

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.

Sabre's Quiet Success

T2R Staff

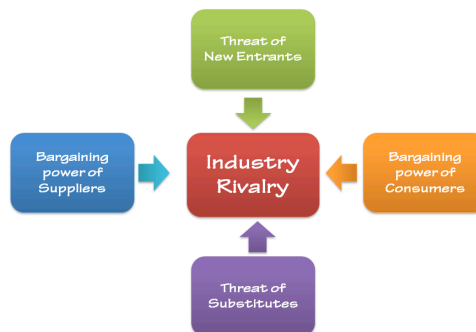
The Facts

Over the weekend of February 23rd and 24th Etihad Airways switched its Passenger Services Systems from Amadeus Altea to SabreSonic. The event took place with little fuss and no problems reported.

The Analysis

The Etihad cutover represents a major milestone in the evolution of this market. After a decade of apparently unstoppable progress Amadeus has lost a significant customer to a competitor without any change in ownership or control of the airline in question. There may be a few people in Madrid who regard this as a significant setback but the view of T2RL is that this would be a mistake. Historically the market for PSS services has been one in which many decisions have been taken for reasons other than a rational evaluation of competing products, services and prices. Airlines have taken a service controlled by a significant alliance partner or a vendor with close linguistic or cultural ties to the airline. The fact that Etihad was able to make a decision between the two competing suppliers on normal commercial and technical grounds demonstrates that there is now a rational market for PSS services.

The classical view of a competitive market is the one described by Michael Porter and beloved of business school professors the world over.



In the market for airline PSS three of Porter's five forces are significant. There is little threat from substitutes. Airlines need a PSS and unless they adopt a radically different business model to any seen in the market today they will continue to do so. Bargaining power of suppliers is quite small. Most PSS vendors are now using commodity hardware and open source architectures. The remaining mainframe suppliers are constrained in their ability to increase prices by the threat that the PSS companies will accelerate their move to open technology.

Despite the fact that it is already an overcrowded market there has been no shortage of putative new entrants in recent years. Hewlett-Packard and Google are among the major

companies that have signalled an intention to enter the market while less widely known companies such as Hitit and IBS have invested heavily in PSS products. As a result of the plethora of suppliers, consumers have quite a lot of bargaining power. However the characteristic of any truly competitive market is a strong rivalry between industry players. The recent change at Etihad demonstrates that in this market there is a keen rivalry for the number one position between Sabre and Amadeus.

Sabre is the historical market leader, based on its leadership in North America and its long heritage. Amadeus has been by far the strongest performer over the last ten years and over the last three or four years it has occasionally looked as if it was going to emerge as the totally dominant player especially among top-tier airlines. The loss of Etihad to Sabre shows that growth is not a one way bet for Amadeus.

#	Vendor	PAX		Airlines	
1	Amadeus	574,963,510	18.85%	109	12.40%
2	Sabre	545,222,583	17.87%	88	10.01%
3	Navitaire	344,911,392	11.31%	55	6.26%
4	In House Mainframe	315,089,244	10.33%	13	1.48%
5	TravelSky	293,587,457	9.62%	21	2.39%
6	HP Shares	249,454,687	8.18%	15	1.71%
7	Travelport	170,616,596	5.59%	6	0.68%
8	SITA	124,884,556	4.09%	107	12.17%
9	Unknown	82,002,369	2.69%	173	19.68%
10	Bullet Proof Software	59,942,632	1.96%	2	0.23%

PSS Market Shares Following Etihad Migration¹

Amadeus is the market leader and still has a pipeline of airlines sold but not yet implemented. Sabre retains a strong second place and recent wins from Navitaire mean that the top two have opened up a gap on the rest of the market. Their rivalry will be the defining feature of competition in the PSS market for the next few years.

The Speculation

If Amadeus had continued its success of the last few years completely unchecked there would inevitably have been calls for some sort of regulatory restraint on its progress. Monopolies are unpopular with governments and customers alike. The fact that a significant and rapidly-growing airline has selected and implemented Sabre indicates that there is a real competitive market. It will reduce any pressure for anti-trust investigations and will provide assurance to airline managements that they will continue to have real choices for the provision of these critical services. If we add Hewlett-Packard's involvement with the merged American Airlines and US Airways and the rapid growth of TravelSky on the back of continued Chinese expansion it is quite conceivable that future market leadership may be contested outside the current duopoly.

¹ Note this table is based on use of the Inventory application of each vendor. Amadeus continues to have airlines using its Reservations application only in the System User Architecture.