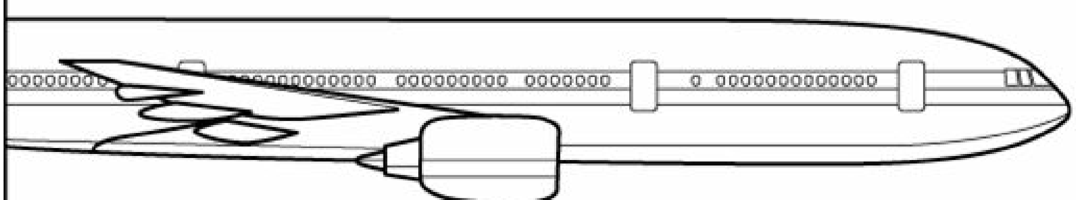


Executive Brief

Travel Trends - Which Travel Model Is Right For You?

TravelPORT

A CENDANT COMPANY

INTRODUCTION

The travel industry is undergoing rapid change. Unfortunately, the managed travel community has begun experiencing instability as a result. The online booking segment has grown to $13B in transactions overall, with expected doubling by 2007[1]. In such a lucrative market, the natural result has been that the leisure-focused online brands such as Orbitz, Travelocity and Expedia are targeting corporate travelers in an effort to boost profits. Their "one-size-fits-all" managed travel solutions may not be the best choice for many companies.

At the same time, the industry has undergone a significant slow down, exacerbated by the events of September 11, 2001 and the loss of airline commissions to travel agencies. Agencies are being forced to merge to stay in business, or are looking to their corporate customers for additional fees that can subsidize the bottom line.

Large, Fortune 100 companies are less impacted because they are able to afford the services of, and have the negotiating power to work with, an American Express or Carlson Wagonlit. However, the mid-size corporations are less fortunate. With fewer travel management resources in-house and less negotiating power with suppliers, mid-cap companies are paying disproportionately large fees for full-service offerings from travel agencies. It's been a necessary evil, because business travelers have traditionally had a strong need for managed travel offerings, and until recently needed to rely on agencies to provide that management.

Compounding the problem is the ubiquitous nature of the Internet, which has made Web fares and leisure-type booking functionality a requirement for the savvy traveler. For corporations to maintain preferred partner relationships, the need to provide specific online booking solutions to their travelers has become a critical need. Consequently there are a large variety of competitive offerings in this space, each with advantages and disadvantages.

The purpose of this executive brief is to provide an overview of the four models currently in use, and provide a discussion on their strengths and weaknesses. Companies would be well-advised to scrutinize not only features and functionality of the competing solutions, but also the business model, because it has a direct impact on how well companies will be served by each vendor.

BACKGROUND

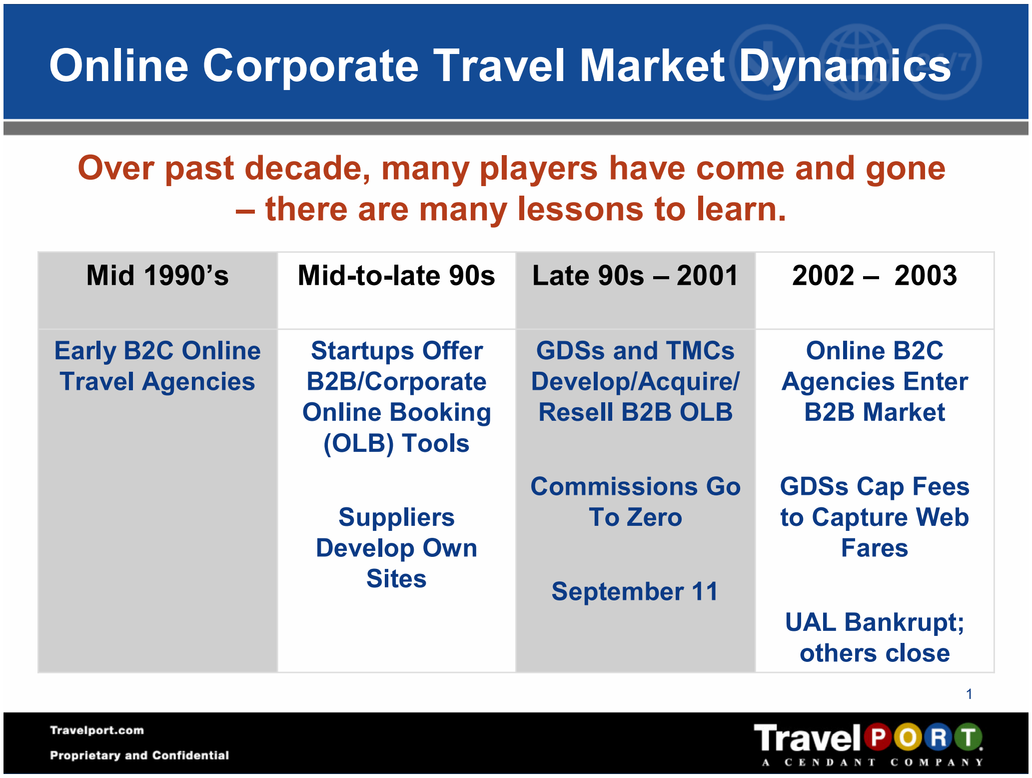
Few industries have been impacted as significantly by the Internet as the travel industry. Inherently data-driven, travel purchases represent the single largest category of e-commerce. Against this backdrop is a race to capture what many believe is the largest and most lucrative segment of the travel industry – mid- and large-sized corporations.

Unlike leisure travelers that demonstrate scant loyalty in search of the lowest fare, business travelers participate in managed travel programs that require employees to book travel through their designated corporate travel agency. Therefore, business travelers have a "stickier" relationship with their travel agency vs. their leisure traveler brethren. And from the agency standpoint, relationships with these mid- and large-size corporations are much more profitable.

[1] Forrester Research, 15 January 2003.

As the industry has moved online, traditional players, particularly the Global Distribution Systems (GDSs) and large, multi-national travel management companies (TMCs), have moved quickly to address the needs of corporations, resulting in a highly competitive landscape and a variety of options for corporate buyers.

Figure 1. Different models emerge to capture mid- and large-size corporate market



On the surface, these offerings are very similar, driving many corporate buyers to view online B2B travel as a commodity purchase, looking primarily at features and functions as an indicator of what will work best for them. However, while the features and functions of each Web site is an important factor, equally important is the business model because it will have great influence over the following:

- Costs - per transaction and total cost of ownership
- Control - the flexibility of the supplier in meeting a corporation's unique needs
- The level of service a corporation receives, now and in coming years
- The ability of the supplier to survive long term

THE FOUR ONLINE CORPORATE TRAVEL MODELS

There are currently four prevailing models in the race for corporate travel management programs. Although there is some blurring of the lines with regard to different players and their business models, all of the players fit primarily into one of the four. An assessment of each model is provided below:

Figure 2. Summary Comparison and Target Criteria for Four Online Corporate Models

TYPE	STRENGTHS	WEAKNESSES	TARGET
TRADITIONAL AGENCY	✓ High touch ✓ Travel management services	× High costs × Little leverage to offer additional content and capabilities best captured in components of solution not owned (i.e. online booking and/or GDS)	Corporations that require high touch, access to extensive travel management services, and do not have aggressive goals to move online
TECHNOLOGY ONLY	✓ Features/ functions ✓ GDS/agency flexibility	× Little leverage to offer additional content and capabilities (i.e. file finishing or integration with agency systems) best captured in components not owned (i.e. GDS and/or fulfillment) × Little leverage to reduce transaction fees with agency, particularly if file finishing is poor × Lack of travel management services	Corporations that want best-in-class technology, do not want lowest possible transaction costs, and are not concerned about switching costs due to vendor going out of business
ONLINE AGENCY	✓ User interface and content (Web fares, hotels) ✓ Low transaction cost	× Inflexible product offering × Inflexible service configurations (i.e. on-site, split models) × Complex pricing × Higher prices if use own suppliers/preferred rates × Lack of travel management services × Linked to single GDS and agency × Web fares, merchant hotels offered tend to be more restrictive for travelers (i.e. upgrades, etc.)	Corporations with very lightly managed programs that do not have much leverage to obtain supplier discounts, no need for product and service flexibility or travel management services.
VERTICALLY INTEGRATED OFFERING	✓ Low transaction cost ✓ Product flexibility ✓ Service flexibility (call center, on-site, split model) ✓ Travel management services ✓ Ability to offer fully-integrated solution OR just components ✓ Complete leverage to develop capabilities best captured in any component	× Linked to single GDS and agency × Potential concern in having one vendor manage all components of a company's travel program	Mid- and large-size corporations that require product and service flexibility, access to travel management services, and those with ongoing goals to move part or all of their corporate travel online.

Traditional Travel Agency: This model is still the predominant means of booking corporate travel. Employees are serviced by phone-based reservation agents, either on site or through a call center.

Most agencies in this category offer on an online option, usually through a reseller agreement with an existing online booking technology provider. Larger agencies typically operate on multiple GDSs, and most derive substantial revenues from financial assistance provided by GDSs as part of their agreements.

Most agencies in this category complement transaction capabilities with a wide range of travel management services. The traditional travel agency makes money from both transaction processing and management fees associated with the aforementioned services. While traditional services are highly regarded in this category, only three in ten travel managers surveyed believe their travel agency is actively engaged in helping them or their travelers increase booking engine adoption[2]. This is important because fees for online transactions are usually much less that those for offline ones.

The traditional travel agency community has been significantly weakened by the economic slowdown, the events of September 11th, and by industry trends such as commission cuts. With enormous pressure from suppliers to lower GDS segment fees, it is inevitable that agencies will face erosion of GDS financial assistance as well – which, until recently, has been as much 30 percent of some agencies' revenue. With the high cost structure the agency community as a whole has, it is very difficult for many agencies to offer lower pricing to their customers – in fact, in most instances, these costs will increase. And because of razor-thin margins, many agencies are now vulnerable to acquisition by stronger players.

Another factor to consider is how little leverage the traditional travel agency has to offer new capabilities in the online booking area. Most agencies do not own online booking technology; they only resell it. The exception to this is Carlson Wagonlit Travel (CWT)[3] . For those who go with the agency-provided tool, it is important to keep in mind that feedback about how to improve the tool may not get back to the software provider. And because the agency has to pay another provider for this capability, this limits the cost savings corporations will see.

Examples in this model include American Express, Navigant, and TQ3 Maritz.

Technology Only: This model emerged in the mid-1990s. Companies in this category were the first to offer self-booking platforms that integrated policy and preferred suppliers. They typically only offer online booking software (as a hosted service). Most companies in this category do offer a fulfillment option, but such an option is provided through partnership with an existing travel management company. The self-booking companies usually offer their software as agency- and GDS- neutral platforms.

Historically, this model has proven the most difficult to sustain because revenue is derived primarily from Web-booking fees. Early on, these providers also charged significant implementation fees, but due to increasing competition, this practice has largely been discontinued. As such, this model has seen the most failures, including TravelNet (1997), XOL (1999), and recently iFao (2002), which shut down operations in the U.S. Sabre's closing of its GetThere unit is notable because although GetThere had consistently shown strong transaction growth and dominant market share, it was far from profitable.

Another key pitfall with this model is the need to work closely with the customer's existing agency, despite the naturally competitive relationship. This has often proved to be very difficult with the two parties pointing fingers at each other, particularly in the area of file finishing – a critical area for substantial transaction cost savings. Software providers have proven to be very poor at file finishing because of the difficulty in doing it on an agency- and GDS-neutral platform.

Examples of this model include Outtask, TRX[4], KDS, and e-Travel[5].

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[2] Forrester Research, 21 February 2003.

[3] In the case of CWT, they may or may not have the capability to invest the substantial sums of ongoing capital it takes to operate and improve an online booking operation. Historically, agencies have a poor track record here.

[4] Although TRX does offer fulfillment, it typically offers it only to Web site operators and other agency operations.

Online Agency: Companies in this category emerged in the mid-1990s as B2C agencies. As the market opportunity for corporate travel grew, these companies began offering limited capabilities for managed travel programs. Much of the revenue for these companies comes from merchant models, whereby the online agency resells distressed inventory (typically Web fares and hotel rooms) and also from revenue-sharing programs with the single GDS that serves the online agency.

These merchant model deals, while often good for spot purchases where a negotiated discount is not in place, often undermine managed travel programs and can be very inconvenient for travelers (non-upgradeable fares, inflexible cancellation policies, etc.). Related to this issue is transaction pricing that favors the use of the online agencies' suppliers and rates, further undermining established travel management programs. Specifically, use of a corporation's own suppliers and negotiated rates entails a much higher transaction cost from the online agency.

Online agencies are also vulnerable to GDS partners who are being pressured to reduce fees, resulting in lowered revenue share to the agencies – which would be a significant loss to these entities and could be a key factor in maintaining a consistent and sustainable financial condition.

Examples of this model include Expedia, Orbitz and Travelocity.

Vertically Integrated Offering: This model is the newest to emerge and is offered solely by Travelport. Vertical integration is defined as a single company owning and operating the entire value chain for corporate travel. Travelport is able to provide this model to corporations through its ownership of all three components of the corporate travel solution: (1) online booking, (2) GDS, and (3) fulfillment services. In this model, revenue is primarily derived from both Web-booking and GDS segment fees.

The vertically integrated agency will derive most of its revenue from technology components vs. the traditional travel agency, which relies heavily on traditional services to drive revenue. As a result, the vertically integrated agency environment is inherently motivated to drive more transactions through technology and therefore enhance the corporation's return on investment.

One of the biggest advantages of the vertically integrated solution is a single point of contact for all outsourced components. This single contact is responsible for the overall relationship, ensuring all components are working together as a seamless, effective travel solution for the corporation. In essence, the account manager's goals and objectives are perfectly aligned with the corporation's.

Additional advantages to this model include:

- Booking engine flexibility: The booking engine is designed solely for the corporate travel market, offering a high level of corporate-specific features in a highly configurable framework.
- Sales flexibility: Corporations can select just online booking or a fully integrated model of booking, GDS services, and fulfillment, as a single-service offering at a very low transaction price.
- Fulfillment flexibility: A fully owned solution can be configured as a call center or on-site operation.
- Corporate control: Corporations can take advantage of Web fares and merchant-model hotel rates without compromising established travel management programs.
- Single point of accountability: With all layers of a solution owned by one company, corporations only need to make one call to resolve needs or issues.

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[5] Although Amadeus' e-Travel previously offered fulfillment through SATO (now Navigant), currently it only sells online booking (no fulfillment), mostly through resellers. While e-Travel also sells the Amadeus GDS, it most closely resembles the other software vendors because of its multi-GDS strategy.

CTD OUTSOURCING

In the past, traditional travel management companies provided bundled technology solutions, transparent to corporations who were primarily concerned with services like ticket delivery and telephone service quality. As more business migrates to an online environment, technology infrastructure becomes more critical than traditional offline services. Of paramount concern to mid- and large-sized corporations is ensuring their technology infrastructure provides the highest value. Traditional service delivery is still important; however, it's now a single component of a larger program.

The recent growth in the number of Corporate Travel Departments (CTDs) - dramatically up in 2003 to more than 150 corporations - has coincided with the ongoing challenges faced by corporations to lower costs, streamline processes and take control of potentially sensitive company data. Corporations implement their own travel departments for a variety of reasons: CTDs provide the most flexible way to run a travel program and have the greatest control over travel spend, ownership of traveler data, and direct relationships with suppliers. The flexibility comes from giving corporations the option to un-bundle and outsource any or all corporate travel services.

Documented case studies show an average decline of $18-19 on a per transaction basis by moving from a traditional on-site travel management configuration to the same configuration as an in-house corporate travel department[1].

However, the move to a CTD solution may bring added challenges. Travel managers must now take over responsibilities previously handled by the travel management company. They may need to manage relationships with a larger group of suppliers, including fulfillment providers, GDS providers, agency services, and travel technology providers. Naturally, coordinating all aspects of the travel program to ensure a seamless process flow can become complex and rapidly erode CTD benefits.

A vertically integrated corporate travel services company provides either a viable partnership with the CTD or an effective alternative. Just as the CTD can outsource any aspect of its travel program, the vertically integrated supplier can provide the flexibility of offering any combination of required services. Most importantly, the vertically integrated corporate travel services company can also provide expert account services for management and goal setting of a program. These aspects allow the corporate travel department to manage just one "plug-and-play" relationship and then leverage it for maximum value.

Only two of the four B2B models are suited for CTD outsourcing. The "technology-only" model offers only a single component of the travel service offering, and the "online agency" model fails to offer the flexibility of menu-selecting components. The components of the two remaining options - the "traditional agency" and the "vertically integrated" models - are outlined in the table below, which illustrates how traditional and vertically integrated travel management companies offer various components of an outsourced travel management program:

Figure 3. Comparison of Traditional and Vertically Integrated TMCs

Outsourced Travel Component	Traditional TMC	Vertically Integrated TMC
Staffing	✓	✓
Online booking engine (OLB)	Sub-contracted	✓
Global Distribution System (GDS)	Sub-contracted	✓
ARC Reporting	✓	✓
Data Management (MIS)	✓	✓
24-Hour Service	Sub-contracted	✓

CONCLUSION

Whether a company is currently online or not, it is inevitable that with few exceptions, most – if not all – of its business travel will eventually be booked online. Going online has proven to be a significant cost-savings move for many companies. With the ongoing pressure on costs from all sides – corporate, agency, and supplier – the move toward online travel continues.

For those who already have aggressive goals to move online, it pays to look very closely at not only features and functions, but also at the business model of each provider. The business model is an important determinant a corporation's overall success. Corporations should ensure their corporate travel provider can:

- Maintain a healthy and consistent financial condition
- Ensure a smooth process flow that can ensure lower transaction costs
- Offer flexible product and service configurations that support the unique requirements of managed travel organizations.

Companies looking to strike a balance between service quality and cost reduction will have the greatest degree of control and flexibility by sourcing through a vertically integrated travel service offering in conjunction with or as an alternative to a CTD solution.

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This brief has been prepared by Travelport Corporate Solutions, Inc. Travelport, a subsidiary of Cendant Corp. (NYSE: CD), is a global, full-service provider of strategic services and tools for mid- and large-sized corporations, providing access to online booking tools, global distribution services, fulfillment solutions and 24/7 global customer care. For more information, please visit www.Travelport.com.