

AMADEUS – OPTYM PARTNERSHIP

First View: Rapid analysis of breaking news, providing perspective

THE ANNOUNCEMENT

On November 3, 2016, Amadeus and Optym jointly issued a press release announcing that the two firms have formed a partnership for the purpose of creating a new generation of airline network planning and flight scheduling tools. The two firms will jointly offer a suite of five schedule planning tools covering (1) schedule optimisation, (2) schedule reliability, (3) market forecasting, (4) schedule management, and (5) route frequency optimisation. Product branding will include both companies' names.

T2RL ANALYSIS

Nothing is more basic to an airline than its flight schedule, which for all practical purposes represents the airline's primary customer proposition. A schedule is built in such a way as to maximise attractiveness to customers and profitability. Simply put, a better or more efficient schedule that matches supply and demand translates to higher revenue, market share, and profit. Yet, this vital aspect of airline management has changed little in the past quarter century. Schedule design and construction processes have been fairly stable and mature, with most airlines making some incremental improvements in scheduling processes but no one coming forward with what might be considered a real innovation – until now.

Optym is providing most of the new scheduling technology in the form of five separate products, each grouping a set of distinct capabilities using both companies' names, two of which are already offered today and three others on the development roadmap according to our discussions with Optym and Amadeus. The key innovation offered to airlines is to be able to optimise the schedule on multiple attributes simultaneously e.g., profitability, aircraft utilisation and market share. Current market tools are designed to optimise only one attribute at a time. Optym also believe they have solved the problem of developing a "clean sheet" schedule; i.e., they can develop a fully functioning schedule from scratch, without the need to use last month's schedule as the starting point, yet still optimising on all the important attributes simultaneously.

The partnership takes advantage of each company's core strengths. Optym is a young company, focused on optimisation aspects of scheduling and logistics in the transportation industry. Amadeus is the leading vendor of PSS solutions as measured by passengers boarded, serving airlines of all sizes and business models globally since the acquisition of Navitaire. This partnership offers an opportunity for Optym to grow its market share to include Amadeus and Navitaire customers. At the same time, Amadeus can provide the key operating and market data needed by the scheduling models to realise the additional value they offer.



Significantly, Amadeus and Optym have confirmed to T2RL that the agreement does not involve any sale or exchange of equity from either company.

This partnership is unusual for Amadeus, given their propensity to develop solutions in-house. However it is consistent with Amadeus' push toward broadening their core business beyond their traditional PSS and distribution stronghold. Network planning and flight scheduling represent key planning processes having a major impact on commercial success. Having a leading-edge product in a new area can only expand the marketability of Amadeus' core PSS business and assert the value of significant volume of data created by hundreds of airlines and hundreds of millions of bookings every year.

Amadeus are making investments in operations systems. Since the 2008-2010 global recession, airlines have generally become more interested in operations issues because of the need to reliably deliver the ancillary services that provide significant revenue and have become marketing differentiators for customers. Amadeus are developing a suite of Irregular Operations (IROPS) mitigation tools in-house, some of which are currently in the beta testing phase.

Ultimately, in T2RL's opinion and in order to grow their market position, they will have to be able to offer tools for all the operational areas. Amadeus' primary competitor (Sabre) already does so and are the market leader in many operations areas as measured by flights processed. Amadeus can either develop these systems using their own resources, or they can partner with existing providers as they are doing with Optym. For the application sets Amadeus needs to add to its portfolio, either approach could be viable.

The positive impact on Amadeus' growth curve should be significant, but it will not be nearly enough for the company to build a sustainable dominant position in the overall airline systems market. Amadeus will still face stiff and aggressive competition from Sabre, with its broad product portfolio; and specialist firms like Jeppesen will be able to differentiate on the basis of better performance in other areas. The need to share data across functional boundaries plays well to Amadeus' strength, but at the same time the integration challenges are becoming less formidable and a best-of-breed architecture is becoming achievable through productised integration solutions such as those offered by Constanz. Being first to market with the Optym technology is certainly an advantage for Amadeus, but it is unlikely to be a "game over" advantage.

T2RL think this is a good deal for both companies, and it will stimulate more development and innovation in airline scheduling systems amongst competitors. The stated benefits of Optym's new technologies certainly merit a closer look from the airline community, and Optym can expect to grow rapidly if their initial customers validate their claims. Amadeus, by leveraging their own strengths, will certainly benefit as well and should see an uptick in data and insight solution sales. However, the nature of airline innovation is that competitive advantage rarely lasts for more than 3-5 years. After that length of time, the industry will be back to parity but at a higher level of overall performance, waiting for the next innovation to stir things up and repeat the cycle.





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