

ANTICIPATED ACQUISITION BY SABRE CORPORATION OF FARELOGIX INC

Issues statement

17 October 2019

The reference

1. On 2 September 2019, the Competition and Markets Authority (CMA), in exercise of its duty under section 33 of the Enterprise Act 2002 (the Act), referred the anticipated acquisition by Sabre Corporation (Sabre) of Farelogix Inc (Farelogix) (the Merger) for further investigation and report by a group of CMA panel members (the Group).
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.
3. In answering these two questions we are required to apply a 'balance of probabilities' threshold to our analysis.¹
4. In this statement, we set out the main issues we are likely to consider in reaching our decision on the SLC question (paragraph 2(b) above), having had regard to the evidence available to us to date, including the evidence referred to in the CMA's Phase 1 decision on SLC (the Phase 1 Decision).²
5. We are publishing this issues statement to assist parties submitting evidence to our investigation. The issues statement sets out the issues we currently envisage being relevant to our investigation and we invite parties to notify us if

¹ [Merger Assessment Guidelines](#) (CC2/OFT1254), paragraph 2.12. The Merger Assessment Guidelines have been adopted by the CMA board (see [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), Annex D)

² [Phase 1 Decision](#)

there are any additional relevant issues which they believe we should consider.

6. Throughout this document we refer to Sabre and Farelogix collectively as 'the Parties'.
7. In broad terms, our merger inquiry will focus on how the Merger will affect the supply of ticket booking and related services to airlines, particularly in distribution channels other than via the airline's own website, and the digital distribution of an airline's services to customers.
8. We intend to continue from the CMA's Phase 1 investigation. The Phase 1 Decision contains much of the detail underpinning this issues statement and parties are encouraged to read this document in conjunction with the Phase 1 Decision. We intend to focus our investigation on the areas in which the CMA found that the Merger gives rise to a realistic prospect of an SLC. That is in the supply of:
 - (a) services that facilitate the indirect distribution of airline content worldwide; and
 - (b) non-core passenger service system (PSS) merchandising modules worldwide.
9. We explain these services later in this document. Although we are not precluded from considering any other issues which may be identified during the course of our investigation, we are only likely to consider such issues in light of new evidence being brought to our attention by third parties. We consider this to be a proportionate way in which to conduct our inquiry.

The Parties and the industry

The Parties

10. Sabre, which is based in the 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 global distribution system (GDS) which distributes airline content (these are explained below) for the purpose of booking tickets. Sabre's global turnover in 2018 was approximately £2.8 billion.
11. Farelogix is also based in the USA and it creates technology solutions for airlines, including non-core PSS services and airline content distribution

technology. Farelogix had no turnover attributed to the UK in 2018 (although Farelogix products are used to provide services in the UK).

12. Farelogix is owned by Sandler Capital Management (Sandler), a private equity fund. Sandler is the vendor in the Merger.

The industry

13. Airlines can sell their services (for example, tickets and ancillary services such as luggage allowances) directly to passengers via their own website or outlets. That is referred to as the direct channel. They also sell indirectly via travel agents and travel aggregators, referred to as the indirect channel.³ Our focus is on the indirect channel.

Passenger service system (PSS)

14. One area of overlap between the Parties is in the supply of non-core PSS merchandising modules. These are part of the software system that sits within an airline's overall IT booking system that allows it to create travel offers for corporations and passengers. This IT booking system can be broken down into two broad constituent parts: (i) core PSS modules and (ii) non-core PSS modules. Each module performs a discrete task, for example, pricing a particular offer, tracking the availability of seats or administering a customer loyalty scheme.
15. The core PSS modules generally comprise:
 - (a) The airline 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 flights and available seats; and
 - (c) The departure control system, which is used to check-in passengers at the airport among other things.
16. 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, flight and personnel scheduling, and airline revenue management.

³ Travel agents include online travel agents, brick-and-mortar travel agents and travel management companies, which are hereafter collectively referred to as travel agents.

17. There are many core and non-core PSS modules for the airlines to choose from, for example, Sabre has over a hundred PSS modules that it can offer. Sabre provides both core and non-core PSS modules whereas Farelogix provides non-core PSS modules. Farelogix offers a narrower range of non-core PSS modules than Sabre, but nonetheless is considered to be 'best in class' for the merchandising module that it does provide. In our inquiry we shall be examining the overlap in the Parties' non-core PSS merchandising modules (paragraph 8). Non-core PSS merchandising modules allow airlines to distribute ancillary services such as extra luggage allowance, the option for passengers to upgrade their seat, in-flight purchases, airport parking or meal options.
18. In order for an airline to sell tickets and offer various ancillary services, the core and non-core PSS components of the 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 but in other instances the non-core PSS cannot be used with a third party's core PSS. For example, Sabre's non-core merchandising modules can only connect with Sabre's PSS whereas Farelogix's non-core modules can connect to many PSSs (including Sabre's).

The distribution of airline content

19. Airline content has to be passed between airlines and travel agents so that travel agents can book tickets. Currently, this information can be distributed through indirect channels mainly via GDSs and travel aggregators, and to a lesser extent via connections between the airline and travel agents, known as 'Direct Connects'. Also of relevance is the method, in terms of the digital messaging application, in distributing airline content. These are discussed below.

The indirect distribution of airline content: Global distribution systems

20. The Parties are both active in the supply of services that facilitate the indirect distribution of airline content. Sabre supplies these services through its GDS platform, which collects and aggregates information from airlines and other third parties so as to create an offer and distribute it to travel agents.⁴

⁴ GDSs also facilitate transactions between other travel service providers, such as hotel bookings and car rentals.

Farelogix supplies services that allow airlines to create their own offers and then connect to travel agents directly (or via GDS or another aggregator).

21. A GDS is an intermediary between an airline and a travel agent. The GDS collates information about the schedule of flights, fares and the availability of seats from the airlines' PSS and third-party sources. Crucially, the GDS then constructs and presents offers in response to specific enquiries from travel agents, who can compare and book tickets on the GDS platform. In this process, airlines receive comparatively little information about, and have less control over, the package offered to the passenger.
22. The GDS serves both the airline and travel agent. We currently understand that typically travel agents use only one GDS (or at least only one GDS within a particular geographic territory) while airlines typically use multiple GDSs (in order to reach as many travel agents as they can). Airlines benefit by having content effectively distributed to a large number of travel agents, making it more likely to have their services sold to passengers. Travel agents benefit by having access to content across airlines which allows them to compare and select the best offer for their clients.
23. GDSs are using older, legacy technology compared to other distribution channels.⁵ Currently, the scope of airline content distributed through a GDS is largely limited to fares, flight schedules and seat availability, and contains fewer ancillary options for passengers to select than the airline's own website. Moreover, content distributed through a GDS is relatively static (eg information on fares is sourced from a third party and is not updated in real time) and cannot be dynamically adapted to individual booking queries.
24. Sabre is one of the three largest GDS providers in the world. The other two are Amadeus and Travelport. Together these three account for 85-95% of all indirect airline bookings worldwide (excluding passengers booked through local GDSs in Russia, Japan and China).⁶

New Distribution Capability

25. In light of growing airline demand to control their own offers and content and to sell more sophisticated ancillary products and dynamic pricing of fares, the International Air Transport Association (IATA) launched the New Distribution Capability (NDC) standard in 2012. NDC is an open source computer

⁵ [Phase 1 Decision](#), paragraph 40

⁶ [Phase 1 Decision](#), paragraph 37

messaging standard originally developed by Farelogix. It is a digital messaging standard, not a distribution channel.

26. Airline content distributed using NDC has a number of key differences to content distributed using the messaging technology historically used by GDS operators. For example, NDC allows for richer content (which might include pictures and videos), a broader range of ancillary products and more personalised offers to be distributed. Such content can generate new revenue opportunities for airlines and more tailored services available to passengers.
27. NDC gives airlines control over the offer (whereas a GDS traditionally creates and fulfils an airline offer – paragraph 21). This also gives the airlines a greater level of data about the booking and the passenger, which in turn might lead to more customised offerings such as inclusion of various in-flight services, seat upgrades and additional luggage allowance. In this way NDC allows travel agents to access similar offers and information as passengers might receive on the airline’s own website. This is currently not possible through a GDS. However, the three main GDS operators are investing in their capabilities to distribute NDC-based content.⁷
28. In some instances, NDC content can be distributed through a GDS which allows for aggregation and comparison by the GDS. This is known as ‘GDS pass-through’.
29. The CMA’s Phase 1 investigation found that the majority of airlines thought that NDC is important to them and that they have an NDC strategy. Some 21 IATA member airlines have committed to having 20% of their tickets distributed via an NDC-enabled channel by 2020, although progress to date varies between them.⁸
30. Airlines wishing to distribute content using an NDC-enabled channel might, in addition to using GDS pass-through, do so using Direct Connects, which are discussed below.

The indirect distribution of airline content: Direct Connects, aggregators and GDS pass-through

31. Direct Connect refers to the distribution of airline content directly from an airline to any third party that the airline chooses (eg a travel agent). It is a distribution channel. Direct Connects require an Application Programming Interface (API) on the airline’s IT system and an investment by the third party

⁷ [Phase 1 Decision](#), paragraph 69

⁸ [Phase 1 Decision](#), paragraph 63

in an IT interface. Airline content distributed in this way can use one of a variety of digital messaging standards. Some, but not all, Direct Connects use NDC. Farelogix provides an API built on the NDC standard, which enables airlines to distribute NDC content to travel agents without having to go through GDSs, either directly using Direct Connects, or via a non-GDS aggregator chosen by the travel agent. These are known as ‘GDS bypass’.

32. As Direct Connects are specific to each airline, travel agents may not be able to compare offers from multiple airlines readily. However, some technology providers have developed tools which allow for content aggregation, subject to commercial agreement between airlines for content to be distributed in this way.
33. Aggregators in the GDS bypass route typically do not construct offers (like the GDS do) or offer the exactly the same services as GDS but nevertheless might allow airlines to offer a broader range of services and for travel agents to compare these offers across airlines.
34. We currently understand that from the airline’s perspective, Direct Connects have some potential attractions over content distribution by a GDS. They may be a cheaper distribution channel. Moreover, most major IATA member airlines establish Direct Connects using the NDC standard, which allows for richer content and a better user display to be distributed as well as advantages discussed in paragraph 27.
35. We understand that Direct Connects currently account for less than 2% of total bookings worldwide.⁹

Our intended inquiry

36. Below we set out some specific areas of our intended assessment in order to help parties who wish to make representations to us. However, these will not be the only areas for our assessment. For example, we will also look at key characteristics of how the industry operates and the rationale for the Merger.

Jurisdiction

37. In the context of an anticipated transaction, a relevant merger situation exists where the following conditions are satisfied:¹⁰

⁹ [Phase 1 Decision](#), paragraph 49

¹⁰ Section 23 of the Act

- (a) two or more enterprises will cease to be distinct; and
- (b) either:
 - (i) the value of the target enterprise's UK turnover exceeded £70 million in its last fiscal year (the turnover test); or
 - (ii) the enterprises ceasing to be distinct have a share of supply in the UK, or in a substantial part of the UK, of 25% or more in relation to goods or services of any description (the share of supply test).

38. The CMA's Phase 1 Decision found that the CMA had jurisdiction to review the Merger on the basis that it is or may be the case that two or more enterprises (ie Sabre and Farelogix) will cease to be distinct and that the share of supply test is met in relation to the supply of services that facilitate the indirect distribution of airline content to (i) British Airways,¹¹ and (ii) travel agents for flights to the destinations listed in paragraph 136 of the Phase 1 Decision.¹²
39. We shall also consider the question of jurisdiction in our inquiry.

The counterfactual

40. The application of an SLC test involves a comparison of the prospects for competition with a merger against the competitive situation without a merger. The latter is called the 'counterfactual'. We shall, therefore, assess the possible effects of the Merger on competition compared with the competitive conditions in the counterfactual situation (ie the competitive situation absent the Merger) including how Farelogix, Sabre and other providers would have competed in the absence of the Merger.
41. At Phase 1, the Parties submitted that the pre-merger situation should be considered as the counterfactual in this case and the CMA reviewed the merger against this counterfactual, taking account of the dynamic nature of the market.
42. In making our assessment, we shall consider possible alternative scenarios and decide upon the appropriate counterfactual situation based on the facts available to us and the extent to which events or circumstances and their consequences are foreseeable.

¹¹ [Phase 1 Decision](#), paragraph 111

¹² [Phase 1 Decision](#), paragraph 140

Market definition

43. The market definition provides a framework for assessing the competitive effects of a merger for a relevant product and geographic market. It involves an element of judgement. The boundaries of a market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. We will take these factors into account in our competitive assessment.¹³
44. The CMA's Phase 1 Decision considered the impact of the Merger on the supply of:
- (a) non-core PSS merchandising modules on a worldwide basis; and
 - (b) services that facilitate the indirect distribution of airline content on a worldwide basis.
45. We shall consider market definition in our inquiry including whether there is a single product market for non-core PSS merchandising modules or a single product market for services that facilitate the indirect distribution of airline content, as well as the geographic scope of the market.

Assessment of the competitive effects of the Merger

Theory of harm

46. The term '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. Identifying a theory of harm in this issues statement does not preclude an SLC from being identified on another basis following receipt of additional evidence. We welcome views on the theory of harm described below.
47. In this case we shall assess whether the Merger gives rise to an SLC in the supply of:
- (a) non-core PSS merchandising modules on a worldwide basis; and

¹³ [Merger Assessment Guidelines](#), paragraph 5.2.2

- (b) services that facilitate the indirect distribution of airline content on a worldwide basis.
48. These are our two theories of harm and are categorised as horizontal unilateral effects. Our theories of harm centre on the removal of Farelogix as a current and/or growing competitive threat to other providers, as well as an independent innovator in the industry.
49. 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 resulting from a merger are more likely where the merger eliminates a significant competitive force in the market or where customers have little choice of alternative suppliers.¹⁴
50. With respect to both theories of harm we shall consider whether the Merger is likely to lead to:
- (a) Higher prices and/or worse terms for airlines; and/or
- (b) Slower rates of innovation and product development, reduced product range or quality (compared to the situation without the merger).¹⁵
51. We are also mindful of the links between different parts of the distribution system for airline content in the indirect channel, and that any merger impact on innovation and industry standard development (eg the NDC standard) may have an effect on activities other than non-core PSS merchandising modules and/or services that facilitate the indirect distribution of airline content.

Non-core PSS merchandising modules

52. Regarding the supply of non-core PSS merchandising modules, the CMA's Phase 1 Decision found:
- (a) a material level of competitive interaction between the Parties;¹⁶
- (b) while the Parties' existing market position is moderate, both Parties hold capabilities that make them particularly significant competitive forces within the market as it is expected to evolve towards the development of NDC-based solutions, in particular;¹⁷

¹⁴ [Merger Assessment Guidelines](#), paragraph 5.4.12

¹⁵ [Merger Assessment Guidelines](#), paragraph 5.4.1

¹⁶ [Phase 1 Decision](#), paragraph 259

¹⁷ [Phase 1 Decision](#), paragraph 260

- (i) Farelogix's best-in-class merchandising product and distribution capabilities mean it is particularly well-placed to compete for future business as the market evolves towards NDC-based solutions. In this regard, the threat posed by Farelogix was one of the key drivers in Sabre's decision to develop its own NDC end-to-end strategy;¹⁸
- (ii) Sabre's own capabilities, including its core and non-core PSS offerings and extensive well-established relationships with airlines, make it particularly well-placed to compete for business as the market evolves.¹⁹

53. To assess this theory of harm, we shall consider evidence from the Parties' internal documents on the nature and extent of competition between the Parties and their rivals. Similarly, we shall take into account views of, and evidence from, third parties. We intend to also consider evidence on:

- (a) the Parties' growth strategies;
- (b) third parties' growth strategies;
- (c) intentions of airlines in contracting non-core PSS merchandising modules;
- (d) competitive interactions when bidding for contracts with airlines and/or negotiating with airlines;
- (e) how the Parties and other relevant providers monitor competition and perceived threats; and
- (f) market structure and market shares.

Services that facilitate the indirect distribution of airline content

54. Regarding the supply of services that facilitate the indirect distribution of airline content, the CMA's Phase 1 Decision found:

- (a) Sabre, along with Amadeus and Travelport, is one of three major GDSs;²⁰
- (b) Farelogix, while a smaller player than the three major GDSs, has emerged as a competitive force in the supply of services that facilitate the indirect distribution of airline content. The available evidence indicates

¹⁸ Phase 1 Decision, paragraph 261

¹⁹ Phase 1 Decision, paragraph 262

²⁰ Phase 1 Decision, paragraph 357

that Farelogix is widely recognised as an important innovator and significant disruptive force within the industry;²¹

- (c) Use of NDC-based distribution has the potential to disrupt the commercial relationships between Sabre and its airline customers because of the scope this offers for partial disintermediation of the GDSs;²² and
- (d) Amadeus is a strong competitor to both Parties but the constraint posed by Travelport, the other major GDS, appears to be more limited. The constraints exercised by other non-GDS suppliers of services that facilitate indirect airline content distribution, in-house self-supply, and the airline direct channel are limited.²³

55. To assess this theory of harm, we shall consider evidence from the Parties' internal documents on the nature and extent of competition between the Parties and their rivals. Similarly, we shall take into account views of, and evidence from third parties. We intend to also consider evidence on:

- (a) competitive interactions when bidding for contracts or negotiating with customers;
- (b) the position and negotiating strength of the Parties and other existing providers in the market;
- (c) how the Parties and their rivals monitor competition and perceived threats;
- (d) purchase behaviour and preferences of airlines and travel agents between distribution channels;
- (e) the Parties' growth strategies, including their innovations, investments in R&D and product development, and the role of Farelogix and other providers in driving innovations;
- (f) the growth strategies of the Parties' rivals including in NDC-based distribution;
- (g) future industry trends, in particular from airlines and travel agents on their existing or likely future use of direct connect and NDC-based distribution, but also regarding non-GDS aggregators, GDS pass-through and any other new services; and

²¹ Phase 1 Decision, paragraph 358

²² Phase 1 Decision, paragraph 359

²³ Phase 1 Decision, paragraph 362

(h) market structure and market shares.

56. For both theories of harm we shall consider evidence on entry and/or expansion by third parties and whether such entry or expansion would be timely, likely and sufficient to prevent any SLC from arising as a result of the Merger.²⁴ This might be, for example, evidence of third parties who plan to enter or expand in the supply of NDC-based distribution of airline content or in the supply of non-core PSS merchandising modules. To do this, we shall examine the plans of third parties including their internal documents (where relevant), consider the costs and time necessary for competitors to develop and launch competing products and services, and examine other factors that might inhibit entry or the expansion of competitors, such as any scale or incumbency advantages.
57. We shall also consider what barriers to entry and expansion are present. These might include technical or strategic barriers or contractual provisions between parties.²⁵ We shall consider the role of network effects and data.
58. Finally, we shall consider whether the Merger is likely to give rise to efficiencies that will enhance rivalry.²⁶

Possible remedies and relevant customer benefits

59. Should we conclude that the Merger is expected to result in an SLC in one or more markets, we shall consider whether, and if so what, remedies might be appropriate, and will issue a further statement.
60. In any consideration of possible remedies, we may in particular have regard to their effect on any relevant customer benefits that might be expected to arise as a result of the Merger and, if so, what these benefits are likely to be and which customers would benefit.

Responses to the issues statement

61. Any party wishing to respond to this issues statement should do so in writing, by **no later than 5pm on 31 October 2019**. Please email Sabre.Farelogix@cma.gov.uk

²⁴ [Merger Assessment Guidelines](#), section 5.8

²⁵ [Merger Assessment Guidelines](#), paragraphs 5.8.5–5.8.7

²⁶ [Merger Assessment Guidelines](#), paragraph 5.7.12