



Statement from

Paul J. Blackney
President and Chief Executive Officer
Worldspan, L.P.

Before the

National Commission to Ensure Consumer Information
and Choice in the Airline Industry

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Executive Summary

The current travel distribution business model, which has served the industry for many years, is broken—creating a crisis of confidence among constituents in the travel distribution chain. This is demonstrated by the dissatisfaction expressed by both suppliers and travel agencies about the efficiency, effectiveness, and fairness of the current environment.

The GDS can remain the greatest source of aggregated, unbiased travel information and options. In order to remain the source of information, Worldspan believes that a new business model, one through which all participants in the travel distribution chain can once again clearly demonstrate value for price, will change how suppliers and distributors use and access information, ultimately improving the scope and quality of travel information available to consumers.

Worldspan further believes that without a proactive remaking of the current business model, the distribution chain—and consequently the quality and reliability of information available to consumers—will splinter and deteriorate. It is critical for the model to change in order to enable consumer understanding of travel options (both price and service), as part of educated decision making.

Worldspan is the only GDS admitting that the current business model no longer works. It is Worldspan's goal to deliver a new business model strengthening the distribution chain for each participant: A system which provides options and facilitates those options so that travelers can make choices that best serve their needs.

Worldspan's ultimate business objective is to ensure effective, comprehensive and timely information, by whatever means suppliers, distributors, and consumers choose.



Worldspan thanks the Commission for the opportunity to present Worldspan's comments with regard to the Commission's studies of the financial condition of travel agents and the existence of possible impediments to distribution of travel information to consumers. As Worldspan serves nearly 20,000 travel agency customers and processes more than 50 percent of all online travel agency bookings, we believe our insights will prove valuable to the Commission's efforts.

Worldspan's voice in the industry is unique. The ways in which we differ from our competitors are substantial, and we believe Worldspan can offer distinctive insights to the Commission outside of those it may derive from the other global distribution system (GDS) companies and other members of the travel distribution chain.

Consumers will ultimately choose the most effective form of distribution, given their individual needs. Worldspan's strategy is to enable each of our constituents in the travel distribution chain to effectively compete for the end customer.

We believe that the deficiencies in the current travel distribution business model have made the benefits of individual participants in the chain unclear. The model needs to change in order to highlight the benefits of each participant, by effectively aligning the cost of the distribution with the benefits received.

Prior to addressing this issue, Worldspan feels it is important to separate fact from fiction regarding GDS fees.

Worldspan recognizes that its travel supplier customers do not view GDSs as providing value when compared to the fees they are paying. There is considerable misunderstanding, confusion, and factual inaccuracy in the industry, stemming from the argument that GDS booking fees for suppliers have risen substantially over the past 10 to 20 years without associated incremental value.

Worldspan submits that it is not possible to compare all GDS companies in the area of fees and associated services. GDSs compete differently and offer diverse value-added services to airlines and other suppliers that chose them, beyond base functionality.

Worldspan fees to participating airline customers for many years remained the lowest in the industry. Also unlike some of its competitors, Worldspan has historically rejected the one-size-fits-all approach to fee structures. Worldspan has traditionally structured fees according to the requirements of specific market segments instead of establishing a monolithic fee regime, and it has concentrated on applying fees that are more closely aligned with the service provided.

It is true that booking fees have risen over the years, even though some computer hardware costs have declined on a unit basis. However, it is important to put into perspective that the history of the GDS industry is relatively short when considering the dramatic technological advances it has experienced. Consequently, many expenses have risen quickly, such as labor, development costs, software license fees, and the amount of hardware consumed in each transaction.

Specifically, the amount of computer processing, mainframe system capacity, and network usage required by travel suppliers, especially airlines, has been rising dramatically, especially due to growing fare complexities and increasing functionality such as E-ticketing, and growth has also been necessitated to support suppliers' sophisticated revenue management systems. Technology-related activities have additionally increased due to the shift to online bookings, since more computer resource-intensive shopping is occurring in this arena than ever before. Combined, these forces outweigh the decrease in mainframe hardware and system software costs. Technology providers absolutely must adapt technology to industry expansion and growth, and it is costly.

Example: Over the last 10 years, the path length (a measure of computer resource utilization) per message in the Worldspan global mainframe system has multiplied to 17.5 times higher than it was 10 years ago. In addition, over that same period, the number of messages per booking has multiplied four times.

Moreover, the Worldspan mainframe today serves multiple distributors beyond the traditional travel agency, including online distributors, suppliers that host their own travel booking Web sites, corporations, and an increasing number of non-travel e-commerce companies that have entered the online travel market.

Travel technology has advanced rapidly, requiring continual, and of late, more frequent investments by all participants to remain competitive, including suppliers. Worldspan believes that supplier awareness of the enormity of GDS contributions has been increasingly diluted by the overall demand placed on suppliers to advance their own technologies and to remain competitive.

While Worldspan feels it is important to debunk the inaccuracies associated with GDS fees, the fact remains that individual participants in the travel distribution chain are dissatisfied, underscoring Worldspan's contention that the model is broken.

The solution to our challenge is not a GDS bypass, as this would disenfranchise travel agencies, harm consumers, and add to supplier costs by duplicating already-existing capabilities in the GDS. Bypass solutions will erode the utility of travel information by disaggregating information contained in the GDS. However, in today's new environment, suppliers seem inclined to incur those costs because they perceive the current model as dysfunctional for them. Worldspan is committed to correcting the perception among suppliers that GDS costs are not commensurate with the value they are receiving—with greater communication from Worldspan about areas driving supplier costs, and what suppliers can do to better control their GDS expenses.

It is important to renew supplier awareness of the value of the GDS infrastructure. GDSs are the world's largest centralized, and most technologically sophisticated and comprehensive vehicle for the distribution and management of travel information worldwide. GDSs balance virtually every segment of the travel industry on a daily basis. Reinventing this complex wheel has been tried and abandoned. It has not only proved to be cost-inefficient, but cost-prohibitive, due to the breadth and scope of GDS technology and related services.

For example, the Worldspan Data Center is a multi-million dollar fusion of technology and structural efficiency. The building was constructed to withstand disasters and to be self-reliant in the event of power interruptions. The facility consists of 94,294 square feet (larger than two combined football fields) and has built-in redundancies to back up the primary system should any one of its parts fail. The Data Center is staffed 24 hours a day by top-notch developers and IT experts.

Can a new entrant or distributor, such as an online distributor, effectively and efficiently replace such reliability, capacity, and performance? Worldspan does not see this as a possibility. Indeed, many of those entities are reliant on Worldspan. Yet if customers perceive they are not getting appropriate value for their expenditures, they have a powerful incentive to find an alternative—an action that neither suppliers nor Worldspan can afford. We are focused on correcting supplier perceptions by delivering enduring value for their GDS expenditures.

Worldspan has taken an aggressive stance in the industry, having recently announced plans to restructure its pricing model to better reflect the value of the GDS and its distribution partners, and to divide more equitably the costs of distribution.

The current GDS pricing model is based on a legacy system that no longer works. The industry has outgrown it, as evidenced in many ways: Travel agencies no longer receive airline commissions, a significant portion of their revenues. Suppliers are seeking alternative distribution methods. The traveling public is experiencing fluctuating levels of service and is having difficulty determining the best sources for lowest fares.

All of these challenges are hurting industry constituents. Yet while these challenges are forcing the industry to change, Worldspan recognizes that they are the result of growth and new opportunities.

Worldspan is developing a number of pricing model options to be as comprehensive as possible. This will be a collaborative undertaking with all our constituents, as Worldspan is soliciting feedback from distributors as well as suppliers, to help us determine the best options. Plans are to complete the industry analysis and make decisions to be announced later this year.

At the core of Worldspan's effort is its recognition that, unless travel suppliers believe that GDSs provide an efficient and cost-effective service, they will turn to other channels—such as the Internet—to distribute their products. This process has already begun, and the resulting fragmentation of information has been harmful to consumers.

Further, in developing alternative distribution systems, suppliers are incurring burdensome costs and are diverting their focus from their core business.

Clearly, any thoughtful effort to restructure the model needs to address these issues.

Worldspan intends to define and implement a long-term solution that will benefit all constituents, and traditional travel agencies will continue to add value in that long-term solution. The current business model tends to conceal any distributor's value from suppliers and consumers, but by restructuring the business model, we will enable the value of all forms of distribution to be recognized again by all participants.

The force driving Worldspan to this action is that all participants in the distribution chain are losing with the current business model, and they are incurring unnecessary and unfair costs. The value proposition is blurred and the current model makes the situation even more confusing.

Today, through booking fees, travel suppliers support a disproportionately large number of GDS activities, including travel agency-oriented solutions, non-air services, and market share growth programs. In addition, travel suppliers fund GDS technology development programs.

This distortion is worsened by GDSs competing with each other to gain distributor market share largely through "check-book" marketing with GDS bank accounts, funded largely by supplier-paid fees.

While the service we provide delivers value that is desired by participants in the distribution chain, the costs are improperly shared, with the financial burden placed almost exclusively on suppliers. The current configuration encourages travel suppliers to develop strategies that bypass the GDSs and travel management companies. This would be a profound shift. Going forward, value and cost must become more closely aligned for the entity that is receiving the benefit.

Passivity in the face of our current challenges will result in vulnerability for all participants and disadvantage consumers. If Worldspan is successful in developing a viable replacement for the current business model, the long-term stability and combined effectiveness of GDSs on behalf of consumers will be enhanced.

Worldspan's goal is to design a model that is win-win for suppliers, travelers, distributors/travel agencies, and GDSs. We also intend to proliferate effective solutions and to deliver an approach that retains value in various forms of distribution, including travel agencies. This will be achieved by aligning financial payments with value creation, the only position that is sustainable in the long term.

We have just begun our analysis, and input from travel agency customers will be an important aspect of our efforts because travel agencies play a crucial role in travel distribution. The industry is currently structured in a way that the agency contribution can be viewed as a burdensome cost to travel suppliers. Worldspan's objective is to build a system that clarifies and supports the value of all forms of travel distribution, including travel agencies.

Worldspan will also shape the new model with significant supplier input. We are moving forward with the belief that the more travel suppliers view travel agencies as part of a chain that delivers value for money, the more committed suppliers will be in relying on agencies, and channels that include agencies, for distribution.

Any approach that increases the transparency of the value delivered versus the amount paid, as we intend to do with the restructured model, will benefit consumers in the long run. A consumer with better information about travel and distribution choices will be able to make decisions that are better suited to his/her needs.

This is the first time a GDS has publicly committed to reshape the industry's business arrangements in a way that will better align value with cost. A restructured business model that is better suited to the needs of all participants in the distribution chain can have a profound and positive impact on a supplier's own distribution strategies.

In Summation:

Through our role as a developer, provider, and enabler of travel distribution and transaction processing, Worldspan is a unique contributor to competition in the travel industry. We have been aggressive and creative in working to enlarge the playing field, supporting new channels of distribution, and delivering new ideas and technologies to all constituents.

Worldspan urges the Commission to also recognize and elevate the ways in which emerging technologies, new ideas, and new channels bring unprecedented opportunity for all industry participants. It is not only possible, but also necessary, for all participants to coexist, so that each can participate in and contribute value in the new travel distribution environment.

Through a new business model and other innovations, Worldspan is focused on helping to bridge the industry there—to the ultimate benefit of the one constituent who really determines the future of the industry—the consumer.

Attachment: Worldspan News Release announcing plans for a new pricing model



NEWS RELEASE

Worldspan to Evaluate New Pricing Strategies

*Current industry model is broken, says Worldspan's Paul Blackney.
Company assesses alternatives to find win-win-win solution
for suppliers, agencies, and Worldspan.*

ATLANTA, June 3, 2002—Worldspan, the leader in global reservation systems and e-commerce for the travel industry, today announced plans to restructure its pricing model to better reflect the value of the global distribution system (GDS) and its distribution partners and to disseminate more equitably the costs of distribution. Current GDS pricing models require travel suppliers to bear virtually the entire cost of electronic distribution. Worldspan is evaluating possible alternatives to this design.

“The system is clearly broken,” said Paul J. Blackney, president and chief executive officer for Worldspan. “Today’s business model has suppliers paying ever-increasing booking fees—due in large measure to ever-increasing incentives to distributors. This situation is driving many suppliers to consider developing alternative distribution systems, incurring a burdensome cost and diverting their focus from their core business. We need to find a solution for them.

“It is our obligation to our customers—both suppliers and distributors, to our shareholders, and to our industry to find and implement a solution that will benefit all these constituents.”

The goal of Worldspan’s new pricing model initiative is to ensure that suppliers and others involved in the distribution process receive clear and recognizable value for their purchase of GDS services.

“Whether it is fact or perception, if customers believe they are not getting appropriate value for their expenditures, they have a powerful incentive to find an alternative,” said Blackney. “We cannot afford to push suppliers, travel agencies and other distributors to alternative solutions. We will deliver a win-win-win solution for suppliers, distributors and Worldspan.”

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Other GDSs have announced short-term plans supposedly designed to assist travel agencies, but Blackney contends these would-be solutions “don’t deal with the basic problem.”

“We are preparing a strategic, long-term response that promotes the viability of all forms of travel distribution—including traditional travel agencies—going forward. Traditional travel agencies will continue to add value in that long-term solution. The current business model tends to conceal any distributor’s value from suppliers and consumers. By restructuring the business model, we will enable the value of all forms of distribution to be recognized by all beneficiaries.”

Effective immediately, Jesse Liebman, senior vice president and general manager – Worldwide Travel Supplier Services for Worldspan, is taking the newly created position senior vice president – Strategic Projects. He is leading a Worldspan team dedicated to developing and implementing an alternative pricing model.

“This is about realigning the value proposition for all constituents in the distribution process,” Liebman said. “Today, that value proposition is distorted. When suppliers believe that they have an incentive to bypass GDSs, travel agencies or other distributors, it’s a sign that the conventional system doesn’t work.

“By engaging in this new effort to restructure a broken business model, Worldspan is again out in front in the drive to reduce distribution costs for airlines and other travel suppliers. Worldspan Corporate Online, a program that leverages the efficiencies of Internet booking solutions to lower distribution costs, and Worldspan Web AirFare, technology that delivers to distributors the broadest possible access to Internet fares at no cost to airlines, are just two recent Worldspan initiatives in this area.

“In addition, Worldspan has developed and implemented several other programs designed to reduce supplier distribution costs in the e-commerce channel.”

Technology is not the issue, Liebman said. “Worldspan has powerful, leading-edge technology that enables the multi-brand shopping experience that consumers demand and distributors want to provide,” he noted. “The issue is developing a business model that, when viewed in its wider context, recognizes and fairly compensates all the participants in the distribution process for the value they contribute, without unfairly burdening any one industry participant. We need to focus on the financial model that governs the way we do business.”

Worldspan has identified a number of pricing model options, Liebman explained, and will continue to explore additional solutions. “We want to build that list of options to be

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as comprehensive as possible, then solicit feedback from customers—both distributors and suppliers—to help assess the strengths of one option over another. In developing this new business model, our plan is to be fully engaged with suppliers and distributors of all types, including e-commerce and traditional travel agencies and others. This will be a collaborative effort with all stakeholders.”

Worldspan expects to announce details of its new pricing model later this year. Jesse Liebman’s successor to lead Worldspan’s Worldwide Travel Supplier Services will be announced shortly.

Worldspan provides global electronic distribution of travel information, Internet products and connectivity, and electronic commerce capabilities for travel agencies, travel service providers and corporations worldwide. The company's three lines of business are travel supplier services, e-commerce, and global distribution systems for the worldwide travel industry. The Worldspan reservations system provides nearly 21,000 travel agencies and other users worldwide with travel data and booking capabilities for hundreds of the world's leading travel supplier services. Worldspan is the market leader in e-commerce for the travel industry, processing more than 50 percent of all online travel agency bookings. The company maintains world headquarters in Atlanta, Georgia. Worldspan is owned by affiliates of Delta Air Lines, Inc. (NYSE: DAL), Northwest Airlines (NASDAQ: NWAC) and American Airlines. Additional information is available at www.worldspan.com.

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