

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.

HP Declares its intentions for Travel

T2R Staff

The Facts

HP presented its strategy and plans to journalists and analysts in San Francisco between 14 and 16 March 2011. Despite being a small proportion of overall revenues, HP was enthusiastic about the opportunity to grow its applications business in the travel industry for both air and hospitality segments. It cited the American Airlines contract, the relationship with Continental – and now United - and collaboration with Travelsky on approaches to legacy renewal.

The Analysis

HP's new CEO, Leo Apotheker and the executive leadership team presented their vision for a secure, connected World where everybody's on.

Although the travel portfolio is a relatively small proportion of the massive HP business, following the acquisition of EDS HP did board over 200M passengers in 2010 and supplied the infrastructure for Sabre to board an additional 400M.

With the decision by United that it will move to Continental's platform, HP SHARES, added to the commitment of American Airlines to Agilaire, HP will become the dominant player in PSS for North America with an estimated market share of 46% by passengers boarded. Assuming it is successful in development this will surely provide a commercial and technical platform to move into other geographic markets.

HP has its work cut out. It may take all the might and muscle of a mega service-provider with the breadth and depth of HP to break into a market that is currently dominated by industry specialists like Amadeus, Sabre and Navitaire.

Whilst there are no public figures available our analysis suggests that Amadeus has spent something close to 1Bn Euros and taken over 10 years to develop its full PSS solution. Despite dependency on IBM's TPF for core reservation services, most of Amadeus's code is now in new generation languages. A TPF decommissioning project is well underway and targeted to complete in 2012. T2RL believes it will take some additional time to retire TPF completely given the demands on Amadeus's development organisation. Amadeus is developing new functionality driven by gap requirements and migration support at the European major airlines like Air France/KLM, British Airways, Lufthansa and TAM in Latin America.

Conversations between T2RL and HP's management revealed that HP sees the opportunity to get "everybody on" their new platform. Air and hospitality are just the start. HP definitely has designs on the creation of a comprehensive travel distribution system.

For such a venture HP is rightly obsessed with Intellectual Property issues. Despite its deep pockets and internal resources, HP watches its costs carefully and closely. Shelley Perry, head of development for a number of sectors including the travel and hospitality space, will

be seeking to use her groups' retail and financial services development efforts for the benefit of their customers at American Airlines and United.

The Speculation

HP sees the opportunity to build a broad based infrastructure that delivers travel content to consumers. By securing United alongside American Airlines and US Airways, HP has captured a significant chunk of the North American passenger market. Through Sabre, and in its own right, HP has significant involvement with Southwest too.

The relationship with Pegasus and the recent licencing agreement also provide opportunities to deliver services to the hospitality industry with reuse for PSS.

HP is committed to its PSS contracts and in our view will ultimately deliver although not necessarily as effectively as it would like. "On time and on budget" has generally defeated most PSS providers. Amadeus, ITA, Sabre, SITA and Unisys have all suffered and HP will surely follow.

In our view HP is unlikely to deliver its complete program alone. It is no stranger to partnerships, nor immune to buying in IP to meet customer requirements.

- ITA Software is an unlikely development partner for HP. Unless ITA is willing to sell its PSS development work lock, stock and barrel, then a deal is unlikely. Certainly not before ITA's marriage with Google gets through the red tape and there's a better view on their chosen business model. It is hard to see Google providing PSS services, at least in the medium term.
- Sabre is a potential target for HP but Travelocity doesn't really fit. It would however solve the inherent conflict of interest between supplying AA and Sabre, both of which are very significant customers for HP generating \$600-700M a year according to our estimates. Sabre's continued ownership of Travelocity might make this purchase far too complicated although Amadeus's recent disposal of Opodo could signal some hope of moving this asset on at a reasonable price.
- SITA is a much more likely partnership. HP's platform dream would be much closer by adding a global base of customers that now includes Air India and Malaysia Airlines. With a hundred other smaller customers and over 100M passengers spread around the world SITA would offer an immediate entry to the global market place. SITA's existing organisation could continue to service this segment that it would take several years for HP to be ready to address.
- Unisys is a rank outsider. Unisys developed its Air Core solution as a replacement for the USAS mainframe-based PSS. The first implementation is expected at the end of 2011 at All Nippon's domestic carrier in Japan but as yet there are no other confirmed customers.

Finally HP will have an opportunity to cleverly integrate travel content into its Web OS. We may well see a travel application on Web OS devices before Apple makes its move in travel and possibly before Google and ITA launch a killer app – assuming that deal ever gets approved.