# INDUSTRY ANALYSIS by Business Travel Coalition

## *A War On Price Transparency & Competition*

### The Bundeskartellamt Should Investigate Lufthansa Group's Anti-Competitive and Anti-Consumer Proposal

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**INTRODUCTION**
Lufthansa Group's (LHG) recently announced a proposal that it would surcharge customers 16 Euros if they purchase a ticket anywhere other than its websites, service centers and airport ticket counters beginning on 1 September 2015 represents a possible abuse of it dominant market position and should be investigated by Germany's competition authority, the Bundeskartellamt and the EC's DG COMP.

While many current GDS-airline contracts preclude programs like the proposal just announced by LHG, if successfully forced on the industry, the scheme could spread throughout Europe, North America and elsewhere - antitrust immunized alliances all but guarantee it.

Back in 2006 and 2007, in the U.S. and Europe respectively, major airlines threatened travel management companies (TMCs) and their corporate, university and government clients with denied access to schedules and fares through the global distribution systems (GDSs). The goal was to decrease global GDS segment fees. Those fees have fallen by more than 30 percent since.

LHG claims that the goal of its Distribution Cost Charge (DCC) program is again to reduce distribution costs. However, that claim is belied by the fact that the surcharge would not be applied to the two most expensive LHG distribution outlets - its own airport ticket offices and reservation centers.

DCC is an extension of some major U.S. and European carriers' relentless war on price transparency and competition, a war that is all about protecting and increasing revenue. LHG appears to be pursuing a five-part strategy to drive new revenue levels - all generated from consumers and the managed-travel community.

**STRATEGY**
Part 1. An ambition of the DCC program would appear to be to drive leisure and business travelers seeking to avoid the 16 Euros surcharge to the walled gardens of LHG's websites where comparison-shopping does not exist and where LHG would generate higher yields - especially from unsuspecting, infrequent travelers. For managed-travel programs the surcharge represents an indirect price increase.

Part 2. LHG also would seem to want to use its dominant market position to price online travel agencies (OTAs) out of the market and out of business, as many OTA customers would be unwilling to pay 16 Euros when LH.com is free. LHG and OTAs are direct competitors in the marketplace for distribution services, which is very positive for consumers.

*Strong, independent distributors are necessary to keep airlines honest on their own* *websites and in their offerings elsewhere to consumers. OTAs uniquely provide consumers with the comparison-shopping tools that keep pricing discipline in the system.*

Part 3. LHG's pilots' strikes, competition from well run Gulf carriers and an 82 percent decline in net profits for its last financial year could suggest that DCC is merely a public relations stunt designed to shift blame for poor management performance to third parties.

That analysis, however, ignores how unremitting LHG has been in endeavoring to block foreign carrier competition and protect and increase revenue. It has petitioned the U.S. government to deny Norwegian Air International's right to provide service to the U.S. It likewise is pressuring regulators in Brussels and Berlin to stop competition from the Gulf carriers - Etihad Airways, Emirates and Qatar Airways.

Part 4. Product distribution is a cost of doing business for any industry. Through DCC, LHG is likely attempting to turn a cost center into a profit center first by shifting a significant amount of the cost of distribution to TMCs and onto their clients' travel departments and then eventually charging for access to their fares and schedules.

Part 5. LHG's competitors have 3 months to evaluate the proposal. If initially successful with the DCC program, LHG would be able to lock in the new revenues by forcing other global network airlines to follow as LHG would have both cost and yield advantages.

In the process of seeking to extract more revenue from the managed-travel community LHG would of course create substantial collateral damage and increase costs within the industry by effectively insisting on its direct-connect strategy for its contracted customers.
Examples follow.

* Substantial new TMC inefficiencies and productivity problems would develop as more time with travelers on the phone would be required. If a 4-minute phone process turns into 8 minutes then productivity would be reduced by 100 percent with serious transaction fee implications for travel departments. Likewise, more frequent consultations with travel managers would be necessary.

* TMCs, OTAs and consumers would lose much of the control they currently have over bookings in terms of single screen comparison-shopping, profiles, ARC/BSP payment and negotiated fares.

* DCC would fragment today's highly efficient reservations process where air, hotel, rail, car and other services are in a single booking. TMC information-technology costs would increase including for back office systems and the laborious use of passive bookings in the GDS to complete a record.

* Companies could lose data reporting capabilities for policy and financial analysis purposes as well as the use of their online booking tools. LHG is silent on the data fields that they would make available to corporates who are accustomed to robust data support from their TMCs.

* How would normal or problematic ticket changes, cancellations, re-bookings, refunds, credit card reconciliation, strikes, emergencies, travel disruptions, interlining be handled? LHG has been silent on how it would manage these day in, day out issues other than to say the airline has phone lines.

* DCC carriers' technology platforms would not support corporations' Duty of Care processes and expense report management tools would not be available from DCC carriers for pre-population of expense reports as today's online tools support.

* According to press reports, the DCC 16 Euros surcharge, to some industry participants,  bears no resemblance to the GDS fee structure.

* Taken together, these substantial new costs, coupled with the impact of the DCC program surcharge, would undermine the model that TMCs and their corporate, university and government clients have labored to develop as the efficient and cost effective, compliance-driven modern managed-travel program.

CONCLUSION
LHG is attempting to substitute its judgment for the managed-travel community's clearly articulated preferences. Without collaboration, LHG is forcing a choice between a highly inefficient process for travel managers and their TMCs, or paying higher fares. This is a bad choice. Corporate travel managers, in close collaboration with their TMCs and technology partners, have developed a professional and productive travel procurement environment that must not be poisoned.

*About BTC*
*Founded in 1994, the mission of Business Travel Coalition is to interpret industry and government policies and practices and provide a platform so that the managed travel community can influence issues of strategic importance to their organizations.*

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