

CO-OPERATIVE SPIRIT

As it celebrates its 60th anniversary, SITA believes its reinvention as a single organisation is paying dividends for the air transport community

The phrase co-operative has echoes of something rather quaint. Co-operatives are defined as organisations for mutual benefit, serving member interests, rather than the motive of making money.

It seems incredible that SITA, one of the industry's oldest technology suppliers, is not only reinventing itself around its original co-operative roots, it is embracing the concept. "Back in 2006 co-operatives were seen as a deeply unfashionable end of the economic spectrum," says Paul Coby, chairman of SITA and British Airways chief information officer.

Coby, who joined SITA's board in 2001 and became its chair two years later, could see a crisis of identity developing at an organisation that was founded by airlines in 1949 to transport their data and information safely and efficiently around the globe.

When Coby joined the board, SITA had been divided into two for a year: one not-for-profit part to run the global data network and a for-profit part to develop IT solutions and products. But the big idea was not working.

"People were convinced SITA had 'had it', they just didn't see the relevance of SITA anymore. SITA board [meetings] could be somewhat tense occasions, where people complained about its services, costs and lots of other issues," recalls Coby. With its move to a more commercial role, SITA had lost the confidence of its original customers that it was truly representing their interests.

In 2006, SITA consolidated itself again



"It is a unique model that maybe other industries should use"

FRANCESCO VIOLANTE
Chief executive, SITA

under the "one SITA" banner. "What is key for SITA is the fact that its structure makes it uniquely responsive to the air transport industry," says Coby. Its strategy is directed by a board made up of 35 non-executive directors from SITA's top 20 customers in the previous year, nine regional representatives and one seat held for an airport grouping. Interestingly, this can include competitors in other fields like Travelport president Gordon Wilson and Wolfgang Gohde, chief executive of Lufthansa

Systems, but they do not sit on the smaller supervisory board. "To have 30 decision-makers every quarter in the same room is something to be absolutely welcomed," says Coby. "It gives us fantastic engagement."

But does it have the business agility to take quick decisions, if necessary? "The structure we've got works pretty well," says Coby. The main board provides the oversight and the overall strategic view, while an 11-person supervisory board looks at mergers and acquisitions, detailed market share plans etc.

"The single objective of 'one SITA' was to ensure the customers could really lead and shape the direction of the company," says Coby. But the question is whether a co-operative SITA can be truly commercial? There is no conflict in its mission, he believes. "In a world where our principle competition has been bought up by venture capitalists, we are in a position to take a long-term view of what's required for the air transport industry. Our job is to provide commercial, cost-effective, competitive products that people want and then invest in the business. We have returned \$500 million in price reductions on the networks in the last few years. It is all about creating value for the air transport industry and not about creating value for a group of investors."

And the co-operative model could have wider relevance too, believes Francesco Violante, SITA's chief executive. "It is a unique model that maybe other industries should use." But it is not just being a co-operative that is important, it is being a key supplier.



SITA chairman Paul Coby and chief executive Francesco Violante at its recent annual IT summit

"A key supplier should be able to balance three components: innovation, an industry mindset; and quality and service," says Violante. "What differentiates SITA is that it innovates in the context of the air transport industry and develops specific solutions for this industry." For example, he points to WorldTracer, developed by SITA and co-sponsored by IATA, an automated service for tracing lost and mishandled baggage. "This is a solution in line with what the industry wants. Only a few can do that."

COMMON GOALS

In terms of industry mindset, SITA shares the same priorities as the airlines, its customers and owners. "Our goal today for example is to find solutions that reduce costs," says Violante. "My approach is to develop something where we can share the development cost for the community itself."

With 5,000 employees in total, and about 2,000 people in the field, SITA has a large glo-

bal footprint. "I am a global player, which is a big advantage," says Violante. Its revenues grew by 3.5% in 2008 to \$1.47 billion, despite the beginning of the recession, plus for the past three years SITA has booked over \$1 billion of new contracts each year. And with almost 100% of its existing contracts renewed last year, Violante believes the organisation is getting the balance it needs right.

Just 15 years ago SITA looked like a very different animal. Almost all of its revenues came from the network operations. "Today it is a completely different company," says Violante. The legacy network business makes up 35% of its turnover, and is falling. Half of the total now stems from new applications and services for airlines and airports, and 15% is in new network services. The network services are run on a not-for-profit basis, while the applications and services part has a moderate 2% operating margin target, says Coby.

Any profit targets are under pressure in today's tough climate. Coby says the board had a five-year view of the industry when it set off on creating the single SITA. "In terms of the positioning of SITA, we are on track or a bit ahead of it. But none of us saw in 2006 the fuel price hikes or economic recession. I think this is clearly impacting where we are going in terms of top line growth. But the core objective remains in the five-year timeline to grow SITA into a preferred supplier."

That means putting SITA at the vanguard of what is needed by airlines and airports going forward, explains Coby. And they choose

where SITA needs to focus its efforts.

"We believe the areas we are investing in are the key areas that our customers want," says Violante. In 2008 its investment in capital expenditure and to support new business areas totalled \$178 million. These investments include a new passenger services system platform, its CHAMP series of cargo IT systems, the OnAir in-flight communications joint venture with Airbus and SITA Lab, a technology research facility open to all its customers and industry partners.

ACQUISITION TRAIL

SITA has been able to make this investment without borrowing any money, says Violante. "We are practically debt-free and generate cash from our operations to invest in innovations and new developments. All the investment we do is generated by our results." The organisation has decided to accelerate its acquisitions in some areas. For instance, last year it bought Australian company CPS Systems which specialises in border management solutions, while it also acquired cargo software firm Softair.

SITA's ability to continue on this path will not be too greatly affected by the downturn. "Only 33% of our business is volume dependent and so far we've been able to offset that impact in other areas that are growing," says Violante. But customers are delaying decisions on some projects. This is borne out in the latest Airline IT Trends Survey, performed by SITA and *Airline Business*, which showed that IT spend is falling dramatically this year, and is not expected to recover much in 2010.

The downturn will cause further consolidation in the technology space and some small competitors will disappear, believes Violante. SITA may use this as an opportunity for acquisitions, but will "only do it if it makes sense and is not disruptive to us".

For the time being, SITA's two leaders feel they are plotting the right course for this new kind of co-operative. "The thing I'm most proud of is that it does act as a genuine community because all the incentives point in the right direction," says Coby, while for Violante the mantra of being self-financing while reducing costs is paramount, and "to increase the enterprise value of SITA". ■

For a look back at our coverage of SITA's move to a single organisation, see: flightglobal.com/sita

THE AIRLINE IT TRENDS SURVEY 2009



What's next for airline IT?
For the industry's latest thinking on IT development, take a look at the findings of our annual survey in partnership with SITA: flightglobal.com/ITsurvey09