TRAVEL TECHNOLOGY RESEARCH
FIRST VIEW

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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.

# Rising PSS Implementation Fees Will Slow Market Changes

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## The Facts

T2RL's latest research suggests that vendor charged PSS implementation costs have been rising steadily over the last 10 years, although a true like for like comparison is difficult given that additional functionality is being added over time.

Not unreasonably revenue passenger boarded (RPB) fees continue to rise as vendors add new functionality to their PSS solution sets. New functionality that has contributed to the increased fees includes automated refund and exchange, advanced revenue management such as journey control logic, calendar shopping, irregular operations and electronic miscellaneous documents together with more and more advanced border controls.

Perhaps disappointing, but no surprise for airlines is that only a proportion of the total cost is subject to Moore's law with development costs dominating the suppliers economics. Market forces, or rather a lack of them mean there are limited incentives to pass on savings in processing costs to the airlines.

## The Analysis

Rational management teams require a business case to justify the move from one PSS solution to a replacement solution.

Clearly a business case for a move from an in-house solution to an external market based provider will be quite different to the business case for a switch from one provider to another. The total cost of ownership of an in-house solution is usually more challenging given the unpredictable pace of changing requirements and approaches to development.

Business cases can be challenging to quantify in terms of customer service, especially where airlines operate in highly competitive markets and the opportunity to charge a premium for better service is subject to market forces.

Traditional benefits such as channel shift are also subject to significant scrutiny as consumers now expect the lowest prices in the market in the direct channels although merchandising offers an opportunity to recover additional revenue through flight and non-flight ancillary revenues. In addition smaller and medium sized airlines are generally more constrained by their distribution (GDS) agreements preventing price being used as the incentive to drive adoption. Of course the direct channel is also subject to aggressive competition from the likes of Expedia, Priceline, Orbitz, Opodo and others.

Other benefits associated with the reduction in overhead costs as passengers move to self service for example web or mobile check-in does bring tangible benefits but business model, user experience and marketing communication can dramatically effect conversion rates.

Schedule and inventory synchronisation with partner carriers especially for code-sharing and interlining might be very valuable to an airline joining an alliance, but the reality is all of the PSS provider support IATA's codeshare options 1-4 and most have the ability to take control of electronic tickets for passenger acceptance. EMDs as a means to account for ancillaries are not a requirement for the direct channel although separate processes can lead to additional back office costs. They become essential for any indirect distribution.

Professional services organisations can easily justify their cost in terms of activity and management overhead and there is no doubt that there is a significant amount of activity to migrate from one PSS provider to another. In the drive to professionalise the PSS vendors business have noted that the implementation work is both valuable and challenging and airlines are willing to pay and they are usually the people best placed to deploy their own system.

This move to add professional services usually measured on the basis of billing and utilisation renders the implementation more costly. There are limited incentives, other than competitive dynamics for the vendors to undertake the migrations in an ultra-efficient manner and the airline is left to manage this in the context of their own resources. By placing more people on the ground the airline is almost forced to match the resourcing from the vendor.

This makes implementation far more costly and ultimately attacks the business case for transition from one provider to another. Even those system providers than can implement efficiently have limited incentive to do so and will push pricing through additional resources to ensure billing of their professional services teams.

Ultimately the airline is faced with significant implementation costs and this reduces the risk adjusted benefits associated with the move from one system to another. This gives those vendors more time to develop the gaps and the benefits case is eroded further.

## The Speculation

PSS vendors that understand the current market dynamics in play will slow the focus on consulting and professional services as this is likely to be detrimental to the success of their valuable PSS application services business. Implementation fees will stabilise or possibly reduce in the shorter term and development efforts will focus on tools for efficient and rapid deployment driving vendor profitability and reducing headcount.

More advanced PSS vendors will look to contract to business outcomes and business benefits and ensure that the business case is delivered, much like any IT or business team would do if they were airline staff. Airlines will look at measuring and managing the benefits which must become part and parcel of the PSS contracting process.

Traditional RPB or PB pricing will remain but potentially with a layer of benefit upside sharing as the incentive for performance. Downside will have consequences for both airlines and their contracted providers.