



# The 2002 Outsourcing World Summit

*Conference & Exposition*

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## How to Get the Best Value from IT Outsourcing

Monday, February 18, 2002

Round 1 - 3:00 pm – 3:50 pm

### Session B

**JONATHAN COOPER-BAGNALL**

*Managing Consultant*

PA CONSULTING GROUP

**ANDREW CUOMO**

*CEO Chief of Staff*

SABRE INC.

#### Learn:

How Sabre Holdings Corporation, the global leader in IT for the travel and transportation industries, decided to focus on core competencies of travel marketing and solutions and outsourced data center operations to achieve greater efficiencies and lower costs.

Obtaining value from an outsourcing agreement relies on more than good negotiation skills. Preparing to both measure the contract's success and review processes that must be changed is the key.

In this case-study presentation, we will discuss the steps to be taken to ensure that value does not leak from the deal once the ink is dry on the contract.



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**JONATHAN COOPER-BAGNALL**  
*Managing Consultant*  
PA CONSULTING GROUP

Jonathan Cooper-Bagnall is a Managing Consultant for PA Consulting Group. He is a leader in the field of IT outsourcing and has led major outsourcing programs throughout the USA, Europe and AsiaPacific. His project management skills combined with a specialization in contract negotiations means Cooper-Bagnall is in demand on an international basis to conduct major contract reviews, lead negotiations and implement new outsourcing arrangements.

This outsourcing knowledge combined with considerable experience in assisting clients to improve overall IT performance has been developed across a broad set of industries, including Oil & Gas, Finance, and Travel & Transportation.

Born in England, Cooper-Bagnall worked for a number of European based outsourcing organizations before moving to PA to continue his specialism. Now based in Washington DC, the US headquarters for PA, he continues to advise on the acceleration and successful completion of outsourcing initiatives. Most recently he was engaged by Sabre (the leading provider of technology, distribution and marketing services for the travel industry) to assist in their multi-billion dollar transaction with service provider EDS.

Cooper-Bagnall has established a solid reputation for rapidly understanding IT management challenges, together with designing and implementing practical, commercially focused, and long term working solutions.



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**ANDREW CUOMO**  
*CEO Chief of Staff*  
SABRE INC.

Andrew Cuomo is chief of staff for Sabre CEO, William J. Hannigan. Cuomo's responsibilities include planning, coordinating and executing on various strategic business initiatives. He is also involved with project planning and developing a resource staff to assist in creating processes and metrics for critical corporate functions. Cuomo recently led the structuring and negotiating of Sabre's multi-billion dollar transaction with EDS, which included the sale of Sabre's airline infrastructure outsourcing business unit and a joint marketing agreement with EDS.

Previously, Cuomo was responsible for marketing in the Sabre Travel Marketing and Distribution (TM&D) unit. Prior to that, he headed the account management team in the Outsourcing and Software Sales (OSS) unit, where he directed the Sabre efforts to sell outsourcing services to Continental Airlines and British Airways.

Cuomo began his career as an attorney for the Dallas law firm of Haynes and Boone, and he subsequently became a senior attorney at American Airlines. Cuomo then served as managing director of Airline Management Services and Corporate Development for American Airlines. In this role, he crafted, negotiated and completed numerous transactions for AMR, including the development of its international route system and its outsourcing business.

Cuomo graduated magna cum laude with a law degree from the Notre Dame Law School and a bachelor's degree in government studies from the University of Notre Dame.

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ANDREW CUOMO

### About Sabre

Sabre (NYSE: TSG) is the leading provider of technology, distribution and marketing services for the travel industry. Headquartered in Dallas/Fort Worth, Texas, the company has approximately 6,000 employees in 45 countries. Sabre maintains an ownership interest of approximately 70 percent in Travelocity.com (Nasdaq:TVLY), the world's leading online B2C travel site; and it owns GetThere, the world's leading provider of Web-based B2B travel reservation systems. More information on Sabre is available at <http://www.Sabre.com>.

## How To Get Best Value From IT Outsourcing



Andrew Cuomo  
Senior Vice President  
Sabre Inc.

The 2002 World Outsourcing Summit  
February 18, 2002

In today's session...

- The Sabre Heritage & Challenge
- Organizing The Project
- Maintaining Flexibility
- Measuring Performance
- Complex Issues
- Preparing For Change



- **The Sabre Heritage & Challenge**
- **Organizing The Project**
- **Maintaining Flexibility**
- **Measuring Performance**
- **Complex Issues**
- **Preparing For Change**



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## The Sabre of today...

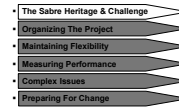
- The Sabre Heritage & Challenge
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- **Sabre's mission: to transform the business of travel through innovation**
- **leading provider of technology for the travel industry enabling travel commerce and services and enhancing airline operations**
- **S&P 500**
  - 2.6B revenues (1.9B adjusted for sale of IT outsourcing)
    - Info Tech top 100 / Wired top 40



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## The Sabre heritage...

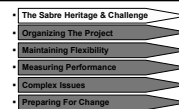


- **pioneer in travel industry e-commerce begun in the 60's**
  - former subsidiary of AMR, parent of American Airlines, became independent March 2000
  - remaining in the lead with the largest market share in North America
    - travel agencies: Sabre distribution
      - » 49% North America
      - » 39% worldwide
    - B to C: Travelocity
    - B to B: Get There
    - Direct Supplier Distribution: Sabre PSS (Passenger Server System)
      - » Airlines, including AA, USAir, Southwest Airlines



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## The outsourcing transaction...

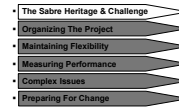


- **a tripartite agreement involving**
  - sale of outsourcing business - \$778M
    - transfer of 4000 people (40% of employee base)
    - \$700M in third party revenues
  - outsourcing of "mother" Sabre - \$2.2Bn 10 year agreement
    - data center, network, midrange, desktop, application development
  - joint marketing agreements
    - future outsourcing bids
    - airline software applications
    - penetration of travel agencies and B to B Sabre business
- **accomplished rapidly - October 2000 to July 2001**
  - conceived July 2000
  - planned August – September 2000
  - competitive bid process and contract execution Oct. 2000 – March 15, 2001
  - closing – July 1, 2001 (HSR delay)
- **favorable analyst and market reaction with a substantial market cap improvement**



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## The challenge...



- **rationale for transaction**

- key drivers
  - obtain full value and create valuable partnership agreements
  - clarify the Company focus on travel marketing
  - reduce costs, convert fixed costs to variable
  - speed
  - maintain operational excellence in the businesses
  - ensure appropriate transition of the employees
- complications
  - speed versus a competitive bid
  - extremely short timeframe
  - complex data centers / very high reliability requirements
  - globally distributed end-users
  - non-disclosure of deal beyond core team (max. 60 people until signature)



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- **The Sabre Heritage & Challenge**

- **Organizing The Project**

- **Maintaining Flexibility**

- **Measuring Performance**

- **Complex Issues**

- **Preparing For Change**

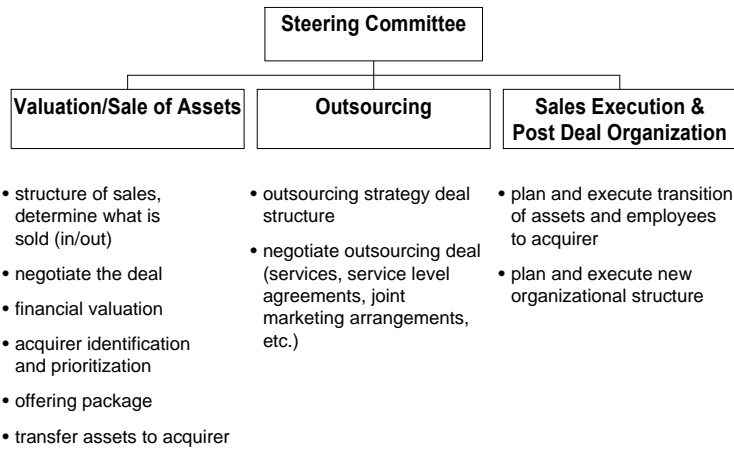


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## Teamwork, planning and results...

### ▪ build a strong team



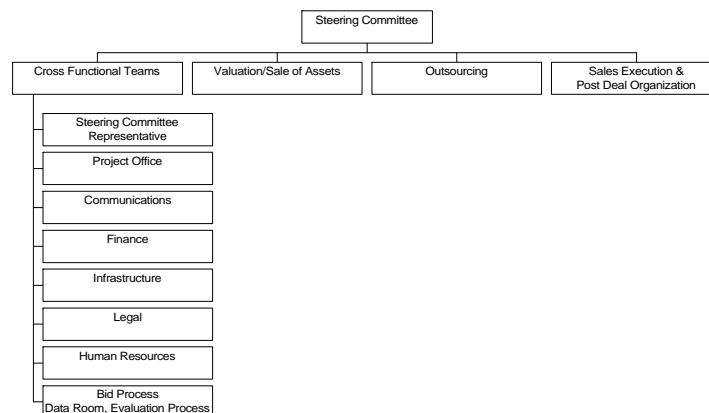
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## Creating collaborative working...

### ▪ complete solidarity between functional groups by assigning cross functional team member to each area



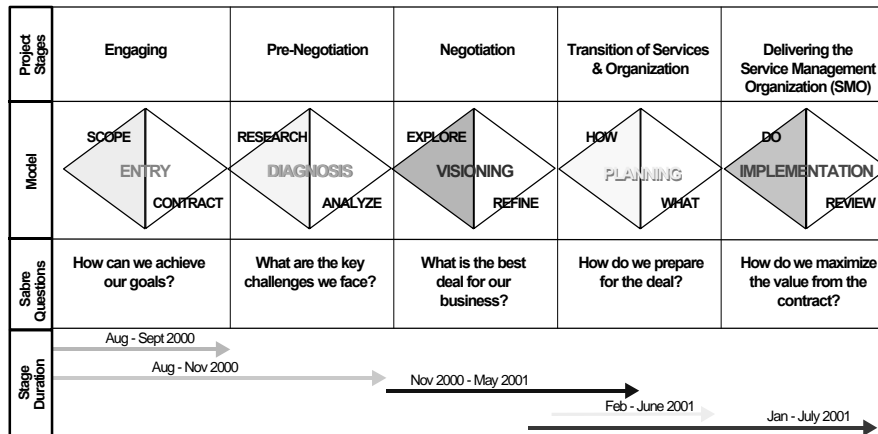
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## Structure is key...

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- Organizing The Project
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## ...as well as planning

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- **plan thoroughly and effectively – treat as a complex IT project**
  - comprehensive initial planning and coordination of activities
  - thorough change and issue management
    - strong sponsor and strong committee support with frequent meetings to resolve open issues quickly
- **establish desired results and measures**
  - target price, savings
  - negotiation play book
- **organize to prevent value leakage from bid acceptance through to closing**

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- **The Sabre Heritage & Challenge**

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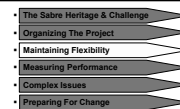
Nothing ever stays the same - so  
maintain flexibility...

- **in the contract phase**

- competition through both the bid and contract negotiation phases may expedite negotiations and prevent value leaking from accepted bids

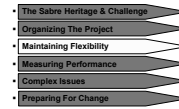
- **in steady state**

- 4 main provisions determine flexibility
  - ARC/RRC ranges
  - termination rights
  - exclusivity
  - benchmark rights



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## Nothing ever stays the same - so maintain flexibility...



- ARC and RRC ranges (estimating volumes)
  - don't rely on today's estimates - provision for the future, for sudden downturn and for dramatic shifts in the business model
  - negotiate a fully scalable volume range
- termination rights
  - full contract termination
  - service tower termination
  - convenience / for cause
  - wind down activities
- exclusivity
  - the outsourcer wants it but does it maintain flexibility?
- benchmark rights



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▪ **The Sabre Heritage & Challenge**

▪ **Organizing The Project**

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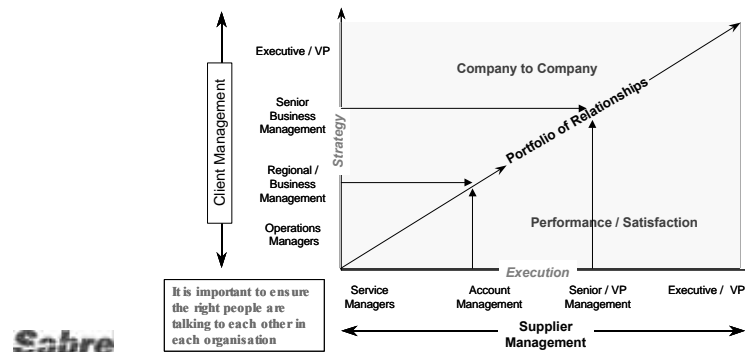
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## Establish relationships...

- The Sabre Heritage & Challenge
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- **outsourcers must have visibility into operations**

- services dashboard
- regular updates
- staff incentives to improve/sustain performance
- contacts at each level



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## Management needs measurement...

- The Sabre Heritage & Challenge
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- **service level agreements**

- must be business driven and establish the major IT impacts on the business
- develop the real needs
- create service levels and measures that deliver the requirements
- penalties and credits

- **create pre-outsourcing baseline and compare to post-outsourcing steady state**

- baseline financials must incorporate volume variances
- develop reports to assist in review of financials and service levels

- **project management**

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- **The Sabre Heritage & Challenge**

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- **Maintaining Flexibility**

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- **Complex Issues**

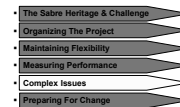
- **Preparing For Change**



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## Four of the Sabre issues...

- **single versus multi vendor solutions**
  - network operations
  - desktop maintenance
- **selling and leasing back equipment**
  - useful life; assumptions versus reality
  - flexibility to change, add, or drop
- **data center costs**
  - moving to a unit based cost
  - peak versus non-peak – preserve off peak incremental pricing options for your business
- **application development**
  - establishing what is core and non-core
  - methods for pricing - the relationship between prior planning and rate charts
  - IP issues
  - non-compete provisions



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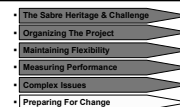
## Doing the deal is just the start...

- **start early on transition planning...**

- establish transition boundaries
- implementing controlled program framework
- joint planning with comprehensive risk assessments
- developing solid acceptance criteria
- translating and communicating the contract

- **...and process re-engineering**

- develop an organization that can manage the new arrangements -- SMO
- scope processes for change
- plan carefully; prioritize process re-engineering by both the critical nature of process that may exist at cutover and the level of planning that must be done at closing, e.g., don't necessarily design the optimal process for closing
- work collaboratively to develop and document
- ensure resources are assigned
- ensure end-user/functional department involvement



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## In summary...

- have a project leader who manages subject matter, issue resolution and pace
- no one person can understand complexities of all topics and wrestle them to a conclusion
- the project is complex and multi-disciplined and must be coordinated carefully to reach good conclusions
- the project leader must operate as a band leader and not an expert in all fields