Viewpoint

Drive better outcomes

How IT can improve merger, acquisition, and divestitures in the travel and transportation sector

Mergers, acquisitions and divestitures continue to be a prime strategy in the travel and transportation industry. Organizations across the sector pursue M&A to drive growth, to gain market and competitive advantages, and for other strategic purposes.

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Introduction

Yet consolidation also presents unique choices and challenges to a transport-oriented company. Reaping the hoped-for benefits of a merger or acquisition can be difficult, given the complex and dynamic nature of most transactions. While it may be tempting to address IT optimization as part of an M&A transition, it is often more appropriate to focus instead on the transaction's larger strategic objectives.

In this viewpoint paper, HPE briefly examines the forces driving M&A in travel and hospitality, airlines, trucking and other transportation segments. The authors discuss several unique M&A challenges, and how transport-oriented organizations can best leverage IT to ensure the success of new organization.

A consolidating sector

Mergers and acquisitions have played a significant role in the travel and transportation industry, for a number of reasons.

For companies with robust balance sheets, M&A is a fast and relatively-easy way to gain capacity, to broaden product and service offerings, and to meet competitive challenges. Where industries were traditionally regional, such as trucking and hotels, M&A enables firms to quickly extend their geographic reach.

In both the airlines and the hospitality sector, where many guests and passengers have joined affinity and rewards programs, M&A allows companies to purchase those loyal customer bases, and to avoid the time and cost of building those relationships. In the hotel business, where business models are often a mix of O&O and franchise ownership, mergers can be a means to gain greater control over quality and performance.

While the pace and focus of consolidation has varied, the underlying trends are clear.

The transportation and logistics sector has undergone major consolidations in recent years. In 2015, FedEx bought the European delivery company TNT for $4.8 billion, while UPS, Stagecoach and others have also pursued growth-by-acquisition strategies. The Journal of Commerce noted 54 M&A trucking sector M&A deals valued at $27.2 billion in just the first quarter of 2015.[1]

[1] AJOT, "Mergers & acquisitions in the Trucking Market", August, 2015, https://www.ajot.com/news/mergers-acquisitions-in-the-trucking-market-should-buyers-be-concerned

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Citing research by PricewaterhouseCoopers (PwC), the Wall Street Journal attributed the transport-oriented M&A activity lower fuel prices and an improving economy.[2] Others cite sluggish organic growth hindered by more stringent regulations and a lack of capacity.

Consumer travel and hospitality have seen similar M&A activities.[3] Since 2005 the U.S. airline sector has undergone significant and continued consolidation, and today just four major network carriers – United, Southwest, American and Delta – serve domestic passengers. Of the nine major car rental brands found at most U.S. airports, all are owned by just three corporations.

Recent mergers have consolidated a number of leading hotel brands, including Marriott International's acquisition of Starwood Hotels and Resorts. Just seven companies now own more than 80 major hotel brands.

The cruise industry has seen massive consolidation for years, with Carnival Corporation owning nine lines and Royal Caribbean Cruises owning six. The largest three cruise lines – Carnival, Royal Caribbean, and Norwegian – control a combined 76 percent of revenue and 79 percent of passengers in an increasingly concentrated sector.

Online travel agencies are significantly more concentrated than public perception might indicate. Priceline owns Booking.com and Kayak. Expedia has pursued an aggressive M&A strategy, and now owns Travelocity, Orbitz, Hotwire, Hotels.com and other OTAs, and in 2015 bought HomeAway to open a foothold in the growing home-rental marketplace.

Unique IT challenges in Travel & Transportation

When contemplating a merger or acquisition, airlines, hoteliers, trucking firms and other travel and transport organizations face a number of unique IT-related hurdles.

Duplication. Both the buying and the acquired company has existing systems and applications in place, including finance, sales and marketing, customer relationship management, and human resource functions. For an M&A effort to succeed, IT must understand and rationalize these crucial resources, optimize those systems, and (hopefully) improve on existing performance.

Variation. When firms originate as regional or family-owned organizations, they often have very distinct policies and processes for IT management and governance. Data can vary widely in format and quality, and is often fragmented across organizational silos. Poor information management can lead to unhappy guests and passengers, missed deliveries, security breaches, and brand damage. After any M&A event, companies must act quickly to secure, understand and control vital enterprise data.

Culture. The combined organizations often have vastly differing approaches to business and technology. One hotel chain, for example, may outsource the management of data relating to guest services and relationships, while another might source those activities internally. Some organizations have embraced public, private and hybrid clouds, while others have not.

[2] SupplyChain247, "Logistics and trucking companies have been buying each other at a rapid clip,", August 2015, http://www.supplychain247.com/article/logistics_mergers_aquistions_wave_continues

[3] USA Today, "Nine major rental brands found at airports are owned by just three corporations", March 4, 2015; http://www.usatoday.com/story/travel/columnist/mcgee/2015/03/04/airline-mergers-expedia-orbitz/24319965/

Strategic M&A options

To address those challenges, travel and transportation organizations can leverage a number of strategic integration options.

Some have taken a Best of Breed approach, in which various systems and methods from each organization are blended into an evolving hybrid model. As seen in several notable travel and transportation efforts, this hybrid strategy can be problematic. Corporate culture and identity are critical aspects of any integration. HPE recommends an approach that defines a vision for the organization two to three years in the future, and then aligns people, processes, systems and corporate cultures to attain that objective.

Certainly, integrating IT and combining business processes can be difficult, but those challenges also reveal opportunities to create a more efficient and future-oriented travel or transport company. At some point, a single strategy will have to emerge. The sooner that single strategy is in place the sooner the organization will be able to realize the benefits of the merger.

It bears remembering: The original deal was based on a specific value proposition, and post-transaction activities should focus on realizing that value.

If for example, a trucking company was purchased to obtain market share, then energy and effort should be directed toward fully exploiting those market opportunities. Organizations should avoid being distracted by efforts (such as very complex IT integrations) that do not align with strategic business missions.

How IT can support the journey

As noted, HPE believes strongly that post-transaction activities should focus on the mission described in the underlying business case for the deal. The hectic period immediately following an M&A event is typically not the best time to undertake a major IT optimization.

Instead, efforts should be tuned to support crisp, clean execution and to handle short-term IT requirements, to generate cost savings, and to build sustainable long-term value.

Short-term IT requirements. Following any acquisition or divestiture, organizations typically experience a period of intense business, legal, and technological activity. A number of small-but-vital IT steps can greatly affect this crucial transition – such as creating compatible email accounts, common address books, and an efficient call routing system.

Slightly higher-level efforts – such as compatible transaction models, vendor and customer management systems, and part and material designations – also require attention. Some technologies – including cloud, federated email, and data integration hubs – can help ensure a smoother M&A-related transformation, and may warrant discussion at these early stages.

Cost savings. Saving money is a core business driver behind many mergers and acquisitions, and many teams look to reduce costs through financial, operational and cultural changes. By also considering IT at this stage, organizations can often reduce integration and ownership costs for business processes, applications and infrastructure. Advanced analytics, as-a-service models and other IT capabilities can help drive cost savings across a growing enterprise, and can enable organizations to realize strategic gains more quickly than traditional methods.

Long-term value. IT can affect the long-term value of any travel and transportation company, so teams should carefully consider information technology in any significant transformation. IT must support many of the specifics of an M&A business case – new OTA capabilities, expanded route networks, global supply chains, enhanced guest services, larger CRM populations.

Robust IT can also provide capabilities needed to ensure growth and innovation – from improved reporting and visibility to Big Data analytics, reverse engineering capabilities, eCommerce, and cybersecurity.

Once the organization has completed the initial M&A journey, and is well positioned to pursue the value-based strategic goals, it may be appropriate to focus on IT efficiencies and modernization. Integration is by definition a disrupting event, and organizations may take this opportunity to rationalize and modernize systems and applications.

Modernization can address a number of questions, including duplication, migration, insourcing versus outsourcing, and the introduction of entirely new technologies.

Other considerations

For any travel and transportation enterprise, considering an M&A event poses substantial questions.

Does the organization have the internal expertise needed to handle the coming business and IT transformation? How can the firm minimize the risk and disruption during consolidation? What transitional model provides the best pathway to success?

Given the complexity of an enterprise-level transaction – and the stakes – it is not surprising that most large organizations call on proven, specialized partners for M&A support. When considering a partner for IT and business integration, organizations should seek allies with long histories in both M&A and their specific segment of the travel and transport industry.

A reliable partner should offer well-defined methodologies, a sound architectural model, and a demonstrated understanding of applications and business processes. Ideally, a partner will be well versed in legacy systems – such as mainframe and client/server technologies – as well as in today's more advanced distributed, cloud and hybrid environments.

Perhaps most importantly, astute executives seek an M&A partner with a proven willingness to address the problems that inevitably arise during any complex consolidation.

For many growth-oriented organizations, HPE can be that trusted partner. HPE offers a holistic approach for mergers, acquisitions and divestitures in the travel and transportation environment. We can provide the crucial expertise needed to integrate or disentangle business units from shared or disparate platforms.

HPE services can include IT execution – from planning through migration, physical and virtual moves, tear-down and stand-up of new IT environments. If needed, HPE can also provide M&E consulting and program management.

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Conclusion

M&A can be a fast track route to growth and competitive advantage for travel and transportation companies of all kinds. Consolidation is an increasingly common strategy for hotels and cruise lines, airlines, cargo firms, over the road trucking companies, online travel agencies and others.

Information Technologies can greatly enhance the outcome of a merger or acquisition. As discussed, transport-oriented organizations are using data management and analytics, integration, and security solutions to support these major transformations.

The right IT model can streamline initial post-deal activities, generate cost efficiencies, and start the surviving company on the path towards long-term value. This transition can often present opportunities for IT optimization, but HPE recommends an early focus on the strategic business objectives that prompted the deal.

By working with an experienced partner, travel and transportation firms can give this enterprise-class transaction the best possible chance for success. Astute industry leaders will continue to pursue growth and innovation … and to leverage IT to drive M&A outcomes.

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