

Transparency And GDS Market Power

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#### Overview of American's Position

- Competition in the airline industry continues to evolve, as airlines are introducing new products and creating more options
- American is using technology to create a better and more personalized shopping experience for our customers
  - In addition to offering a competitive price, American wants to win customers by offering an array of quality products and services that meet individual customer preferences
- The direct connect technologies used by American threaten "behind the scenes" global distributions systems (GDSs) which dominate the distribution of airline content to travel agencies
  - Legacy GDS technologies cannot meet the developing needs of airlines or their customers
  - Two companies, Sabre and Travelport, control over 90% of the US market
  - Both Departments of Transportation and Justice have found that GDSs possess monopoly power and charge supracompetitive fees for their services
  - The Department of Justice is investigating the GDSs for anticompetitive practices
  - American brought and settled antitrust lawsuits against both Sabre and Travelport

#### Overview of American's Position

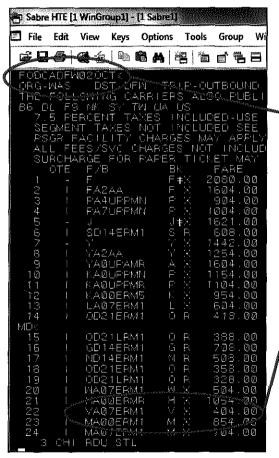
- American supports a transparent marketplace
  - Transparency should go beyond simple price comparisons and should also encompass product differences and customer options
  - Depending on customer preferences, the lowest price may not be the best customer value
- Giving customers more options requires more robust and flexible technologies
  - Competition among technology providers will be critical in fostering new and creative capabilities
  - Key players in other industries, such as Amazon, are already leading the way to a more efficient and relevant shopping experience
- New transparency regulations directed at airlines are not justified, and could have significant anticompetitive effects if they:
  - Strengthen GDS market power by, directly or indirectly, requiring airlines to provide content (either to view or to sell),
  - Limit the ability of airlines to select the most efficient and innovative channels to distribute content, or
  - Inhibit the ability to introduce new products

## **GDSs Provide Content to Travel Agents**

- GDSs contract with airlines to distribute their content to travel agency professionals, not individual customers
  - Travel agencies access multiple sources of content to supplement GDS displays which lack low cost carrier and ancillary fee content
    - Southwest, for example, carries more domestic passengers than any other airline but does not distribute all of its fares through the GDSs
    - > A Phocus Wright study found that 70% of agencies are using airline websites to book ancillary fees
    - Travel agencies understand that different airlines have different fee structures and they know where to find relevant information
  - American has developed "direct connect" technologies that provide a pipeline into American's internal pricing and merchandizing systems
    - Provides travel agencies with AA.com type functionality, something that current GDS technologies cannot duplicate
    - > This technology is proven and is being used by agencies, such as Priceline
    - The standards used allow for easy content aggregation, so agencies can compare content across airlines

# GDS Green Screens Are Unable To Effectively Display Expanding Consumer Options

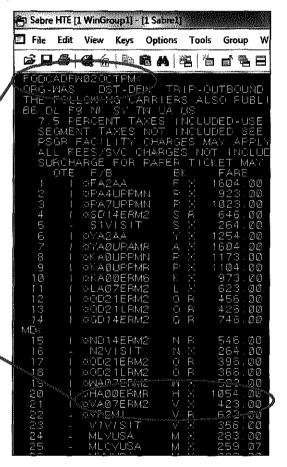
#### **Standard Fare Quote**



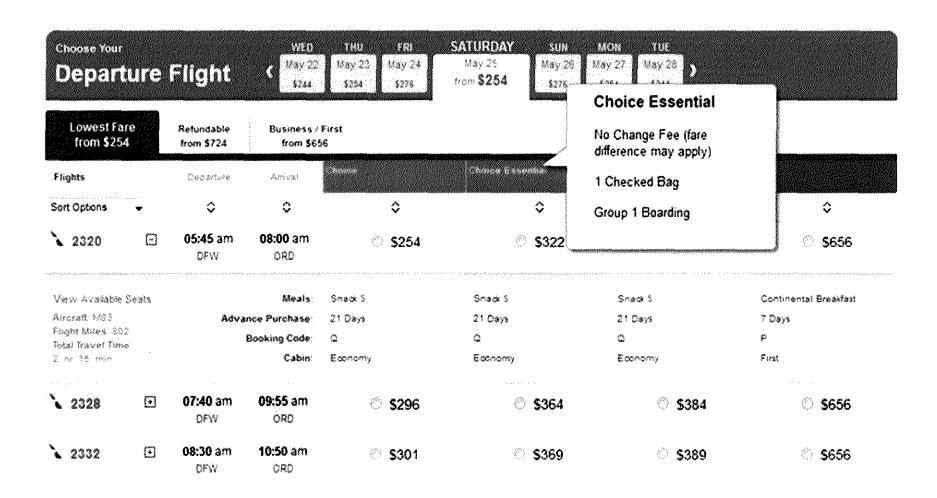
Agent can only access the package by making a separate, non-standard entry (assuming they know it exists)

Agent cannot easily determine the incremental price/features of the package, nor the consumer's eligibility

#### Separate, Non-Standard Fare Quote



### American's Modern Display Improves Transparency



### American's New GDS Agreements

- In October and March, American signed new distribution agreements with Sabre and Travelport, respectively
- These agreements reflect ongoing GDS market power, but they would have been far worse had DOT regulations mandated that American provide content to the GDSs
- American's GDS agreements further prove that regulation is not needed for airlines to provide full content to travel agencies
  - American wants to provide travel agencies with more content, using more robust technologies, and these agreements reflect those objectives

## Control Over Content is Critical to Controlling GDS Costs and Encouraging Needed Innovation

- With DOJ concurrence, in 2004, DOT sunsetted regulations that required airlines to provide content to GDSs, finding that these regulations had impeded competition
  - "Practices prohibited by [the now sunsetted regulation] are potentially efficiency enhancing. If an airline dealing at arms-length with its [GDS] suppliers were free to reduce its level of participation in some systems, or to induce agents to use a lowcost system, the airline's bargaining power would be enhanced." [DOJ Comments, (DOT-OST-1997-2881) dated June 9, 2003].
  - "We have founds that [GDSs] continue to have some market power over most airlines... Airlines should have some bargaining power against [GDSs] if each airline can choose which services and fares will be saleable through each system and the level at which it will participate in each system." [DOT Final Rulemaking, 69 Fed. Reg. 976, January 7, 2004]

#### No Basis Exists for New Airline Regulations

- No evidence shows that travel agencies are being deceived by current airline distribution practices
- American has a strong incentive to distribute all of its product through travel agencies, and that is our objective
  - Approximately 60% of our revenue comes through travel agency sales
  - We know that travel agencies are in the business of finding the best travel options for their customers, which requires them to comparison shop
  - Adopting technologies or strategies that would make it difficult for agencies to find and compare our products would only remove our products from the "shelf of choices" that agencies use
  - Direct connect was an initiative to *improve* the quality of information that we provide to agencies

#### No Basis Exists for New Airline Regulations

- New regulations that would, directly or indirectly, require airlines to remain dependent upon the incumbent GDSs would only inhibit needed competition and innovations
  - Competition among technology providers remains the most effective means for improving transparency
  - Evidence of customer confusion over fees is not a sufficient basis for new regulations requiring airlines to provide content through GDS
    - Evidence of customer confusion concerning fees is largely anecdotal and outdated, in part because competing airlines have made fees a point of differentiation in their marketing
    - GDSs only serve travel professionals, not consumers
    - Any regulations premised on customer confusion should focus on direct to consumer websites, not behind the scenes GDSs