

Jeff Jackson
BusinessWeek CFO Forum
Carlsbad, Calif.
April 26, 2002

*“Technology Triage: Strategy and Implementation
On a Reduced Budget”*

[Slide – Cover slide]

- Good morning. Like every other company in the travel industry, we faced a huge challenge last year. I’m going to talk about how we managed our technology investments prior to Sept. 11 and how we do it today.

[Slide – Strategic Framework: Value Chain]

- To effectively direct your technology investments, you must have a well-articulated corporate strategy or framework. At Sabre, we represent our framework conceptually with the travel value chain.
- You can see it’s a straightforward depiction of the value-added steps involved in buying and selling travel. By analyzing where along the value chain are the greatest opportunities for profitable growth, we can identify what our future technology needs may be.
- So, while most of our revenue today comes from the **Reservation** phase of travel, we are increasingly investing in the **Initiation** and other phases – to create adjacent opportunities – and new revenue streams.
- For example, for Travelocity.com -- our consumer Web site -- we’ve created tools that stimulate demand for travel – tools like Dream Map. Dream Map lets you enter the amount you have to

spend, and then shows you where can go for that price or less.

[Slide – Strategic Framework: Technology Roadmap]

- Once we know our IT needs, we then put together a development roadmap to get us there. Our roadmap has three main elements:
- **Leverage IT outsourcing** is first. We outsourced our IT systems to EDS last year – enabling us to better focus on *technologies for the travel industry*, which create competitive advantage for Sabre. Plus, we get the advantage of EDS *scale* and experience.
 - This scalability of resources became particularly important to us in the weeks following 9/11 – when we were uncertain as to the computing capacity we would need. With our outsourcing agreement, we had the flexibility to scale up or down, depending on how the market moved.
- The second element on the roadmap is **decision support**. These are the ruled-based technologies that Sabre pioneered – beginning in the 1980s with yield management algorithms. We’re taking the IP and expertise we have in this area and extending them across the entire travel value chain. It’s a big growth opportunity for us.
 - For example, we’re now taking our yield management expertise developed from working with airlines and using it to help our travel agency customers become more profitable.
- Finally, **service-oriented architecture**. We’re moving from legacy systems that run on mainframes to open systems. The opportunity here is cost savings and cycle time reductions.

- For example, we now have 25 of our critical applications on open platforms – apps such as our popular Sales Manager or Compensation Manager products.
- The technology roadmap identifies areas where we have the greatest leverage to impact our bottom line – either by better managing our costs -- or by responding to the market to grow revenues.

[Slide – Now What?]

- A lot has been written about the events of Sept. 11 and the effects on the travel industry. Let me just say this: business travel was already softening prior to 9/11 – it had been down around *7 percent* in June. But in the days following the attacks, our travel bookings, or unit demand, dropped *70 percent*. In the month following the attacks, bookings were down around *35 percent*. And while they are coming back, bookings were still down about 14 percent for the first quarter of this year.
- Additionally, even before 9/11, we were facing several other strategic challenges -- which were in part due to the growth of distributed computing platforms. These advancements have created pressures on Sabre business models by making it possible for some of our customers to create their own marketing and distribution tools to compete with us. They are leveraging the power of the Internet and lower costs computing.

[Slide – Question]

- So I want to stop now and ask you a question. You're me – the CFO of Sabre. It's October of last year, and it's time to reassess technology spending for 2002. Tell me what you would change given the state of travel at that time:

- A. Change everything: strategic framework and technology roadmap.
- B. Strategic framework doesn't change, but technology roadmap does.
- C. Strategic framework and technology roadmap don't change, but invest only in cost reduction technologies.
- D. None of the above.

- Our strategic framework and technology roadmap didn't change. In fact, they became more important than ever because they kept us focused.
- Of course, we did make some real cuts and contractions in our spending in key areas, such as ticketing, shopping, customer data, and service-oriented architectures.
- However, we didn't prioritize on cost alone. You'll see in a moment that in response to market demands, we actually increased our technology investment spending in one area – empowering travel agencies.
- So for us at Sabre, the answer to the question was none of the above.

[Slide – Two Investment Criteria]

- We continued to prioritize based on two criteria – managing costs and responding to market needs.
- Let me give you some examples of technology investments we made to better manage our costs.

[Slide – Managing Cost: Get There]

- We use technology to simplify processes and make them more consistent across our company. The result is almost always lower costs and a cost structure that is easier to manage.

- One good example of this is a great technology we invested in to manage our travel. It's called GetThere, and it's an online corporate travel booking tool. And by the way, GetThere also happens to be a Sabre company.

- I'm not going to give you a sales pitch on GetThere – I'm just going to state some facts about our experience with it ...
 - We've saved more than 20 percent on our travel and incidentals expense.
 - We've saved about 64 percent of what we spent on travel management company fees.
 - Our net savings per trip are more than 15 percent.
 - And we have an adoption rate among our employees of 95 percent – they love using this tool.

[Slide – Managing Costs: Open Systems]

- Another good example is our move to open systems. We'll invest more than \$100 million over the next several years to migrate our travel shopping and pricing systems to a new, open platform.

- This investment will lower our costs in several ways:
 1. **Lower license fees**
 - Our total cost of ownership is expected to decrease by 40%.

2. **Increase in developer productivity** – Because developers can use higher-level programming languages (which work like people think), they can work much faster.
 - Our developer productivity is expected to improve by 100%.
 3. **The automation of data** – an open environment eliminates the need for data entry people by automating the data feed process.
 - Our cycle times to update fare rules should go down by 75%.
- And there are significant customer benefits to an open environment as well, including:
 - The system is available 24/7 – no downtime.
 - Richer content.
 - And faster speed to market with new products and services.

[Slide – Managing Costs: Leveraging Technology Platforms]

- One last example of investing in technology to better manage costs. We're always looking for opportunities to use a single technology platform -- to sunset multiple applications.
- We want to buy proven systems for internal applications. They are usually lower cost to implement, and they incorporate a lot of best practices and experience from other installations. And we try to customize them as little as possible to keep them simple and easy to upgrade. Here are a couple of examples:
 - We are installing a new customer relationship management (CRM) system across our business units. We currently have more than 60 applications supporting CRM functions across our company. So, with this implementation, we will have the opportunity to sunset many of these applications.
 - We've already implemented this strategy within our HR systems. We have simplified several processes using a single

new enterprise system. Thirty-six applications and services are targeted to be retired over a three-year period. And all the while, we're improving the overall service for our employees.

- Our **pricing functionality** is another good example of how we leverage technology platforms in our external products as well. All of our businesses – GetThere, Travelocity.com, Sabre Connected travel agencies, and reservations hosting (where we actually host an airline's reservations system) – all these businesses use some of the same pricing functionality. And we have the flexibility to customize pricing function on the front-ends when needed.

[Slide – Responding to Market Needs: Security]

- Now let me turn to the other criteria we use to prioritize technology investments – market needs. Even after 9/11, Sabre continued to address the top issues of our industry:
- For example, you probably know that several airlines have recently cut or eliminated the commissions they pay to travel agencies. We had expected these actions to happen some time in 2002.
- So, Sabre prepared an agenda aimed at empowering travel agents – helping them gain more control of their own destinies. A few of the initiatives included are:
 - **Sabre Magnify** – a suite of revenue and relationship management tools, that help agents create greater revenue opportunities and maximize their yield.
 - **Sabre Exclusives** - A merchant model program for hotels, which will offer travel agents a new revenue stream and competitive new content. (By the way, Sabre is the first GDS

to develop and provide a merchant model hotel offering to travel agents.)

- And **access to airline Web fares** – integrated into Sabre’s air pricing system. This lets agencies see Web fares – giving them and their customers more options.
- Sabre's Empower Agenda is about bringing more value to our customers, and it supports our strategy to develop additional revenue streams and increase our profitability in a large and growing distribution channel.

[Slide – Responding to Market Needs: Hedge Your Bets]

- Most of the time, market needs aren’t so completely defined as this one. The travel business is made up of lots of small niche players – some make it, and some don’t. I won’t name names.
- At Sabre, we try to hedge our bets. In the mid-90s, the Internet was just starting to flex its muscles.
- So what did we do? We started Travelocity.com. And we invested in online corporate travel reservation systems. First, we developed our own Business Travel Systems (BTS), and then we acquired GetThere, and merged the two.
- Today, travel is the largest e-commerce sector, and Travelocity.com is the most popular travel site on the Web. And GetThere leads the corporate online channel by far.
- And just last year, we did it again. Travelocity.com was just beginning to introduce its international sites in UK and Europe. So what did we do?

- We invested in Karavel.com – a French travel site with a business model that focuses on vacation package travel. European travelers – unlike Americans – are more likely to purchase their travel in packages. Karavel caters to that market.
- We always want to meet market needs even if it means investing in different technologies or business models. And we structure those investments in a variety of ways – outright purchases, minority investments, and straight software licensing or purchase.

[Slide – Technology Triage]

- That’s how we triage at Sabre. And I’m not at all sure you could call it triage because it’s what we do all the time.
- We stay focused on our strategy and our technology roadmap. And we use our two criteria – managing costs and responding to market needs – to prioritize our spending.

[Slide – Question]

- Now I’d like to do some real-time market research with my last question. I want to know when you expect your company’s business travel to return to normal – pre-Sept. 11 levels? The choices are:

- A. 2002
- B. 2003
- C. 2004
- D. 2005

- We think it will be next year.

[Slide – Closing]

- Let me leave you with this thought. Traveling to meet and do business with your customers – face-to-face – that's the best investment you can make.
- Thank you.