

SABRE WINS LATAM'S TAM AND DISPLACES AMADEUS

T2RL Staff

THE FACTS

LATAM announced their decision to select Sabre as their single PSS platform on 05 May 2015.

THE ANALYSIS

Sabre have succeeded in growing their share of the PSS market in Latin America at the expense of Amadeus. Sabre is clearly a valid alternative to Amadeus. Observers have criticised the GDS businesses for behaving like an oligopoly but even with just two vendors it seems that competition is clearly thriving for PSS and E-Commerce.

LATAM have been running both Amadeus and Sabre for some time. LAN previously migrated from Amadeus to Sabre and TAM migrated from Sabre to Amadeus prior to the merger.

T2RL see this transaction as the sixth in a string of losses for Amadeus. It is the fourth deal lost to Sabre in the last 12 months - COPA, Air Berlin, Alitalia and now LATAM. The two other deals lost were Emirates to their in-house IT team and Virgin Atlantic to Delta's in-house IT group.

Sabre's commercial leadership team has been playing a critical role in the ability to win big deals. Sabre's management also appears to understand that the GDS relationship gives them a solid financial and technical position for differentiation with the non-GDS suppliers like HP.

Given T2RL's active participation in the selection and contracting process, it is not possible to comment on the specific details of the procurement process or the final agreement. However, T2RL believe that Latin America is unique in a number of ways:

- T2RL's estimate for total passengers boarded is about 240 million for 2013. This will not change significantly for 2014, given the economic challenges in the region but particularly in Venezuela, Brazil and Argentina.

- LATAM is dominant within its region to an extent greater than any other airline in any other region. T2RL's research indicates LATAM accounts for 68 million passengers boarded in 2013, or 28% of the entire region by itself. Thus, in a single deal, Sabre has set itself up as the PSS regional market leader. Combined with the recent win at COPA, Sabre's PSS base is almost unassailable.
- Latin America has embraced direct distribution. Outside of China and Japan, now that Korea has moved to the Amadeus GDS, Brazil is the largest direct connect marketplace for travel agents. T2RL estimate the regional GDS market total at about 80 million bookings, delivering some 72 million passengers boarded sold by travel agencies using a GDS. The remaining 70% of passengers boarded is distributed directly. Maintaining the large proportion of direct sales would therefore be critical for competitive position in Latin America.
- TAM broke the mould in distribution and now manage a huge proportion of their domestic agency bookings through E-TAM, via both an API and agency user interfaces. Both access methods are currently provided by Amadeus and will be migrated to Sabre. This effort will undoubtedly be challenging for both TAM and Sabre. T2RL estimate that Amadeus' 32 million GDS bookings accounts for about 40% of the market place for 2014, Sabre are about 55% and Travelport has the remaining balance of 5%. Given Sabre's larger share of the regional market, any GDS discounts offered for the PSS deal would make it more attractive.

Ultimately, all airlines considering their PSS deals should also consider the relative importance of GDS spend in their calculations. If they are unable to shift share to direct channels in the medium and longer term, then GDS discounts may produce commercial offers that other providers will find hard to match.

THE SPECULATION

Sabre may struggle to execute on all of the deals they have signed in the recent past, leaving Amadeus the opportunity to extend existing contracts on their own terms. This possibility will be something that LATAM and Sabre will work hard to mitigate.

Lower GDS fees, achieved in conjunction with a PSS decision, may lead to a reduction in the ability of the GDSs to compete in the market, ultimately driving new models or ways of working where airline and GDS partners have aligned incentive structures.



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