to distribute airline content have been lowered as a result of the introduction of the NDC standard, but that difficulties remain in developing competitive products, which requires upfront investment and specific expertise, and that commercial barriers to entry and expansion also represent significant obstacles for new entrants and providers seeking to expand.
- 12.99 As a result, our provisional conclusion is that entry or expansion would not be timely, likely and sufficient to prevent the SLCs we have provisionally identified.

Overall provisional conclusion on countervailing factors

- 12.100 Given the evidence discussed above we provisionally conclude that no countervailing factors prevent the SLCs that we have provisionally identified from arising as a result of the Merger.

13. Provisional conclusion

- 13.1 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.
- 13.2 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.

- 13.3 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.