

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.

## Long-Awaited Move from American

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### The Facts

26 August 2009. AMR Corporation Signs Letter of Intent With H-P to Develop Next-Generation Passenger Service System.

### The Analysis

American Airlines has finally announced a commitment to an updated Passenger Services System (PSS) after an exhaustive (and exhausting) process that has lasted over six years and seen the airline in detailed discussions with at least three major vendors; Amadeus, Unisys and EDS.

At a conference call for the media held on August 26th, American's CIO, Monte Ford, managed to sound upbeat while giving remarkably little away about the new system that he had just committed to. There was no information about the technology platform or database that will be used. Equally there was no detail about who would actually operate the new system. The obvious answer would be for H-P subsidiary EDS to operate the system out of the Sabre data centre in Tulsa. EDS already runs the centre under an outsourcing contract that was renegotiated following Sabre's purchase by private equity firms Texas Pacific Group and Silverlake. But with Sabre the apparent loser in this announcement that might cause conflicts of interest that would need to be managed carefully.

There was little detail about the functionality of the new system and under questioning from the press Monte Ford could only offer the possibility of "horizontal communication" in the airport and improved presentation of information using visual and animated representations. The new system was described as "Customer Centric" in terms that sounded very much like a Unisys press release circa 1993. Also singled out was the ability to have role-based access to the new system for AA employees. Clearly useful but hardly a revolutionary advance.

No doubt more information will emerge as the project gets under way but in the meantime it is possible to assess some of the impact on the industry as a whole.

The biggest winner is the airline industry itself. In recent years Amadeus has won 100% of the top-tier airlines that have announced a change to their PSS provision. Monocultures are seldom good news and the entry of a serious competitor with deep pockets has the potential to significantly improve the landscape.

Hewlett-Packard has let itself in for a world of hurt that it can hardly even begin to imagine. Building an airline PSS is really difficult, as Amadeus has discovered over the last decade. American will be a very demanding customer and the airline industry is more complicated than anyone in Palo Alto yet understands. Having said that, it will be generating an annual revenue

stream of the order of \$100M. Airlines generally change PSS no more than once in a generation and if American stays with its new system as long as it has kept Sabre, that represents significant revenue over several decades. Even if its prices never increase over the period and no further sales are made that would be worth quite a lot of pain.

It is reasonable to expect that some of the development of the new system will be based on the Airline Services Oriented Architecture (SOA) on which EDS has been working since before its acquisition by H-P a year ago. That should help secure the position of EDS's existing airline hosting business, which provides service to Continental and a range of mid-size carriers both domestic and international.

The loss to Sabre is probably not as dramatic as it first appears. EDS is already the prime contractor in the provision of the existing Sabre PSS, with Sabre Airline Solutions subcontracting support of the applications software. The loss of revenue to Sabre will be moderate and in any case it will be spread over at least four years of development that Monte Ford says the new system will require. It doesn't need a very cynical view to note that no airline PSS development has ever been delivered on time. The chances are that Sabre will continue to have a revenue stream from the American PSS for an extended period.

Unisys is known to have proposed its AirCore PSS to American and the fact that it did not win the business surely means that the one remaining chance for AirCore is a sale to the Chinese carriers, directly or via TravelSky. Failing that it appears that the writing must be on the wall for AirCore and possibly for Unisys as a major supplier of airline systems.

Amadeus also pursued the American Airlines business and, if the travel schedules of its senior management are anything to go by, it invested substantial resources in its bid. The fact that it didn't win means that North America remains a virtual black hole for Amadeus's airline IT business. With an IPO in prospect some time in the next couple of years Amadeus's management and shareholders will be very concerned about the company's inability to penetrate what is still the single biggest market in the world.

## The Speculation

With so little concrete information the possibilities for speculation are almost endless. Amadeus must now be desperate for a North American customer for its Altea suite. Some lucky airline is likely to get a very good deal indeed.

That airline will probably not now be United according to reported comments by Amadeus CEO David Jones. United may decide to throw in its lot with Continental - an existing EDS, and therefore H-P customer - to join in the new development.

And finally, if H-P finds that the going gets really rough as it tries to deliver on its promises, help may well be at hand - and not so far away. The most experienced company in the airline IT industry knows American's needs inside and out. And it is already a key subcontractor to EDS in delivering the current solution. Step forward Sabre and complete the circle.