



# Transparency And GDS Market Power

Presented to the Office of Information  
and Regulatory Affairs

April 30, 2013



# 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**

OTE	F/B	BK	FARE
1	F	F X	2080.00
2	FA2AA	F X	1604.00
3	FA4UPPMN	F X	904.00
4	FA7UPPMN	F 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	F X	1154.00
11	KA0UPPMR	F X	1104.00
12	KA00ERM5	K X	954.00
13	LA07ERM1	L X	604.00
14	QD21ERM1	O R	418.00
MD			
15	QD21LRM1	O R	388.00
16	GD14ERM1	G R	708.00
17	ND14ERM1	N R	506.00
18	QD21ERM1	O R	358.00
19	QD21LRM1	O R	328.00
20	MA07ERM1	M 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

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**

OTE	F/B	BK	FARE
1	0FA2AA	F X	1604.00
2	0FA4UPPMN	F X	923.00
3	0FA7UPPMN	F X	1023.00
4	0SD14ERM2	S R	646.00
5	0S1VISIT	S X	264.00
6	0YA2AA	Y X	1254.00
7	0YA0UPAMR	A X	1604.00
8	0KA0UPPMN	F X	1173.00
9	0KA0UPPMR	F X	1104.00
10	0KA00ERM5	K X	973.00
11	0LA07ERM2	L X	623.00
12	0QD21ERM2	O R	456.00
13	0QD21LRM2	O R	426.00
14	0GD14ERM2	G R	746.00
MD			
15	0ND14ERM2	N R	546.00
16	0N2VISIT	N X	264.00
17	0QD21ERM2	O R	396.00
18	0QD21LRM2	O R	366.00
19	0MA07ERM2	M X	504.00
20	0VA00ERM1	V X	1054.00
21	0VA07ERM2	V X	423.00
22	0V1VEM1	V R	622.00
23	0V1VISIT	V X	356.00
24	0MLVUSA	M X	283.00
25	0MLCVUSA	M X	259.00

# American's Modern Display Improves Transparency

Choose Your

WED	THU	FRI	<b>SATURDAY</b>	SUN	MON	TUE
May 22	May 23	May 24	May 25	May 26	May 27	May 28
\$244	\$254	\$278	from <b>\$254</b>	\$278	\$298	\$318

**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: 1.2em; margin-right: 5px;">✈</span> <span style="font-weight: bold; font-size: 1.1em;">2320</span> <span style="margin-left: 10px; font-size: 0.8em;">✉</span> </div>	<b>05:45 am</b> DFW	<b>08:00 am</b> ORD	<input type="radio"/> <b>\$254</b>	<input type="radio"/> <b>\$322</b>	<input type="radio"/> <b>\$656</b>
<div style="display: flex; justify-content: space-between; font-size: 0.8em;"> <div> <p>View Available Seats</p> <p>Aircraft: M83</p> <p>Flight Miles: 602</p> <p>Total Travel Time: 2 hr 15 min</p> </div> <div> <p><b>Meals:</b> Snack 3</p> <p><b>Advance Purchase:</b> 21 Days</p> <p><b>Booking Code:</b> Q</p> <p><b>Cabin:</b> Economy</p> </div> <div> <p><b>Meals:</b> Snack 3</p> <p><b>Advance Purchase:</b> 21 Days</p> <p><b>Booking Code:</b> Q</p> <p><b>Cabin:</b> Economy</p> </div> <div> <p><b>Meals:</b> Snack 3</p> <p><b>Advance Purchase:</b> 21 Days</p> <p><b>Booking Code:</b> Q</p> <p><b>Cabin:</b> Economy</p> </div> <div> <p><b>Meals:</b> Continental Breakfast</p> <p><b>Advance Purchase:</b> 7 Days</p> <p><b>Booking Code:</b> P</p> <p><b>Cabin:</b> First</p> </div> </div>					
<div style="display: flex; align-items: center;"> <span style="font-size: 1.2em; margin-right: 5px;">✈</span> <span style="font-weight: bold; font-size: 1.1em;">2328</span> <span style="margin-left: 10px; font-size: 0.8em;">✉</span> </div>	<b>07:40 am</b> DFW	<b>09:55 am</b> ORD	<input type="radio"/> <b>\$296</b>	<input type="radio"/> <b>\$364</b>	<input type="radio"/> <b>\$384</b>
<div style="display: flex; align-items: center;"> <span style="font-size: 1.2em; margin-right: 5px;">✈</span> <span style="font-weight: bold; font-size: 1.1em;">2332</span> <span style="margin-left: 10px; font-size: 0.8em;">✉</span> </div>	<b>08:30 am</b> DFW	<b>10:50 am</b> ORD	<input type="radio"/> <b>\$301</b>	<input type="radio"/> <b>\$369</b>	<input type="radio"/> <b>\$389</b>

**Choice Essential**

No Change Fee (fare difference may apply)

1 Checked Bag

Group 1 Boarding

# 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 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

---

- 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