

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.

SITA Continues to Advance in Tier 2

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The Facts

Press reports in India indicate that the combined Air India/Indian Airlines has selected SITA to provide its Passenger Services Systems for the next ten years in a contract valued at \$175 million. The reports further state that system implementation is expected to be complete within one year.

The Analysis

Air India and Indian Airlines completed their formal merger in August 2007 but until now have maintained separate commercial systems. It is clear that this situation could not continue indefinitely and the requirement to comply with Star Alliance entrance criteria has accelerated the need to address the situation.

The two airlines currently operate distinct and somewhat incompatible mainframe PSSs in their respective data centres in Mumbai and Delhi. Indian Airlines was the last significant airline in the world to implement computerised reservations when it installed a Unisys system in 1985. It was also probably the last airline ever to implement an in-house mainframe passenger services system when it replaced the Unisys system with a new one on an IBM platform in March 1998. Air India is a long-standing customer for the Unisys USAS mainframe PSS.

SITA has long been established as a supplier of PSS, mostly to smaller traditional airlines. Its management has an off-stated ambition to extend its business into tier two airlines - those boarding between ten and twenty five million passengers per year. The first success in that respect was the conversion of Malaysia Airlines to the complete SITA PSS in 2009. Although the combined Air India/Indian Airlines' passenger numbers currently place it just below the ten million mark, it is quite clearly the type of airline that SITA has been targeting.

The task that SITA has taken on is a hugely complex one. The merger of the predominantly domestic Indian Airlines and the largely international Air India is reminiscent of the BOAC/BEA merger that formed British Airways in the 1970s. In that case many key IT systems remained separate for five years or more after the merger. In the very complex bureaucracy of an Indian state-owned enterprise it is likely that at least the same amount of time will be required to complete the merger. Since the implementation of common IT systems will require agreement on common commercial processes it is likely that SITA's project team will be drawn into decisions around commercial policy that are far outside the

normal remit of IT implementations. As SITA is an airline-owned co-operative it is possible that it is the only major IT provider that could achieve the level of trust needed to successfully conclude such a project.

SITA has been successful in making sales to Air India and Malaysia due to a number of factors. It now has very strong and focused management in its Passenger Services division. It is committed to this business sector for the long term as evidenced by its \$100 million-plus investment in the Voyager program for new generation passenger systems. It has the global reach to ensure support is available at all locations of these flag-carrying airlines. Its multi-national and multi-cultural staff is able to generate empathy and understanding with a wide range of customer organisations.

None of this will matter until and unless there is a successful implementation at Air India. For all of SITA's attributes this will be a very high-risk project. The implementation of Indian Airlines' current in-house system by IBM India and British Airways' Speedwing subsidiary in 1998 was bedevilled by problems of all sorts, many of which could be traced to the cultural clashes between the three organisations. SITA will have to work very hard indeed and learn from that history if it is to succeed in the very tight time-scales available for this project.

The Speculation

Asia Pacific is last holdout of the airline in-house passenger services system but even here the economics of a medium-sized airline operating a mainframe data centre are beginning to push the transfer to external provision. Fourteen airlines in the region, representing 37% of all passengers boarded still operate mainframe systems in their own data centres. Cathay Pacific and Singapore airlines have contracted to move their systems to Amadeus and Asiana has signed an MOU to "evaluate" such a move. With Air India's move to SITA that leaves nine airlines still to make a decision. The major Japanese airlines ANA and JAL will likely continue with in-house provision for the foreseeable future so seven airlines remain that are likely to commit to a new PSS provider over the next couple of years. With a successful project at Air India and its proven ability to work across a range of cultures and environments SITA should be confident of winning at least two or three of these.

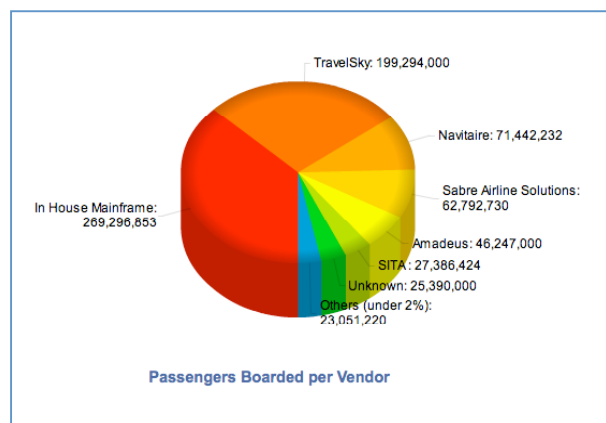


Figure 1: 2008 Market Shares for PSS Vendors in Asia Pacific