

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.

Amadeus Extends its Reach

T2R Staff

The Facts

In a repeat of history, British Airways has been announced as the launch customer for Amadeus's new Revenue Accounts solution. In 1999 the UK flag-carrier, along with Qantas, was the launch customer for the Altea passenger services system, which has gone on to dominate the market for top-tier airlines.

The Analysis

After infrastructure and the PSS application portfolio, Revenue Accounts is the next largest cost item in a traditional passenger airline's IT budget. Many airlines also choose to add business process outsourcing to reduce personnel commitments. T2RL estimates the annual market for revenue accounts technology solutions to be in excess of \$250 million. This is a long way behind passenger services systems that are collectively worth around \$2 billion but nevertheless represents an attractive sector to a company seeking to broaden its product portfolio.

Historically revenue accounts processing was concerned with the reconciliation of flown passenger coupons with sales by travel agencies and the settlement of interline billing between network airlines. Applications were developed by specialist technology providers. In the days of paper ticketing airlines were required to retain the coupons taken from passengers as they boarded flights and enter the data contained within them to a computer system for processing. This labour-intensive task was often outsourced to companies in low-cost locations such as India or Latin America.

With the switch to 100% electronic ticketing in 2008 the emphasis has changed. Ticket data is available much more rapidly and systems that worked with samples of data have been replaced by those that work with fully comprehensive information. Revenue Accounts systems are now strategic information management resources.

One view of the revenue accounts function is that it reverse engineers the fare quote system that airlines and travel agencies use to determine how much to charge customers for each booking they make. As well as fares themselves it must take into account the complex taxation that may be applied to air travel by multiple national authorities. Increasingly it must also manage the various charges for ancillary services that airlines are now applying. For this reason IATA has developed the standard for the EMD (Electronic Miscellaneous Document) as a vehicle by which these charges may be tracked across travel agencies and airlines. As the supplier of one of the world's major fare quote systems Amadeus is well placed to also manage its reverse-engineering in the form of a modern Revenue Accounts system.

T2RL believes that Amadeus has been working on the new system for more than two years and that over 150 man-years of development effort have gone into it with a total investment

of somewhere between 15 and 20 million Euros. As is usual for Amadeus it chose to build the new system from the ground up rather than buying an existing product as a starting point. Amadeus started at a major advantage over many competitors in that it has both the data and the fare construction logic in its existing systems.

It launches a service into a competitive environment that is rather fragmented. Many large airlines - including British Airways - are still using systems developed in-house. The market leaders for packaged solutions are Lufthansa Systems (tightly coupled to SAP), Mercator's Rapid, Indra's Ceicom, Navitaire, SITA and Kale Consultants (now Accelya Kale Solutions). Other than LH Systems, that has the business of its parent airline, none of these has a market share exceeding 10%. There is certainly an opportunity for a strong new player to enter the market and establish itself. Given its success in cornering the PSS market for top-tier airlines there is no doubt that Amadeus is a strong player.

The Speculation

Just as it has done with PSS Amadeus will concentrate on the world's largest airlines in marketing its Revenue Accounts solution. It will charge a premium price for a service that is technologically advanced, it will capture much of the market that is now serviced by in-house solutions and of course the new product will be a natural fit for its PSS customers.

Emirates is in the market for a PSS solution or extended capability for its own MARS platform. Amadeus may be a willing buyer for the Mercator Revenue Accounting business although the value will be a lot lower now that BA and Amadeus have made their announcement.

In the longer term there is scope for significant evolution in the business process around payment and settlement in the airline industry. The current model where booking, payment and settlement are managed by separate and unconnected systems is distinctly anachronistic in a connected e-commerce world. By combining Inventory, Revenue Management and Revenue Accounts, Amadeus has the opportunity to transform the business process into one that looks much more like a modern retailer. Pro-rates may be done at the time of sale and interline settlement done in real time. Airline managers may not only have much better information on their revenues but actually see the cash flow associated with them accelerated beyond all recognition.

In the medium term Amadeus will enhance its business to a useful extent. In the long term it may transform the business of running an airline.