

# Survival of the fittest

## Smaller IT companies will disappear, says LSY chief

By Tom Ballantyne

If there is one thing people don't seem to realise, said Wolfgang Gohde, chief executive and chairman of the executive board of German IT provider Lufthansa Systems (LSY), it is the opportunity to reduce costs and improve efficiency and revenues by IT.

"When you look at the small market of global aviation IT business and the huge investment required to develop systems, it will lead to a concentration of suppliers. Consolidation is going to happen. Smaller IT providers will be integrated and the ones who are able to invest will be the ones who win the future," said Gohde.

The chairman's comments give credence to persistent rumours within the industry that some IT players – large and small – have been in contact with each other to discuss possible integration or mergers.

Whether LSY has been involved he will not say, but pointed out the group "is traditionally quite opportunistic ... so of course we are watching what is going on".

Gohde predicted events would follow the trend in the aircraft manufacturing industry, where the likes of McDonnell Douglas, British Aerospace, Fokker and others have disappeared.

"What do you have now?

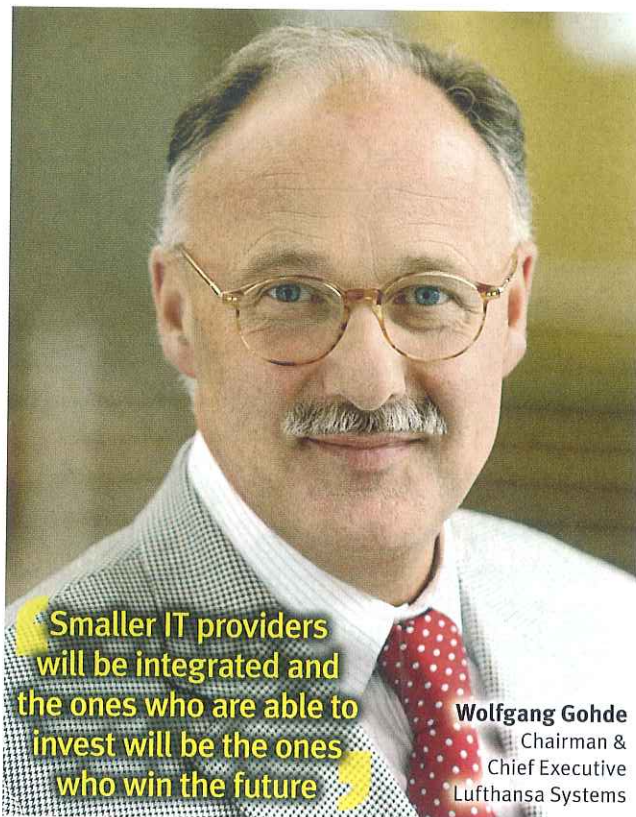
Airbus and Boeing and two regional manufacturers. That's it. And that's what I think will happen in the aviation IT industry as well. You are going to have in certain fields potentially a real heavyweight and maybe one potentially secondary heavyweight," he said.

While he won't speculate on who might go and who might stay – apart from insisting LSY will be there at the end – Gohde said two major suppliers could cover airline requirements.

"A major player would mean you have a fairly complete product portfolio. The investment is so immense that I can't see a major player emerging or developing quickly [in the Asia-Pacific]. Amadeus invested a minimum of 500 million euros in developing its passenger system [Altea] over 10 years. Congratulations to Amadeus and well done," said Gohde.

"However, who would have 10 years and 500 million euros to put up a competitor to Altea. We could end up in a situation where maybe monopolies form because of the size of the market and the investment needed in relation to the complexity of IT.

"In many cases we only have one or two competitors when we bid. When it comes to operational systems it's Sabre and Boeing/Jeppesen/Carmen. When it comes to other systems it's Sabre and some other small



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Wolfgang Gohde  
Chairman &  
Chief Executive  
Lufthansa Systems

one perhaps, sometimes also Amadeus, but not very often. So the number of players is already very small."

On the home front, LSY is continuing with restructuring and fine-tuning its operation. In 2008, it consolidated its position. Although it reported lower annual revenue of EUR 657 million, down 3.2% compared to the previous year, it increased its 2008 operating result to EUR 40 million. While sales to Lufthansa Group companies declined about 5%, business with customers outside Lufthansa remained almost constant at EUR 279 million, accounting for 42.6% of total revenue.

"In a generally difficult business environment, we achieved a more than respectable result. The continued globalization of our production enabled us to improve our profitability and competitiveness," said Gohde.

With airlines, during tough

times, focusing their IT spends on systems that bring them cost savings rather than passenger service platforms, LSY's core products, such as its Lido electronic flight bag and Sirax AirFinance Platform are what airlines want, said Gohde.

And there are solutions that combine direct savings with longer-term efficiencies: airlines can save up to 5% of fuel with the Lido OC flight planning solution. "An efficient IT solution costs an airline less than new aircraft or engines. However, IT has a much faster return on investment," he said.

An important aspect of winning business is the availability of alternative operator models. The larger the investment, the more likely an airline avoids it. LSY offers its customers solutions they can use via online connections on an LSY server rather than implementing the complete software in their IT landscape.

Modern technologies like Application Service Providing (ASP) or Software as a Service (SaaS) allow remote access via a secure and stable connection. "For more complex projects it may be beneficial to implement them at the airline," explained Gohde.

In the present circumstances, airlines are careful where they put their IT investment. "Is it significantly reducing cost or significantly increasing revenue? If it doesn't do one of the two, you'd better leave it alone and concentrate on those areas that help you survive, which is why we as a company are focussing on those products that do just that," said Gohde.

"For many airlines the question is: what do I need to do to survive? You need to increase your revenue, collect your revenue and decrease your cost.

"Everything that doesn't contribute to those factors I would be very cautious about. This is why I am so confident Lufthansa Systems is so well positioned. And don't get me wrong, Sabre is well positioned as well."

In the meantime, Lufthansa System's own restructure has progressed well, said Gohde. "We have reshaped the organization and put far clearer structures into the company governance."

Staff numbers in high-cost Germany were reduced through early retirements and other means, but overall the workforce has increased by shifting application development and application maintenance to low-cost centres elsewhere, such as Hungary and Poland.

"Even the control centre of our data centre has largely moved to Budapest and we now support 2,500 servers from there 24/7. That has given us significant cost reductions." ■

## Horizon project proves far-sighted

Airline reservation systems suppliers may be doing less business these days, but they are not shelving next generation products.

Aviation IT specialist SITA is making its largest ever single project investment in the continued development of its Horizon platform, which involves a team of

400 software engineers and designers - including off-shore resources - spread across the globe.

Last month it announced details of a 15-year agreement with the world's largest software company, Oracle, to develop "the most open and agile airline reservations system ever designed, using

service oriented architecture (SOA) and advanced computing techniques".

SITA chief executive, Francesco Violante, said the strategic technology partnership was a major milestone in the development of the Horizon passenger management portfolio and would have a profound impact on the airline industry.

"It is putting the most advanced technology stack available at the service of our industry for the first time. Advanced technology is essential to the modernization of the airline reservations systems of our 138 airline customers and we expect many others will be attracted to Horizon by the success of the project," he said.

The partnership is set to bear fruit with the launch this month of SITA's Customer Journey, a Horizon feature providing real-time access to airline bookings for business intelligence applications and rapid retrieval of customer journey records across multiple search criteria. ■



SITA chief executive, Francesco Violante: a 15-year deal with software company Oracle

## ARINC expands Asia-Pacific presence

Aviation communications and airport technologies company, ARINC

Incorporated, has expanded its Asia-Pacific operations to 11 countries. Six years ago, it opened its first office in the region in Singapore with a staff of six people. Most recently, it has opened two sales and service offices in Mumbai and New Delhi, in India.

"We will soon announce major contract wins in India and the Philippines, and this type of interest from new customers is a major driver of our current

growth," said Randy Pizzi, ARINC vice-president, Asia-Pacific division.

The company commemorates 10 years of partnerships with the civil aviation authorities of Thailand and China for GLOBALink this year. It recently expanded its GLOBALink communications network with new infrastructure to serve airline customers in Australia and India.

At Singapore Changi International Airport, ARINC's revolutionary VeriPax technology is making its world debut. It combines automatic security

screening and passenger reconciliation, enhancing both passenger flow and security for access to a terminal's airside areas.

It can detect and highlight duplicate boarding passes and can be customized to perform other checks such as validating passenger names against a watch list database, or checking passenger itineraries against valid flight schedules for the day.

The company has also introduced new customized data network services for its airline and government customers. ■