

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.

SITA Evolves Away from its Network Business

T2R Staff

The Facts

From 19 to 21 January in Prague SITA held its Horizon customer conference. The event attracted delegates from airlines all over the world as well as partner companies and suppliers. They attended plenary sessions and detailed product workshops where the challenges of passengers services in a modern airline were examined from all angles.

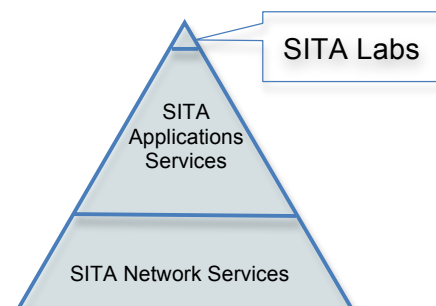
The Analysis

SITA has been around for a long time. In fact it is older than most of the airlines it now serves. As a result of that longevity it is often perceived as an anachronism in the modern world and many airline CIOs dismiss it as irrelevant to their needs. If SITA had not evolved over time they would be quite correct but in reality they may be missing a substantial trick.

The original purpose of SITA was to supply a dedicated communications network to the air transport industry and that is how many still see it – including some of its own sales and regional personnel. The reality is that since the sale of the physical network in 1998 SITA's role in communications has changed. It now assists airlines to source network services effectively – using commodity bandwidth wherever possible. The only substantial remnant of the dedicated network business is type B messaging and while this is still very important to many airlines and applications it is not where the future of the company lies.

Far more interesting is the growing role of SITA in applications and IT services. Since the 1970s it has provided a passenger service system that consistently scores ahead of the pack in surveys of functionality. Currently serving over 110 airlines boarding 110 million passengers per year the system will be further improved by the products of a \$120 million software development program that is currently under way. It also has operational systems such as flight planning and scheduling. Its joint venture with Cargolux has produced one of the small number of modern cargo management systems available to the industry and it is at the forefront of in-flight communications systems with its OnAir venture in partnership with Airbus.

Yet more interesting is the investment that SITA makes each year in truly cutting-edge technologies through SITA Labs. This is a small group, reporting to the Chief Technology Officer, that undertakes "blue sky" projects. Although its budget is relatively small SITA Labs is extremely agile and its projects are spared the burden of demonstrating immediate commercial payback in order to be approved. This allows it to work on speculative ventures that would be difficult to get approved elsewhere in the organisation but which have the potential to deliver disproportionate returns if successful. A recent example of such a project was the development and delivery of an i-Pad based kiosk for Malaysia Airlines that was delivered into airline service within weeks of the



initial idea. Next up is likely to be a booking capability embedded within Facebook that builds on the concept pioneered by Delta Air Lines but takes it to new levels of functionality and usability.

Today SITA Labs is also working on a system of tracking passengers through airports using the WiFi signals from their smart phones. This project is a partnership with Cisco, that promises to deliver data to airport and airline planners that will allow them to greatly improve the passenger flows through congested airport terminals. It also has the potential to allow airport retailers to better understand the behaviour of customers and ultimately to develop targeted offers delivered to the phone.

SITA Labs is an example of what SITA does best. It is a focused high-tech research group working on behalf of the whole airline industry to develop innovative ideas that will ultimately benefit many airlines. It spends a tiny amount of money and delivers ideas that will be commercialised by other parts of SITA, by partner companies and by the airlines themselves. It is hard to see how such a common good could be deployed anywhere else in the air transport industry.

The Speculation

With over 700 active scheduled airlines in the world the industry is ripe for consolidation. The same may be said of the subset of the Information Technology industry that specialises in supplying the airlines. At T2RL we know of more than thirty vendors with an airline PSS in their portfolios. Not all of them can possibly survive in the long term but we would make a case that SITA should be one of the ones that does.

As a commonly-owned resource SITA is in a position to blaze a trail for the entire industry and the success of projects coming out of SITA Labs is testimony to that. Bandwidth is more than ever a commodity and other suppliers could pick up the slack from the applications business. But there is no other organisation with the skills, backing and motivation to do the pioneering work of SITA Labs on behalf of the whole industry. If for no other reason the airlines should embrace SITA rather than turn away from it.