

# Booking's narrow APPA commitment

Sven-Olof Fridolfsson

Deputy Chief Economist

Swedish Competition Authority

Antitrust 2.0 LEAR conference, June 26, 2015

# The Booking case(s)

- » Parallel investigations started several countries.
- » Decision taken in Germany
- » Italy, France and Sweden started a joint investigation, with the coordination of the EU Commission
- » A joint decision to accept Booking's commitment, a NAPPA, was taken in April 2015

# The joint investigation

- » Concern that APPAs induce OTAs to charge supra-competitive commissions
- » But also aware of the free-riding efficiency justification: Absent APPAs, hotels may charge lower price in own channel.
  - » Concern substantiated in a market test
- » Booking proposed the NAPPA commitment
- » New market test
  - » Hotels opposed the commitment on the ground that it would be economically irrational for hotels to charge lower price on an OTA than in the own channel
- » Following a narrower NAPPA proposal, the three authorities approved the commitment

# OTA platforms: specificities

- » High occupancy rates important for hotels
- » Hotels multi-home and do not choose to opt out from OTAs charging high commission rates
  - Platforms are not perfect substitutes and have market power
  - Concern that APPA soften platform competition is important

# Important issue with NAPPA

Do a hotel have incentive to charge lower prices on an OTA in exchange for a lower commission than on its own channel ?

Depends on how the price decrease affects the hotel's total sales and the allocation of these sales across different channels

Hotels total sales increase through

- » Customer gains from other channels
- » Customer gains from other hotels in the same channel
- » Increase in demand

But the hotel loses customers from channels that may be more profitable (such as hotels' own channel)

# Will NAPPA reduce prices ?

Hotels' pricing can be based on many parameters:  
Geography, season, time of booking

=> Hotels should be able to charge low prices on OTAs when the losses from the own channel are small

The losses from the own channel are smaller with narrower NAPPA

Hotels' offline channel not covered by price parity

Only a few hotels experimenting with price cuts on OTAs may be sufficient to start a broader movement of price cuts

# Does NAPPA strike the right balance ?

NAPPA is an attempt to trade off the potential anti-competitive effects of price parity clauses against their potential efficiencies

The coming years may provide an answer to this question