TRAVEL TECHNOLOGY RESEARCH
FIRST VIEW

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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.

The DoJ Hands Airline MetaSearch to Google - for Now

T2R Staff

The Facts

After an eight month investigation the US Department of Justice has approved Google's acquisition of ITA Software.

The Analysis

Google has finally succeeded in its ambition to acquire ITA Software for $700M despite the organised objections of Microsoft, Expedia, Kayak and others. The DoJ has imposed conditions on the deal but they are unlikely to be ones that cause much concern in Mountain View.

The main stipulations are that Google must continue to supply ITA's fare shopping products to existing customers for at least five years and it must construct a "firewall" that prevents its customers' proprietary data being made available to Google. The first condition is one that Google had agreed to quite voluntarily and the second is absolutely standard in many business environments.

The judgement does not prevent Google building a booking site in its own right but the company has repeatedly said that it has no intention of doing so. Instead it will create a flight search engine, similar in concept to the one available on Microsoft's Bing, working on the same principle of referrals to airline.com web sites or online travel agencies. In fact whoever pays the most.

History shows that Google's entry tends to lead to a near monopoly. Who now uses MapQuest or MultiMap? How many people could name an online video site other than You Tube? Gmail is the dominant web-based free email service. Google now intends to enter the market for air travel metasearch, and probably other travel products. There is no reason to suppose that it will not come to dominate that too.

The writing is on the wall for those like Kayak, FareCompare, SkyScanner, Cheapflights and the rest. Even though the users of ITA Software's products will have continuity of service until 2016 at least it is very hard to see how they can compete for eyeballs with Google's overall market share for search. Just last month Kayak announced that it was to become a booking site in partnership with Travelocity and this course of action is liable to be followed by most of its competitors as they search for ways to remain relevant.

Contrary to our expectations the DoJ does not appear to have imposed any conditions around airline participation or neutrality on Google's future business practice. The European Union may not be as gentle, but ITA's penetration in Europe and Asia is still very limited. At first sight this means that Google will be free to include or exclude any airline from its search results at its own discretion. The airlines that agree to pay Google the referral fees or "sponsorship" it wants should have no concerns about being included. And it will be a brave airline indeed that chooses not to feature in Google's search results.

The Speculation

There continues to be a significant requirement for airlines' own priced availability searches and many in the market will be nervous of depending on Google for the tools they need to do the job. This creates an opportunity for new competitors such as Everbread to establish themselves, or drives more business to the traditional suppliers like Amadeus, Travelport and Sabre.

Google's tools are very likely to increase fare transparency just as airlines have been re-inventing methods to upsell through unbundled services. Google will want to present shoppers with an apples to apples comparison with all available services priced, taxed and consumable.

Airlines will seek to use the Google search to support their direct sales efforts. If referrals from Google are dependant only on price it will further reduce the attractiveness of GDS full content agreements and we may see more airlines following the example of Air Canada and Aer Lingus in eschewing these contracts.

Our research suggests that GDS bookings do attract a significant yield premium. Buying behaviour in the GDS channels is generally different to airline.com and revenue management systems are designed to capitalise on this. Airlines may change their strategy and decide to swallow the full (and likely to increase significantly) booking fees so that they can use fare differentials to attract consumers to their own sites. This has significant implications for the major online agents such as Expedia, Travelocity and Orbitz who already pay large fees to Google for travel search placement and invest in technology to ensure they are listed at the top of the screen in a search query response.

Finally we expect to see Google abandon ITA's efforts to establish an airline PSS product line. It was always going to be difficult after the cancellation of the project with Air Canada and there is no indication at all that Google wants to get into the airline transaction processing business. There are a number of potential buyers for the software including Hewlett-Packard, Travelport and Travelsky. It may turn out that the net price Google pays for ITA will be under the $700M headline figure, and that already looks like a bargain as it will come to dominate priced availability search in North America at the very least. However given the personalities involved we would not be surprised if ITA Chief Executive Jeremy Wertheimer and some partners were to launch a new, very well funded effort to finish the project and challenge the major PSS vendors like Amadeus and Sabre.

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