October | 2001

HeBS digital

If I were Henry R. Silverman...

A Commentary on the Pending Cendant-Galileo Deal | By Max Starkov

Recently Cendant announced that it would pay $2.9 billion in cash and stock for travel reservation company Galileo International Inc. Some industry experts say that Cendant's potential acquisition would bolster its lodging and car rental operations and increase competition for Sabre, the No.1 global distribution system (GDS).

HeBS digital, Inc.
Address: 6W 48th St. 8th Floor, New York, NY 10036
Phone: 212-752-8186 Fax: 212-202-3670
E-mail: sales@hebsdigital.com Web: www.hebsdigital.com

If I were Henry R. Silverman, I would not have acquired Galileo International, Inc. I would have bought OneCorp instead. Here is why:

What does Galileo bring to the table?

Galileo's core competency: Global Distribution System, providing travel agents with access to inventory, schedule, and pricing information.

Galileo relies on traditional travel agency distribution for 87% of its revenues, though it also owns an online travel service, Trip.com. The very existence of its travel agent customer base is threatened by closures and consolidation. Galileo considers itself a marketing company, not a technology company and rightfully so: like all GDSs, it is burdened by 35 year old technology, mainframe computers, graphic user-unfriendly interface, huge capital expenditures, costly maintenance and support, and the high costs of customer acquisition (both on the supply and demand side).

Here are only some of the challenges facing Galileo and the GDSs of today:

- GDSs remain a very inefficient and expensive distribution system. All travel suppliers are developing and exploiting alternative and cheaper non-GDS distribution channels.
- GDSs do not have direct relationships with non-air travel suppliers (e.g. hotels). GDSs use switching companies like Pegasus and WizCom to access hotel, car rental and tour inventory.
- GDSs capture only a small portion of the non-air travel market. Approximately 315,000 hotels worldwide cannot be booked via a GDS.
- GDSs do not support group bookings, special accounts, etc. 100 million or 1/3 of all hotel bookings are group bookings, i.e. made manually over the phone/fax/email.
- GDSs process less than 28% of hotel bookings.
- GDSs are under tremendous market pressure to decrease distribution fees and increase flexibility of their agency contracts.
- GDSs are threatened by dwindling customer base. Travel agency numbers are decreasing fast through closures and consolidation.

New breed of online travel agencies do not rely on GDS for their reservation systems. Orbitz utilizes a GDS (Worldspan) for less than 20% of the booking process and is moving toward direct non-GDS access to major airlines CRSs.

Can the GDSs deal successfully with the challenges imposed by the Internet and the new realities of the marketplace? Some will, but one thing is for sure: there will be a major consolidation in the GDS ranks. It is easy to predict that within three years there will be only two main GDSs, a handful of alternative Web-based distribution systems and thousands of direct supplier-to-consumer online channels.

Cendant is Desperate to Solve the Problems in its Travel Division

Cendant's core competency is building franchise systems: real estate brokerage, lodging, car rental, tax preparation and providing outsourcing solutions. Cendant's Travel Division brings in 32% of the total revenues, though revenues from travel are at a virtual standstill: $1.24 billion in both 1999 and 2000.

Traditionally Cendant has achieved growth through organic expansion of existing businesses and acquisitions of complementary businesses. Why would Cendant want to acquire Galileo? This acquisition does not complement its existing businesses and is way beyond the scope of Cendant's core competency. It does not provide any meaningful long-term competitive advantages, taking into consideration the dynamics of the marketplace and the risk of alienating other GDSs and travel suppliers.

What does Cendant need to do to improve its Travel Division?

All three markets that constitute Cendant's travel portfolio: lodging, car rental and time-shares, are highly fragmented and inefficient. Cendant should leverage its core competencies into new and underserved segments of these markets.

Today 315,000 hotels worldwide are not bookable via GDS or online. Cendant has a tremendous opportunity to expand its market share by a) leveraging its lodging franchise expertise and penetrating new markets and b) creating or acquiring a strong hotel representation and marketing company.

Cendant has to focus on eDistribution and eProcurement technology solutions in its core travel segments as part of the value proposition it offers potential franchisees. This means establishing or acquiring a travel technology company that delivers a) next-generation ASP-based property management (PMS) and central reservation (CRS) solutions and b) real-time booking of group hotel inventory to achieve 100% bookability of its vast hotel inventory. The ability to provide low cost, transaction based (ASP model) PMS and CRS systems and single-image inventory database (seamless call-center and online booking) can boost Cendant's lodging and car rental franchise operations and create very lucrative new revenue streams.

Cendant has to boost its online travel presence by acquiring an established online travel agency or hospitality-focused travel portal and by creating a robust affiliate program for its travel brands. Though Cendant is working on its own portal scheduled to launch in 2002, it is already behind the other major travel players as far as online travel is concerned and should use the adverse market conditions to acquire an existing yet struggling for funding online travel service.

Cendant has practically no saying in two major travel markets: corporate travel procurement ($185 billion) and conventions and meetings market ($120 billion). Cendant should pursue ways to enter these lucrative markets by acquiring newly established players in these fields. This would greatly enhance its travel portfolio, diversify revenue streams and add a cushion against economic downturns.

On a different note, WizCom, a hotel and car rental switching company, now part of Cendant's Diversified Services Division has to become an integral part of its Travel Division.

Why would OneCorp be a better acquisition target?

First of all, it has a much lower market cap of $282 million, compared to Galileo's $2.6 billion. Few people know that electronic distribution, also known as switching, which was the very reason for the company's existence, today represents only 10% of OneCorp's total revenues. The main revenue sources of this company come from its CRS operations (10,000 hotels, 40 million hotel reservations) - 31% of total revenues; commission processing - 15% and its core hotel representation service - 42%.

Here is how OneCorp complements Cendant's Travel Division:

- ASP-based CRS: OneCorp has one of the best-known ASP-based CRS services today, already used by 10,000 hotel properties.
- PMS technology. In addition to its GuestView PMS, this month OneCorp will launch its new Web-based PMS system it acquired as a result of its deal with GETS.
- The biggest hotel representation company in the world.
- Hotel switching-OneCorp will add close to 40,000 top brand hotels to Cendant's WizCom switching operations and become the biggest service of this kind in the world with more than 60,000 bookable hotels in real time.
- Hospitality-focused travel portal: as part of the deal Cendant will acquire TravelWeb, OneCorp's premier online travel service, one of the most popular hotel booking services today.
- Commission Processing -- a new complementary revenue source.

Some of you guessed it right. OneCorp is Pegasus Solutions. So if I were Henry R. Silverman, I would not have acquired Galileo International. I would have considered acquiring Pegasus Solutions instead.

Max Starkov is Chief eBusiness Strategist at Hospitality eBusiness Strategies in New York City. Max has co-founded and served as CEO and Director of two eBusiness companies: Whale Media, Inc. (B2B travel technology infrastructure provider to the hospitality, corporate travel and convention and meetings markets) and Travelbreak.com, Inc. (B2C online travel marketplace).Recently Whale Media won the prestigious 2001 Microsoft RAD Award for its on demand reservation technology for the hospitality industry. Max has 17 years experience in pioneering and building successful travel businesses and eBusiness strategies for national and multinational companies. He has written numerous reports, industry research, and articles including "Independent Hoteliers: How to Level the Playing Field Amidst Softening Economy"(co-author with Jason Price), "Twelve Inexpensive Ways to promote your Website". He has an MBA degree, Beta Gamma Sigma Honors, from Fordham University in New York and an MS in Economics degree from Sofia State University. You can contact Max at max@hospitalityebusiness.com.