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Airline Distribution | Airlines

Tying Up the Airline Ticket Distribution Market: The Circle That Ties

BY Jim Davidson

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In my opinion, Global Distribution System (GDS) companies wield significant horizontal and vertical market power over the airline ticket market serviced by travel agencies. The GDSs have three primary customers—airlines, travel agencies, and third-party technology providers. Over time, the GDSs have intentionally crafted their relationships with their customers to build and solidify a market structure impenetrable to competition. This deliberate process was put in place as each commercial relationship came up for renewal.

The net effect of having a "tied-up marketplace" is harm to consumers. They find themselves having fewer airline product options and paying higher airline ticket prices than they otherwise would, given an open and competitive ticket distribution market. Additionally, the ticket distribution market suffers with a higher-than-necessary cost structure due to the GDSs blocking innovation and lower-cost distribution alternatives.

To preserve their market power and block competition, the GDSs have implemented contractual hooks into each of their commercial relationships with airlines, travel agencies, and third-party technology providers.

Airlines: The majority of GDS agreements with airlines contain two elements that strongly contribute to the GDSs' ability to maintain market power:

1) *Prohibitions on Alternate Distribution*: This is the most blatant provision. The GDSs specifically prohibit airlines from promoting alternative (non-GDS) distribution systems to travel agencies. This includes prohibiting airlines from providing incentives to travel agencies willing to adopt alternative, lower-cost distribution systems.

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2) *Full Content Clause*: The GDSs require airlines to provide them the same content available on the airlines' websites or direct distribution channels. In other words, the GDSs force the airlines to treat all channels the same, regardless of associated cost or commercial agreement. This also leaves airlines with no ability to offer special promotions through lower-cost channels.

Travel Agencies: Although travel agencies utilize GDS services, they generally do not pay for them; instead, the GDSs ***pay the agencies*** to use GDS services. GDS travel agency agreements typically contain various incentives designed to tie the agencies tightly to the selected GDS:

1) *Financial Incentives*: The GDSs make direct payments to the agencies for tickets booked using the GDS system. This results in agencies having no incentive to utilize a lower-cost channel.

2) *Performance Clauses*: The GDSs waive pricing of their peripheral products (including accounting, financial, and reporting products), but only as long as the agencies agree to maintain certain levels of GDS system usage (ticket processing). Significant monetary damages can be assessed against the travel agencies, should they drop below the performance criteria. These clauses effectively shut out travel agencies' ability to utilize any non-GDS distribution system.

3) *System Integration Restrictions*: These extend GDS control of travel agencies' technology environments, prohibiting agencies from merging GDS data with non-GDS data. This makes it almost impossible for agencies to bring in additional content from third parties that provide information outside the GDSs. Additionally, the GDSs impose restrictions on travel agencies working with third-party technology providers. These restrictions force agencies to work with only *GDS-certified* technology providers, giving GDSs control over entry of third-party providers into the marketplace.

Third-Party Technology Providers: The GDSs control the ability of third-party providers to work with travel agencies by requiring "certification" of those providers. This ensures no meaningful competition to the GDSs. A costly and lengthy "certification process" enables the GDSs to control travel agencies' access to specific technology providers, and the GDSs can deny certification for any reason. Many GDS certification and developer agreements also contain a number of restrictive elements designed to limit services provided to travel agencies to only GDS-approved services that do not compete with the GDSs, including:

1) *Aggregation Restrictions*: The GDSs restrict or prohibit the type of data or applications that can be integrated with GDS data and applications.

2) *Termination-At-Will Provisions*: Third-party technology providers frequently face the threat of termination of certification or travel agency access. This leaves third-party providers at the mercy of the GDSs for their ability to conduct business with their own travel agency clients.

In sum, I am of the opinion that the GDS "Circle that Ties" prevents the flow of innovation and market self-correction that would be possible but for GDS anti-competitive practices.

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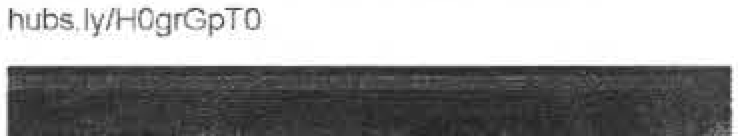

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