

T2RL'S First View is our rapid analysis of breaking news. It helps provide perspective, putting the facts in the context of our wider and deeper knowledge of the market.

Google Finally Makes a Move

T2RL Staff

The Facts

On 21st April it was widely reported that Google is in talks to buy ITA Software for around \$1 Billion. Google is already the world leader in mapping and location-based services, as well as search.

The Analysis

It has long been expected that Google would eventually make a serious move into travel search. By acquiring ITA Software it moves deeper into the value chain for air travel. Google also has projects on the go to provide hotel pricing and availability information and will undoubtedly tie this to location-based services and its mobile strategy.

Our research indicates that last year over 900 million revenue passengers were boarded by the world's airlines after buying tickets through the airlines' own web sites. A further 250 million flight segments were bought from the online travel agencies. In total, this accounts for around 44% of all passengers flown in 2009. This is a market that is simply too important for Google to ignore. The impact of Google's entry will be felt across a wide range of constituencies. Although it is too early to know exactly how Google intends to deploy its new capabilities some of the impacts are clear enough.

Airlines will have to come to terms with a new and very powerful force in the field of meta-search. The presence of Google in this space can only increase transparency in the market. Airlines that position themselves as the low fare provider in their segment will have to redouble efforts to match competitor fares. As the lowest fare becomes the standard fare airlines that want to differentiate will have to bid and pay for page position.

Airlines that are current ITA customers for fare and availability search products should not see major changes in either product availability or pricing in the short term.

Airlines that are contemplating buying the passenger services system (PSS) developed by ITA and Air Canada will be awaiting clarity on what Google intends to do with this product range. Unlike ITA's search tools, PSS is far outside Google's existing business interests and it may not intend to pursue this line of business.

Meta-search providers such as Kayak and Sidestep should be feeling extremely nervous. Google's position as the engine behind 80% of all Internet searches means that if its implementation of priced availability search is even halfway competent it will crush most competitors. Some of the meta-search providers currently use ITA products and in the short term Google will have to continue to supply them on essentially the same terms that they have today.

Online Travel Agents (OTAs) will find themselves competing for space in Google search results with the airlines themselves. This will require them to spend more money on positioning. Since OTA margins on air bookings are already thin this might discourage them from competing in this space at all were it not for the fact that air search drives traffic and attracts bookers for their hotel inventory - on which they do make worthwhile margins.

Microsoft is currently the only entity with the ability to compete directly with Google. Its Bing travel search package has been enhanced by the acquisition of FareCast but still struggles to provide accurate price searches taking account of taxes, charges and unbundled products. It is also currently only available for North American searches. If Microsoft is to seriously take on the Google/ITA combination it must plan for further very substantial investment.

Hewlett-Packard has taken on an immense commitment in the Jetstream PSS project with American Airlines. It could jump-start its efforts if it were to buy some or all of the ITA/Air Canada software from Google. Given that Google has previously shown no interest in entering the airline PSS market it might well be a willing seller.

Consumers will probably be the largest beneficiaries. Google is likely to want to build the best travel search engine in the World. Customers will want to use it. Low-cost carriers (even Ryanair) will want to use it as they have sustainable cost advantage over their rivals that they can pass on in low fares and make sure everybody knows.

The Speculation

Google would not spend \$1Bn on an asset unless it believed that it could make consistent returns over an extended period. To do that it will have to deliver a travel search facility that will dominate its space as completely as Google already dominates general search.

We believe that the most important capability it will bring will be to enable genuine comparisons between the actual prices that consumers pay to the various airlines including taxes, charges and unbundled products. This will probably be a personalised service that allows users to see like for like comparisons between airlines including services, such as checked bags, credit card payment or advance seat selection that the consumer actually wishes to buy. In recent years airlines have been stripping these services out of their headline price simply in order to be able to publish the lowest possible fare. If Google is going to re-integrate these unbundled prices then the airlines will surely question the continued complexity and costs associated with unbundling if it does not give them the advantage in market positioning that they are seeking.

Thus the medium term impact of Google's move into travel search could be to reverse the most significant trend in airline marketing for the last ten years. As well as the impact on the airlines themselves this will also have a major effect on those technology companies that have invested heavily in providing "merchandising" solutions to the airline industry. Focus will shift away from unbundled products and towards "true" ancillary revenue opportunities.