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Royal Jordanian Selects Amadeus at the Second Attempt

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The Facts

On the 21st of October 2009 Amadeus announced that it had concluded a 10 year agreement to supply its Altea passenger services suite to Royal Jordanian. Migration is due to commence in October 2010.

Analysis

Yet another win for Amadeus among the major network airlines. In a 10 year deal worth around €20 Million (more if RJ elects to take Amadeus's e-commerce solutions), Royal Jordanian joins Saudia as a middle eastern flag carrier that has selected Altea. It is also falling into line with the majority of its **oneworld** alliance partners. So far, so routine, but there are a number of interesting aspects to this deal that bear further consideration.

Royal Jordanian put its PSS business out to RFP in 2005. At that time it was already committed to joining **oneworld** and its incumbent supplier, SITA, undertook to manage the systems integration work necessary for the accession to the alliance. The accession was carried out without a hitch as far as external observers could determine. As a result Amadeus will have been unable to charge any kind of premium for the effort involved in **oneworld** integration.

On the other hand Amadeus's standard pricing is substantially higher than SITA's and it is likely that Royal Jordanian will be paying significantly more in headline charges per passenger boarded than they do under the contract with SITA. The normal way that some of this extra cost may be offset is in the arrangements for travel agency distribution. Amadeus's status as one of the major GDS companies can be very helpful in enabling it to sweeten the deal for airlines that have a significant influence on travel agencies in their home market. However this appears not to be the case in Jordan. The airline has already announced a renewal of its agreement with Galileo (part of Travelport) to jointly operate the Galileo National Distribution Company serving the Jordanian travel agency community.

A further cost of the deal involves the period between now and cutover to Amadeus in October 2010. When RJ agreed to extend its contract with SITA in 2005 the deal was for only three years. Assuming the contract between the two parties is reasonably standard it will contain provision for year-by-year extensions. However SITA will not be constrained to maintain the current pricing for the period running up to the migration and will have little incentive to do so. As an airline community-owned enterprise SITA is unlikely to demand punitive pricing for its

services during the coming year but neither is it likely to take an overly charitable view. SITA will probably seek to increase its prices to a level broadly in line with those of Amadeus. In effect RJ will be paying the price of the new service a year before it starts to see any incremental benefit from the Amadeus solution.

Which naturally raises the question of what benefits will accrue to Royal Jordanian from its new technology supplier? The most significant one from the Amadeus Reservations platform has traditionally been sharing the database with the majority of travel agents in the airline's home market. This benefit has already been foregone by the renewal of the Galileo deal. Possibly Amadeus is the dominant GDS in RJ's key overseas markets but this is typically has a much smaller value. Altea inventory is probably the most sophisticated product of its kind in the market. If RJ has established the internal processes and capabilities needed to fully exploit it these could be worth a measurable improvement in yield and hence revenue. Altea DCS is a hugely complex system with enormous capability to enhance the customer service provided by Royal Jordanian but to enjoy the benefits will require substantial investment in business process re-engineering and staff training. Overall we believe that the implementation of the new technology only makes sense if the airline is planning similar steps forward in its processes and capabilities.

The Speculation

RJ is a traditional flag carrier from a small country. In recent years it has been very well managed by the team under CEO Samer Majali who has now moved on to a much bigger challenge at Gulf Air. Majali had a reputation as a pragmatic manager who understood that the SITA solution provided Royal Jordanian with the functionality it needed in a manner that the airline could consume within its existing resources. New CEO Hussein Dabbas, who has stepped up from the Sales and Marketing function, is clearly ambitious to move RJ up the pecking order of the world's airlines and sees Amadeus as a vital tool in achieving that ambition.

To an extent this may be seen as a gamble because if the airline is unable to make the necessary process changes to exploit the capabilities that Altea will bring it will find itself paying more for its IT without the benefits it expects. Depending on the capabilities of the RJ negotiators this might possibly have been offset by concessions on Amadeus booking fees in its non-home markets but details of any such deal would be regarded as highly confidential by both parties.