

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.

## 2012 Brings Significant Changes in the PSS Market

T2R Staff

### The Facts

Over the weekend of March 3rd 2012 United Airlines moved its commercial IT provision away from Apollo after a more than 40-year relationship with the system it created in the 1960s. United carried 127 times as many passengers in 2010 as Cape Air but the small Massachusetts-based carrier implemented a new PSS the previous weekend and its move may yet turn out to be just as significant.

### The Analysis

The first quarter of 2012 is turning out to be very interesting in the PSS business. United and Cape Air were not the only airlines to move. Cathay Pacific also cut over to Amadeus Altea for reservations and inventory control with scarcely a murmur in the press. As always there were challenges but the contrast with previous problematic system changes is a testament to the mature project management approach of the Hong Kong airline and Amadeus, the very adequate time allowed for the project and the advanced migration tools and processes that Amadeus has developed in its dealings with the world's tier one airlines over the last decade. Singapore Airlines is also slated to move to Amadeus in Q2 this year.

Things appear to be running less smoothly for Hewlett-Packard and American Airlines. The project to build a totally new PSS for American that was announced to great fanfare in 2009 is widely reported to have run into a number of difficulties.

Soon after the 2009 announcement, came the news that American would not actually be relying on HP for some of the key functionality of its Jetstream system. ITA Software would be providing a comprehensive "availability engine" to manage the critical inventory and revenue management aspects of the new environment, sending availability to and from distributors and managing the selling process. Nevertheless HP would be providing the rest of the customer-centric functionality envisaged in its Agilaire product range. In November last year American filed for Chapter 11 bankruptcy protection and an immediate consequence was the departure of CIO Monte Ford, believed by many to be the main architect of the Hewlett-Packard deal. Various reports suggested that HP had reduced the size of its team working on Agilaire and in February 2012 an industry blog reported that the project was dead. American Airlines has denied that the Jetstream project is over but pointedly failed to confirm that Hewlett-Packard was still the key supplier.

Meanwhile, the newly merged and distinctly non-bankrupt United Airlines had made the strategic decision to consolidate its IT systems on those of Continental Airlines rather than continuing with Apollo. Apollo was developed by United in the 1960s but was hived off to an IT services company called Covia in 1986. Covia was subsequently merged with Galileo to form Galileo International in 1992 and is now part of Travelport. Like all the other major airline systems Apollo has been updated and modernised over the years but at its heart it is

still running on IBM mainframe computers and using the TPF operating system. The merger with Continental provided an ideal opportunity to establish the world's largest airline on a new technology platform provided by Continental's long-term IT partner HP.<sup>1</sup> Except that is not what has happened. United did not choose to go with the new generation Agilaire solution but rather merged with Continental in the SHARES system - a TPF Mainframe solution that is only a couple of years younger than Apollo. This was no doubt for very good pragmatic reasons. The new United needed to merge its databases sooner rather than later and there was no chance of a mature Agilaire solution being ready in any reasonable time scale. But at least HP has signalled its intentions to invest in a new generation of systems for the industry. Assuming that Agilaire does eventually emerge and has all the capabilities that are claimed United will be better placed to exploit it as a SHARES customer than it ever could have been with Apollo as its starting point.

Meanwhile, ITA Software, having been acquired by Google, has been quietly getting on with implementing its own PSS solution. This system was originally commissioned by Air Canada but failed to achieve production capability and the Canadian airline cancelled its involvement in August 2009. When ITA became part of Google many people assumed that the PSS project would be quietly dropped - or possibly even sold off, with HP a potential buyer. It is now clear that this was not the plan and the announcement from Cape Air that it has implemented the ITA system and moved away from Sabre is potentially the most interesting of all the PSS stories in this very dynamic first quarter. ITA really has built a system on a modern technology base. There are no IBM mainframes in its Cambridge, MA headquarters. And what's more Cape Air is just around the corner, carries fewer than a million passengers per year and operates a simple business model. In short an ideal launch customer.

## The Speculation

T2RL believes that the market can not support the current large number of players for airline PSS and if Google/ITA is really serious - which it appears to be - there is now one more. There must be scope for consolidation.

Amadeus isn't going anywhere. It has sealed up market dominance in the top tier of airlines outside the USA for the next couple of decades. Its home-grown technology does not have any significant gaps and it is not an acquisition target for any of its industry rivals. Air France/KLM will make some 460 Million Euros from the sale of 7.5% of Amadeus and still retain a 7% share along with IAG and Lufthansa.

With the United consolidation HP remains a major player in North America. One of the possible bankruptcy exit strategies for AA is some sort of merger with US Airways. If that were to happen the combined entity would be a natural HP customer as US Airways is already on SHARES. The problem for HP is that it does not have a full set of new technology solutions. The recent deal with Unisys to access the AirCore product (See FirstView:Agilaire Equals Aircore Plus, 7 December 2011) may solve some of that problem but there are still likely to be gaps that it could seek to fill by acquisition.

Navitaire is losing ground rapidly. Low-cost airlines adding complexity to their businesses find that its functionality cannot support their evolution. The main beneficiary of this trend has been Sabre, which has achieved its aim of becoming system of choice for hybrid carriers. Accenture would surely be open to offers and with Sabre's Private Equity owners also

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<sup>1</sup> Continental Airlines has had a decades-long collaboration with EDS. That company was acquired by HP in 2006 to form the core of Hewlett-Packard Enterprise Services.

looking for an exit, what price would HP pay for a buy-out of both Navitaire and Sabre Airline Solutions making for a true competitor to Amadeus?