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Emirates Breaks with the PSS Market Trend. First or Last?

T2RL Staff

The Facts

T2RL has previously reported twice that there was no announcement for Amadeus as the chosen PSS provider at Emirates. See *Emirates PSS Decision Imminent 1st November 2013* and *Emirates PSS Decision Deferred 30th December 2013*. Emirates has finally made the decision not to proceed to contract with Amadeus.

The Analysis

The decision to work out the PSS supply strategy without Amadeus's solution is a vote of confidence for both the IT and the commercial leadership team at Emirates. The battle for the provision of a solution was a long and expensive one for all concerned but ultimately the outcome is the one that senior management believes is the best for the airline.

There will now be considerable pressure on IT to continue to deliver on the key business requirements and there will be gaps associated with supporting significant increases in availability transactions and irregular operations. T2RL has stated previously that it believes that PROS and HP respectively could help fill those gaps.

Many will interpret this decision as a blow to Amadeus's longer-term ambitions. T2RL sees that conclusion as premature and more likely wishful thinking. The two GDS/PSS providers Amadeus and Sabre have an almost insurmountable market and margin position that generates this envy. Amadeus has significant implementations underway and will reach close to 1/3rd of the global market by passengers boarded - with significantly higher revenue share. Sabre will lose Southwest but gain Air Berlin and potentially others as its Etihad-backed strategy plays out on the global market.

However, T2RL does believe that this is a direct blow to current marketing automation structures. Network carriers are not hampered by technology as much as they are managing legacy business process complexity in their commercial operations. Interlining and codesharing, fares management and distribution together with availability processing and management are the fundamentals of the network airline. The network is ultimately the passenger value proposition and therefore marketing automation structures are by default driven by the demands of the network carriers. By breaking the mould, Emirates is in a position to explore opportunities to change the fundamental structures used today. T2RL sees ticketing and all of its complexity as a prime target. Complexity is the enemy of the industry and a transformation in process and technology is critical to its longer-term success.

If Emirates is successful then it's just possible others will follow. Delta Air Lines recently announced that it will bring back in-house the intellectual property and development capability associated with its own PSS. This has been run by Travelport and its predecessor company Worldspan for many years. Delta's move is a further sign that the industry is primed for significant changes.

Waiting for these structural changes to occur will be a luxury that few airlines can afford. T2RL sees this as a window of opportunity for Amadeus and Sabre to become much more active in selling and marketing to smaller carriers. The battleground has moved on. Smaller airlines can expect to be of interest to the giants of the industry as availability management is the one thing the PSS/GDS providers must have for the future. This will be challenging for Sabre given its technology and architecture. Amadeus will be faced with less difficult, but still challenging, organisational issues.

The bottom line is that Emirates wants to be different because it is different. Setting a path away from the market place is counter to the recent trend for market-based solutions. It is driven by the belief that today's structures are out-dated and need refreshing. Technology offers airlines many opportunities and Emirates is charting its own course for now. This initiative will keep it busy for some time to come. Where Emirates leads others may eventually follow. The definitive next generation solution is unlikely to come from any one vendor but from a mix of vendor products and in-house skills working together through modern APIs and architectures.

The Speculation

Emirates could be considered as the World's largest low-cost long haul carrier, relative to the revenue that it generates on a per passenger basis. It will deliver systems to its own requirements but this will not be enough on its own to tip the market away from the hosted vendors. Smaller vendors will continue squabble over position and Amadeus and Sabre will exploit this, along with their GDS incentives, to ensure that their share of the market continues to grow.

Both the leading vendors built their systems over an extended period. While the Sabre hosted solution grew organically out of the American Airlines system Amadeus' IT solution was built deliberately with customers in mind around the system user concept. Its architects and developers had a sense of duty to both customer airlines and their own shareholders. A key design goal was to protect the network carrier value proposition, and probably the marketing automation structures critical to the GDS business. The recent dominance of Amadeus in the large airline segment has led many to believe that it has achieved unbeatable market power. Any supplier that finds itself in such a dominant position may lose sight of the need to align its products to the requirements of its customers and seek to drive revenue at all cost. If Amadeus succumbs to this kind of hubris and its IT solutions are no longer aligned to its customers' business it will open the door to a new generation of insourced smart solutions of the kind to which Emirates is now committed.