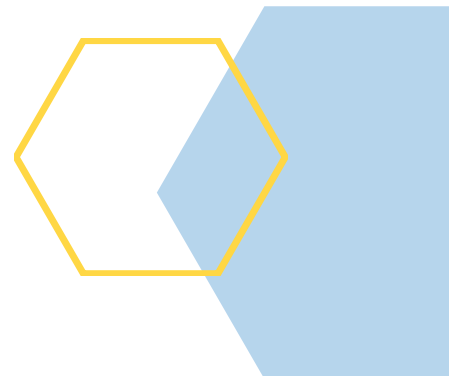




FIRST VIEW
March 2021



Outsourcing - One Step Beyond





THE FACTS

Amadeus has announced a wide-ranging partnership with Microsoft which will see some or all of its applications moving to the Cloud. Amadeus is also looking for a sale and lease back arrangement for its data centre in Germany. Sabre long ago sold off its data centre and has more recently entered a Cloud hosting arrangement with Google.

THE ANALYSIS

The very existence of both Sabre and Amadeus along with other smaller vendors serving the airline industry is owed to a long-term trend of airlines offloading so-called “non-core” functions. We now see the next stage of that process in which these vendors are making decisions about what constitutes their own core capabilities and looking to save costs by buying in commodity infrastructure services from the market place.

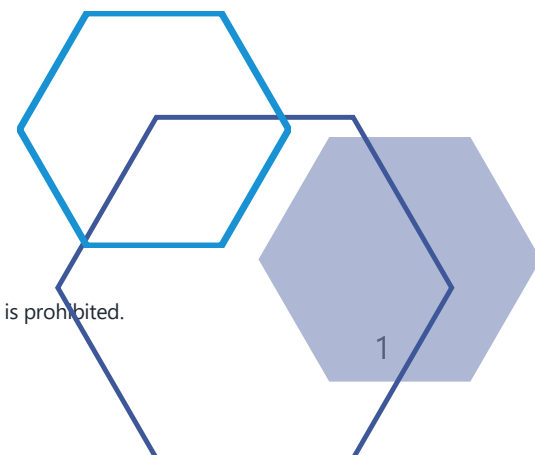
Sabre has long experience of outsourcing infrastructure components, having sold its data centre to EDS twenty years ago this month. It has also been working over an extended period to move applications from proprietary platforms to commodity ones. In that respect its deal with Google may be seen as the next step in a long-term evolution.

Amadeus by contrast has been much slower to outsource critical capabilities. Its data centre in Erding has historically been managed by Amadeus staff and housed systems built by Amadeus almost from the metal up. When Amadeus first set off on the road to retiring its mainframe computers it decided that existing open platforms were inadequate for its purposes and built its own middleware layers in support of core applications. Its move to adopt commodity technologies has been slower than its main competitor but it has happened nonetheless. Now it has reached a point where it is ready to take the next step.

The longer-term implications for the airline industry’s acquisition of technology remain to be seen. In the context of their market segment Amadeus and Sabre are giants but compared to the three major Cloud providers, Google, Microsoft and Amazon they are rather small.

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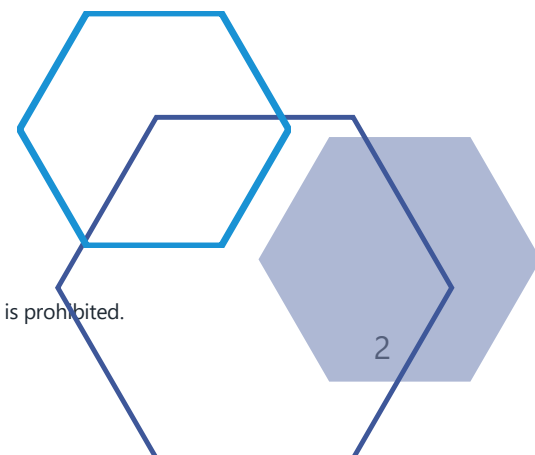
		Annual Revenue 2020 (\$ Bn)
Airline Vendors	Amadeus	2.57
	Sabre	1.33
Cloud Providers	AWS (Amazon Overall)	45.37 (386.07)
	Google Cloud (Google Overall)	13.0 (181.69)
	Azure (Microsoft Overall)	48.37 (143.01)

Source: Company annual reports Conversion to dollars for Amadeus by T2RL

Amadeus and Sabre revenues for 2020 were severely depressed due to the effects of the COVID-19 pandemic but even at the 2019 levels of \$6.59 Bn and \$3.97 Bn respectively they were almost two orders of magnitude lower than those of the technology majors. The balance of market power between vendor and customer is tilted firmly in favour of the vendors.

Both Amadeus and Sabre must have calculated that the benefits of the move outweigh the potential loss of control. Initially at least there should be substantial cost savings and smart airlines will be looking to secure a share of that benefit in their contract negotiations. Those same smart airlines will also need to be alert to the implications of splitting application provision from infrastructure when it comes to negotiating service level agreements. They should resist any attempt to confine service level guarantees to a straight pass-through of the Cloud providers' terms.

T2RL believes that the long-term implications of these moves may be substantial. They have the potential to fundamentally change the relationship between providers and customers and may undermine some of the existing business models in the market. We will be extending our research in this area and will produce a more detailed report touching on areas of technology, pricing schemes, liabilities and contractual provisions later in the (Northern Hemisphere) spring.





THE SPECULATION

It has long been speculated that the technology giants might eventually take an interest in the airline distribution market. T2RL has never been convinced by the arguments put forward for such a move and these deals by Google and Microsoft suggest that those two companies at least are content to exploit the opportunity at second hand. We observe that Amazon, the market leader in Cloud services, is not working with a major airline vendor although many smaller ones use its Cloud services. This may leave the door open for the retail giant to enter the market in its own right. We still don't expect this to happen but we must concede that the possibility remains.

There are also possible implications for the ability of airlines to switch between providers in the future. If the major vendors are using similar infrastructure, and especially if airlines standardise on NDC and ONE Order for external communication, migration projects may become much more straightforward. This would alter the calculations around the costs involved in switching technology providers and potentially could make the market more volatile.

T2RL is an independent research and consulting company that specialises in the market place for airline IT systems. Based on data gathered and analysed since the year 2000 it has defined and tracked classifications of airlines and their IT providers. Its research is used by airlines to enable them to make informed choices of systems and vendors and by the vendors to help them develop products that best meet the current and future needs of the airline industry. For further information, visit our website at www.t2rl.com.

