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Reducing Distribution Costs: An Accenture Webcast Series

**Alternatives to the GDS Model –
The GNEs Bypass Proposition Uncovered**

26th January 2006



Emerging GDS alternatives challenge traditional business models and existing distribution strategies

Focus of today's webcast

The GNEs Bypass Proposition Uncovered

- How will the product offerings of GDS's and GNEs evolve in the future?
- Is the GNE model viable outside of the US?
- Will European GDS liberalization make the concept obsolete?
- Is there anything that airlines should do about it now?

Introduction to GNE Concept

G2's Efforts Reducing Airline Distribution Costs

Worldspan's Positioning

Discussion



Ellen Lee

Co-Founder and Vice President – Business Development, G2 SwitchWorks



Ellen is a 10 year airline industry veteran with leadership experience at American Airlines and Delta Air Lines coupled with consulting experience at United Airlines, ATA and Independence Air. Ellen served as Vice President, New Ventures for Orbitz from 2000-2003 where she led the founding and business development efforts for two new business ventures - Supplier Link and Supplier Technology Services, both successful startups within the organization. During her tenure at Delta Air Lines, Ellen served as one of the founding authors of the original T2 (Orbitz.com) business plan. Ellen has a MBA from the University of Chicago Graduate School of Business.



Ninan Chacko

Chief Commercial Officer, Worldspan



Chacko has over 17 years of expertise in the travel industry and has held several executive positions. Prior to joining Worldspan in 2003, Ninan was SVP - Emerging Business at Sabre Holdings. During his 13 year tenure, he first served as SVP - Global Services and later as SVP - Marketing. Before, Ninan was VP - Sales and Marketing at Sabre Technology Solutions. He began developing his professional skills as manager - Airline Engineering Services for System One Corp. in 1987. Ninan holds Master of Science and Bachelor of Science degrees in Aerospace Engineering from the University of Kansas. He completed Harvard Business School's Advanced Management Program and is an ICTA certified travel counselor.



Alex Cruz

Senior Executive, Customer Centric Aviation, Accenture



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Alex is European lead for Accenture's Customer Centric Aviation practice, based in London. A fifteen-year airline industry veteran, Alex works with airline executives worldwide to help them achieve drive high performance in their businesses, by implementing flexible operating models that enable airlines to offer products which the passengers are willing to pay for.

After 10 years at American Airlines and Sabre in the 90s, Alex joined Arthur D. Little to lead their travel & transport practice. Prior to joining Accenture and for three years, he owned and run his own strategy consultancy, operating exclusively in the travel industry.

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A changing market environment gives rise to so called GDS New Entrants – or GNEs

Market forces

GDS deregulation in US and, under consideration, in Europe in 2006

- Airlines are free to steer business to selected GDS's
- GDS's are free to charge varying fees to carriers
- Divestment of airlines due to abolished rule for mandatory equity shares in GDS's

Price pressure from airlines

- Growth of low-cost-carriers forces margin pressure on traditional airlines
- Lower ticket prices increase segment fees relative to total cost
- Some airline agreements with GDS's are up for re-negotiation

Intensified competition and margin pressure impact the GDS industry

Technological advances

- Building and maintaining new distribution systems has become easier and cheaper
- New technology lowers entry barriers for GNEs
- Migrating GDS legacy systems is expensive

Shift towards direct and online distribution

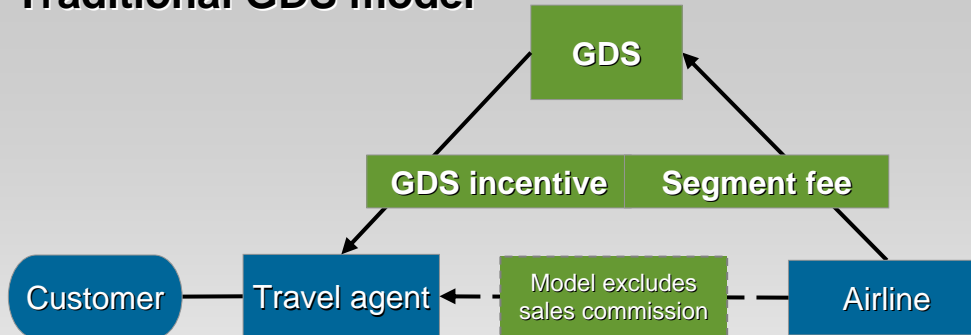
- Reinforced focus by airlines to maximize direct traffic shifts bookings away from GDS's
- Online distribution erodes GDS's asset of access to traditional travel agencies

GNEs are not only about technology but about economics

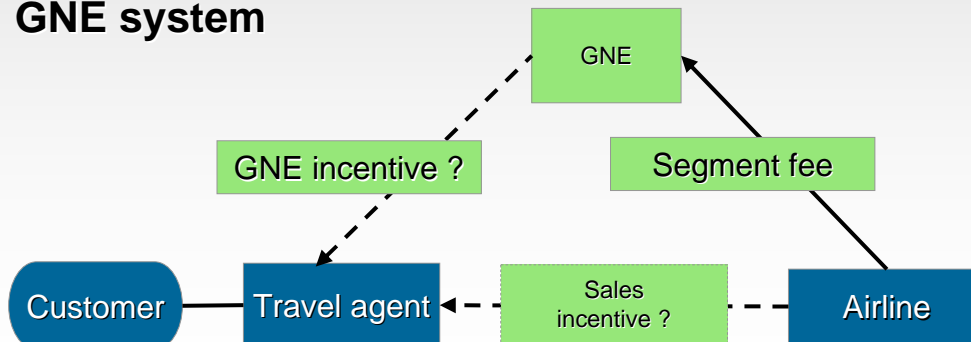
Differentiating factors

Cash flows for GDS and GNE systems

Traditional GDS model



GNE system



What is new

- Next generation technology allows for low segment fees (starting at 40¢ per segment – ITA)
 - GNEs basically do not pay incentives but claim to provide preferred content instead
 - Though airlines save distribution cost, they have to offer
 - attractive incentive schemes
 - exclusive fares
- ... to encourage agencies and travel management companies (TMCs) to adopt GNEs and complement or abandon systems they have always worked with

GNE impact the entire travel industry and start to leave visible footprints outside the US

From the travel press

December 2005

Star Alliance signs deal with G2 Switchworks and ITA Software

October 2005

Worldspan lost access to Air Tran

June 2005

Cendant announces plans to invest in alternative GDS technology

November 2005

AA, UA and US comment on likely plan to downgrade GDS participation

May 2005

HP, AA, CO, DL and NW agree to pre-pay distribution fees on 8 million tickets. In return, they will receive a discount on transaction fees and have a chance to acquire a minority stake in G2.

September 2005

Cooperation talks between Farelogix and Lufthansa Systems

October 2005

Return of rumors surrounding talks between Amadeus and Worldspan about a merger

January 2006

Iberia to cut its 130 million € GDS bill by renegotiating GDS contracts

Conclusions

- Airlines reduce GDS displays or threaten to do so
- Low-cost value proposition of GNEs is leveraged by airlines exerting additional pressure on GDS's to lower their booking fees
- GNEs force GDS's to rethink their traditional business models
- GNE equity stakes offering to airlines fosters GNE penetration
- If GNE business model proves to be sustainable, GNEs become potential acquisition targets of GDS's
- New 2006 value pricing with more degrees of flexibility (up to six) appears more enticing to airlines
- Airlines continue investing in their direct online strategies

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G2 SwitchWorks Company Background

The industry's choice for low-cost distribution services

- **Founded in April 2004; based in Chicago**

- Highly specialized team with relevant experience from GDS, supplier, agency, travel technology and leading software development companies
- 2005 venture capital investment from Norwest Venture Partners and Texas Pacific Group's TPG Ventures
- Created around a fundamental belief in the value of effective third party distribution

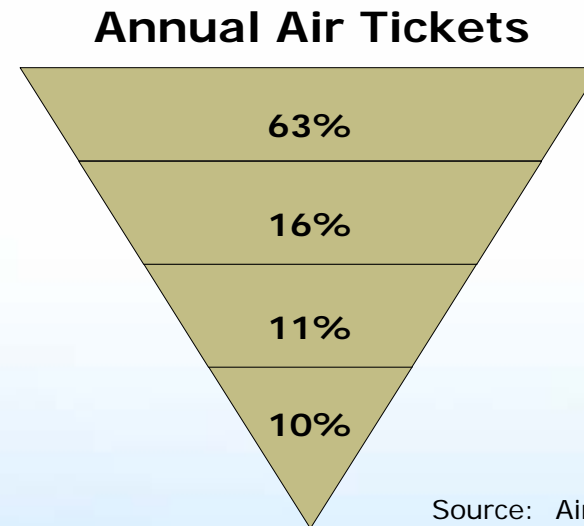
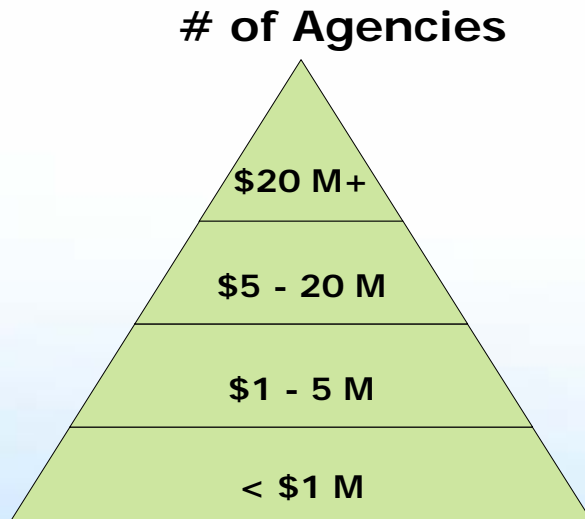
- **A quick business update**

- Production as of January, 2005
 - Currently load tested at 30,000 air tickets/day with horizontal scalability
- Nine airlines in production; three more under construction
 - G2's partners cover up to 95% of US air travel needs
- Seven airlines name G2 their preferred alternative distribution provider
- Selected for Star Alliance's Alternative Content Access Platform (ACAP)
- Preparing hotel & rental car solution

- **Opportunity exists for a better price AND a better product**

Third Party Distribution Landscape

Base is shrinking but market is large and choices are few

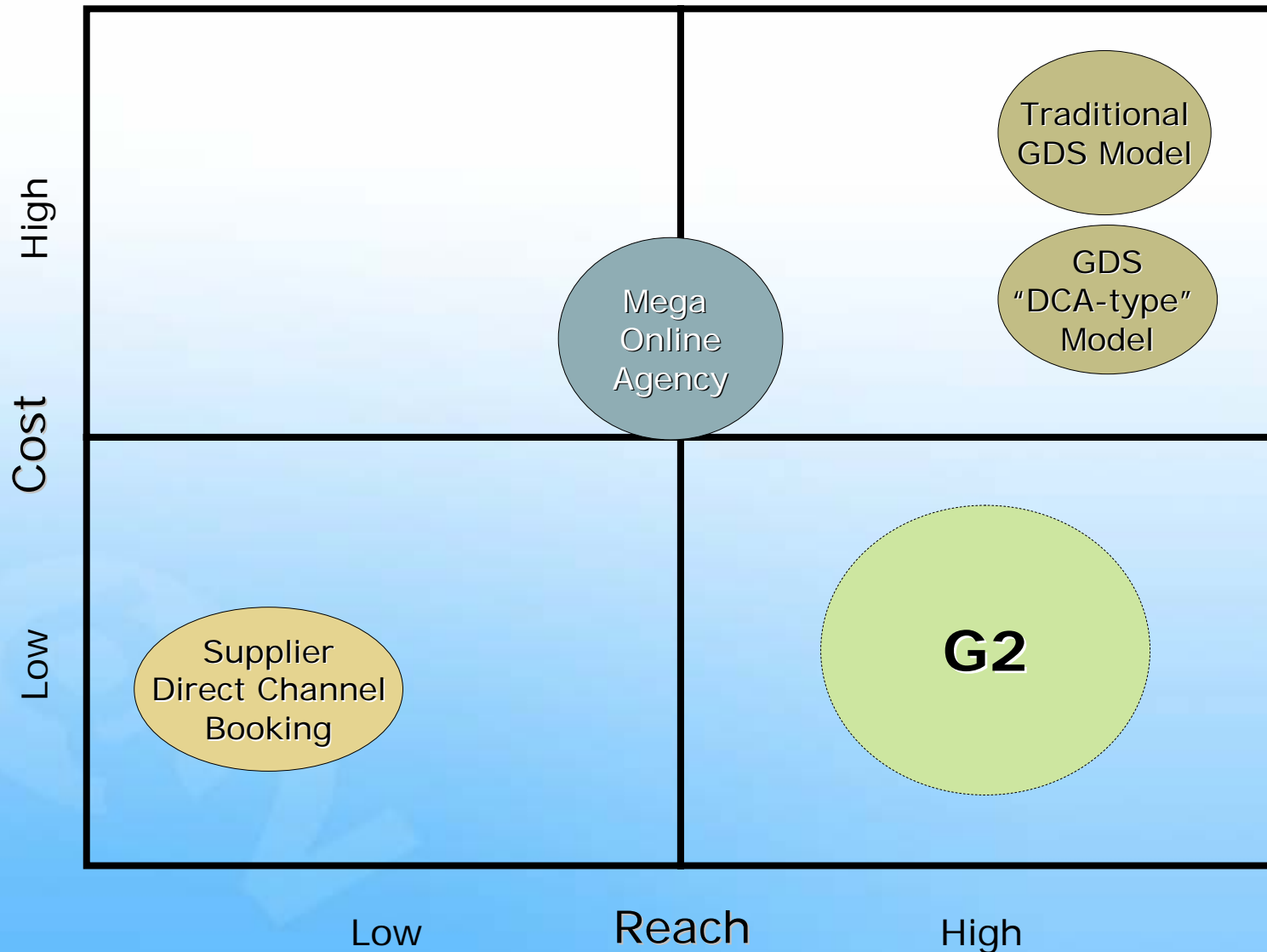


Source: Airlines Reporting Corp.

- **U.S. agency marketplace has consolidated dramatically with similar trends worldwide**
- **Top 1% agencies contribute 63% of third party air ticket volume**
 - Most are already multi-GDS with supporting technology
 - Opportunity exists to supplement and effectively manage multi-source distribution
- **Smaller agencies most tied to a single distribution provider**
 - Disproportionately risk to secure content
 - Opportunity exists to deploy a new level of technology and automation

Airlines Encouraged to Bypass Agents

As distribution costs are clearly out of whack



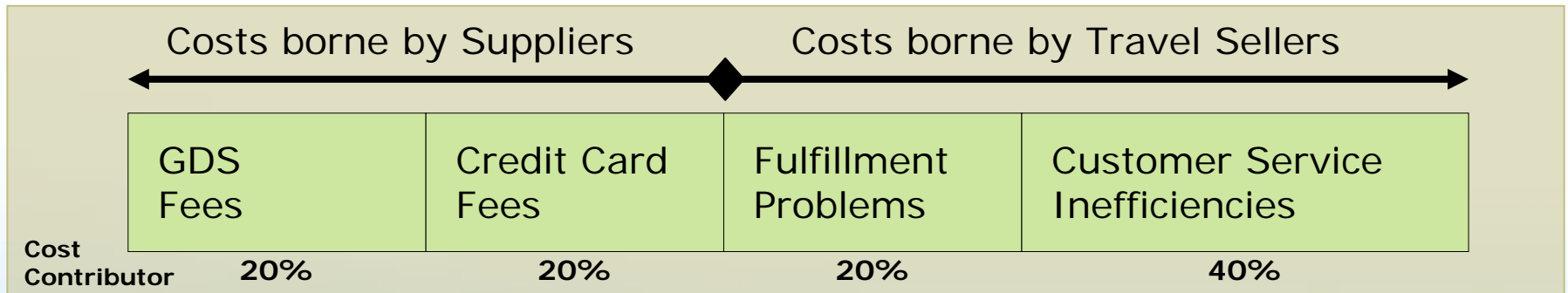
Travel Agencies Provide Value to Airlines

- **Some portion of the traveling public will continue to avoid a model of visiting and shopping on various airline websites**
 - For example, corporate customers
- **Agencies typically produce higher yields**
 - Agencies produce yields - not distribution systems
- **Some airline products growing in complexity**
 - New segmented products
 - Growing alliances and other endeavors
 - GDS' currently serve the lowest common denominator...
- **Danger having distribution in the hands of the few...and the large**
 - Airlines need sound agency competition in both corporate and leisure markets
 - Greater competition benefits the entire marketplace

Airlines need agencies selling the right product at the right cost of sales ...

G2 Reduces Distribution Cost

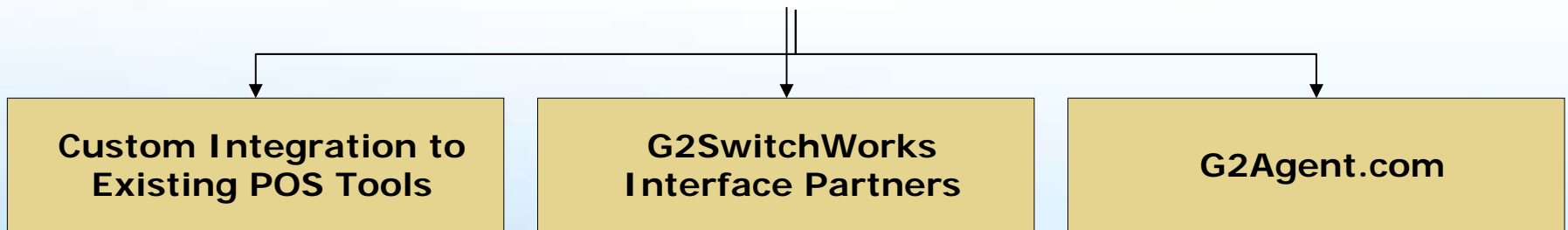
While introducing a better product



- **GDS fees are only small part of the distribution problem**
 - Greater opportunity exists on solving agency needs and there is more cost savings to be had with suppliers
- **Who pays the full cost of distribution? The customer does**
 - Reduced access, higher prices and/or strict fences/penalties from suppliers
 - Higher service fees from travel sellers covering costs of their inefficiencies
 - Overlay the time spent by travelers trying to determine where to find the best deal and who to trust for the transaction
 - Then attempt to track/manage where each transaction resides...

How Travel Agents Reach G2 Today

Agency



Custom integration to existing interfaces, back office systems and data feeds. Offering distribution source options and new flexibility and with a goal of minimal business process disruption.

Offer a “powered” by G2 option to various interfaces (with various levels of integration). Leverage existing third parties to reach new segments such as corporate and home-based agency segments.

Web based interface available for free to any ARC accredited agency providing easy access to G2’s shopping, content and automation. Guaranteed incentives, back office and full debit memo protection.

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GDSs vs Limited Travel Distributors

GDSs deliver today

- Aggregated content now
- Global offering
- Secure, proven networks, 99.9% reliable
- Interline capabilities
- Guaranteed airline pricing
- Established customer service support
- Back office integration
- Hundreds of ancillary vendors
- Highest security for personal data
- Innovative products to help agencies
- Group capabilities
- Agency incentives for reaching goals
-the list goes on...and on....

LTDs – deliver promises

- Less technology
- Limited content
- Fewer incentives

GDSs are truly *Global*

Meeting every traveler's need on virtually every continent

- Sophisticated, worldwide distribution and communications networks
- Localized content for nearly every major city worldwide
- Content displayed in multiple languages
- One-stop shopping—complete domestic or international trips in one itinerary
- Connectivity and bookings for hundreds of travel suppliers worldwide
- Technology provider for tens of thousands of travel agencies in well over 200 countries
- Vital to the development and operations of internal systems for airlines worldwide
- Power the majority of the world's largest consumer travel Web sites
- Comprehensive, global travel databases with real-time availability and pricing

GDSs are *Proven*

A history of trusted performance and service

- Process the most complex itineraries for both domestic and international travel
- Offer most accurate and comprehensive fares and pricing systems worldwide
- Deliver reliable, secure systems with a 99.9% assurance of connectivity
- Process up to 10,000 messages per second
- System response times of a fraction of a second
- Process billions of travel transactions monthly
- Sustain local market sales, service, support and call centers worldwide

GDSs are *Innovative*

Offering the newest platforms and technologies available

- Dual technologies—the latest enterprise architecture and open systems platforms
- State-of-the-art data exchange tools for GDS Interface (XML, EDIFACT)
- World's largest transaction processors for online travel agencies
- Sophisticated low-fare search technologies (Worldspan e-Pricing® passed the one billion mark in number of queries processed last year)
- Automated airline ticket repricing technologies (Worldspan Rapid RepriceSM processed more than 12.5 million transactions in 2004)
- Graphical interfaces for airline seat selection for all flights
- Graphical interfaces for searching and booking all segments of travel

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The background of the slide is a photograph of the nose of a white commercial airplane against a bright blue sky with scattered white clouds. The airplane's nose is in the lower right quadrant, pointing towards the upper left. The Accenture logo, consisting of a chevron symbol above the word 'accenture' in a bold, lowercase sans-serif font, is positioned in the upper left quadrant. A thin black horizontal line runs across the middle of the slide, separating the logo from the tagline.

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**Thank you
for joining the Accenture webcast**