Lufthansa Systems

eConference 2007

Next Generation DCS & PSS - Challenges for Airlines

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Topics

Market trends

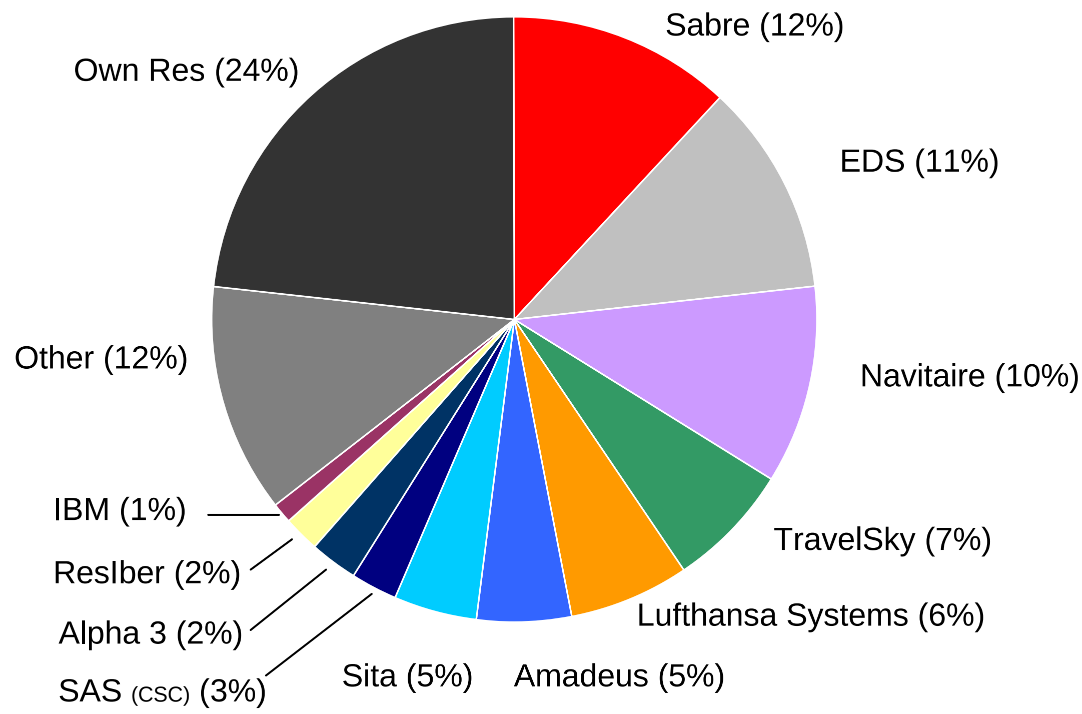
Airline Challenges

Lufthansa Systems’ answer

IT providers‘ market share today: fragmented market

Provider
Sabre Travel Network
EDS
NAVITAIRE
TravelSky
Lufthansa Systems
amadeus
SITA
SAS (CSC)
IBM
ResIber
Alpha 3
Other hosted services
In-House systems

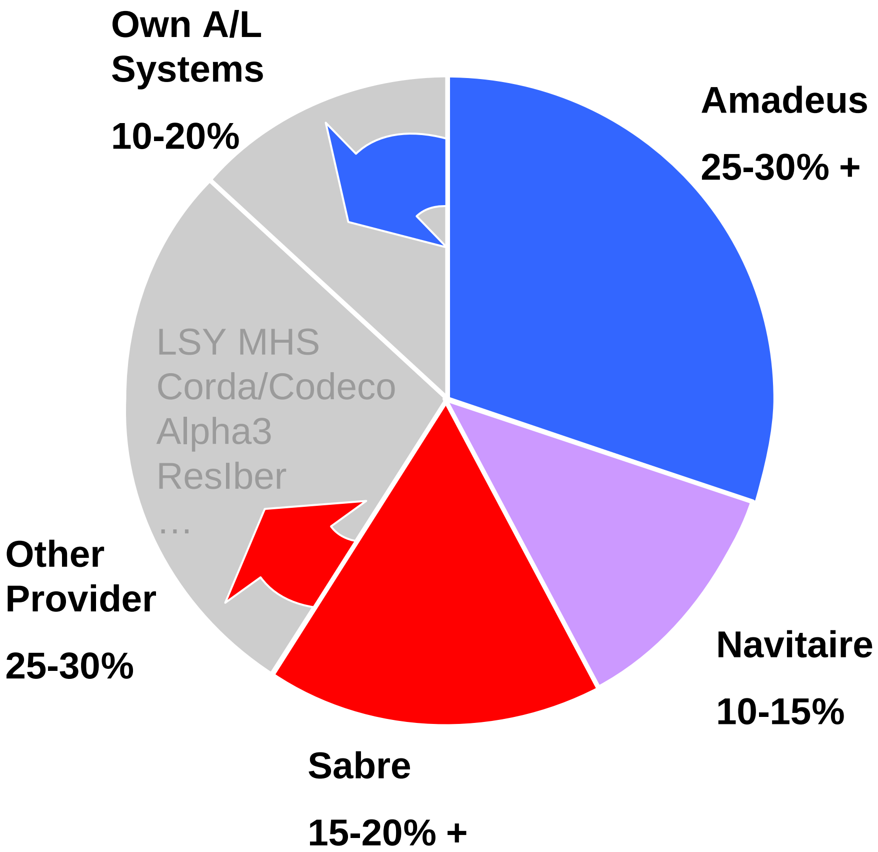
Worldwide marketshare (Pax per PSS System)



Source: IATA Annual Report 2005, Analysis Lufthansa Systems

Future: Market concentration is likely to arise

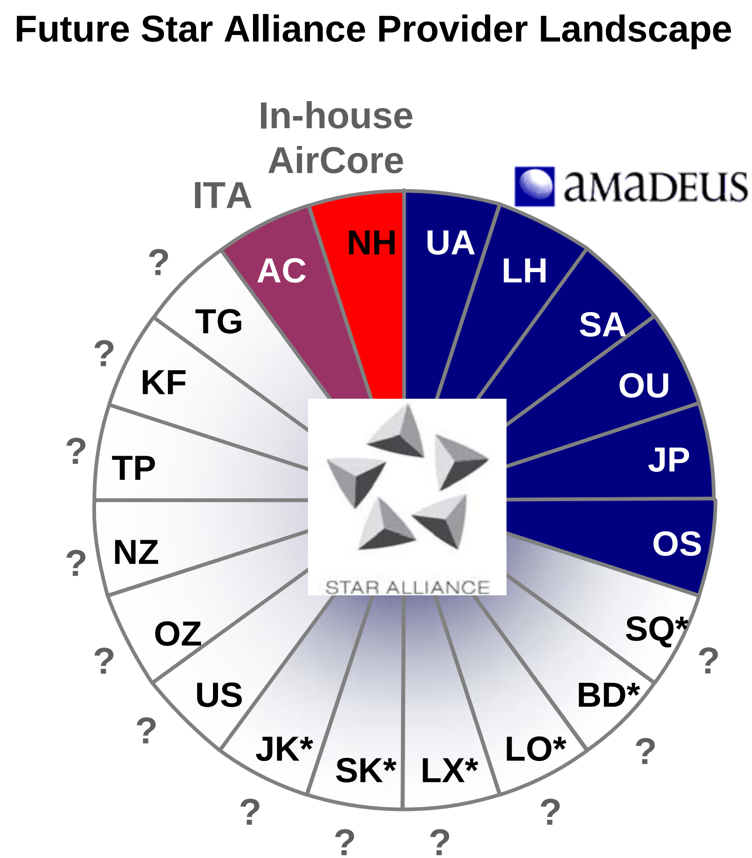
Forecast of Market Share PSS provider 2017+*

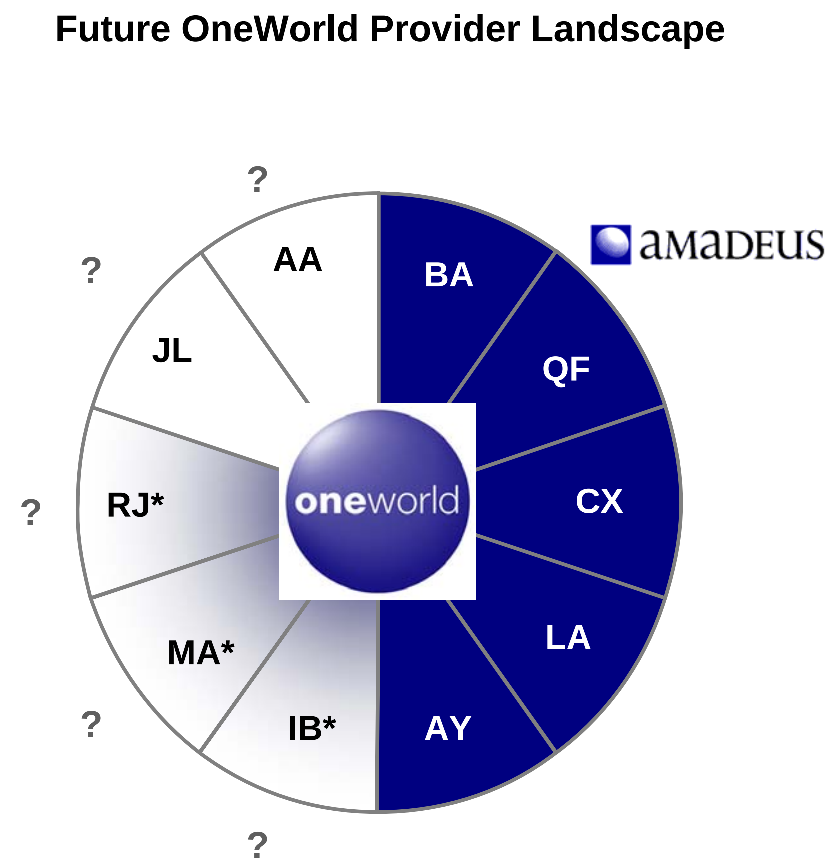


- Lufthansa Systems stoped the development of FACE – the new generation Passenger Management System
- Only few provider capable to deliver sustainable new generation Passenger Management
- Shrinking Inhouse-Systems
- PSS heads towards standardization

* Lufthansa Systems Market Analysis

One provider dominant within Star Alliance and OneWorld – PSS heads towards standardisation!

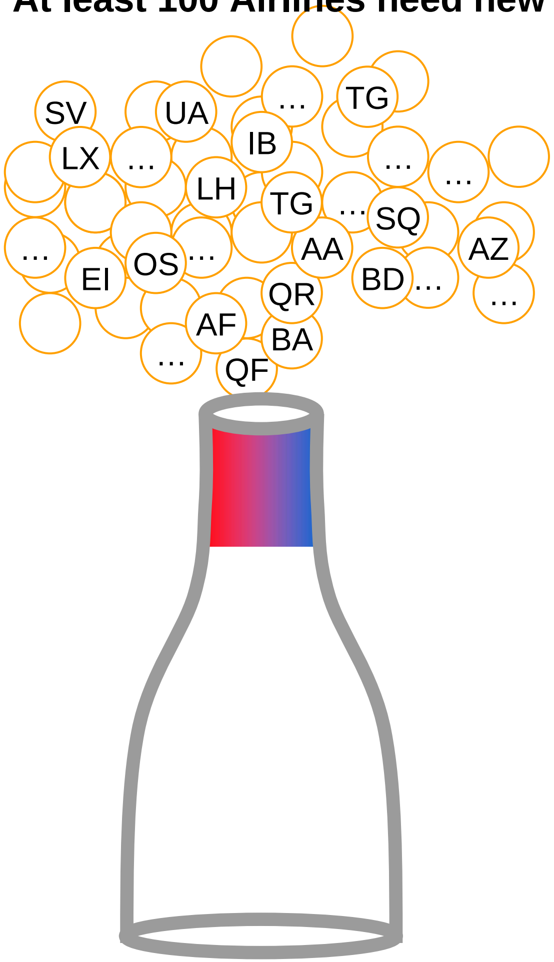




* Likely to choose CITP/Altéa

Consequence #1
Shortage of resources and services around next generation Passenger Management Systems

At least 100 Airlines need new Passenger Management System over next 10 years

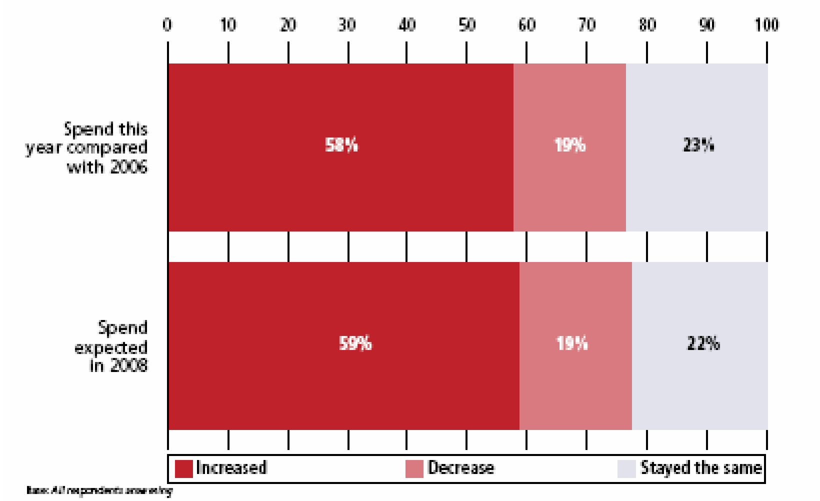


- Migration Slots to new PSS are rare and valuable
  - Experienced resources for PSS replacement are rare
  - Provider lack resources to extend capacity for migrations
- Due to lack of resources, provider only offer standard migration instead of system integration

  - **Airlines must migrate and integrate on own behalf**

Consequence #2
Oligopoly market situation will make prices for Passenger Management Systems and services likely to rise !

Total IT spend



Source: SITA & Airline Business IT Trends Survey 2007

- Airlines already expect rising IT Costs
- Rising Airline IT costs probably will be additionally increased by rising prices in PMS
  - Overall less competition for new PSS – sagging lever of negotiation for Airlines
- **Can we again expect price development as we once had for CRS for decades?**
- **Will this envoke new entrants ?**

Two Basic Challenges for Airlines arise

1. Management of Migration and Integration of new PSS

2. How to differentiate in an industry of standard systems and how to reduce dependency on PSS providers

But it is far more than selecting a new provider ...

Selection of PSS Provider is critical

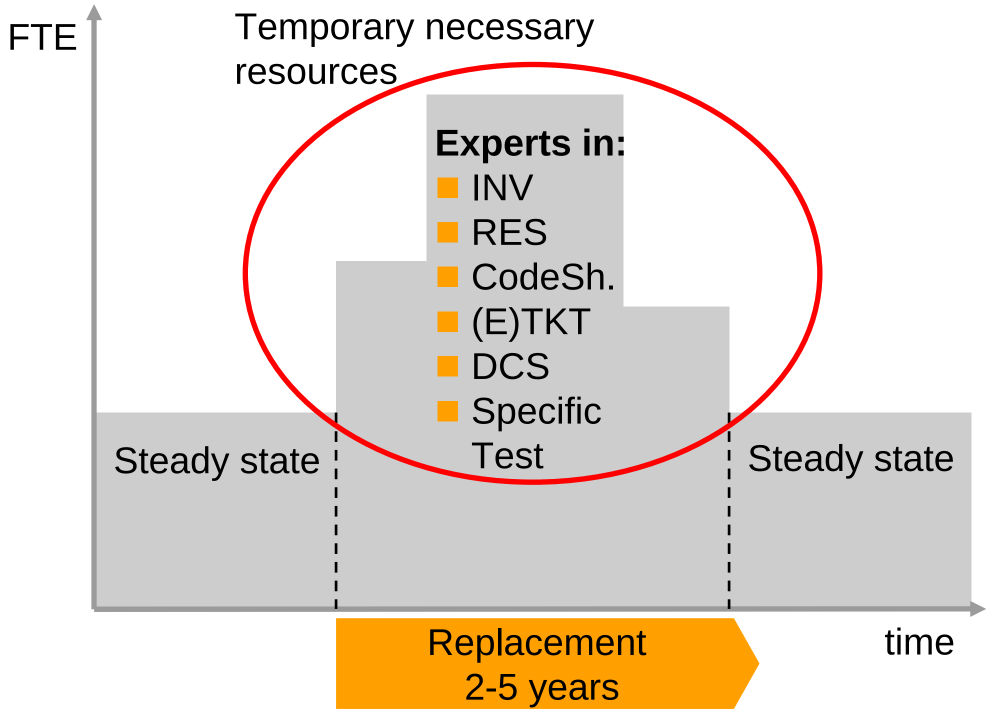
‚In contrast to the low financial volume the selection of our new PSS provider has by far the highest impact upon our airline‘

(quote of an airline executive)

But it is far more than selecting a new provider ...

It is all about resources!

Typical Resource Demand of an Airline during Migration & Integration



- Sourcing strategy essential:
  - Necessary temporary amount
  - Necessary skill set
- Resources are experts both in IT AND Airline Processes and therefore expensive
- Airlines compete with Providers and other Airlines alike about these resources
- Do you have a sourcing strategy?

Two Basic Challenges for Airlines arise

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2. How to differentiate in an industry of standard systems and how to reduce dependency on PSS providers

How do you differentiate when everybody uses the same system?

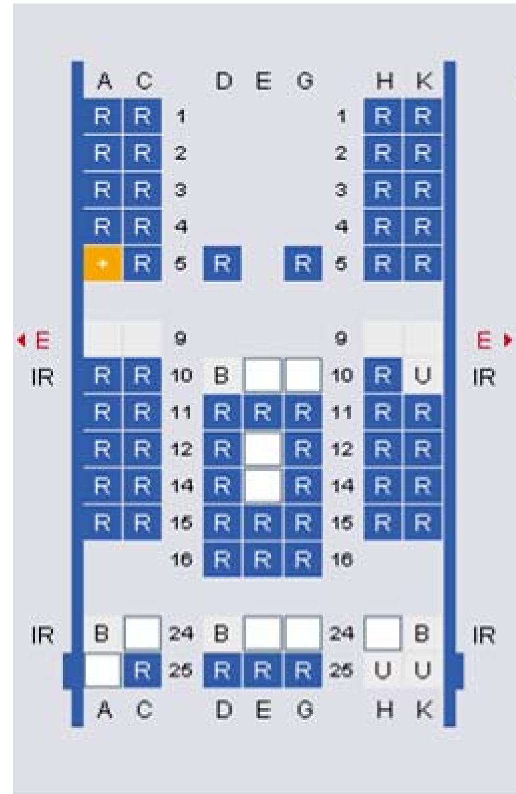
A PSS Provider‘s Community?

- All customers of one provider share one common system – but how influential are you in such a community?
- Where is standard sufficient?
- What are the areas you as airline want to use IT to achieve a competitive advantage?
- What is your sourcing strategy?

Why Revenue Integrity?

- Bookings through a GDS by a travel agent do not require immediate ticketing and payment
- Dupe bookings, Fictious names and bookings with expired ticket time limits are reality
- To improve forecast quality, the inventory needs to be clean from the day the flight is set up

- Challenge for an airline: How to control and clean the inventory system?
- Application that identifies and lists PNRs that are breaking airlines' specific rules



Value of Revenue Integrity

- Reduction of distribution costs by avoiding GDS transaction charges for cancelled bookings
- Generation of additional revenue as cancelled bookings are available for sale
- Increase in seat load factor, decrease in no-show rates
- Clean inventory throughout the whole sales period and faster waitlist clearance
- Better forecast quality based upon better history data
- **Value: appr. 1 € per 1 SSB**

What are Airlines currently doing?

- Nothing: smaller carriers (<1mio Pax/year) and carriers low in GDS Sales
- Manual Checks:
  - Selective
  - Discontinuous
  - Costly
- Automated, tool-supported checks: for large carriers (Tier 1-3) and carriers with high GDS sales
  - 100% coverage
  - Continuous
  - Flexible and efficient

vs.

vs.

Achievements of a reference airline with Revenue Integrity

Business Benefits

- Up to 50,000 seats are cancelled daily by TTL
- 100,000 No-shows are cancelled monthly
- 2 pp drop in No-Show rate since TTL rolled out world wide
- 30,000 seats released monthly on Fake Bookings
- >1 Mio EUR additional Revenue by eliminated dupe bkgs.
- 100,000 seats cancelled by TTL in Premium Classes

How do you differentiate when everybody uses the same system?

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Lufthansa Philosophy: Backend is seen as Commodity

Example CITP

Airline Individual

Yield Management.	Data Warehouse
Revenue Integrity	Frequent Flyer
O&D Management	Weight & Balance
Cust. Database	Check-In Channels

Differentiating Processes

„Common“ Platform

Distribution (Sched. Av., Fares)	Inventory
Reservation	(e)Ticketing and Interlining
PNR Database	Base Departure Control

Commodity Backend Functionality

Two Basic Challenges for Airlines

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and our answer ...

Broadening the strategic focus of LSY Passenger Airline Solutions: Utilization of know how and experience in Consulting & Services

Products		Services
Existing Passenger Management Systems	**Value Added Products**	**Passenger Airline Consulting Services**
MultiHost Sales	**Ground Solutions**	Strategy
MultiHost DCS	Agent Check-In	Vendor selection
	Self-Service CKI	Process Engineering
	Load Control	Project / Program Mgmt
	Revenue Integrity	Migration & Integration
	Payment Services	Test Management
	FrequentLine (CRM)	Cost analysis
	PCI Compliance Engine	Optimization of Operations

1. LSY invests in the extension of the life cycle of existing system
2. LSY provides solutions for differentiation in airlines' offerings/products
3. LSY supports and advises airlines in all stages of a PMS lifecycle

In development

Thank you !