

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 Acquires Deeper Capabilities in Revenue Integrity

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The Facts

Sabre Holdings announced yesterday the acquisition of Iceland-based Calidris, a revenue integrity and business intelligence solutions company. No financial information about the deal has been released.

The Analysis

Revenue Integrity may be defined as the practice of ensuring that an airline actually collects the correct revenue for the services it offers. Factors that may prevent this range from outright fraud on the part of staff, customers and intermediaries at one end of the scale to simple mistakes made in the pressured environment of a busy airport terminal at the other. In between the two extremes are a number of questionable business practices that airlines need to police in order to avoid erosion of revenue that is rightfully theirs.

According to Paul Rose of the Airlines Revenue Integrity Group (www.arigroup.org), examples of the practices that prevent full realisation of the revenue potential of the airlines include:

- Unticketed bookings
- Incorrect booking classes
- Illegal class mix
- Abuse of fare rules
- Bookings below Minimum Connection Time (MCT)
- Passives
- Space blocking
- Duplicate bookings
- Cross border selling abuse
- Multiple bookings on the same flight
- Multiple bookings on several flights
- Multiple bookings on multiple carriers
- No names in a group or individual booking
- Name changes

Together these practices are worth from €1 to €5 per passenger boarded for a typical international airline.

It is arguable that a well-designed passenger services system should prevent most if not all of these abuses. However most airlines find that the policing facilities in the PSS are relatively easy to bypass and an extra layer of protection is required. This extra layer is the revenue integrity suite.

In broad terms the problems divide into two groups. In the first group passengers may fly on the booked service but pay less than they should. In the second group bookings are made which tie up inventory but then no passenger appears to take up the seat, which therefore departs empty. To some extent the first set of problems may be addressed by post-hoc policing. Travel agencies may be debited for under collection even after the flight has operated. The second set really must be addressed in real-time if opportunities to sell seats are not to be lost before it is too late. Modern revenue integrity suites are able to address all the abuses listed at a cost which delivers ROI in months or in some cases even weeks.

Calidris was one of the early leaders in revenue integrity software and offers both post-hoc policing and real-time prevention. Founded in Iceland in 1997, Icelandair was the first customer. Following the extremely rapid return on investment achieved by early adopters Calidris has subsequently been successful in supplying its products to top-tier airlines throughout the world. An early competitor was Airline Automation Inc of Tuscon Arizona. This US-based company was acquired by Amadeus as long ago as November 2003.

Sabre acquired some innovative revenue integrity capability when it bought the airline applications business from Lanyon in October 2004 but until now it has definitely lagged behind its European arch-rival in the field. The acquisition of Calidris means that Sabre now has a highly competitive offering that is already in use at top-tier airlines. New customers and existing ones alike will be very happy to have access to the new capabilities.

The Speculation

Sabre took a long time to follow Amadeus in the acquisition of a comprehensive revenue integrity solution. The fact that it has done so now suggests a couple of things:

- i) Sabre's owners recognise that the airlines solutions business is critical to its long-term future and its ability to float on the stock market in the near future. Therefore they have made investment capital available for the airlines business and we might expect more acquisitions shortly.
- ii) Sabre's existing customers and/or potential new ones are insisting on the provision of better revenue integrity solutions. It is possible that yesterday's announcement will presage more announcements of new customers for the SabreSonic PSS.

In either case the expectation is that the addition of Calidris will make Sabre more valuable. In our judgement the synergy between the Calidris products and Sabre's existing capabilities means that this should be the case.