

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.

## Mercator Acquisition of TikAero Recalls Old Swissair Links

T2RL Staff

### The Facts

On the 15th of June Mercator, the IT arm of the Emirates Group, announced that it had acquired Bangkok-based Tik Systems. Financial terms of the acquisition were not announced.

### The Analysis

Mercator is a medium-sized provider of airline passenger services systems, accounting for 1.2% of the world market by passengers boarded. Its dominant customer is the parent airline but it also has useful business elsewhere in the Arab world. So far it has not been successful in selling PSS solutions outside its geographical niche although its other products, particularly its Rapid line of revenue accounting solutions, have achieved much broader penetration.

Tik Systems is one of many small PSS providers that have used newer technologies - in its case from Microsoft - to develop solutions for the low-cost and regional airline market. In 2008 we estimate that the TikAero PSS had around 0.14% of the world market by passengers boarded. In revenue terms the share was probably considerably lower than this.

Mercator has had a marketing relationship with Tik Systems for some time and indeed they jointly offered TikAero to FlyDubai in 2009. The fact that this new subsidiary of the Emirates Group chose to go outside the group and to buy PSS services from Radixx suggests that TikAero did not have a particularly compelling proposition at that time.

If we accept that Tik Systems does not bring any spectacular benefits to Mercator in terms of either market share or functionality it is fair to ask what are the drivers of this transaction.

In its PSS business Mercator is firmly in the "Legacy" space. Its core technology is based on the former Swissair system which it markets under the name MARS. This is mainframe-based and uses the TPF operating system. It is functionally rich and operates to a very high level of reliability and availability. The one attribute that it cannot boast is something that is on almost every airline's PSS tender document, a migration plan to "new generation" technology. In fact the opposite is true and Mercator's management has repeatedly said that they can see no business case for the investment that would be required to migrate MARS to a new platform. It may be worth observing at this point that we strongly agree with this position. To invest heavily in such a migration simply for the ability to claim membership of the "NewGen Club" would be completely irrational.

Unfortunately airline technology decisions often have an unhealthy element of irrationality about them. This probably extends to parent airline Emirates, whose intention to become the biggest and most profitable airline on Earth is already well known. If it is looking towards the other big players it is seeing a wide take-up of Amadeus's "NewGen" Altea systems and the decision last year of American Airlines to trust in a "NewGen" solution to be developed by Hewlett-Packard. Perhaps Emirates would like to see some "NewGen" technology deployed on its behalf.

If that is the case then the TikAero acquisition might make sense. Implementation of an Applications Programming Interface (API) between the legacy MARS system and the "NewGen" TikAero would not be difficult and may indeed already have been done for last year's FlyDubai bid. After that it would be quite straightforward to develop some new functionality in the Microsoft environment and make it available via the legacy system. Conversely MARS could take on some of the heavy lifting necessary to allow Tik's existing customers to access industry-standard functionality like code-sharing and e-ticketing.

The whole process will be eased by the common heritage of the two companies. Tik Systems was effectively created by Swissair as a low-cost development centre in Bangkok. It worked in partnership with Results, another member of the Swissair eco-system. Managing Director Roland Heller worked at Swissair with Patrick Naef, the CEO of Mercator. There will be a good cultural fit between the companies.

## The Speculation

There are too many suppliers of airline PSS. With no more than 700 airlines to buy services it is clearly unsustainable for there to be forty systems vendors in the world. Consolidation is inevitable and this is a very interesting consolidation. The combination of a traditional vendor with a well-proven system and strong operational expertise with a supplier of flexible newer technology software has great potential. This is exactly what is happening at Virgin America where SITA has teamed with ibs to supply one of the most interesting hybrid airlines in the North American market. That relationship has stopped well short of a full acquisition so far but SITA needs to tick the "NewGen" box just as much as Mercator. Other traditional vendors that might need to look for a "NewGen" partner include Sabre, Hewlett-Packard (EDS), Travelport and Travelsky.