

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.

United and Continental Converge on SHARES

T2R Staff

The Facts

In a filing with the Securities and Exchange Commission on 16 December, Travelport confirmed what had been an open secret for some time – that the combined United and Continental Airlines will merge their passenger services systems on the SHARES system from Hewlett-Packard (EDS). Based on 2009 passenger numbers this will make SHARES the clear market leader for PSS services in North America, with 283 million Passengers Boarded.

The migration of United is expected to be complete in 2012, by which time HP should also be on the point of delivering its Agilaire suite to American Airlines.

The Analysis

Travelport had no choice but to make this announcement. The loss of the United Airlines business and the disappearance of Apollo as a PSS will have a material effect on its financial performance and will certainly impact its chances of a successful IPO in 2011, following the failure earlier this year to get out ahead of Amadeus.

The reasons for United's decision lie in the failure of Travelport to invest and believe in its airline IT business. Travelport has a number of failed projects including one with IBS which signed up Virgin America. Despite being the market leader by volume in North America due to provision of services to Delta and United, Travelport and the companies that merged to form Travelport have never appeared to take the PSS business very seriously. A brief flurry of activity in early 2008 saw Czech airline CSA sign a contract for PSS hosting from Travelport amid reports that the company intended to develop this as an international line of business to compete with the likes of Sabre, SITA and Amadeus. However the implementation failed, CSA reverted to services from SITA and Amadeus and Travelport quietly ran down its marketing of airline hosting.

Continental has a long and deep relationship with EDS, now owned by Hewlett-Packard. The SHARES PSS in and of itself is probably not significantly superior to United's Apollo but the cloud of applications surrounding it undoubtedly is. Continental and EDS have invested many millions of dollars in an enterprise data warehouse, based on Teradata technology, that provides significant competitive advantage. The merged United Airlines will definitely need to retain the benefits of comprehensive and actionable information at every customer and operational touch point that Continental has long enjoyed.

The other great advantage enjoyed by HP in this contest is the Jetstream contract with American Airlines. United knows that HP is irrevocably committed to strategic investments in order to fulfil that contract and that it will need to sell services to other major airlines in order to make a return on the investment. By shifting to HP now United will be best placed to enjoy the new services as they become mature production releases following beta testing by American.

The other player affected by these market shifts is Amadeus. For some time it has maintained the position that United Airlines was going to migrate to the Star Alliance Common IT Platform. It is now absolutely clear that this will not take place and Amadeus will have to consider revising some of the public statements it has made regarding projected market shares. To be sure this is not as traumatic a shift for Amadeus as it is for Travelport but the fact remains that Amadeus has still not won a single customer in North America for its Altea PSS suite.

The Speculation

T2RL has been working on projecting the market for PSS over the coming decades based on existing contracts, investments in product development by the various vendor companies and the evolution of business models in the airline industry. We expect to publish the results of this work during 2011.

Most scenarios show Amadeus increasing its dominance based on the ability to consistently out-invest its competitors over a considerable period. The only set of circumstances that allows a more competitive market to persist is one in which Hewlett-Packard achieves market dominance in North America and prevents Amadeus achieving a significant share of that market. The announcement from Travelport this month would be an important first step in preventing complete global dominance by Amadeus.

In the shorter term we can expect the competition for the business of Southwest Airlines to become even keener. Sabre and Amadeus are reported to be the finalists. Despite the close relationship between Delta and Air France Amadeus has so far failed to gain real traction in Atlanta, so Southwest may represent its last serious chance for a generation to win a US major airline. The decision is on hold for the time being as Southwest concentrates on the integration of AirTran following its purchase in September 2010. AirTran currently resides on the NewSkies system from Navitaire. The need to make an offer that Southwest cannot refuse may represent the first major test for Amadeus's new CEO, Luis Maroto, as he takes the reins in Madrid next month from David V. Jones.

T2RL believes that Amadeus will have to think very carefully about the link between distribution and IT if the offer to Southwest is to be successful. However Amadeus's GDS market share in the US is still significantly less than 10% which should make the decision process much easier.