



# Transparency And GDS Market Power

Presented to the Office of Information  
and Regulatory Affairs

April 30, 2013



# Overview of American's Position

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- 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

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- 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

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- 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**

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Sabre HTE [1 WinGroup1] - [1 Sabre1]
File Edit View Keys Options Tools Group W
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FOOCAA02DCT*
ORG-WAS  DST-DFW  TRIP-OUTBOUND
THE FOLLOWING CARRIERS ALSO PUBLI
BB  DL  FS  NI  SY  TN  UA  US
7.5 PERCENT TAXES INCLUDED-USE
SEGMENT TAXES NOT INCLUDED SEE
RSGR FACILITY CHARGES MAY APPLY
ALL FEES/SVC CHARGES NOT INCLUD
SURCHARGE FOR PAPER TICKET MAY
OTE  F/B  BK  FARE
1  -  F  F+X  2080.00
2  |  FA2AA  F X  1604.00
3  |  FA4UPPMN  P X  904.00
4  |  FA7UPPMN  P X  1004.00
5  |  J  J+X  1621.00
6  |  SD14ERM1  S R  608.00
7  |  Y  Y X  1442.00
8  |  YA2AA  Y X  1254.00
9  |  YA0UPAMR  A X  1604.00
10 |  KA0UPPMN  P X  1154.00
11 |  KA0UPPMR  P X  1104.00
12 |  KA00ERM5  K X  954.00
13 |  LA07ERM1  L X  604.00
14 |  QD21ERM1  Q R  418.00
MD%
15 |  QD21LPM1  Q R  388.00
16 |  GD14ERM1  G R  798.00
17 |  ND14ERM1  N R  506.00
18 |  QD21ERM1  Q R  358.00
19 |  QD21LPM1  Q R  328.00
20 |  WA07ERM1  W X  504.00
21 |  VA00ERM1  V X  1054.00
22 |  VA07ERM1  V X  404.00
23 |  MA00ERM1  M X  654.00
24 |  MA07ERM1  M X  704.00
3 CHI  ADU  STL
    
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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**

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Sabre HTE [1 WinGroup1] - [1 Sabre1]
File Edit View Keys Options Tools Group W
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FOOCAA02DCT*
ORG-WAS  DST-DFW  TRIP-OUTBOUND
THE FOLLOWING CARRIERS ALSO PUBLI
BB  DL  FS  NI  SY  TN  UA  US
7.5 PERCENT TAXES INCLUDED-USE
SEGMENT TAXES NOT INCLUDED SEE
RSGR FACILITY CHARGES MAY APPLY
ALL FEES/SVC CHARGES NOT INCLUD
SURCHARGE FOR PAPER TICKET MAY
OTE  F/B  BK  FARE
1  |  FA2AA  F X  1604.00
2  |  FA4UPPMN  P X  923.00
3  |  FA7UPPMN  P X  1023.00
4  |  SD14ERM2  S R  646.00
5  |  N3VISIT  N X  264.00
6  |  YA2AA  Y X  1254.00
7  |  YA0UPAMR  A X  1604.00
8  |  KA0UPPMN  P X  1173.00
9  |  KA0UPPMR  P X  1104.00
10 |  KA00ERM5  K X  973.00
11 |  LA07ERM2  L X  623.00
12 |  QD21ERM2  Q R  456.00
13 |  QD21LPM2  Q R  426.00
14 |  GD14ERM2  G R  746.00
MD%
15 |  ND14ERM2  N R  546.00
16 |  N3VISIT  N X  264.00
17 |  QD21ERM2  Q R  396.00
18 |  QD21LPM2  Q R  366.00
19 |  WA07ERM2  W X  504.00
20 |  VA00EPMR  V X  1054.00
21 |  VA07ERM2  V X  423.00
22 |  MA07ERM1  M X  623.00
23 |  M1VISIT  M X  356.00
24 |  MLVUSA  M X  283.00
25 |  MLCVUSA  M X  259.00
    
```

# American's Modern Display Improves Transparency

Choose Your **Departure Flight** < WED May 22 \$244 THU May 23 \$254 FRI May 24 \$276 **SATURDAY May 25 from \$254** SUN May 26 \$276 MON May 27 \$298 TUE May 28 \$320 >

**Lowest Fare**  
from \$254

Refundable  
from \$724

Business / First  
from \$656

Flights	Departure	Arrival	Economy	Choice Essential	Business / First
<div style="display: flex; align-items: center;"> <span style="font-size: 24px; margin-right: 5px;">✈</span> <span style="font-weight: bold; font-size: 18px;">2320</span> <span style="margin-left: 10px;">✉</span> </div>	<p><b>05:45 am</b> DFW</p>	<p><b>08:00 am</b> ORD</p>	<p><input type="radio"/> \$254</p>	<p><input type="radio"/> \$322</p>	<p><input type="radio"/> \$656</p>

**Choice Essential**

- No Change Fee (fare difference may apply)
- 1 Checked Bag
- Group 1 Boarding

**View Available Seats**

Aircraft: M83  
Flight Miles: 602  
Total Travel Time: 2 hr 15 min

Meals:	Snack 3	Snack 3	Snack 3	Continental Breakfast
Advance Purchase:	21 Days	21 Days	21 Days	7 Days
Booking Code:	Q	Q	Q	P
Cabin:	Economy	Economy	Economy	First

<div style="display: flex; align-items: center;"> <span style="font-size: 24px; margin-right: 5px;">✈</span> <span style="font-weight: bold; font-size: 18px;">2328</span> <span style="margin-left: 10px;">✉</span> </div>	<p><b>07:40 am</b> DFW</p>	<p><b>09:55 am</b> ORD</p>	<p><input type="radio"/> \$296</p>	<p><input type="radio"/> \$364</p>	<p><input type="radio"/> \$384</p>	<p><input type="radio"/> \$656</p>
<div style="display: flex; align-items: center;"> <span style="font-size: 24px; margin-right: 5px;">✈</span> <span style="font-weight: bold; font-size: 18px;">2332</span> <span style="margin-left: 10px;">✉</span> </div>	<p><b>08:30 am</b> DFW</p>	<p><b>10:50 am</b> ORD</p>	<p><input type="radio"/> \$301</p>	<p><input type="radio"/> \$369</p>	<p><input type="radio"/> \$389</p>	<p><input type="radio"/> \$656</p>

# American's New GDS Agreements

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- 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

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- 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 low-cost 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

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- 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

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- 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