

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.

Not a Shining Star in Brussels

T2R Staff

The Facts

At the SITA IT Summit in Brussels on 23 June Jaan Albrecht, the CEO of Star Alliance Services, made a presentation calling for simplified IT services to assist airlines in their attempts to be profitable.

The Analysis

The presentation from the Star CEO was a very good example of much that is misunderstood about the use of information technology in the modern airline industry. Coming from such a senior executive it displayed a breathtaking naivety and lack of insight into the practice of IT professionals. At best it was insulting at worst it was ill-informed.

Mr Albrecht referred throughout his presentation to his two-year-old grandson who was his "IT consultant". This was apparently on the basis that the child had identified an iPad app that he wanted to use and that he had been able to download from the Apple AppStore at a cost of just a couple of dollars. Leaving aside the question of how the two year old had obtained the necessary credit card account this reveals a significant lack of understanding of the relative complexities of the airline product and a cartoon based game for toddlers. The presentation went on to suggest that since the AppStore was able to sell effectively to a two year old perhaps Steve Jobs should be asked to sell airline seats on behalf of all the airlines in the room.

There are two main problems with Jaan Albrecht's analysis:

- Airline applications are complex because the underlying business processes are complex.
- The charges that are levied in the AppStore make existing airline distribution costs look modest

Shopping and selling an app is a simple process. The product is completely defined and self-contained. There is probably only one version on sale at any one time and the price is relatively small and fixed. The AppStore neither knows nor cares about the identity of the purchaser save that s/he has the ability to pay. As a result the technology around selling that app may be simple too. There are straightforward search and browse functions to produce unambiguous results and a standard payment/download cycle that applies to all products.

By contrast selling airline services is immensely complex. Airlines operate schedules that don't cover the whole globe so they must offer their products in conjunction with other carriers. These may be done as interline, code share or joint operations. They have complex products with up to four distinct cabin classes on board and many more selling classes dictated by revenue management considerations. They run frequent flyer programs that may

entitle members to access availability that is not there for the general public. They need to collect extensive data on the passengers both for their internal use and for mandatory supply to regulatory agencies. They want to offer a range of unbundled services and ancillary products as part of the selling process. The list goes on and on.

None of this complexity was the idea of the IT department. Every single aspect of the convoluted nature of the airline distribution process is a business requirement, introduced by business managers like Mr Albrecht. CIOs and their staffs do a professional job with limited resources to keep pace with the waves of new complexity introduced by the business. The fact that they do so with a budget of less than 2% of revenue is little short of miraculous.

Which brings us to the second point. Vendors of apps in the Apple AppStore pay Steve Jobs and company 30% of their revenue on all sales. Magazine publishers who sell subscriptions via the AppStore pay 30% of revenue from the subscription in perpetuity. Even if selling via Apple could replace the entirety of the airline IT provision – which it most certainly could not - this would still look like a spectacularly stupid thing to do.

Mr Albrecht clearly believed that he was playing to his audience with his home-spun chat about his grandson. However, to the informed, he was actually displaying a lack of understanding of the realities of modern commerce that is all too common in senior managers of his generation. In our view, he has a duty to be rational and cogent, not to perpetuate misinformation and misunderstanding with respect to Airline IT.

The Speculation

There is no question that the airline industry wants to appear simpler to its customers. IATA's "Simplifying the Business" (StB) program is claimed as a great success with savings of \$18Bn per year across the industry, mostly from the introduction of universal e-Ticketing. On the other hand it is constantly developing yet more complex rules and processes in an attempt to improve revenues. StB introduced enormous new complexity into the back-office systems needed to support the simplified customer-facing processes not to mention generating hundreds of millions for the GDSs in e-ticketing fees.

The only rational way to address the situation is to have much greater involvement of IT when initiatives are being planned rather than having them "thrown over the wall" when all the business decisions are already set in stone.

This means not only that the CIO should be a member of the top decision making team in the airline but that all members of that team should be well educated and aware of the IT implications of any decision and the market place in which IT vendors operate.

Airlines and airline alliances that follow that course of action in future will avoid making incredibly naïve and more likely very insulting presentations to international conference delegates. They will also be more successful businesses.