

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.

## **BA and Iberia Push the Frontier**

**T2R Staff**

### **The Facts**

Shareholders of British Airways and Iberia have approved the merger of the two airlines to form the International Airlines Group. Shares in the new entity will begin trading on January 24<sup>th</sup> 2011.

### **The Analysis**

This merger is part of a widespread move towards consolidation in the global airline industry. Full mergers have so far only taken place within major economic areas. Combinations involving Delta-Northwest, United-Continental, Air France-KLM and LAN-TAM have all changed the industry radically within their regions but cross-regional deals are still not possible until governments relax their foreign ownership rules.

Much has been written elsewhere about various aspects of the latest transaction but here we are concerned only with the implications for the technology in use at the two airlines.

Iberia was a founder of Amadeus and continues to own around 11% of its shares. Despite this it still has not committed to moving its inventory and DCS to Amadeus's Altea systems. The airline continues to operate an ageing Unisys mainframe system to provide these services in-house. British Airways was a founder of rival system Galileo, but ten years ago contracted to be the launch customer for Altea Inventory and DCS. It also helped Amadeus to specify its new DCS but is so far only committed to deploying the Flight Management components rather than the full Customer Management suite including check-in. The forty-year-old BABS check-in system continues in use at British Airways although it is now operated on a cost plus basis by Amadeus from its data centre in Germany. Both airlines use the front-end reservations system from Amadeus.

These airlines have no urgent need to change systems. The fact that they have a common reservations environment means that they will be able to manage each other's passengers seamlessly – at least until they reach the airport. Both BABS and Iberia's Resiber are capable of serving the Interline Through Check-In transactions that allow one airline to issue boarding passes for connecting flights on the partner's metal. What they will not do is to allow the detailed customer information held in Altea to be made available to airport staff. Neither will they be able to perform the highly automated re-accommodation demanded by high yielding passengers at times of travel disruption.

While systems consolidation will not be at the top of Willie Walsh's agenda as he takes up the reins of the new combined company it is clear that in the medium term there are significant benefits to be obtained by a more joined up PSS strategy.

## The Speculation

Much of the advanced functionality in customer information and re-accommodation may be obtained by the combination of Altea Inventory and Altea Reservations. T2RL believes that Iberia will agree a contract for Altea Inventory during 2011. Once this is in place the two airlines will be able to present a seamless front to the world. The systems architecture also allows other airlines to be brought into the group in support of its wider commercial strategy. There has been much speculation in the aviation press about which airlines might be on the IAG shopping list and it is notable that many of the prime candidates are already Amadeus customers.

The question of check-in systems is far less clear-cut however.

Altea DCS was designed in the pre-9/11 world to meet the needs that British Airways perceived at that time. In the harsher environment of ten years later it is clear that it was vastly over-engineered for today's requirements. This was borne out by the extensive redesign work needed to enable Qantas to become the launch customer following BA's decision to defer implementation.

At the end of 2010, boundaries between systems are becoming blurred. Amadeus, along with its main competitors, offers access to its systems via Application Programming Interfaces (APIs), which enable third party programs to make use of data and functionality within the Altea suite. Mobile platforms such as iPhones, iPads and Android devices can have small self-contained applications that are able to extract passenger data from Altea reservations and use it to drive airport functions such as boarding pass and bag tag issuance. There may no longer be any need for a Departure Control System in the traditional sense at all – provided the right commercial terms for use of the APIs can be obtained.

British Airways is no stranger to such radical thinking. As long ago as 1980 it was the first major airline to understand the importance of Inventory as the key component of the PSS and to create it as a standalone application. If it decides now that radical thinking is required to provide highly flexible and responsive airport services it would be able to find one or two partners in the vendor community able to respond.

ITA Software – provided it is not completely distracted by its Google transaction - could be one. It made its reputation by overturning an accepted view of the way that airlines managed a key part of their business and it has gained knowledge of airport processes in its stalled Air Canada project

Despite its image as a rather old-school bureaucratic organisation, SITA could be another. BA's CIO, Paul Coby, is Chairman of SITA and he knows better than most the pioneering work being done around mobile technologies by SITA Labs. SITA is committed to spending around \$120 million in pure development cost on new generation passenger systems. Despite the magnitude of this sum it is small change compared to the €1Bn or more that Amadeus has spent. If it is to succeed, SITA needs radical thinking and in SITA Labs it has a world-class research facility that is equipped to deliver. SITA and the airlines could benefit in more ways than one from its Chairmanship. SITA needs Tier 1 airlines to support its application portfolio as much as the airlines need innovative thinking from their IT partners.