

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.

Virgin America Implements Sabre PSS

T2R Staff

The Facts

On the weekend of October 30th Virgin America became the latest hybrid carrier in the Americas to cut over to the Sabre Passenger Services System (PSS).

The Analysis

The cutover seems to have had some problems with customers complaining of difficulties making and changing bookings on the Virgin web site¹. In this respect it resembles the WestJet cutover in October 2009 (*FirstView* [A Web Site Hiccup but Westjet Blazes a Trail](#) 23 October 2009) more than that of JetBlue in February 2010 (*FirstView* [Sabre's Stealthy Success at JetBlue](#) 12 February 2010). However the airline maintains that the conversion has gone well and that

"problems are confined to the website and operations have been smooth, with no major delays or cancellations because of the new system."

In truth it will not be until the release of the airline's quarterly trading statement that it will be possible to make an accurate assessment of the impact of cutover problems. The rapidly increasing use of social media to publicise consumer issues means that it is difficult to make valid comparisons even between similar events if they are separated by two years.

All reservations systems changes cause disruption and any immediate issues around the cutover will die down. When they have done so it will be possible to take stock of what this latest change may represent.

It is now clear that Sabre effectively owns the market for hybrid airlines in the Western Hemisphere. Not only WestJet and JetBlue but also Volaris and Trip have embraced Sabre's vision for the sector. Sabre has 84% of the market by volume for hybrid airlines in North America. This figure is heavily influenced by Southwest Airlines' continuing use of an older system supplied by Sabre but nevertheless it indicates that the carriers adopting the hybrid model (low cost base but increasing integration with industry processes such as interline and travel agency distribution) have been convinced that Sabre is the right solution to their PSS issues.

In Latin America Sabre continues to lag Navitaire in the hybrid sector. Most of the airlines concerned have been with Navitaire's OpenSkies and NewSkies systems since their foundation. As they mature it is certain that Sabre's highly effective sales organisation will have them in its sights.

An important feature of the airline business model in North America and elsewhere is the growing importance of ancillary revenue to airlines of all business models. The Sabre core

¹ See for example: The Wall Street Journal, November 5th 2011, "Virgin America Reservation Changeover Creates Bumpy Ride"

system's track record in this respect is not so strong and it relies on functionality delivered by Internet Booking Engines to enable its customers to exploit this important source of revenues - and profits. Frontier Airlines uses Datalex's Travel Distribution Platform to enable its merchandising efforts and JetBlue uses the EB2 system acquired by Sabre shortly before the cutover. Virgin America's web front end is largely home-grown, the result of substantial work by the small in-house IT department led by the airline's previous CIO Ravi Simhambhatla. He has now moved on to new challenges outside the airline industry. It is reasonable to assume that the loss of his leadership made for greater challenges in the integration of Internet bookings with the venerable Sabre back-end systems.

The major loser in this change has been IBS. The Indian software company made more progress at Virgin America than it did at WestJet - where it was displaced by Sabre without ever being used for live bookings - but nevertheless it has lost its biggest client for a PSS that is now almost a decade old. IBS is a well-founded company with other, successful, lines of business but it seems to be having great difficulty becoming established as a PSS supplier for airlines of a reasonable size.

The Speculation

The PSS market is no place for the faint-hearted. There are probably still more suppliers than the airline industry can support but some lines of consolidation are becoming clear.

- Amadeus owns the market for top-tier airlines outside the Americas. Its primary objective remains the establishment of any kind of toe-hold in the North American market.
- Sabre is the vendor to beat in the Americas. It has room for growth in Latin America but its objectives in the North are much more about holding position, a proposition that seems more likely given the extended processes that may or may not lead to Southwest and American getting new systems.
- Navitaire retains its market share advantage in the LCC sector and has finally released some "hybrid" functionality in the latest version of NewSkies. It will fight to hold on to its lead, especially in Europe and Asia Pacific.
- Hewlett-Packard is a corporation in crisis for reasons that are nothing to do with the airline sector. However the broader issues may preclude sufficient management attention on its obligations to United Airlines and American. American appears to be relying more and more on ITA Software for availability processing for example.
- SITA still has a role to play, provided it can deliver on its ambitious plans for a new generation PSS. Smaller airlines outside the Americas want an alternative to Amadeus and Sabre.
- Travelsky owns the Chinese market for the time being at least. Air China is in the market and making noise, but Travelsky must have first rights of refusal. Travelsky has ambitions to grow internationally but will probably need to do so by acquisition rather than organically.

Outside this group there is a plethora of small suppliers including IBS. Some of them may continue to serve a specific niche but it is hard to see them moving up to join the big six any time soon.