

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.

## Emirates PSS Decision Imminent

T2RL Staff

### The Facts

Emirates hired the ex Chief Commercial Officer of Amadeus, Philippe Chérèque to manage a competitive tender for a passenger servicing solution (PSS) for Emirates. This work followed on from support provided for the negotiation of Emirate's GDS agreements. Emirates down-selected Amadeus and Sabre. Other solutions considered in early rounds included SITA, HP and ITA Software by Google.

To date there has been no announcement of a winner despite considerable time and effort expended on the process.

### The Analysis

Whilst most network carriers can and will rely on the market to supply services for PSS, Emirates is one of the carriers that does not follow the pack. The current aircraft deliveries will ensure significant increases in passengers boarded for many years to come.

T2RL believe that Emirates will have considered the market solutions before settling on an Amadeus vs. Sabre final. Best practice procurement requires at least two suppliers to remain engaged to ensure that competitive pressure is applied to the end of the selection process. Amadeus and Sabre are the two dominant players for the supply of PSS and have some 40% global market share between them by passengers boarded with 22% and 18% respectively.

Philippe Chérèque spent the majority of his career in Amadeus. His considerable experience was built on roles in product definition and product management, corporate strategy and commercial management for both the GDS and PSS. He can be considered to be one of the founders of the Amadeus system and indeed the management team. In June 2013 Emirates promoted Thierry Antinori to Executive Vice President and Chief Commercial Officer. Antinori and Chérèque are not strangers. Antinori has had first hand of working with Amadeus given his senior commercial positions in both Air France and Lufthansa.

However T2RL's view is that the combination of Antinori and Chérèque would have placed Amadeus as the clear favourite to win the Emirates business. This view was shared by others and could have damaged the competitive tender process and outcome. T2RL do not believe the two men would have been acting irrationally with respect to Amadeus. On the contrary both men have in-depth and intimate knowledge of Amadeus including their key weaknesses.

T2RL also saw the eventual winner of the PSS deal as the most likely buyer for Mercator and as a source of subsidy for the PSS agreement. Mercator's products for revenue accounting and cargo are popular and widely used by other airlines. Mercator's PSS business supports a range of smaller carriers, such as Arik Air. These carriers have helped spread the cost of infrastructure and support and reduce Emirates unit costs for technology, although they could be considered as a distraction from the core Emirates business.

T2RL believe that Emirates faced two major functional challenges that would have been addressed at least in part by the PSS deal. The primary functional challenge came from providing a scalable and cost efficient priced availability solution for direct channels integrated with complex inventory rule management for O&D in indirect sales channels. The secondary challenge comes from the requirement to support large scale complex airport operations and particularly a fully automated re-accommodation and irregular operations solution.

Given the delay in timing on the decision T2RL believe that both functions are potentially addressable with technologies supplied by the market today making the decision for Emirates management even more difficult.

The first comes with the possible deployment of PROS Real-Time Dynamic Pricing (RTDP) which solves part of the problem relating to processing costs associated with application of complex inventory rules and “failed sales” in the indirect channels. Combining RTDP with cost effective e-commerce and merchandising solutions in the market place from vendors such as Datalex and or Farelogix, Mercator could deliver Emirates support for complex calendar shopping and ancillary sales without driving excessive availability transactions through their legacy system or costly reliance on Travelport’s pricing engine.

The second major functional requirement is delivered by HP and their modern and exciting re-accommodation and irregular operations (IROP) capability together with an “almost out of the box” integration layer, AirSOA. HP also have a pricing engine should Travelport’s agreement to continue be unfavourable.

Finally the industry approach to merchandising and marketing under NDC creates additional uncertainty with respect to technology and infrastructure.

Given there are market based solutions for inventory management and IROPs then it would highly likely that management would be under less pressure from the business to make the decision on PSS. Whilst the solutions may cover the short to medium term Emirates and Mercator will still need to consider the longer-term implications of replacing and retiring the core legacy systems with new generation technology. Amadeus had planned to decommission TPF in 2013, but this project will take some significant additional time.

## The Speculation

By further extending the life of the current Mercator platform through collaboration with PROS and HP, Emirates could collaborate with those such as HP, Travelsky or indeed the US carriers with HP’s support to build or support the next generation inventory and revenue management capability that integrates the merchandising component underpinned by IATA’s NDC. Emirates have both the business knowledge and some significant technology and integration skill to support such activity.

Of course, if nothing else then the delay in the decision will apply more commercial pressure on Amadeus to reduce the price further making the Emirates deal even more competitive.