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Sabre and Amadeus Extend their Influence in PSS

T2RL Staff

The Facts

In the same week that Amadeus announced that Air France/KLM has migrated to Altea Inventory Sabre has won another hybrid carrier in Latin America.

The Analysis

On September 21st Amadeus announced the successful completion of inventory migration of the Air France/KLM group to the new generation Altea Inventory system. This is the biggest ever migration to Altea Inventory and drives a major shift in market shares for Inventory provision.

Prior to the Air France/KLM migration the top three providers of Inventory to the airline industry were:

Vendor	Passengers Processed		Airlines	
In House Mainframe	469,032,431	17.29%	26	3.26%
Sabre Airline Solutions	394,058,075	14.53%	78	9.79%
Amadeus	358,954,020	13.24%	67	8.41%

Following this migration the position is:

Vendor	Passengers Processed		Airlines	
Amadeus	445,682,704	16.43%	68	8.53%
Sabre Airline Solutions	394,058,075	14.53%	78	9.79%
In House Mainframe	382,303,747	14.10%	25	3.14%

Amadeus is now the clear global market leader for Inventory system provision, relegating in-house systems to third place. This is the first time in the history of the airline industry that traditional mainframe systems running in airlines' own data centres have been displaced from the number one position. Amadeus has a backlog of implementations that will ensure its leading position is consolidated over the next few years.

The migration was particularly complex as the two major airlines in have historically used in-house mainframe systems based on different technology – Unisys hardware with completely proprietary software in the case of Air France and IBM mainframes running TPF at KLM.

Slightly unusually Amadeus has waited three months after the completion of the migration before it made an announcement. T2RL understands that the process was actually completed in June 2010. This probably reflects understandable caution on the part of Amadeus following a roll back earlier in the year. The fact that nothing was reported about

this setback reflects well on the processes that Amadeus has established for migration and fall-back since it first began to move into the inventory hosting business around the turn of the century. Migration roll-back is a critical risk mitigation capability most airlines will seek to include in PSS contracts. It will increase the confidence of the major airlines that are moving up the implementation queue for Altea Inventory and reduce the risk of choosing Amadeus for those considering their alternatives.

Note that the two in-house systems continue to operate for the time being. Although some costs will reduce with the cessation of inventory services there is a major cost incentive, derived from software licences, staffing and data centre space, to get the mainframes switched off altogether. Air France and KLM each run an independent Departure Control System that supports third party airlines and ground-handlers as well as the operations of the host airline. These two systems, Gaetan and Codeco are both in the process of being run down prior to a migration to Altea DCS in the near future. T2RL will report on this after the Air France customer conference in October this year.

Meanwhile Sabre has announced another win of a hybrid airline in Latin America. Trip Airlines of Brazil joins Volaris, LAN and Aeromexico in contracting for a service from Sabre built around the SabreSonic Customer Sales and Service (CSS) solution. The announcement of the contract makes particular reference to Trip wishing to take advantage of opportunities for code-sharing and networking that will be facilitated by Sabre and that were unavailable with the TTI/Cions system that the airline is currently using.

Although Trip is far smaller than Air France/KLM with around two and a half million passengers per year it is growing very rapidly and is firmly in the hybrid carrier category that Sabre has been targeting with considerable success in the last three years.

The Speculation

Sabre and Amadeus will continue to dominate this market for the foreseeable future. Only Navitaire can challenge this position, driven by fast growing customers like Ryanair and Air Asia. Amadeus will be the dominant supplier to the largest airlines, ie those with more than 25 million passengers per year, Sabre will continue to progress with low-cost airlines whose business models are adding complexity that cannot be supported by some of the smaller vendors.

If there is to be another major player in this space it will arise out of Travelport, Travelsky, Hewlett-Packard and possibly SITA or some combination of this gang of four. However the level of investment needed to develop a credible new system means that it is entirely possible that none of them will succeed in challenging the big three.

In that case the Sabre/Amadeus/Navitaire oligopoly will be safe for decades to come.

Airlines are going to have to think carefully about the long-term implications of such a scenario. Investors are also likely to want a piece of the action when Sabre comes back to the market following Amadeus' successful return to public ownership.