

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 Talks Turkish

T2RL Staff

### The Facts

On April 8, 2013 Amadeus announced the purchase of the Hitit loyalty application from Hitit Computer Services based in Turkey. Launched in 2005 by Virgin Australia, Hitit's loyalty system Crane FF has grown to support significant airlines such as Turkish Airlines, Saudia and Etihad.

### The Analysis

Amadeus has traditionally chosen to develop products for airline IT in-house. With some 5,000 full time equivalents working in product definition and development based in France, UK and more recently India, there has been no shortage of resources for such activity.

It is T2RL's view that Amadeus could have purchased the two most likely disruptive competitive providers - ITA Software and PROS - some years ago. These purchases would have been at a significant discount to the transaction price and current valuation. However, Amadeus chose to develop its own products for shopping and pricing, inventory control and revenue management.

We believe that the Hitit acquisition is a seed-change in Amadeus' strategy and directly reflects the leadership of the CEO Luis Maroto, Senior VP Airline IT, Julia Sattel and the new Executive Vice-President of R&D, Hervé Couturier. Couturier replaced Jean-Paul Hamon following his retirement in 2012. Whilst some industry observers and even Amadeus's own people may have considered the Amadeus's development organization as arrogant and out of touch with customers, T2RL saw its fastidious stewardship of the products as one of Amadeus' key strengths at the time. Software development with airline partners is notoriously challenging. A strong development organisation was able to manage the inherent conflicts between airline marketing, revenue management and inventory control and business strategy. Amadeus understood this better than most given the company was originally formed by competing airlines, Iberia, Air France, Lufthansa and SAS.

The failures of ITA Software with Air Canada, Travelport/IBS with Westjet and Virgin and Hewlett-Packard with American Airlines are a testimony to the complexity associated in producing viable, marketable solutions for airlines.

Loyalty and CRM are critical to a customer-centric strategy - a core tenet of the Amadeus PSS message. Amadeus's purchase is therefore pragmatic and intelligent. The Hitit acquisition also gives Amadeus a share of the total pie for Virgin Australia and Etihad, recent PSS wins and migrations for Sabre. Perhaps even more important is the foot hold it gives Amadeus in Turkey and a closer relationship with Turkish Airlines, one of the biggest potential prizes in the core Altéa PSS business.

Amadeus will continue to push and develop its portfolio of services to compete more effectively against its key competitor Sabre. Fully integrated solutions will be sold at a premium that reflects the value proposition and costs associated with the airline managing best of breed applications.

## The Speculation

In an open letter published on its website The CEO of Hitit Computer Systems announced the acquisition with “mixed feelings” whilst trying to instill confidence that Hitit would continue to support the evolution of its PSS to existing customers with loyalty solutions integrated as part of the offering. As Crane FF is the only Hitit product that has achieved significant penetration outside the Turkish market its disposal suggests that the company has either given up its international ambitions or was under considerable financial duress that forced the sale.

T2RL’s view is that the Crane PSS does not compete with Amadeus’ Altea. It addresses a completely different market segment. In the past Amadeus has always been unable and unwilling to support smaller carriers. Despite having developed a configurable system implementation is complex and expensive. T2RL’s research suggests that there are some 586 tier 4 airlines<sup>1</sup> accounting for around 319 million passengers boarded in 2012. In the longer term Amadeus may seek to chase this market with a less complex product offering allowing smaller airlines to mature into the Altea suite as they grow sustainably. Hitit’s Crane PSS might be the ideal partner so T2RL would expect the agreement to cater for this option at some point in the future.

With the acquisition of Hitit Amadeus really has taken a step closer to Turkish Airlines, one of the last remaining jewels available in the in-house systems crown. Amadeus will now have a Turkish speaking team in Turkey. Amadeus will see a local development and support organisation as a solid advantage with some of the key stakeholders that would make the decision to outsource Turkish’s PSS. With Emirates close to either an Amadeus or Sabre decision that really only leaves Air Canada and Air New Zealand as the last airlines standing. Most of the other in-house system operators are contracted or contracting with a third-party provider.

T2RL see frequent flier application pricing moving away from records processed or active participants to passengers boarded. The scope of loyalty is rapidly extending to all passengers as customer relationship management (CRM) becomes a reality.

Airlines will be willing to pay more for better integration and insight. T2RL believes that Amadeus will be able to charge a significant premium over Hitit’s existing pricing when the product becomes fully integrated. This is slated for 2015.

---

<sup>1</sup> A tier 4 airline is defined as one boarding fewer than 3 million annual passengers