

# A SMART MOVE AT SABRE

First View: Rapid analysis of breaking news, providing perspective

## THE FACTS

On 14 November 2018 Sabre Corporation announced that it had agreed to acquire Farelogix for \$360 million in cash. The acquisition is subject to regulatory approval and is expected to close around the turn of the year.

## THE ANALYSIS

Fifteen years ago Farelogix was one of the three so-called GNEs or GDS New Entrants that were expected by some industry experts to transform airline distribution. That didn't work out, but rather than joining rivals ITA Software and G2 Switchworks in acquisition – by Google and Travelport respectively, Farelogix continued to follow an independent path towards a goal of improving airlines' ability to act more like modern retailers. In doing so it found itself once more involved with a movement that some expected to bring about the demise of GDS distribution. This time it was the NDC initiative from IATA that was announced to great fanfare in 2012 and was originally intended by IATA to sweep away the GDSs. Six years on, expectations of NDC have evolved and few now see it as a GDS-killer. In fact, this acquisition by Sabre may just be an indication that NDC is closer to delivering real value.

In many ways NDC is based on the ideas that Farelogix has been developing since the beginning of the 21<sup>st</sup> century. The company donated the OpenAxis XML schema that formed the basis for the first version of IATA's NDC. Its products can create airline offers that include a range of services beyond flight seats, and price those offers according to commercial strategies instead of being constrained by filed fares. To succeed in delivering the NDC vision, airlines need software tools that allow the creation of offers and a path to get those offers in front of the travel agents that sell their services to customers. Farelogix has the first of those things and Sabre has the second. This could be a very successful marriage.

Along with its competitors Sabre has been evolving towards becoming a retailing platform for the last six years or so. Although the GDSs dragged their feet on NDC whilst running a very successful lobbying campaign that delayed its approval for several years, they clearly listened to the message that airlines wanted better capabilities for the indirect channels. Sabre has now articulated a goal of achieving functional parity across all distribution channels. In short this means that airlines should be capable of making the same offers – of flight seats, ancillaries, packages, fare families or anything else, to customers shopping in travel agencies as they can to those coming to their web sites.



This requires improvement to both the Passenger Services System and the GDS. The recent move by Sabre to consolidate those two functions under a common management structure will allow development in these two areas to proceed in lockstep.

On the PSS side Sabre has deep capabilities in Revenue Management. Adding the Farelogix functionality in front of Sabre's RM will enable the creation of sophisticated Offers that are priced to optimise revenue.

In the GDS Sabre is close to deploying the ability to integrate NDC-derived content from airlines that can supply it with conventional schedules and fares-based content from those that can't. This is absolutely essential if NDC distribution is ever to make the breakthrough to mass adoption.

While the strategic importance of keeping Sabre at the forefront of airline and distribution technology is undoubtedly the key motivation for this acquisition it also brings a number of important tactical benefits in the shorter term:

- Farelogix capabilities can be used with any PSS (it is currently integrated with 9 different ones including all of Sabre's main competitors) so Sabre gets a relationship with airlines that it doesn't currently serve for commercial systems.
- Sabre's capability for data gathering and business intelligence is expanded into another dimension. For the first time it will be possible to make meaningful comparisons between shopping behaviours in direct and indirect channels. T2RL sees considerable value in aggregated shopping data.
- Sabre acquires a new pool of engineering talent with extensive exposure to current and emerging technologies. Of the 225 employees at Farelogix 80% are software engineers.

For all the benefits, there are also some risks. Some of Farelogix's current customers began their engagement precisely because they perceived a need for distribution options that were independent of the GDSs. For the time being Sabre's management must hope that the undertaking to manage Farelogix as a quasi-independent company in the Sabre group will provide reassurance. The fact that key executives including CEO Jim Davidson will be staying with the company for a while should also help.

Some customers may be concerned that Sabre will push up pricing at the term of existing contracts given the multiple paid for the asset.

On the travel agency side one of the big concerns about NDC is the potential that it will drive expensive changes to mid and back office systems that currently depend on traditional data structures like PNRs, e-tickets and EMDs. Sabre is acutely aware of these dependencies and agencies can take comfort from its pledge that it will retain the ability to work with traditional formats for the foreseeable future.



## THE SPECULATION

After several years and multiple false starts it is clear that airline distribution systems are moving towards new data structures based on offers and orders and Sabre is one of the key players on whom this move is dependent. It is necessarily a slow transition because a whole industry has been based on data structures and processes that date back to the 1940s and matured in the 1960s. The diagram below shows the progression over time. Currently the big players in airline distribution are mostly at the second stage. They have wrapped their traditional databases in APIs and adapters that allow them to present a “new gen” face to the minority of business partners that are capable of consuming it.

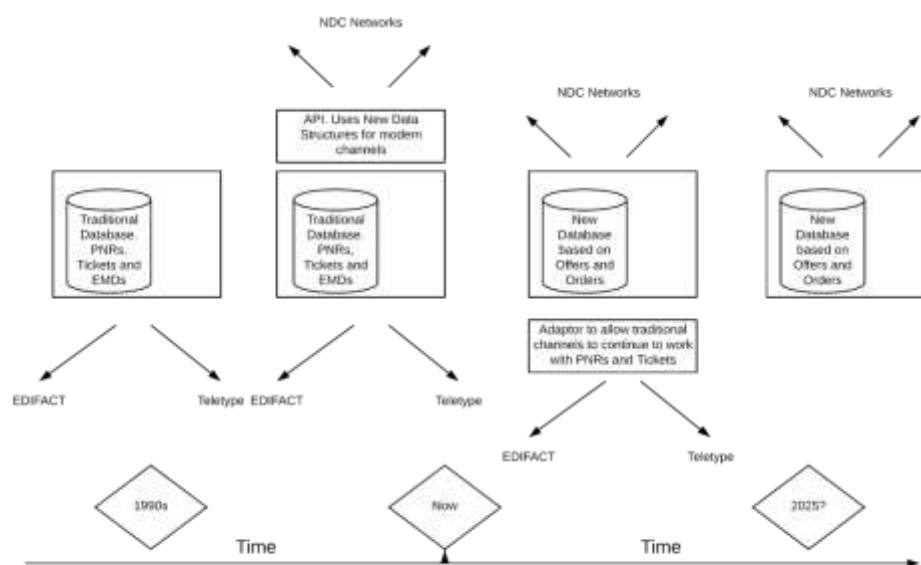


Figure 1: Evolution of airline commercial systems

The next step is to change the internal database to one that uses the new structures and to deploy adapters to talk to the laggards that are not yet ready to make that move. This is the process that Sabre is engaged in now and that the Farelogix acquisition will enable it to accelerate.

One of the barriers to a more rapid take up of NDC is the huge variation in the application of the standard. In a bid to accommodate a wide range of stakeholders IATA has created a standard that is too flexible to be easily adopted. The vision of “plug and play” is still quite distant. If the four major GDS companies were to get together and publish a common interpretation that they agreed to implement it would enable airlines to develop a single set of capabilities for almost all of their indirect distribution. The rewards of “making the standard a standard” could be a substantial increase in ancillary attachment in the GDS channel, provided airlines and travel agents are able to agree commercial incentives for ancillary sales. The ancillary revenue boost would justify the necessary investment. From a Sabre perspective this would be a virtuous circle as it would increase market demand for the Farelogix product from airlines using both the Sabre PSS and others in the market.

Looking further forward there are still two big problems to solve. The first is interline. Despite years of work by the IATA Interline Task Force no airline has yet announced any intention to implement interline NDC sales along the lines defined by the working group. There are whispers around the industry that the solution that has been defined is just too complicated and that a fresh approach is needed. The answer could lie in the sort of virtual interline solutions that have been created for Low Cost Carriers by companies like Dohop, Kiwi and Air Black Box. In principle Sabre could apply the capabilities it has just acquired to create such an interline process using NDC standard messaging.

The final frontier will be the adoption of the even more ambitious ONE Order standard to eliminate the separate databases for bookings and payments that are inherent in continuing with e-ticketing and EMDs attached to NDC orders. This necessarily requires close co-operation with industry partners such as ground handlers, airport operators and accounts processors. Once again Farelogix brings with it a deep level of expertise that Sabre will require as it approaches this challenge over the coming decade.



*T2RL is an independent research and consulting company that specialises in the market place for airline IT systems. Based on data gathered and analysed since the year 2000 it has defined and tracked classifications of airlines and their IT providers. Its research is used by airlines to enable them to make informed choices of systems and vendors and by the vendors to help them develop products that best meet the current and future needs of the airline industry. For further information, visit our website at [www.t2rl.com](http://www.t2rl.com).*

