

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.

Amadeus Goes Nuts in North America

T2R Staff

The Facts

Amadeus has signed an agreement to supply Southwest Airlines international business following the acquisition of AirTran. The press release also states that Southwest has the option to “convert” the domestic business to Amadeus in the future.

Amadeus also announced an agreement with Expedia for the provision of content and technology for North America. The press release also states “Expedia will use Amadeus’s fare search technologies for air travel among other products”.

The Analysis

This is a big day for Amadeus.

Until now it has been unable to win any significant business in North America. Since the acquisition of System One in 1994 its market share in North America in the GDS business has declined by more than 10 percentage points. Amadeus currently reports that it generated some 37 million air bookings from travel agents in North America. We estimate this to be around an 8.5% share with a total market volume of 430M bookings for 2011.

Sabre Travel Network currently dominates North America’s GDS business. We estimate that Sabre generate more than 200 million bookings through their subscribers, including Expedia which we believe represents about 25% of Sabre’s total North American bookings.

By signing Southwest Airlines and announcing the Expedia deal Amadeus is tackling Sabre head on in its home turf. Southwest has only just announced its contract extension with Sabre and it carried over 110 million passengers in 2011. Southwest does not run on Sabre’s community platform but its own dedicated hardware and software system run from the Sabre data centre managed and operated by HP under contract to Sabre.

The Speculation

Management at Sabre will have known what was coming for some time given their client relationships but ultimately this is a real blow to them. It must affect the value of exit for their current shareholders, although Expedia would have been seeking additional technology and incentives given its buying power so margins are likely to be thinner for Amadeus, if they exist at all.

With Amadeus now able to provide services in Dallas from the Munich data centre the door will be open for the North American market. Our analysis suggests there are a number of airlines that will come to the market in the medium term including American Airlines, US Airways and Frontier. Whilst there is little urgency, Delta will also be considering its options

and Amadeus must be a contender for that business. United will also be considering its future.

Passenger services systems maintained by in-house IT departments are declining. However there are still CIOs and IT departments that believe they do not need to buy a whole system from a vendor but assemble and integrate components from a number of vendors to meet the needs of the business and achieve competitive economics. The reality is that this brings additional management and integration costs and adds complexity to service level management, so there are few that have both the scale and the skills to undertake the projects and deploy these best of breed solutions. United, Delta and American might have the scale and HP might be a willing partner for such undertakings. ITA Software by Google would likely benefit from such market-based architectures - providing availability processing and shopping and possibly later inventory and revenue management functionality.

However few airlines have the resources to maintain the level of investment necessary to “re-platform” or redevelop the code necessary to handle the underlying complexity of the PSS. Amadeus will have to develop the functional gaps under the Southwest contract so that it is able to provide large North American carriers with the services they need to compete. Amadeus always seems to end up with a challenging candidate for market entry having been selected by British Airways and Qantas for the PSS market entry in 1999.

Ultimately this is a huge win for Julia Sattel and her team at Amadeus. They have been able to overcome significant obstacles to seal this deal in record time, which gives Amadeus a springboard into North America. Perhaps more importantly it allows Amadeus to attack the hybrid market segment. This is timely given a number of large contracts coming up in the medium term.

Holger Taubmann’s team and particularly David Doctor will have been happy to see the culmination of years of work in signing up Expedia. Conversations have been going on for years, long before Jose-Antonio Tazon, Amadeus’s former CEO had joined the Expedia board. Amadeus’s sustained investment in technology, access to inventory and strong financial position would have been key considerations in Expedia’s decision.

Amadeus’ CEO Luis Maroto will be delighted with this success and it seems to have added value directly to Amadeus’ shareholders given the stock price before and after the announcements. With Amadeus’s reorganisation into business units under Sattel, Taubmann and Lozao, Maroto has also demonstrated the management team’s ability to execute cohesive market growth strategies without the need for a single commercial management group.