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.

TAM Switches to Amadeus in 2010

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The Facts

25 August 2009. Amadeus and TAM (JJ) announce a 10 year agreement for the provision of the Altéa Passenger Services Systems (PSS). There was no announcement about distribution terms for the Brazilian market place.

The Analysis

TAM has entered into an agreement with Amadeus to provide reservations, inventory, fare quote, ticketing, departure control and the reservation APIs for a period of 10 years. TAM also has the option of using Amadeus's internet booking engine and shopping capabilities for e-commerce. Amadeus will replace Sabre as TAM's primary provider and TAM's Brazilian travel agents will continue to access TAM's inventory via e-TAM. We understand that TAM will continue with its own development group for Internet B2C and B2T sites for the moment.

Migration will take place quickly, indeed there appears to be commitment to deploy a number of Amadeus components before the end of 2009. TAM is expected to remain on the Amadeus systems until the end of 2019.

TAM has been an unusual customer for Sabre in the sense that it only used the core reservation application services and only recently started using Sabre Sonic Inventory. TAM built up its own applications for Internet bookings for consumers and travel agents and even components of departure control. The loss for Sabre will be irritating but not life threatening especially with such limited application provision to TAM in the past. In our view Sabre's wins at WestJet and JetBlue more than compensate for this lost revenue.

The Brazilian market place is very special with respect to distribution. It resembles the early days of agency automation in that the airline makes its system available for booking its own flights. Sabre's original agreement with TAM gave it the capability to distribute bookings to agencies directly using the Sabre platform. TAM's strategy rendered the GDS market in Brazil a desert in terms of profitability for booking fees then and the future.

Amadeus must have matched Sabre. Amadeus will also have made the decision to continue with the sacrifice of the GDS business to ensure closure of the deal with TAM and to drive airline IT division revenues. In our view this is a much more sustainable business in the longer term and 10 year contracts much more interesting to prospective buyers of Amadeus.

We estimate that Amadeus will generate $0.5M in fees associated with implementation over the next 6 months and PSS revenues of approximately $16M per annum against a passenger volume of about 34 million. This could rise to $34M+ per annum once all of the Amadeus functionality, including B2C e-commerce, is rolled out.

TAM grew passenger volumes by 9% in 2008 vs 2007, but volumes in Q1 2009 fell by 3% compared to the same period in 2008.

The Speculation

Conspiracy theorists would suggest that the timing of the announcement by Amadeus was designed to coincide with American Airlines's release that it will develop a new generation system with Hewlett-Packard. Amadeus loses a 100M+ passenger opportunity in North America, but gains 34M+ passengers in South America. Indeed with the components in scope for the Amadeus solution it is quite likely that Amadeus will generate more revenues from less than a third of the passenger volumes from TAM than it would have from American Airlines.

Amadeus will have competed hard to displace Sabre in the bidding process, and TAM's own applications will make the migration and switch more manageable. Airlines seldom move from one system to another and the fact that TAM has its own applications may not render this process simpler, but should make it more controllable.

Amadeus's relationship with the other Star Alliance carriers and Common IT Platform may well have influenced the management at TAM to make the switch, but the willingness of Amadeus to move to the Brazilian channel model confirms TAM's control and command of distribution in the market place.

In addition the Amadeus business model may generate significant partner booking fees and associated distribution fees for TAM for those bookings made by travel agents in Brazil using e-TAM for interline partners ticketed on TAM's plate. That would be a very interesting method of maintaining an advantage in a difficult market.

TAM is faced with fierce domestic competition from GOL and David Neeleman's upstart new entrant Azul and needs every advantage wherever it may be found. Incremental and new revenues from the Star Alliance Network will go some way to protect TAM in an economy that looks poised for recovery and growth.