

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 Deferred

T2RL Staff

The Facts

T2RL previously reported that there was no announcement for Amadeus as the chosen PSS at Emirates. See *Emirates PSS Decision Imminent 1st. November 2013*. As of today's date there is still no announcement and clearly no decision has been taken by management to move to Amadeus despite considerable investment in the procurement process.

The Analysis

Emirates have been in control of their own destiny with respect to PSS for many years. The airline has developed considerable in-house systems talent with some 1,400 staff under the leadership of those such as the Vice President for PSS and Passenger Experience, Rob Broere and the Divisional Senior Vice President IT of the Emirates Group, Patrick Naef.

Emirates independence from the key PSS vendors has obviously brought some advantages and disadvantages. Emirates are still dependent on Travelport for the provision of some pricing services for their growing direct channels. T2RL believe that Travelport would have recognised the threat from Amadeus and would have worked hard to ensure they do not provide a reason for the move. Travelport's pricing solution is compliant with industry standards for fares and tax processing.

Implementing the agreement with Qantas would have been a challenge for the Emirates IT team. However they completed the necessary work to interface with Qantas' own IT provider Amadeus quickly and efficiently. The synchronisation of the airline's schedules, bookings, tickets and inventory for accurate representation in all channels and the application and management of more complex inventory controls would have required extensive development and more importantly testing cycles. Qantas would have been relying on Amadeus for this work which would have created it's own challenges, especially with Amadeus bidding for the Emirates PSS business. With the Qantas integration completed there are fewer arguments for a move to a community platform. Emirates IT team have showed they can deliver on a business critical set of functions quickly and efficiently. Ultimately, Emirates' management are likely to be more concerned about Qantas' financial health at this time.

T2RL's view is that there are market solutions from those such as PROS and HP that could extend the life of the core Emirates MARS and MACS platforms. Re-engineering those platforms will be required in the longer term but there are partners waiting in the wings to support Emirates and share this investment. Whilst T2RL still do not see Mercator as a true long-term competitor to Amadeus' PSS solutions, Emirates' recent aircraft purchases and commitments are very likely to push volumes of passengers well beyond 100 million in the longer term. This makes self-sufficiency and isolation from a revenue passenger boarded charging mechanism more attractive.

Coupled with the industry moves towards merchandising in all channels and in particular the IATA NDC initiatives, Emirates Airline President, Tim Clark is now in a difficult position with respect to a decision on Amadeus. Clark would undoubtedly be reassured if he could guarantee and of course Amadeus could warrant there would be no interference technically or commercially with distribution and he would achieve both better economics and service in the longer term than he can get from his own team. Given the wafer thin operating profit margins at 3.9% for 2012/3 and competition time to benefits matters and reliance on a third-party with respect to priorities could slow benefit realisation.

There is no doubt that Thierry Antinori would argue that this was the very reason for hiring Philippe Chérèque, Amadeus' own ex-CCO and head of strategy. But both Antinori and Chérèque would understand that Amadeus would find it very difficult to better offers made to larger carriers including previous and current shareholders. Especially where those carriers would be facing stiff competition in long-haul connecting markets from Emirates. By giving Emirates a long-term sustainable competitive advantage in both technology solutions and GDS distribution supply they would be setting the stage for seriously challenging future negotiations and relationships. T2RL's view is that by doing so Amadeus would then create latent demand for solutions that would accelerate solutions from HP with Air SOA as a best of breed integration and contracting platform for others like PROS, Datalex, Farelogix and OpenJaw.

T2RL's view is that whilst Sabre can and will continue to compete with Amadeus for the majority of the market the most likely competitor for much larger carriers will be a solution set that comes from a group of providers working together under a single contract structure for the airline. This would ensure the airline has all of the necessary functionality and limited solution overlap avoiding waste and an unsustainable cost base driven by integration overheads. T2RL believe HP are the current natural integrator and solution architect for larger carriers given their core PSS competence and SITA as possible solution for smaller carriers where implementation costs remain prohibitive for Amadeus and Sabre. IBM and Oracle will seek to challenge with their integration solutions.

The Speculation

The Emirates process can not yet be described as a failure, but good decision making in most modern airlines requires consensus from the key stakeholders. This is clearly not yet the case for Emirates.

Emirates unique insight into the legacy systems makes the IT team highly qualified to understand what a good solution sets looks like and any process that would have excluded or conflicted these people from the decision making process would have fallen short of the mark for achieving consensus of the well informed. T2RL's view is that these people would have been best placed to know just how good Amadeus really are at their job.

Rarely can an individual airline make a market, especially in the provision of services for technology and distribution. American Airlines tried with HP but they had already outsourced much of the knowledge and skill to be able to pull off such a deal. Emirates is a market maker and any decision will be an important market signal for other carriers and investors. Currently T2RL see Mr. Clark as remaining unconvinced and it may just be that the decision to move to Amadeus will be taken by the next President of Emirates.