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PERNOVA

A TRAVEL INDUSTRY BUSINESS PLAN

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A Project  
Presented to the  
Faculty of  
California State University,  
San Bernardino

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In Partial Fulfillment  
of the Requirements for the Degree  
Masters of Business Administration

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by

Dave Dietrich

June 2001

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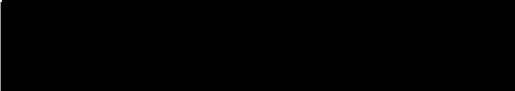
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by  
Dave Dietrich  
June 2001

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## ABSTRACT

The travel and tourism industries are today facing unprecedented challenges in coping with emerging technology paradigms. Consequently, reengineering traditional travel business models is necessary. Internet technologies coupled with increasingly complex software applications and information structures are distracting travel companies from the strategic elements of providing value to travelers. What once was simply answer the phone and provide a dedicated service form 9-5, needs to evolve into full customer relationship management from multiple sales and opportunity channels. It is imperative that these services are available when the customer demands or they will turn elsewhere. Travel companies need a solution provider that addresses these application and service gaps.

By coupling my travel industry experience with the business knowledge that California State University San Bernardino has instilled, I conceived a new company designed to shield travel firms from the complexities of managing non-core applications while strengthening their market competitiveness. The company being formed and the subject of my final project, is Pernova. By incorporating sound business education with industry experience, I will

demonstrate how Pernova stands to provide the highest level of world-class service, while building value-added features into every level of product and service offered. This leads to the distinctive aspects of Pernova's strategies.

The uniqueness of Pernova is providing travel firms with an end-to-end solution. With the recent disintegration of many dot-com firms who were pure-play in their approach and lacked a 360° customer view, Pernova was conceived as a way to offer a full gamut of services that solve the most troubling aspects of a travel firms value stream. Pernova's seamless business integration is unique, for it creates a frictionless value stream that travel firms can use to reduce costs while adding value to their customers, the travelers.

First, Pernova must lead business innovation in the travel industry. Clients purchasing our products entrust us with one of their most precious and strategic assets, their data. Integrity, consistency, and a successful roadmap through the turbulence of change are of critical importance to any customer whose business is foundationally dependent on increasing service levels and options. Pernova believes in doing more than just selling systems, but giving clients the added option to have Pernova host their applications in an Application Service Provider (ASP) model. This model

reduces up-front financial expenditures and moves revenue to a predictable monthly formula, while allowing new applications to be integrated into business processes seamlessly. This builds consistent revenue and profitability into Pernova's and our customers' business models.

Secondly, holistic customer service is imperative. From ensuring a coordinated and positive sales and marketing experience, to providing leading-edge customer care focused on providing unparalleled service at every touchpoint, the customer is the reason for Pernova. Where the travel industry has failed in managing the entire customer relationship by passively watching technology, Pernova will lead the effort to inoculate our clients with truly detailed customer intelligence. The trip to elevated profits will flow from end-to-end with Pernova.

## ACKNOWLEDGEMENTS

I am indebted to those whose comments have improved the critical approach of the next phase of my life, Pernova. Each has played a valuable role in providing key components that have heightened and enlightened my business and philosophical wisdom.

I am deeply grateful in no specific order but of the highest magnitude to Dr. Nabil Razzouk, Dr. Francisca Beer, Dr. Pat McInturff, Dr. Frank Lin, Dr. Sue Greenfeld, Dr. Bim Beckman, Dr. Victoria Seitz, Dr. Lee Hanson, and my good friend and superb partner, Sean Tack. I am especially thankful to my wife, Angela, who encouraged me to present this project to the finest and most discerning academic staff I have ever had the pleasure and honor of experiencing. Thank you all for making the effort and playing an indispensable purpose as my next journey commences.

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## CHAPTER ONE

### INDUSTRY OVERVIEWS

Outlined is the travel and tourism industry that Pernova intends to conduct business in using the Application Service Provider model. With that overview in mind, the industry model for Pernova's solutions is examined with Figure 1 as the basis for the travel industry's supply chain.

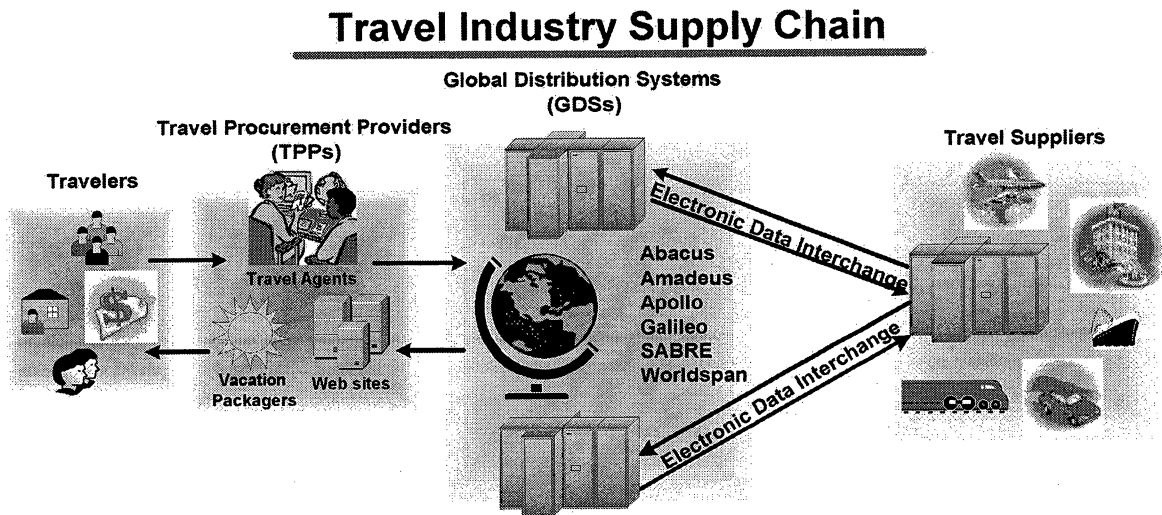


Figure 1. Travel Industry Supply Chain

### Travel and Tourism

The travel and tourism industry is one of the largest industries in the world. Travelers in the United States spent over \$577 billion on travel and tourism in 1999

(United States Census Bureau, 7) according to the US Census Bureau. Historically direct travel suppliers such as airlines, hotels, rental car agencies, and cruise lines, in addition to other indirect travel service providers such as affinity groups, ASP's, vacation package providers, and web sites have relied on internal and external travel agencies as their primary distribution channels. Travel agencies typically book travel reservations by typing cryptic commands into one of the six global distribution systems (GDSs). They are Abacus (Asia), Amadeus (Germany), Apollo (Denver, Colorado, US), Galileo (London, England), SABRE (Tulsa, Oklahoma, US), and Worldspan (Atlanta, Georgia, US). Although the GDS's differ in the types of command entries, they are alike in providing a standard "dumb terminal" interface that all agencies utilize; much like banks. This interface has remained relatively unchanged for over 25 years.

The GDSs, or Central Reservation Systems (CRSs) as they are sometimes referred, provide real-time access to voluminous data on fares, availability and other travel information. The result is that each GDS must store over 20 million published fares that can be updated five times daily. This information comes directly from travel supplier databases in an antiquated form known as EDI, or Electronic

Data Interchange. EDI is used for all business-to-business (B2B) communication. It predates eXtensible Markup Language (XML) by decades. Converting this EDI data to XML for modern B2B exchanges is the basis for Pernova's Travel Supplier Interface (TSI) opportunity detailed in Chapter 3 - Travel Office.

GDSs are the global distribution channel for travel suppliers to agencies that book travel. Travel suppliers pay booking fees to the GDSs for their brokering services between agencies and suppliers, often referred to as "infomediary" services. These fees today average \$3.54 per segment<sup>1</sup> booked. This equates to roughly 2.7% of the supplier's revenue while generating \$1.7 billion per annum in revenue to the GDSs (Gellman and Fitzgerald, 8). Pernova seeks to acquire a significant percentage of these transactions.

Moving down the travel industry supply chain, the GDSs utilize travel firms such as agencies, vacation providers, and web sites as their primary distribution channel. These agencies ultimately serve the traveler by interpreting the

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<sup>1</sup> A segment is any one item on an itinerary. For example, a flight from Los Angeles to New York with a layover in Dallas would constitute 4 distinct segments. Additionally any car, hotel, bus, or train reservation would constitute a segment.

complex and antiquated interfaces of global distribution systems. As a result, guaranteeing that travelers obtained the most favorable itineraries and fares is based on the skill and experience of their local agency. Traveler convenience has suffered since agencies lacked the technology and budgets to be accessible at the precise moment the consumer needed them.

This has led travel suppliers to build 24x7 web sites as a way to better serve their customers. Consequently, the need to have agencies facilitate the booking process, and more importantly be paid commissions, is removed. In a move to lower distribution costs, major U.S. airlines in September 1997 reduced the commission rate payable to agencies from over 10%, down to an unheard of 8%. Additionally, suppliers imposed a cap of \$50 maximum commission for round-trip tickets. Other travel suppliers soon followed suit. In the fourth quarter of 1999, virtually every global airline further reduced their commission rates from 8% to 5%.

Since agencies are compensated primarily through commissions paid by travel suppliers that have been reduced in recent years, they are effectively being "disintermediated" by the very suppliers that traditionally relied on them. This has led 67% of travel agencies to

charge their customers service fees (O'Meara, 2) to compensate for the lost supplier revenue.

Currently, standard base commissions paid by travel suppliers to agencies of all types are approximately 5% for airline tickets (subject to a maximum of \$25 and \$50 for one-way and round-trip tickets, respectively), 10% for hotel reservations, 5% to 10% for car rentals, and 10% to 15% for cruises and vacation packages. Clearly, additional revenue streams need to be sought to offset lowering commissions.

A new model is emerging through what's known as override commissions. Override commissions are when travel agencies earn additional revenue through performance-based incentives from travel suppliers. By hitting negotiated volume targets, agencies can substantially elevate financial performance. These override commissions are created by contractual agreements with "preferred vendors." Unfortunately, tracking of these volume targets is the responsibility of the agency. This can be elusive for those agencies unable to manage their data effectively or those having large numbers of preferred vendors. Small- to mid-sized travel agencies (SMTAs) are virtually excluded from this process, lacking the ability to meet lofty volume goals.



Pernova sees an opportunity for participation in override commissions by SMTAs. Through a web presence for each agency, Pernova can determine the buying patterns from its clients. Then by aggregating their buying power, negotiate with travel suppliers to obtain favorable override commissions to be distributed amongst all of Pernova's clients. Ultimately, value is added to Pernova and its clients through newly negotiated commission structures with travel suppliers.

#### The Application Service Provider Model

The Application Service Provider (ASP) model is predicated on hosting and managing business applications that add direct value to businesses. By managing non-core processes and injecting value-added services into the business mix, substantial cost savings are realized while building new competitive advantages emerge. The value proposition of an ASP provider becomes very compelling.

Businesses of any size reduce costs and overhead by leveraging the ASP's expertise and economies of scale in managing collections of applications. Businesses avoid the pain and expense of hiring specialists to constantly install, maintain, and upgrade both hardware infrastructure and software applications. By using an ASP, businesses gain

immediate access to top-tier applications and systems for a predictable monthly fee without the maintenance headache. Eliminated is the need for operations' departments to supervise technology. Marketing and finance can now simplify the forecasting and budgeting process by using a simple variable rate formula based on transaction volume.

ASPs open new avenues of e-business for any size organization. They create economies of scale by consolidating each customer's data into a powerful, state-of-the-art data center. With this infrastructure, businesses are guaranteed that applications run with high performance and outstanding reliability. ASPs offer the type of unlimited, on-the-fly scalability that many internal IT departments simply can't offer at a reasonable cost. ASPs incorporate full-featured versions of various software packages at a price that's extremely competitive with purchasing, installing, and managing mid- to upper-tiered applications; bringing with it the benefits of a low manageable price tag and seamless integration into existing and reengineered business processes.

With regards to alliances and licensing, ASPs strategically pursue relationships with industry application vendors that give businesses special access to products and support services formerly available to only the largest of

competitors. The ASP model is ideal for businesses that can't afford the expense of developing, deploying, and maintaining an array of diverse and complex business applications. Now time-to-market delays involved with setting up and installing complex applications are eliminated by employing the services of an ASP.

The rise of Internet-based applications in the late 1990's launched Application Service Providers (ASPs) into the mainstream of corporate consciousness.

An ASP provides applications - and all the IT infrastructure and support services to deliver them - to customers on a subscription basis. ASPs typically host applications at a remote data center and deliver them to customers via the Internet or a private network. (ASP Industry Consortium, 8)

As the Internet gets faster, more reliable, and more secure, even large companies will hand over many of their computing tasks to outsourcers and focus on their core business skills. Investors, analysts, businesses and customers love the ASP business model. The technology research firm IDC expects that ASP-related spending worldwide will grow from an estimated \$150.4 million in 1999 to more than \$2 billion by 2003. Today U.S. companies spend

\$300 billion a year on IT. But, says Boston Consulting Group Inc., only 33% of major software projects save money or boost sales. Therefore, outsourcing is emerging as the best strategy to reduce IT costs. Dale W. Jorgenson, an economics professor at Harvard University, predicts that outsourcing IT could increase the efficiency of technology investments by 20%.

The goal of Pernova is to be the preferred integrator and "aggregator" of specialized travel applications supporting a frictionless value chain of our clients. By freeing clients to focus on their core competencies of marketing and customer service, profitability will increase as travel firms wholly focus on servicing their customers.

## CHAPTER TWO

### THE TRAVEL PROCUREMENT PROVIDER MARKET

The travel industry consists of numerous travel agencies and Web based travel providers that manage the bulk of the \$577 billion per year travel industry. Pernova's target market is Travel Procurement Providers (TPPs) which consist of:

- Adventure operators
- Affinity groups (such as grocery club members)
- Corporations
- Destination marketers (such as Vail, Colorado)
- Direct travel suppliers
- Airlines
- Car Rental Firms
- Cruise Lines
- Hoteliers
- Tour operators
- Other ASPs seeking value-add travel services
- Theme parks
- Travel Agencies
- Vacation Packagers
- Web based travel agencies

Currently, these travel procurement providers (TPPs) are focused on Customer Gain and Retain (CuGAR) strategies. By managing the technical aspects of a TPP's value chain, managers are detracted from focusing on building a strong and sustainable customer relationship. As management looks for value-added opportunities regarding their customers, they are faced with issues relating to IS, customer and travel analysis, accounting, revenue assurance, reconciliation, yield management (customer profitability yield) and corporate reporting. These elements defocus management and operations, thus weakening the client/TPP relationship.

There is an unmet need that TPPs are facing today. With many airlines moving towards net fares (0% commissions), the addition of management and service fees are becoming the norm throughout the travel industry. Today, over 72% of agencies now charge service fees (Transue, 3). This presents an excellent opportunity for TPPs to seek an outsource solution that reduces costs while elevating service levels to travelers. Once TPPs invest in Pernova's comprehensive products, earnings and service levels will increase while removing the headaches associated with managing non-core elements of their value chain.

The market is somewhat volatile at this time. Since larger TPP's possess the requisite funds to purchase and manage large-scale applications, a technology gap is developing between the top tier of TPPs and those in lower tiers. This is Pernova's opportunity! In addition, the advent of Internet-based, "pure play" agencies such as Travelocity and Expedia are also widening technology gaps. Pernova seeks to build upon these technology gaps to level the playing field for even the smallest of players by providing fully integrated turnkey solutions, applications designed to handle growth and service opportunities, data warehousing and mining, e-commerce, communications services, customer relationship management and back-office solutions.

#### Customers

Generally, only the largest of travel procurement providers can afford a \$50K+ Customer Relationship Management (CRM) application and the supporting staff. With this in mind, our goal is to initially target any TPP or corporation that annually books less than \$1 billion of travel. Once Pernova builds the infrastructure for taking on a TPP larger than \$1 billion, our potential customer list will expand to include these larger entities. Eventually, Pernova sees any direct supplier, travel agency, e-

marketplace or ASP, web community, affinity group, tour operator, or corporation that books its own travel as a customer opportunity.

#### Market Size and Trends

Currently, the market size is quite fruitful. With the travel industry trend towards consolidation, Pernova is well poised to capitalize. As mergers and acquisitions occur, brand recognition of Pernova with smaller acquired clients will permeate through these new conglomerates leading to higher transaction and ultimately profit potential.

The travel industry market provides many opportunities for ASP revenue. Tier 1 TPPs (larger than \$1 billion in annual travel sales—ex. American Express, Travelocity, Carlson Wagonlit, etc.) comprise about half of all travel bookings in the U.S. with small to mid-sized TPPs (SMTPPs) comprising the rest. Pernova intends to target suburban and rural TPPs specifically tailored toward a local hometown clientele. Again, as a strictly supporting role, Pernova frees SMTPPs to manage their clientele the best way they know how. Pernova will provide SMTPPs the tools to support their customers in better, newer and in increasingly innovative ways.



Strategically, there is a shift in the travel market. Users are seeking more knowledge about travel from their providers. For example, Travelocity and Expedia are seeing many travelers search their sites for information, only to lose the booking to a live travel agent once the traveler has gained some basic knowledge about the destination. Familiarity with a human is still prevalent, regardless of Wall Street's hype about the end of human intervention. A human still knows much more about a person than any computer; and humans still solve problems and abnormalities in the process much better than a faceless computer can. This premise is what Pernova is built upon. We intend to strategically position ourselves as a supporting infrastructure. Pernova supports travel providers by giving them the tools that the largest entities enjoy.

#### Internet based agencies and suppliers

The Web is equalizing the playing field for small business, not only because it gives one the same tools, speed, and audience as big businesses, but also because so much of the information on the Web is targeted towards small and medium-sized businesses. The Internet is dramatically changing the way that consumers and businesses communicate, share information and buy and sell goods and services. The Internet reduces inefficiencies in markets characterized by

the presence of large numbers of geographically dispersed buyers and sellers, and in purchase decisions involving vast amounts of information from multiple sources. We believe that the travel industry worldwide, which exemplifies these characteristics, is especially well suited to benefit from increased Internet and electronic commerce adoption by consumers and businesses. As a result, travel has already become the largest online retail category with estimated online transactions of \$4.2 billion in 1999, projected to grow to \$32 billion in 2004, according to Forrester Research. This translates roughly to 9 million U.S. households who booked air travel online last year. That number will soar to 26 million by 2003.

Given the Internet's accessibility and level of household penetration, it is evident that commercial online services have emerged as an attractive means of purchasing travel. The Internet enables online travel service providers to offer a marketplace that brings customers and travel suppliers directly together. In this marketplace, customers may choose from a diverse selection of travel options, suppliers may market and distribute their products and services more efficiently, and online travel service providers can obtain favorable pricing for their customers by aggregating customer demand more effectively than

traditional travel agents. This marketplace also provides travel suppliers and other merchants with an effective means of advertising to a targeted audience.

#### Traditional agencies

Recent trends in the traditional travel industry have contributed to a need for a more effective and efficient means of purchasing and distributing travel services to address the changing needs of consumers. Unfortunately some TPPs are reducing their level of service in response to lower commissions while others charge customers service fees. At the same time, many customers are demanding greater convenience and flexibility in how, where and when they shop for travel services. In addition, travel suppliers cannot use traditional travel agents to quickly implement effective marketing programs targeted to specific customer segments because of the large number of small TPPs.

#### The merging of the two

With the aforementioned trends in travel channels, the need to offer the best of both worlds in each category needs addressing. This implies that traditional travel agencies will need an online presence and vice versa—clicks and bricks. Both types of TPPs are seeing a threat arise from travel suppliers seeking to connect directly with the consumer. For example, Brian Harris, an analyst with Salomon

Smith Barney, "has seen empirical evidence that shows the Internet is driving load factors higher. It's simply a more cost-effective way (for the airlines) to distribute distressed inventory". TPPs clearly need to develop a more competitive strategy to hedge against these supplier forces.

### Business Opportunities

Pernova's business model is: To be a world class software developer and Application Service Provider integrating and supporting travel procurement providers' operations worldwide.

Pernova sees the opportunity to provide customers the same advantages of bigness that large TPPs enjoy: aggregated buying power, sophisticated software for booking service and travel operations, and integrated flow of information among functional departments.

Small firms, big infrastructure! With access to greater amounts of information, small to mid-sized TPPs (SMTPPs) will approach the same economics as the largest travel entities. The results are:

Smaller TPPs will stay alive and well.

SMTPPs will profit from services, extracting a premium price for enhanced services.

We believe SMTPPs can be big using Pernova solutions while at the same time be nimble and adaptable.

TPPs will use our solutions because Pernova enables them to implement applications faster, with reduced capital expenditures. Thus, TPPs can take advantage of our expertise and economies of scale and scope, without competing for scarce internal technical resources. The "need for speed" is the underlying drive for businesses in an overheated competitive marketplace such as travel. Pernova creates value by unlocking technology for and supporting the unique operational aspects of travel providers.

Time and ease of implementation are key factors in any market. Instead of taking months to get started, TPPs new technology integration will be quick and effective. By delivering software solutions on demand over the Internet and/or private networks, starting up a powerful Pernova solution will be nearly as simple as opening a bank account. With Pernova hosted solutions, TPPs gain access to top-tier business systems right away for a predictable monthly fee.

Our solutions motivate customers to do more business with their TPP because of the uncompromised service they can now provide. The use of Pernova solutions cuts costs, improves service, and encourages customers to communicate

more of their service needs for TPPs to employ resulting in higher profit potential.

By reinforcing the personal aspects of the agent/customer relationship worldwide, Pernova will emerge as the premiere provider of outsourcing solutions to the travel industry.

In the international arena, Europe is the largest travel market outside the United States. It is the intent of Pernova to penetrate the European, Asia Pacific, Far East and South American markets beginning in our 2<sup>nd</sup> year of operations. Our marketing department will become intimately familiar with the European culture, speak multiple languages, and be ready to establish and set up a distinctly Euro presence. This is a substantial advantage to capitalize on, as the traditional travel agency market is still firmly entrenched in cultures outside of the U.S.

Versions of our Pernova products and services will be tailored to recognize particular countries and regions while accommodating the local differences in culture, travel purchase behavior, and supplier inventory preferences. Not just merely translation, but cultural adherence, currency usage, date formats, and language intricacies.

## Competition

There are four known competitors in North America for products and services that are, in part, similar to the proposed Pernova ASP model. These competitors are:

TRX.com, formerly known as World Travel Technologies Group, is a provider of transaction fulfillment, customer support, technology, and data management services for the online travel industry.

E-Travel is a division of Oracle Travel Management providing eBusiness Solutions for Corporate Travel.

American Express offers Internet Travel Network (ITN) powered by GetThere.com. Users and members can check ticket availability, book flights, reserve hotels, and rent cars.

Datalex is a Dublin, Ireland based travel technology firm that offers a web-booking tool targeted primarily to mid-sized and larger travel agencies.

Pernova circumvents competitive product and service offerings quite well. These companies are long established and suffer from the constraints of the traditional travel paradigm. Instead of providing a black box solution, they have integrated into their clients' operations, thus developing a white box solution with the associated supportability issues. Pernova sees white box solutions as a disadvantage now and in the future. Pernova's black box

solutions will achieve economies of scale unparalleled in the industry with services that provide results, not resource-draining, operational tie-ins.



## CHAPTER THREE

### PRODUCTS

Pernova's product lines are delineated into three basic segments based on the concept of an end-to-end value flow described in Figure 2.

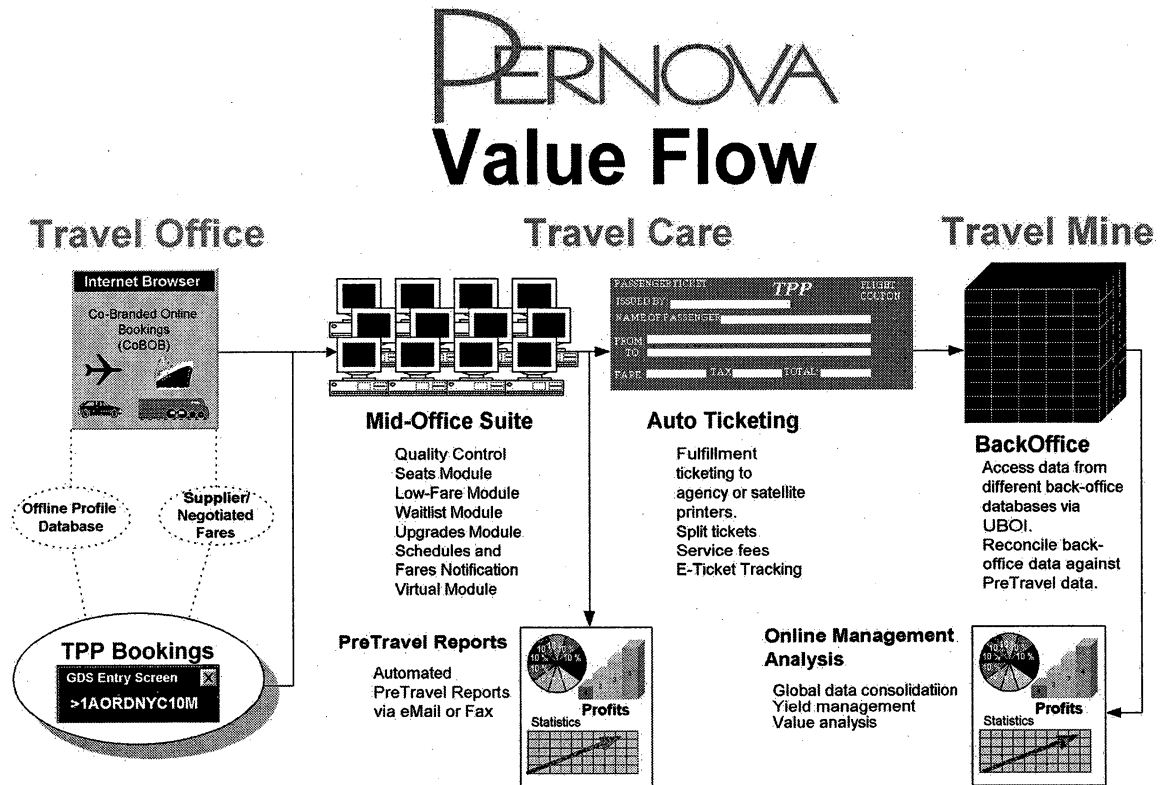


Figure 2. Pernova Value Flow

The first, Travel Office, are front-office tools including a cobranded Internet booking engine and an online itinerary viewer used by travelers and travel agents alike to book travel. Second is Travel Care, the mid-office. This

is a set of intelligent agents that work after bookings are made with the TPP (online and/or telephone). They perform quality control and business rules verification. The third segment, Travel Mine, consists of back-office tools responsible for global knowledge management, customer intelligence, and revenue integrity.

The following sections provide details regarding each product line.

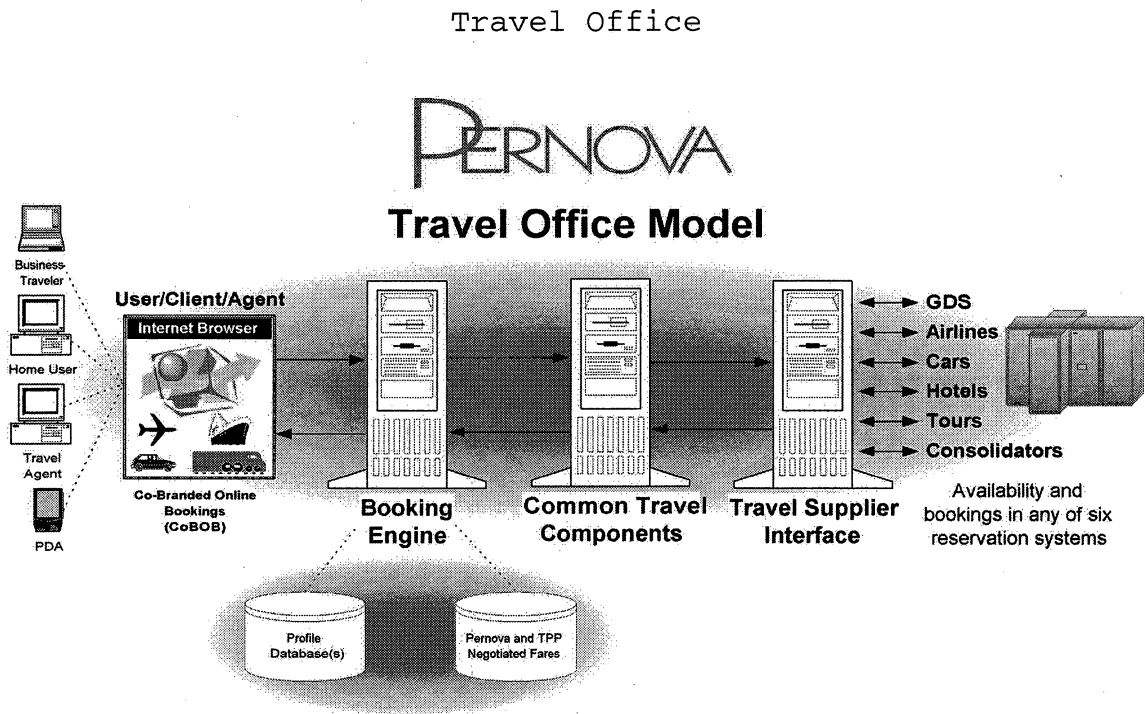


Figure 3. Travel Office Model

PernoVA Travel Office products are developed specifically with these goals:

1. Engage Customer Gain And Retain (CuGAR) - An online presence that looks beyond technical limitations and focuses squarely on the customer experience.
2. Possess a highly intuitive user interface - Increased adoption, lower training and deployment costs for internal applications while saving ever-critical time for online users of all types.
3. Be built for all types of users - The variance of potential users from leisure to business requires an interface that considers each group's concerns while not sacrificing functionality.
4. Open Cobranded opportunities - With marketing and customer relationship management (CRM) moving to the forefront of executive attention, TPPs need to cobrand with their business partners to maintain consistent and constant positive visibility.

To address these product needs, Pernova's Travel Office will provide the following solutions:

- Common Travel Components (CTC)
- Travel Supplier Interface (TSI)
- Electronic Itinerary Viewer
- Co-Branded Online Booker (CoBOB)
- Common Travel Components (CTC)

## Common Travel Components

The CTC is a programmatic interface that allows functions such as availability, fare retrieval, Passenger Name Record (PNR) retrieval, etc. to be called from one common set of routines using the same data structures—regardless of GDS or supplier platform. This reduces engineering overhead exponentially, in that developers and engineers can program to one data interface without concern for the underlying communication architecture.

The CTC is the foundation for which each product line is based. This achieves our goal of increasing knowledge synergies in our development staff while building in barriers to competition. By having development based on one set of components, operating and development costs are severely reduced while time-to-market is greatly increased.

## Travel Supplier Interface

The Travel Supplier Interface is an XML tool for communicating with travel supplier databases directly. As vendors of travel services seek cost reductions that include bypassing the GDSs, the TSI opens up huge cost savings potential as suppliers bypass the GDS's transaction fees. With the advent of eXtensible Markup Language (XML) (replacing Electronic Data Interchange (EDI)), companies can now gain access to each other's data through a common

interface. Pernova understands this industry goal. We plan to leverage our past successes in data interfacing to develop the leading-edge TSI capable of handling the most demanding supply-chain data and vendor exchanges.

#### Co-Branded Online Booker

TPPs and corporations alike are looking for solutions that utilize the Internet as a vital customer touchpoint. Pernova realizes the technology gap that travel providers of all sizes are faced with in this transitional phase. As companies look for products designed to utilize the capabilities of the Internet, Pernova sees consistent growth in the need for additional "touch" that the customers of TPPs are demanding.

Pernova plans to provide a suite of online front-office tools that are designed to foster stronger relationships between travel providers and their customers. For example, customers are demanding to have access to their itineraries 24/7/365 from anywhere in the world; not only for viewing but for creation and modification. Pernova seeks to develop an online booking and viewing tool that will be branded with the TPP's logo. This involves not only working through the Web, but also creating a tool that can email and fax itineraries to the traveler or the travel provider for review and possible modification.

While many vendors have developed a form of online booker, none have developed architectures to allow the travel provider seamless incorporation of multiple brands. Currently, smaller TPPs and corporations have to send their clients to another site such as E-Travel or GetThere.com to book reservations. Larger TPPs typically purchase a booking engine or build one themselves which is housed on their network, such as American Express.

Pernova views these models as lacking brand identity for SMTPPs, cumbersome and moving away from core competencies in the case of larger TPPs. As an ASP, Pernova is managing and hosting the travel portion of the TPP's web site while still allowing full access to their data. Pernova would book all reservations in what's known as their pseudo city (PCC), or locale within the GDS—so that their agents would still be able to access traveler records should the customer phone in after an online reservation has been made—which currently is not allowed (and a point of contention) from other vendors. Additionally, through Pernova's TSI, TPPs' agents will have access to travel supplier databases, in the advent of a direct supplier booking.

#### Electronic Itinerary Viewer

The Itinerary Viewer is integrated as a part of the overall online booking tool. Since the online booker would

allow travelers to view and modify their current purchases, viewing their reservation is a natural part of the process. Pernova will modularize the viewing engine so that all electronic communication mediums are utilized, i.e., wireless devices, e-mail, fax, Internet, and XML for interfacing to other third-party vendors. The Itinerary Viewer will then be incorporated into the Online Booker discussed above.

#### Travel Care

Travel Care has become a necessity for TPPs seeking to offer additional services to their clients. Quality control for instance, affects every reservation taken by a TPP. There are business rules that need to be enforced, internal notes to other departments, back-office information and a host of other "fodder" that is essential to every passenger name record (PNR). This fodder goes significantly beyond the traveler's name and his/her/their itinerary by adding additional TPP intelligence.

Mid-office applications are categorically "robotic" in that they continuously run 24/7/365 without human intervention. As intelligent software agents, they possess the requisite business intelligence for a specific service. In the travel industry, this is the great nightmare that

TPPs face when purchasing expensive mid-office products and subsequently attempting to implement them. Downtime is extremely costly in that customer service is degraded and business flow is disrupted. A lack of intimate product knowledge also hampers a TPPs problem-solving ability.

The discussion that follows outlines the Travel Care products Pernova intends to develop:

- Quality Control (QC)
- Seats
- Fares
- Waitlists
- Automated Ticketing
- Pretravel Reporting
- Electronic Ticket Tracking
- Travel View
- Upgrades for frequent flyers
- Profile Manager

#### Quality Control

Quality Control is the premiere tool for business rules enforcement and management. Passenger name record (PNR) quality is assured through what's known as "file finishing," or record completion with TPP specific notes. QC is accomplished through a complex set of configurable rules



that allow modification of any part of a GDS record (PNR) thus providing adherence to all business rules. For instance, a TPP would use a typical business rule to ensure that a Corporate Discount (CD) number has been applied to the record. Checks of this nature guarantee that corporations are saving the most money possible on each trip. Another example would be ensuring that service fee information was correctly placed in the record to guarantee proper accounting within the TPP's back-office system.

Quality Control is an invaluable tool for TPP's seeking to maximize revenue assurance while delivering consistent service for which leisure and business travelers have come to expect. By having Pernova manage the agency's QC process, precious capital resources can be freed while the complex issues surrounding configuration and maintenance are eliminated.

### Fares

The Fares product is of special importance to travelers today. With travel expenses literally increasing daily, there lies a need to actively search for lower cost travel options. Fares looks at each PNR and runs through a series of iterations seeking lower available fares. Fares is a must for travelers and corporations seeking to mitigate rising travel costs.

## Seats

The Seats product is primarily a value-add service for the corporate traveler that has specific seating preferences such as aisle/window or smoking/non-smoking in the case of international flights. TPPs with this service can ensure clients a higher level of comfort with regard to their air travel arrangements.

## Waitlists

There are times when travelers must get to a location even when all space is sold out. Waitlists continually checks to see if a seat becomes available and immediately books that space. Seats are continually freed by the airlines when travelers change plans, or block space becomes available such as employee reserved seating, thus opening up seats for purchase. Unfortunately, there is no set time these openings occur. Therefore, Waitlists fills the need to continually check for space availability on sold out flight(s).

## Automated Ticketing

Automated Ticketing greatly benefits overall productivity by removing the need for dedicated ticketing agents within a TPP. By freeing agents from focusing on the ticketing process, huge cost savings in labor are realized.

Additionally, TPPs can redirect these agents to providing additional value to their customers.

#### Pretravel Reporting

Pretravel reports allow client and travel managers alike to see aggregate data from all agency reservations through multiple communication mediums. For example, a travel manager or corporate account can receive a report of their current travel in progress in the form of an email or on a secure web page. Air, car, and hotel reports are also included along with the ability to include custom reports addressing the special needs of individual accounts and departments.

#### Travel View

Travel View is similar to the Electronic Itinerary Viewer discussed earlier, with the exception that an itinerary can be queued and sent via email at any time from within the GDS mechanism. This saves time and labor by allowing agents to make one entry in their native GDS and have a fully customized report sent to any client.

#### Electronic Ticket Tracking

Electronic Ticket Tracking is a service enhancement tool that allows TPPs to give their clients the opportunity to reclaim lost revenues. Electronic tickets, or e-tickets as known in the industry, are not automatically refunded by

the airlines. If an e-ticket is not traveled on, the Pernova tracker will build a report on the status of all used, unused, past date, and voided e-tickets. The TPP can then take appropriate steps to inform the client and recover the ticket's value.

#### Upgrades for Frequent Flyers

Upgrades is a service enhancement tool that will automatically inform or upgrade a frequent flyer's status to a higher class of service. If a traveler is unaware that the opportunity to upgrade to a higher class of service exists, Pernova will place a remark in the record to inform the agent, and ultimately, the traveler that an upgrade opportunity exists.

#### Profile Manager

For any business, customer profiles are increasingly critical in building a relationship that is fulfilling and lasting. Nowhere is this more prevalent today than in travel. Corporate travelers expect their preferences to be fulfilled; leisure travelers develop loyalty when remembered; Internet users demand it. Pernova's profile manager is a tool for managing these diverse profiles in one centralized location. Where profiles are traditionally stored exclusively in legacy GDS systems, Pernova opens the opportunity of frictionless profile maintenance with

significant customer analysis potential. By having one profile that incorporates legacy, phone, historical, and Web information, TPPs can now obtain a 360° view of their customers' activities and directly market services in accordance with their customers' preferences.

Travel Mine

# PERNOVA

## Travel Mine Model

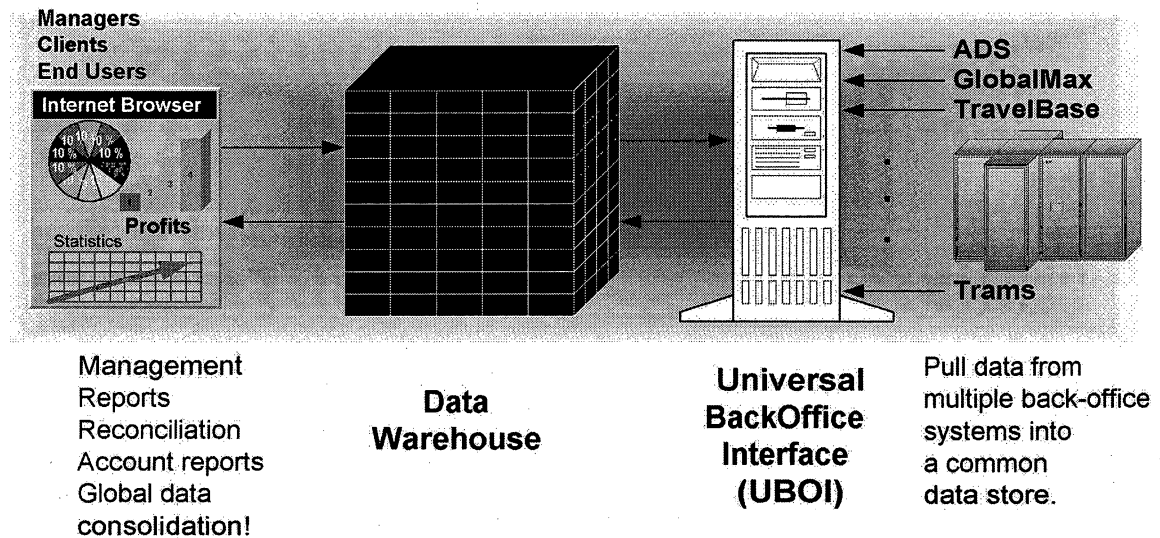


Figure 4. Travel Mine Model

The back-office is quickly becoming a major source of headaches to TPPs of all sizes. Data containing knowledge capital is locked inside proprietary databases; vendors

provide minimal reporting tools; there is a single point of failure; lack of online accessibility, and configurability is an expensive proposition. Through a consolidated data warehouse, Pernova plans to circumvent these and other problems by providing uniform access to all global data. TPPs will have access to their data in unforeseen ways and be able to find profitable customer opportunities through newfound business intelligence.

Corporate travel reports can now be conceptualized and built quickly. Management reports of any degree of aggregation can be built and ways of determining account costing and profitability are a report away. Pernova will maintain the data warehouse and provide advanced data mining options for TPPs to investigate exactly where the numbers are going.

Pernova will differentiate its back-office offerings as:

1. Integrated and complete - One product suite for all back-office query, analysis, and reporting needs.
2. Highly intuitive user interface - Increases the adoption curve, lowers training and deployment costs.

3. Built for all types of users - From knowledge workers and power users to managers, executives and business analysts.
4. Easy to administer and support - Deliver the right information to the right users with the right products without impacting IT resources.
5. Analytic Application Development Platform - Build and deliver custom applications with key business indicators that keep every user up-to-date and on the same page.
6. Knowledge Management - Provide the most detailed understanding of a TPP's business through comprehensive knowledge management. Including customer intelligence, competitive intelligence, and overall business intelligence.

Three critical tools will be developed in stages:

- Universal Back-Office Interface (UBOI)
- Online Management Analysis (OMA)
- Account Profitability and Reconciliation

#### Universal Back-Office Interface

The UBOI is a revolutionary new way to look at disparate back-offices. The UBOI provides a common interface to any travel back-office system. Much like the Common Travel Components (CTC) of the Travel Office, this mediation

layer of structured data will give every TPP the power to look at any back-office in a standardized way. Also forming the basis for Pernova's Travel Mine products, knowledge and development synergies result in lowering business overhead and raising profitability.

#### Online Management Analysis

Utilizing the power of the UBOI, Pernova will build the travel industries' most comprehensive and advanced back-office reporting facilities. The structured data provided by the UBOI will be imported into a standard Structured Query Language (SQL) data warehouse, thus enabling advanced data mining through partnering products such as Seagate Crystal Reports, Microsoft Online Analytical Processing (OLAP), and Cognos.

The additional benefit of this type of architecture will also be in merger and acquisition (M&A) activity. TPPs will now be able to merge and acquire without the typical concerns of running multiple back office systems. A gradual transition to the acquirer's back office can occur, since Pernova seamlessly integrates the addition of the acquired companies back office the day the merger is complete.

The OMA data warehouse now cracks open accounting data and moves the power of TPP analysis to the relevant parties, whether management, internal business analysts, or clients



seeking information on their business activity. By combining security features and access restrictions, management can specify what data is to be seen by whom and at what level. These services can be offered separately or bundled in whole, thereby generating new revenue and profit potential.

#### Account Profitability and Reconciliation

When dealing with all forms of data floating throughout a TPP's business, there are times when inconsistent views of business data arise. Pernova sees an opportunity to mitigate this data inconsistency by matching the post-trip data from the data warehouse with the time-of-ticketing data provided by the mid-office. Inconsistencies can be reconciled and profitability better tracked. For example, if the post-trip data shows a profitable account, yet the pre-trip data shows unreasonably high cancellations by that account, better service and management fees can be structured to accurately reflect costs associated with the account.

Management will now have the power to accurately identify unprofitable clients. On the other hand, profitable accounts can be observed to identify best practices, leading to higher awareness of profitable activities.

## CHAPTER FOUR

### BUSINESS OVERVIEW

Pernova is taking a multi-channeled approach to providing its services. As a software developer through traditional sales channels, Pernova will inject new travel competencies into individual TPPs and the travel industry as a whole. As an ASP, Pernova unites comprehensive applications developed internally with various components from outside the industry. By combining these unique options, Pernova packages a true end-to-end solution. Thereby maximizing profit potential within the marketplace while reducing costs internally through operating and knowledge synergies.

Pernova is built on the presumption that the management of information technology for TPPs is like legal advice, accounting, graphic arts, and other bodies of knowledge; in that it is not inherently a do-it-yourself prospect. Smart TPPs need to find quality vendors of reliable hardware, software, service, and support. They need to utilize these quality vendors as they use their other professional service suppliers, as trusted allies.

Pernova aims to be such a vendor. We see our clients as a trusted ally; providing them with the loyalty of a

business partner and the economics of an outside vendor. Our intention is for clients to capitalize on our tools to maximize efficiency, increase quality of service, and offer innovative products to their traveling clients. With our information applications being mission critical, our allies must have the assurance that their problems are trusted to a most loyal vendor and partner.

Given the aforementioned philosophy, Pernova seeks to take advantage of the industry's technology fragmentation. Pernova is unique in its vision and consolidation outlook regarding technology as part of the business process. While offering managed technology at affordable prices, Pernova will continue to aggressively reinvest into building and implementing new technologies that meet the demands of tomorrow's TPP and their customers. With Pernova's proprietors possessing extensive experience and industry respect for conceptualizing, building, implementing, and profiting on next generation applications, Pernova is poised to quickly fill the product and service gaps facing the travel industry of today.

## Mission and Vision

### Corporate Mission

To be the universal leader in providing comprehensive products and services to travel procurement providers (TPP) worldwide. We are committed to perpetually raising the standards of the travel procurement industry while vigilantly increasing the value of our stakeholders.

### Corporate Vision

Our vision is to be the first and best choice for travel procurement providers in managing their technical operations from end to end. We shall operate in such a way that their business goals and opportunities are in profitable congruence with our goals and opportunities.

## Keys to Success

### Corporate Values

To achieve our corporate mission, we must adhere continually to seven essential values. While the scope of our business and its specific strategies may change, these values will endure.

### Product and Service Superiority

When providing software and support services, we are only as good as the products and services we deliver. Our commitment throughout the organization is to offer products

and services with genuine superiority in quality, innovation, customer service and value, with the most important being quality. We believe that product and service excellence derives from precision throughout the design, development, sales, implementation, and customer care process.

#### Services to Customers

It is the ambition of Pernova to achieve perfection in customer service: to leave every customer satisfied with our service every time. We must also outperform our competitors in demonstrating sensitivity and responsiveness to our customers' needs.

#### Individualism

We believe in the dignity and worth of every individual. We will treat our Associates with fairness and respect, while encouraging them to think independently. Every job is important and must be performed well if we are to succeed. A career with Pernova must permit our Associates to achieve personal satisfaction while living balanced lives.

#### Teamwork

All of us together are stronger and wiser than any one person individually. We will foster an attitude of teamwork and a spirit of enthusiasm within our company. Success will

come to people who are dedicated and resourceful, to people who assume responsibility, to people who care.

### Productivity and Performance

As a business, we must be profitable. This ensures our corporate future and permits us to reinvest in growth. The key to corporate performance is achieving steady improvement in the productivity of all Associates. To do this we must capitalize on our collective talents and operate with the latest methods and technologies.

### Social Responsibility

Through our commitment to corporate excellence, we will improve the welfare of the customers who use our products and services. We shall also be good citizens in the communities in which we operate. We will maintain a sensitivity to the appropriate use of resources and to the environment.

### Corporate Character

We believe that great organizations, like great individuals, always act with integrity and character. When faced with moral choices, they do the right thing. They also bring a level of professionalism to everything they do. Above all, we are dedicated to being a company with character.

## Principals

### David Dietrich, President

David has been leading successful teams for over twelve years. His career has been focused on profitably building high-transaction, highly distributed, mission-critical systems. Today his systems touch 50% of all railroad communications nationwide, 20% of all state library-cataloging systems, and 60% of all domestic travel. Dave holds an MBA in Marketing from California State University, San Bernardino where he is currently Professor of eCommerce.

### Sean Tack, Chief Development Officer

Sean is most recently the Project Director of AQUA Software Products, Inc., the leading provider of travel automation software. During his six-year tenure, Tack was responsible for the design and implementation of the current AQUA 2000 mid-office business rules engine and user interface. Prior to AQUA, Tack designed and implemented mid-office automation modules for Sundance Travel International, a corporate travel agency based in Irvine. Sean has a B.S. in Computer Science from California State University, Fullerton.

## Business Timeline

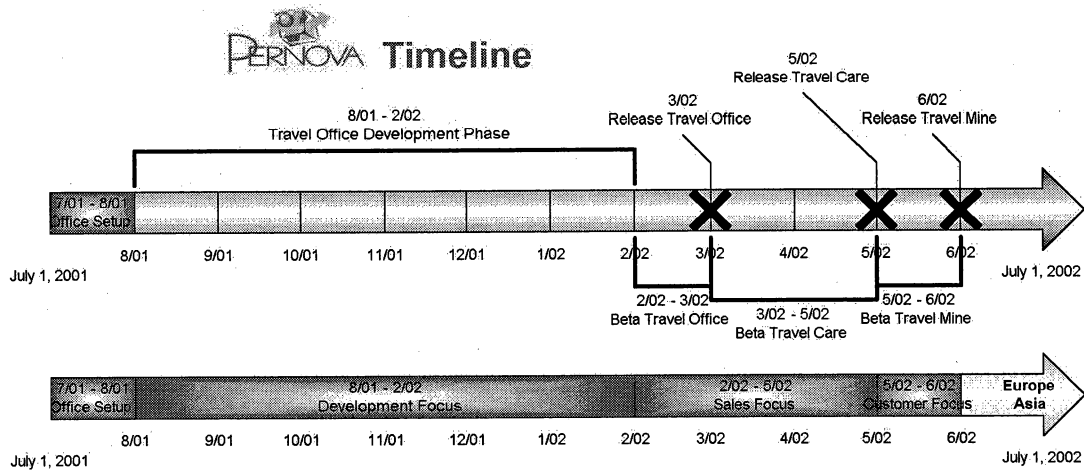


Figure 5. Pernova Business Timeline

This timeline in Figure 5 represents the overall focus for Pernova in its first year of operation. The first month is for setting up the company and its operations. Development is critical for the first seven months, in that the resulting products are the foundation for subsequent sales and support. This is the reasoning behind the three-month sales target outlined in Figure 8 - Year 1 Sales Forecast, US (p. 63).

In Pernova's second year, the focus moves to developing new international markets. Products will be converted to support international markets while an overseas subsidiary is opened.



# Corporate Organization Chart

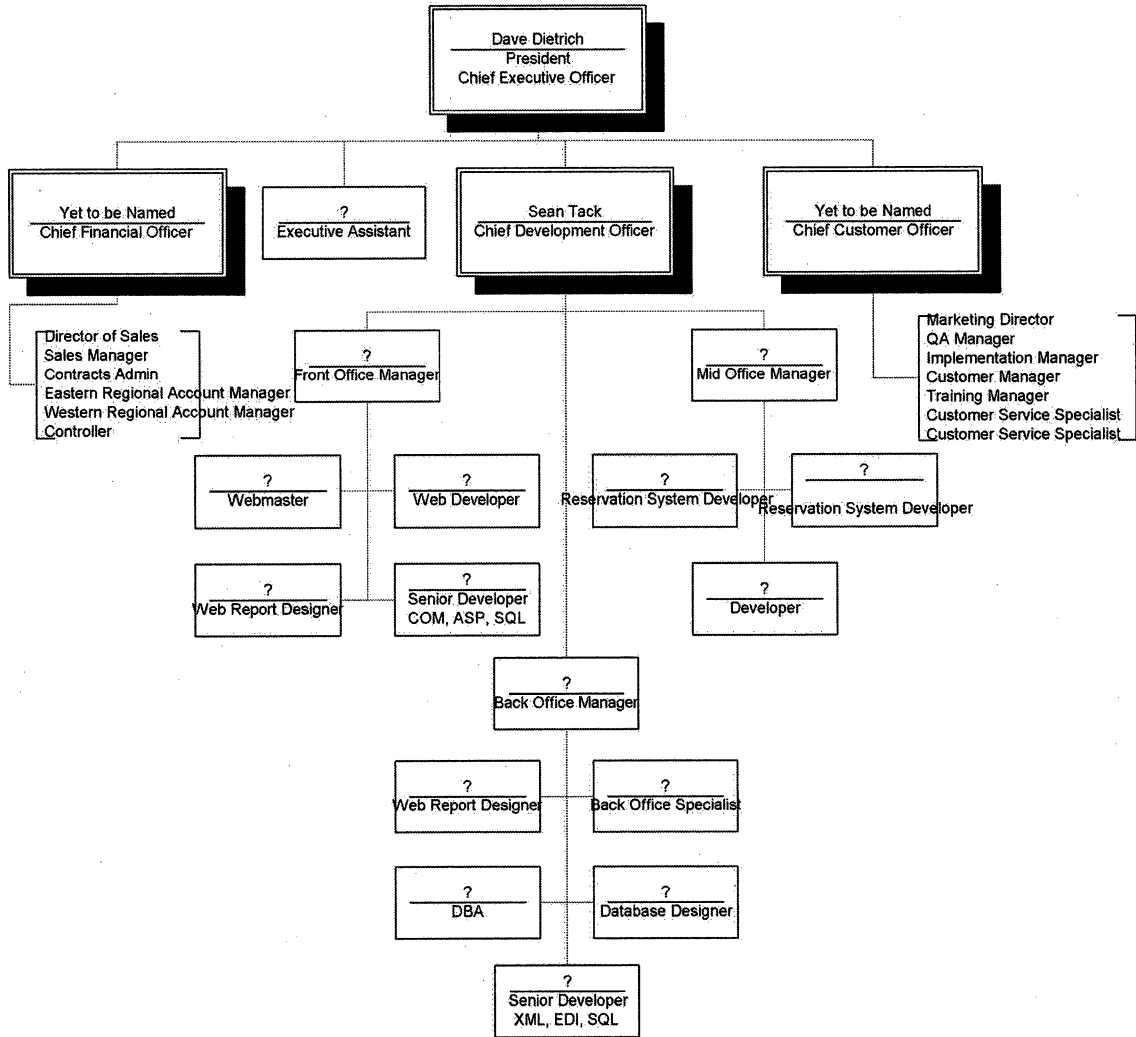


Figure 6. Pervova Organization Chart

## Product Development

Product development is underway as the principals seek financing. Of primary focus is building the Common Travel Components (CTC), as this is the foundation for the Travel

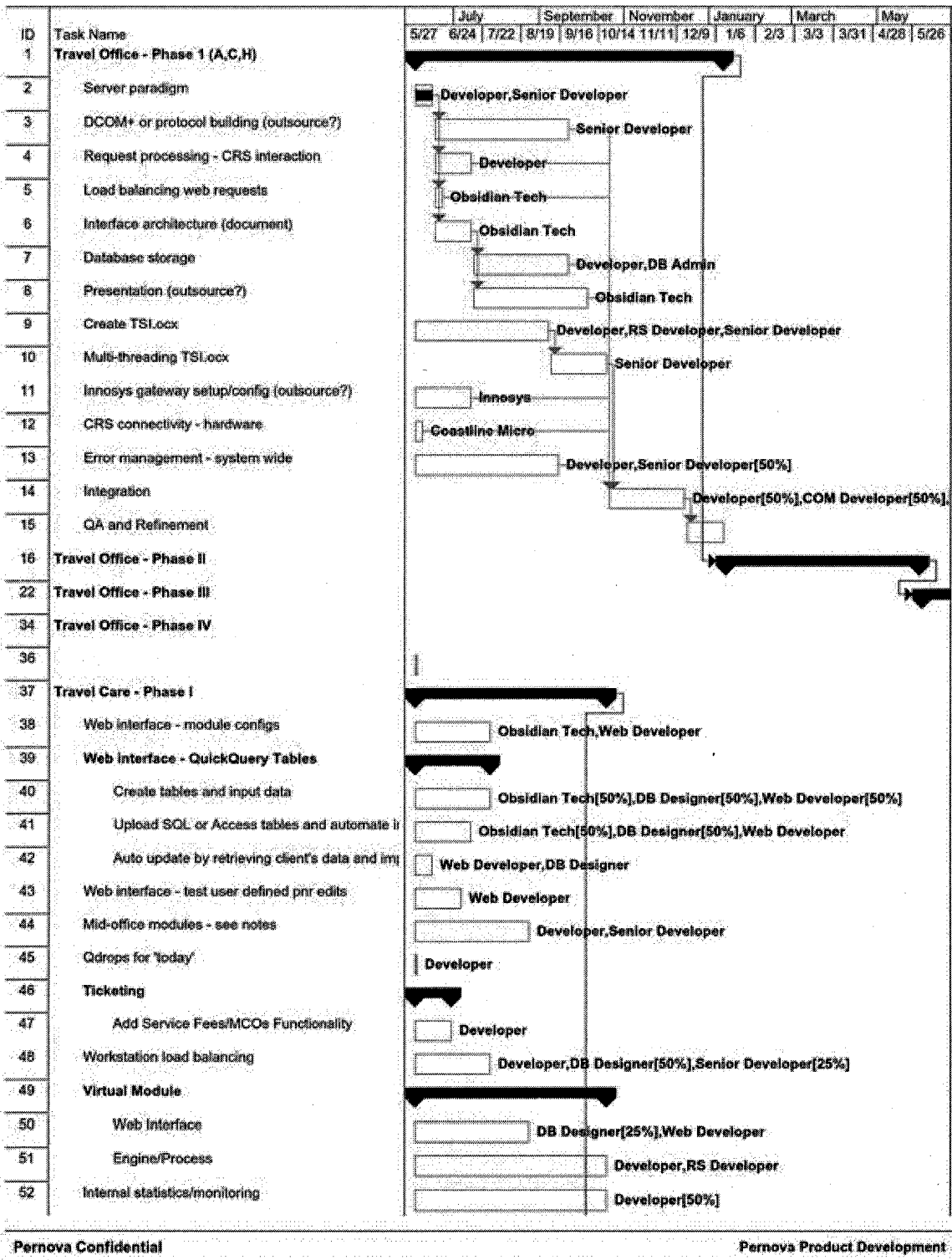
Office and Travel Care products. Our development goals are predicated on building the Travel Office, Travel Care, and Travel Mine architectures in tandem. This strategy leads to the quickest market offering of our products.

Stressing the need to stay abreast of industry trends, TPP trends, Internet trends, business trends, supplier trends, and general customer service trends is necessary to continue building viable products for our customers. In our marketing vigilance, we cannot tolerate allowing any technology or trend to go unnoticed and/or unacted upon; thus violating our values. For any successful marketing strategy, one must see the strategic results ahead of the tactical decisions. This may raise the cost of development if marketing determines that a new trend is requiring the need for new or upgraded products.

With the traveler being the ultimate element of derived demand, it is critical in a futuristic sense to anticipate their desires—not just needs. Richness of content is a strategic point of differentiation for Pernova. Customers demand personalized content. You're seeing it with Amazon, you're seeing it with Yahoo!. We believe this trend to be especially amplified with travel. Travel is a most personal experience. The best traveler experience is the key to success in travel. For a traveler to have one bad trip, it

can be a severe waste of time, money, and most importantly—  
life experience.

With Pernova, we want to minimize cognitive dissonance to the TPP, and ultimately to their travelers. Through their interaction with the TPP, the traveler is the ultimate judge of performance; and that performance is a direct reflection of Pernova. Marketing, development, and customer care will be devoted to creating product offerings that promote a valued customer experience through our TPP channel, and that Pernova will continually facilitate the needs and desires of our TPP community at all levels.



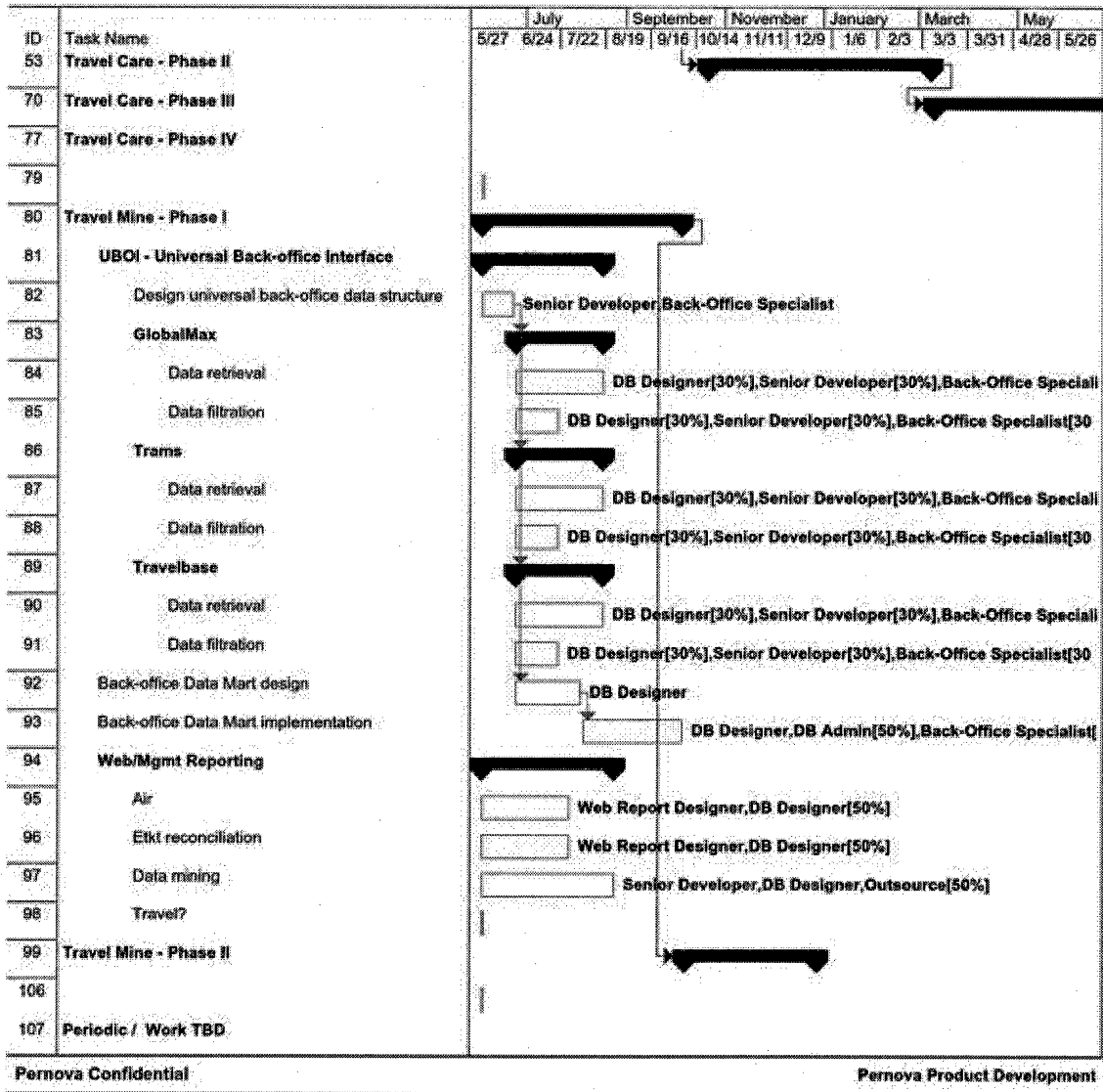


Figure 7. Product Development Product Schedules

### Production Process

As Pernova signs up new Travel Procurement Providers, implementation becomes the focus. Provisioning service offerings is the starting point. As an example, Pernova

gathers the TPP's requirements, interprets and inputs their business rules into our systems, and performs trial runs before client sign-off and final implementation. A typical end-to-end business process follows:

1. Sales initiate customer contact and discover customer opportunities.
2. Contract specialists and sales work to develop appropriate agreements.
3. E-mail is setup, implemented, and confirmed that proper operation occurs between the client and Pernova, thus allowing further communication.
4. A trial run of the CoBOB is performed by having the agency book some records over the Internet to verify their proper placement in the agency's GDS pseudo city.
5. Test Passenger Name Records (PNRs) are run through Pernova's queues (GDS locale) and CoBOB to verify proper operation and data integrity, such as e-mailing and online presentation.
6. Quality control checks and formats are entered by the client through our instructional web site. They build the business rules necessary for their operations.

7. Mid-office verifies that the proper checks are occurring on the agencies PNRs.
8. Pernova runs a set of live records through its systems to confirm service levels and performance of the necessary checks and subsequent record modifications.
9. Since this data has been collecting in our data warehouse, OMA reports are generated and presented online to once again verify data integrity and presentation quality.
10. Customer signs off signifying deployment and subsequent full-scale operation.
11. Implementation moves test systems to final production.
12. Customer Care department works on any client issues.
13. Post sales follow-up is initiated by our sales and marketing departments to determine customer issues and future desires and trends.

### Marketing

Marketing Pernova to the TPP industry requires three distinct phases. First for Phase I-SMTPP, the initial concentration will be small to mid-sized TPPs. SMTPPs offer

the most promise for initial market penetration since they do not have the resources that large TPPs do. Their decision makers are generally more accessible, so that presenting the case of renewed competitiveness through Pernova products can be facilitated more easily. Technological parity, and hence competitiveness can now be incorporated into their business environment quickly and be reflected in their processes.

Eventually larger travel providers will take notice. At that time, Phase II—full TPP penetration—will be employed, targeting the larger TPPs. Pernova will have the requisite viability, credibility, and familiarity that are critical when selling to managers of large accounts.

For Phase III—global segmentation—marketing can begin segmenting the market variances. To illustrate the strategy's implementation, the market share targets are presented followed by the execution plan and pricing. We'll finish with the advertising strategies to be employed and finalize with an explanation of our distribution mechanism.

#### Estimated Market Share

Travel agencies in the United States generated \$143 billion in sales in 1999—a 13% increase over 1997 (Jamison, 1). Although commission reductions have resulted in some consolidation, the traditional travel agency distribution channel remains highly fragmented, with few nationally



recognized brands beyond American Express and Carlson Wagonlit.

According to Travel Weekly's 1999 U.S. Travel Agency Survey published in June 2000, there are 32,238 travel agency locations in the United States. Additionally, the average location generated \$4.4 million in annual gross bookings, (i.e., the total purchase price of all travel services booked), per location (Durbin, 3). Canada boasts a market of over 5,000 travel agencies (Association of Canadian Travel Agents, 4).

These primary markets of Canada and the United States provide the greatest immediate sales potential for Pernova, due to proximity and market familiarity. Small-, mid- and large-sized travel agencies, cruise operators, e-marketplaces, other ASP's, and tour coordinators are all prospective customers for our line of products. This TPP market sector will be accessed through an informational site published on the Web, salespeople dedicated to customer procurement, and later, representatives dedicated to procuring customers in far reaching areas beyond North America. Our goal is to penetrate 1/2% of the 32,200 agencies by the end of our 1<sup>st</sup> year and to reach 2% by the end of our 2<sup>nd</sup> year in operation. In our infancy, Pernova sees these as realistic expectations based on interviews with TPPs. For

example, Jane Whitman of Escape Travel near Ontario, California states, "Anything you can do to help my bottom line is a winner with me!" Once we have established ourselves, market growth becomes more viable as TPPs observe Pernova as a long-standing brand.

In terms of volume analysis, our goals are stated as follows:

Year 1. 161 TPPs x \$4.4 million, or \$700 million equating to 50,000 monthly transactions.

Year 2. 644 providers x \$4.4 million, or \$2.8 billion equating to 200,000 monthly transactions.

For math's sake, all targets are expressed in terms of total sales. Thereby accomplishing volume goals through one of two means. Either developing an equally mixed SMTTP channel that roughly follows average, i.e., 644 TPPs by the end of year 2, or targeting the higher spectrum SMTTP agencies, thus hitting volume targets with a significantly less amount of travel providers. Therefore, all subsequent sales data will be expressed in terms of volume, rather than number of TPPs.

#### Execution Plan

Pernova recognizes that utilizing the Internet to deliver the latest applications on an as-needed basis, and hosting these applications on transparent remote servers,

allows TPPs to focus more directly on building profitable client relationships. Our goal is to be a black box; give us an input and we'll apply the business rules, returning the desired output without client intervention. Operationally, this reduces our clients' costs, while lowering our support and development costs.

Pernova has already approached two beta sites for testing our products, one small and one mid-sized. To begin testing with our beta sites, office space and infrastructure needs to be procured. Once offices, cubicles, and a data center is constructed, our estimated time frame for completion of beta and office construction with initial hiring completed is three months. At that time, Pernova will be poised to begin offering beginning versions of our products. (Please refer to Chapter 3 - Products)

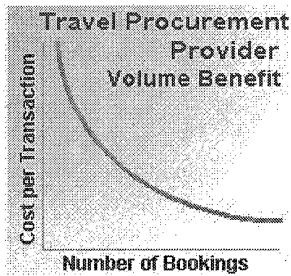
The initial marketing strategy can be related to a surprise military attack. During the first seven months, we desire no press or visibility; akin to flying under the radar. We want to ensure we have the infrastructure, both physical and labor in place to facilitate a full media assault at the end of the seventh month; release and go. Press releases, media kits, advertising (traditional and online), and trade shows are to be employed. The reasoning behind our strategy is that we don't want to give our

competition any mitigating circumstances to be used against our product positions. News travels quickly throughout the industry and we feel it critical that media focus is directed solely towards Pernova; thereby excluding our competition from countering and flanking our initial tactics (assuredly they will counter if only for the sake of press).

Once accomplished, Marketing and Customer Care will focus on our customers to ensure we live up to expectations. Continual client contact will be top priority to see what we are doing right, what we can add in the way of product features, and what future products would address key problem areas and open up new value and revenue opportunities for both Pernova and our clients.

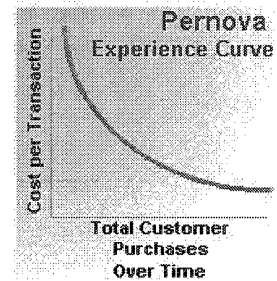
#### Pricing

The travel industry has precedents relating to pricing models. Pernova sees these models as a sound foundation towards building our pricing structure. Essentially, a tiered approach is to be employed. Global Distribution Systems (GDS) such as SABRE and Apollo have instituted this model with great success. Our pricing will be based on reducing per-transaction costs as volume increases. For example, a smaller TPP that generates less than 1,000 Internet bookings per month would pay \$5 for each booking. Moving up the scale, larger TPPs that generate upwards of



5,000 Internet bookings would expect to pay \$3 per booking. This sets real goals for Travel Procurement Providers to achieve (left). Improving and expanding their

service usage will actually decrease expenses. In tandem, Pernova will realize an increasing experience curve, leading to organizational efficiencies and economies of scale in operations as our service volume increases (right).



For full revenue projections including average pricing, please refer to Figure 8, Year 1 Sales Forecast (p. 63).

### Advertising

We are dedicated to becoming the first and leading solutions provider for TPPs. To address the market opportunity presented by changes in the travel industry, we intend to satisfy customers' needs for a convenient, comprehensive and personalized source of travel services and information.

Advertising is to be done through the combination of TPP trade magazines, travel trade shows, user groups and a strong web presence with on-line chat rooms and intelligence seminars. Pernova will brand its product lines individually and as a TravelBundle (all-inclusive). This will provide

clients a way to select the full suite of products or only the options they see fitting in their current operations. Marketing will target the convenience, ease of use and speed of using Pernova's products and services for even the most computer illiterate TPPs while not compromising sensitive travel information.

Convenience. Pernova products provide high availability 24 hours a day, seven days a week through a password protected web portal. Total application management is just a mouse click away.

Ease of use. Pernova solutions include several features allowing TPPs to easily search for information and book travel online. For example, if a customer has problems, help will be available on our Web site through the FREQUENTLY ASKED QUESTIONS feature and other custom help functions. Questions or comments can be submitted via e-mail, with responses returned by the next business day.

Speed. The Web site's ease of use and efficient architecture provide the ability to book travel quickly and efficiently. Other services can be accessed instantly over the Web anytime day or night. TPPs can update their online presence with special deals and news, instantly view operational data, and track performance in real time.

Privacy. In today's travel environment, an established travel agency owns our direct competitors. Our largest competitor, TRX.com is owned by World Travel Partners. Other TPPs seeking to do business with a TPP like this are faced with the prospect of providing critical travel data to their direct competitors. Pernova provides autonomy to travel entities, in that we are not owned or operated by any potentially competitive TPP. Their data is safe with Pernova.

#### Distribution

Yet another profitable advantage to Pernova is its multiple distribution channels. First, the traditional approach that all firms are familiar is purchasing applications and having a CD-ROM sent to their location. At that point they install the application on an available or newly purchased computer that runs the application at their location. For more sophisticated applications, a turnkey solution is provided where a new computer is shipped with all new software loaded, ready to run out of the box. Plug the new computer in and go. For an install fee, a technician may be sent to ensure proper installation, training and operation.

Pernova's preferred distribution channel will be based on hosting all applications in a data center operated by

Pernova. This is the heart of the Application Service Provider (ASP) model. Pernova would host all applications at our location and allow customers to configure their operation over the Internet or private network. Pernova saves time and money by managing all applications locally. Our customers save time and money by not having to manage computer hardware and specialized applications.

While the ASP model offers the most promise as a distribution channel, we must be realistic in expecting that larger clients will prefer to purchase, own, and operate all applications themselves. These multiple options are another example of Pernova's commitment to ensuring that each customer's individuality is fully considered.

#### Sales

The unique selling proposition of Pernova is its focus on travel procurement providers and that we are End-To-End! We handle all pieces of the TPP's business that is not directly related to their core value offering while providing value-added services for each TPP and their traveling customers. By allowing TPP's the option of redirecting energy from ancillary functions, travel procurers can now focus on developing their client's "experience." As economies move from industrial to service



to information, we will be opening avenues towards the newest economic direction, one of experience.

Sales will capitalize and brand this concept, both over the phone and through our web site. We will emphasize a bundle of travel services, named TravelBundle that encompasses Travel Office, Travel Care, and Travel Mine as mentioned in Advertising (p. 57). In addition to phone conversations and web pages touting the benefits of TravelBundle, larger TPPs will require more due diligence in support of a sales decision.

Our strategy is to develop a sales force by the end of the seventh month that manages all sales touchpoints, such as the web, focused calling, and one-on-one meetings with larger clients. Compensation programs will be built that reward salespeople for client purchase and usage of the TravelBundle or individual products. Pernova initially desires to develop a wide reach of clients, regardless of size, through the use of unit-based compensation. Once market equity has begun to take hold, in roughly 18 months, our focus will shift to revenue-based objectives. This move then places Pernova in the direction of revenue extraction and customer retention. Thereby fuelling the thrust to continued revenue expansion well beyond the 2-year mark.

### European Sales

With regards to Europe, there are roughly 62 million bookings per year (Securities and Exchange Commission, 28). Beginning in Pernova's second year of European operations, Pernova projects a 1.5% penetration in terms of bookings. In years 3, 4 and 5, we intend to elevate to 6%, 23%, and 35% of the European market respectively. With market saturation taking hold at that time, our focus will be on new product development.

### Revenue Forecasts

The revenue forecast discussions ahead are for the first five years of operation. Our first year is primarily intended to build our products, beta test all products, build infrastructure, research international opportunities, and to begin developing our marketing mix in anticipation of significant Year 2 sales. Thereafter, year-over growth strategies will be focused towards doubling and tripling revenue channels.

All forecasts are in gross dollar amounts with per unit prices provided. Figures for the first and second year are segmented by product. Following for years three, four, and five are US and international aggregate revenue projections.


		<b>Year 1 Sales Forecast</b> (final 3 months of fiscal year)			
<b>Products</b>	<b>Price</b>	<b>Monthly Transactions</b>	<b>Monthly Revenue</b>	<b>Annual Transactions</b>	<b>Annual Revenue</b>
Travel Office	\$ 2	50,000	\$ 100,000	150,000	\$ 300,000
Travel Office Account Setup	1,000	50	50,000	150	150,000
Travel Supplier Interface (TSI)	200,000	-	-	1	200,000
TSI Support (20%)	40,000	-	-	1	40,000
Travel Care	0.50	250,000	125,000	750,000	375,000
UBOI Sales	100,000	-	-	1	100,000
UBOI Support (20%)	20,000	-	-	1	20,000
OMA Reports	100	50	5,000	150	15,000
OMA Setup (per Account)	2,500	-	-	5	12,500
<b>Total</b>					<b>\$ 1,212,500</b>

Figure 8. Year 1 Sales Forecast


		<b>Year 2 Sales Forecast</b> <b>United States</b>			
<b>Products</b>	<b>Price</b>	<b>Monthly Transactions</b>	<b>Monthly Revenue</b>	<b>Annual Transactions</b>	<b>Annual Revenue</b>
Travel Office	\$ 2	125,000	\$ 250,000	1,500,000	\$ 3,000,000
Travel Office Account Setup	1,000	50	50,000	600	600,000
Travel Supplier Interface (TSI)	200,000	-	-	4	800,000
TSI Support (20%)	40,000	-	-	4	160,000
Travel Care	0.50	625,000	312,500	7,500,000	3,750,000
UBOI Sales	200,000	-	-	5	1,000,000
UBOI Support (20%)	40,000	-	-	5	200,000
OMA Reports	100	1,000	100,000	12,000	1,200,000
OMA Setup (per Account)	2,500	-	-	100	250,000
<b>Total</b>					<b>\$10,960,000</b>

Figure 9. Year 2 Sales Forecast (United States)

Products	Price	Year 2 Sales Forecast International			
		Monthly Transactions	Monthly Revenue	Annual Transactions	Annual Revenue
Travel Office	\$ 2	75,000	\$ 150,000	900,000	\$ 1,800,000
Travel Office Account Setup	1,000	25	25,000	300	300,000
Travel Supplier Interface (TSI)	200,000	-	-	1	200,000
TSI Support (20%)	40,000	-	-	1	40,000
Travel Care	0.50	300,000	150,000	3,600,000	1,800,000
UBOI Sales	200,000	-	-	2	400,000
UBOI Support (20%)	40,000	-	-	2	80,000
OMA Reports	100	400	40,000	4,800	480,000
OMA Setup (per Account)	2,500	-	-	40	100,000
<b>Total</b>					<b>\$ 5,200,000</b>

Figure 10. Year 2 Sales Forecast (International)

Products	Years 3-5 Sales Forecast	
	Annual	
Year 3 US	\$	32,880,000
Year 3 International		20,800,000
<b>Total Year 3</b>	<b>\$</b>	<b>53,680,000</b>
Year 4 US	\$	65,760,000
Year 4 International		83,200,000
<b>Total Year 4</b>	<b>\$</b>	<b>148,960,000</b>
Year 5 US	\$	98,640,000
Year 5 International		124,800,000
<b>Total Year 5</b>	<b>\$</b>	<b>223,440,000</b>

Figure 11. Years 3-5 Sales

Cash Budgets


	<b>Pernova Cash Budget Q1</b>			
	<i>Month 1</i>	<i>Month 2</i>	<i>Month 3</i>	<i>Total</i>
<b>Beginning Cash Balance</b>	0	\$3,491	\$10,756	
<b>Cash Inflows (Income):</b>				
Equity Proceeds	300,000	250,000	300,000	850,000
Sales & Receipts				0
<b>Total Cash Inflows</b>	<b>\$300,000</b>	<b>\$250,000</b>	<b>\$300,000</b>	<b>\$850,000</b>
<b>Available Cash Balance</b>	<b>\$300,000</b>	<b>\$253,491</b>	<b>\$310,756</b>	
<b>Cash Outflows (Expenses):</b>				
Advertising				0
Bank Service Charges	1,000	500	250	1,750
Credit Card Fees		2,000	2,000	4,000
Delivery	70	100		170
Health Insurance	1,958	4,229	6,771	12,958
Insurance	2,000	2,000	2,000	6,000
Internet & GDS Fees	2,000	10,000	7,500	19,500
Miscellaneous	10,000	5,000	2,500	17,500
Payroll	39,167	84,583	135,417	259,167
Payroll (Bonus)				0
Payroll Taxes	5,875	12,688	20,313	38,875
Printing				0
Professional Fees	25,000	30,000	45,000	100,000
Recruitment Fees		50,000	40,000	90,000
Rent or Lease	15,000	7,500	7,500	30,000
Subscriptions & Dues	3,000	2,500	1,500	7,000
Supplies	5,000	5,000	1,500	11,500
Taxes & Licenses	2,000			2,000
Training				0
Travel & Entertainment	1,500	1,000	6,000	8,500
Utilities & Telephone	3,000	4,000	4,000	11,000
<b>Subtotal</b>	<b>\$116,570</b>	<b>\$221,100</b>	<b>\$282,250</b>	<b>\$619,920</b>
<b>Capital Purchases:</b>				
Hardware	104,939	21,635	15,423	141,997
Software				0
Trade Show Booth				0
Furniture	75,000			75,000
<b>Subtotal</b>	<b>\$179,939</b>	<b>\$21,635</b>	<b>\$15,423</b>	<b>\$216,997</b>
<b>Total Cash Outflows</b>	<b>\$296,509</b>	<b>\$242,735</b>	<b>\$297,673</b>	<b>\$836,917</b>
<b>Ending Cash Balance</b>	<b>\$3,491</b>	<b>\$10,756</b>	<b>\$13,083</b>	

Figure 12. Cash Budget - Quarter 1

PERNOVA	Pernova Cash Budget Q2			
	Month 4	Month 5	Month 6	Total
<b>Beginning Cash Balance</b>	\$13,083	\$6,113	\$9,483	
<b>Cash Inflows (Income):</b>				
Equity Proceeds	300,000	375,000	350,000	1,025,000
Sales & Receipts				0
<b>Total Cash Inflows</b>	<b>\$300,000</b>	<b>\$375,000</b>	<b>\$350,000</b>	<b>\$1,025,000</b>
<b>Available Cash Balance</b>	<b>\$313,083</b>	<b>\$381,113</b>	<b>\$359,483</b>	
<b>Cash Outflows (Expenses):</b>				
Advertising			15,000	15,000
Bank Service Charges	250	250	250	750
Credit Card Fees	2,000	2,000	2,000	6,000
Delivery			500	500
Health Insurance	7,813	9,229	9,938	26,979
Insurance	2,000	2,000	2,000	6,000
Internet & GDS Fees	7,500	7,500	7,500	22,500
Miscellaneous	1,000	1,000	1,000	3,000
Payroll	156,250	184,583	198,750	539,583
Payroll (Bonus)				0
Payroll Taxes	23,438	27,688	29,813	80,938
Printing				0
Professional Fees	50,000	35,000	25,000	110,000
Recruitment Fees	20,000	30,000	20,000	70,000
Rent or Lease	7,500	7,500	7,500	22,500
Subscriptions & Dues	11,500	1,500	1,500	14,500
Supplies	1,500	1,500	1,500	4,500
Taxes & Licenses				0
Training	5,000	5,000	2,500	12,500
Travel & Entertainment	2,500	3,000	3,000	8,500
Utilities & Telephone	4,000	4,000	4,000	12,000
<b>Subtotal</b>	<b>\$302,250</b>	<b>\$321,750</b>	<b>\$331,750</b>	<b>\$955,750</b>
<b>Capital Purchases:</b>				
Hardware	4,720	4,880	16,370	25,970
Software		45,000		45,000
Trade Show Booth				0
Furniture				0
<b>Subtotal</b>	<b>\$4,720</b>	<b>\$49,880</b>	<b>\$16,370</b>	<b>\$70,970</b>
<b>Total Cash Outflows</b>	<b>\$306,970</b>	<b>\$371,630</b>	<b>\$348,120</b>	<b>\$1,026,720</b>
<b>Ending Cash Balance</b>	<b>\$6,113</b>	<b>\$9,483</b>	<b>\$11,363</b>	

Figure 13. Cash Budget - Quarter 2

PERNOVA	Pernova Cash Budget Q3			
	Month 7	Month 8	Month 9	Total
<b>Beginning Cash Balance</b>	\$11,363	\$9,583	\$21,743	
<b>Cash Inflows (Income):</b>				
Equity Proceeds	375,000	300,000	375,000	1,050,000
Sales & Receipts	45,000	45,000	90,000	180,000
<b>Total Cash Inflows</b>	<b>\$420,000</b>	<b>\$345,000</b>	<b>\$465,000</b>	<b>\$1,230,000</b>
<b>Available Cash Balance</b>	<b>\$431,363</b>	<b>\$354,583</b>	<b>\$486,743</b>	
<b>Cash Outflows (Expenses):</b>				
Advertising	25,000	10,000	10,000	45,000
Bank Service Charges	250	250	250	750
Credit Card Fees	2,000	3,500	2,500	8,000
Delivery	2,000	5,500	500	8,000
Health Insurance	10,479	10,479	10,479	31,438
Insurance	2,000	2,000	2,000	6,000
Internet & GDS Fees	7,500	7,500	7,500	22,500
Miscellaneous	1,000	1,000	1,000	3,000
Payroll	209,583	209,583	209,583	628,750
Payroll (Bonus)	40,000		40,000	80,000
Payroll Taxes	31,438	31,438	31,438	94,313
Printing	10,000			10,000
Professional Fees	20,000	10,000	5,000	36,000
Recruitment Fees	20,000			20,000
Rent or Lease	7,500	7,500	7,500	22,500
Subscriptions & Dues	1,500	1,500	1,500	4,500
Supplies	1,500	2,500	1,500	5,500
Taxes & Licenses	3,600	3,600	7,200	14,400
Training	2,500		2,500	5,000
Travel & Entertainment	6,000	11,000	16,000	33,000
Utilities & Telephone	4,000	4,000	4,000	12,000
<b>Subtotal</b>	<b>\$407,850</b>	<b>\$321,350</b>	<b>\$360,450</b>	<b>\$1,089,650</b>
<b>Capital Purchases:</b>				
Hardware	13,930	11,490	11,490	36,910
Software				0
Trade Show Booth			100,000	100,000
Furniture				0
<b>Subtotal</b>	<b>\$13,930</b>	<b>\$11,490</b>	<b>\$111,490</b>	<b>\$136,910</b>
<b>Total Cash Outflows</b>	<b>\$421,780</b>	<b>\$332,840</b>	<b>\$471,940</b>	<b>\$1,226,560</b>
<b>Ending Cash Balance</b>	<b>\$9,583</b>	<b>\$21,743</b>	<b>\$14,803</b>	

Figure 14. Cash Budget - Quarter 3

PERNOVA	Pernova Cash Budget Q4			
	Month 10	Month 11	Month 12	Total
<b>Beginning Cash Balance</b>	\$14,803	\$239,223	\$114,658	
<b>Cash Inflows (Income):</b>				
Equity Proceeds	175,000	0	0	175,000
Sales & Receipts	410,500	251,000	371,000	1,032,500
<b>Total Cash Inflows</b>	<b>\$585,500</b>	<b>\$251,000</b>	<b>\$371,000</b>	<b>\$1,207,500</b>
<b>Available Cash Balance</b>	<b>\$600,303</b>	<b>\$490,223</b>	<b>\$485,658</b>	
<b>Cash Outflows (Expenses):</b>				
Advertising	5,000	10,000	5,000	20,000
Bank Service Charges	250	250	250	750
Credit Card Fees	4,500	2,500	3,500	10,500
Delivery	3,500	500	3,500	7,500
Health Insurance	10,479	10,479	10,479	31,438
Insurance	2,000	2,000	2,000	6,000
Internet & GDS Fees	7,500	7,500	7,500	22,500
Miscellaneous	1,000	1,000	1,000	3,000
Payroll	209,583	209,583	209,583	628,750
Payroll (Bonus)			50,000	50,000
Payroll Taxes	31,438	31,438	31,438	94,313
Printing		5,000		5,000
Professional Fees	5,000	5,000	5,000	15,000
Recruitment Fees		20,000		20,000
Rent or Lease	7,500	7,500	7,500	22,500
Subscriptions & Dues	1,500	1,500	1,500	4,500
Supplies	1,500	1,500	2,000	5,000
Taxes & Licenses	32,840	20,080	29,680	82,600
Training		7,500		7,500
Travel & Entertainment	22,000	11,000	18,000	51,000
Utilities & Telephone	4,000	4,000	4,000	12,000
<b>Subtotal</b>	<b>\$349,590</b>	<b>\$358,330</b>	<b>\$391,930</b>	<b>\$1,099,850</b>
<b>Capital Purchases:</b>				
Hardware	11,490	17,235	11,490	40,215
Software				0
Trade Show Booth				0
Furniture				0
<b>Subtotal</b>	<b>\$11,490</b>	<b>\$17,235</b>	<b>\$11,490</b>	<b>\$40,215</b>
<b>Total Cash Outflows</b>	<b>\$361,080</b>	<b>\$375,565</b>	<b>\$403,420</b>	<b>\$1,140,065</b>
<b>Ending Cash Balance</b>	<b>\$239,223</b>	<b>\$114,658</b>	<b>\$82,238</b>	

Figure 15. Cash Budget - Quarter 4




	Year 1	Year 2	Year 3	Year 4	Year 5
	Total	Total	Total	Total	Total
<b>Beginning Cash Balance</b>		\$82,238	\$13,457,488	\$42,945,238	\$142,356,288
<b>Cash Inflows (Income):</b>					
Equity Proceeds	3,100,000	9,000,000	0	0	0
Sales & Receipts	1,212,500	16,160,000	53,680,000	148,960,000	223,440,000
<b>Total Cash Inflows</b>	\$4,312,500	\$25,160,000	\$53,680,000	\$148,960,000	\$223,440,000
<b>Available Cash Balance</b>		\$25,242,238	\$67,137,488	\$191,905,238	\$365,796,288
<b>Cash Outflows (Expenses):</b>					
Advertising	80,000	200,000	200,000	200,000	200,000
Bank Service Charges	4,000	10,000	10,000	10,000	10,000
Credit Card Fees	28,500	55,000	55,000	55,000	55,000
Delivery	16,170	35,000	35,000	35,000	35,000
Health Insurance	102,813	207,813	374,063	673,313	1,211,963
Insurance	24,000	65,000	65,000	65,000	65,000
Internet & GDS Fees	87,000	200,000	200,000	200,000	200,000
Miscellaneous	26,500	75,000	75,000	75,000	75,000
Payroll	2,056,250	4,156,250	7,481,250	13,466,250	24,239,250
Payroll (Bonus)	130,000	831,250	1,496,250	2,693,250	4,847,850
Payroll Taxes	308,438	623,438	1,122,188	2,019,938	3,635,888
Printing	15,000	50,000	50,000	50,000	50,000
Professional Fees	260,000	1,000,000	3,500,000	7,575,000	12,750,000
Recruitment Fees	200,000	350,000	350,000	350,000	350,000
Rent or Lease	97,500	350,000	350,000	350,000	350,000
Subscriptions & Dues	30,500	55,000	55,000	55,000	55,000
Supplies	26,500	55,000	55,000	55,000	55,000
Taxes & Licenses	99,000	1,616,000	5,368,000	14,896,000	22,344,000
Training	25,000	200,000	200,000	200,000	200,000
Travel & Entertainment	101,000	350,000	350,000	350,000	350,000
Utilities & Telephone	47,000	150,000	150,000	150,000	150,000
<b>Subtotal</b>	\$3,765,170	\$10,634,750	\$21,541,750	\$43,523,750	\$71,228,950
<b>Capital Purchases:</b>					
Hardware	245,092	750,000	1,250,000	3,250,125	7,500,075
Software	45,000	125,000	1,125,500	2,500,075	5,000,150
Trade Show Booth	100,000	100,000	100,000	100,000	100,000
Furniture	75,000	175,000	175,000	175,000	175,000
<b>Subtotal</b>	\$465,092	\$1,150,000	\$2,650,500	\$6,025,200	\$12,775,225
<b>Total Cash Outflows</b>	\$4,230,262	\$11,784,750	\$24,192,250	\$49,548,950	\$84,004,175
<b>Ending Cash Balance</b>	\$82,238	\$13,457,488	\$42,945,238	\$142,356,238	\$281,792,113

Figure 16. Cash Budget - Years 1-5

Pro Forma Income Statements


<b>Product</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
					
<b>Pro Forma Income Statements</b>					
(All Figures in USD)					
Revenues					
Software	\$ 1,212,500	\$16,160,000	\$53,680,000	\$148,960,000	\$223,440,000
Cost of revenues					
Software	989,680	1,947,969	5,875,500	13,325,200	25,250,225
Gross margin	222,820	14,212,031	47,804,500	135,634,800	198,189,775
Operating Expenses:					
Product development	\$ 1,596,000	\$ 3,192,000	\$ 5,745,600	\$ 10,342,080	\$ 18,615,744
Sales and marketing	1,322,000	3,966,000	19,830,000	39,660,000	59,490,000
General and administrative	1,598,483	4,207,813	8,126,063	17,953,313	25,939,963
Total operating expenses	4,516,483	11,365,813	33,701,663	67,955,393	104,045,707
Operating income	(4,293,663)	2,846,219	14,102,838	67,679,408	94,144,069
Income taxes	-	1,138,487	5,641,135	27,071,763	37,657,627
Net income	<b>\$(4,293,663)</b>	<b>\$ 1,707,731</b>	<b>\$ 8,461,703</b>	<b>\$ 40,607,645</b>	<b>\$ 56,486,441</b>

Figure 17. Pro Forma Income Statements - Years 1-5

### Sales Ratio Comparisons

In this analysis, Pernova is indexed with regards to the Information and Delivery Services industry and the broader S&P 500 as well. This graph illustrates Pernova's future competitive positioning using Return on Equity (ROE) as the gauge of performance.

To simplify calculations, nearly all profits are returned to shareholders in the form of dividends. This builds significant increases in ROE since equity is assumed to remain constant at \$20,000,000.

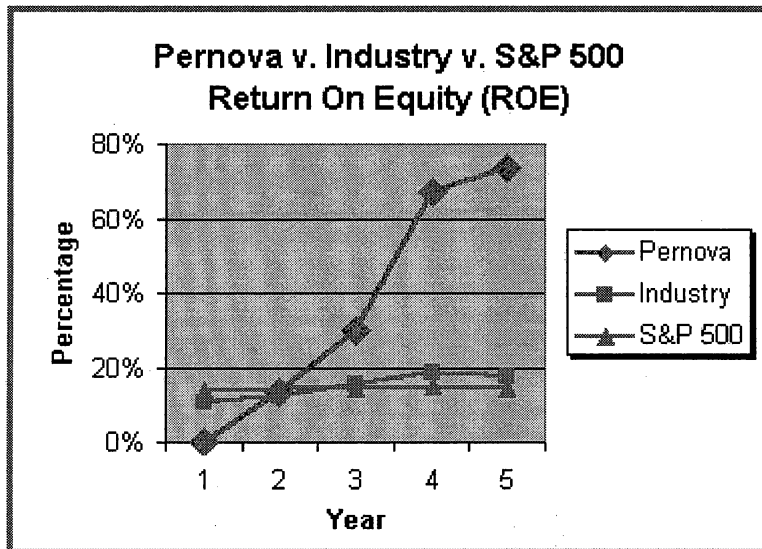


Figure 18. Pernova Return on Equity

## Difficulties and Risks

Our net revenue and operating results may fluctuate.

With any business opportunity there are inherent difficulties and risks. Pernova recognizes that the travel industry is still very traditional at its roots. Convincing smaller "Ma and Pa" TPPs to outsource some of their services requires a more empathetic approach. They need reassurance that outsourcing will help them gain and retain customers by providing enhanced quality and service options.

Consolidation of the industry is also an issue as big players acquire smaller firms. Another difficulty is convincing TPPs that outsourcing is valuable in the context of a cost/benefit analysis. Global Distribution Systems (GDS) could also try to develop their own competing products as is being seen with SABRE's purchase of GetThere.com. But this quickly becomes a benefit should they view Pernova as a purchase target.

We may experience a shortfall in sales revenue or earnings, resulting in a failure to meet expectations. Our net revenue and operating results may fluctuate significantly because of a number of factors, many of which are outside our control. These factors include but are not limited to:

- Level of product and price competition.

- Length of our sales cycle and customer purchasing patterns.
- The size and timing of individual license transactions.
- Delay or deferral of customer implementations of our products.
- Success in expanding our customer support organization, direct sales force and distribution channels.
- Timing of new product introductions and product enhancements.
- Appropriate mix of products and services sold.
- Levels of international sales.
- Activities of and acquisitions by competitors.
- Timing of new hires and the allocation of our resources.
- Changes in foreign currency exchange rates.
- Our ability to develop and market new products and control costs.

On a technical level, Pernova recognizes that as an Application Service Provider, we have to address key issues. Technical obstacles such as security, speed (connection), quality of information, and general system disruptions can

occur without warning. Confidentiality of each client's IT infrastructure, data storage, and security must be ensured. Technical limits as applications grow larger require more processing power, need greater disk space requirements, and generally more system resources that may result in a need for additional costly hardware.

It is of the utmost priority to ensure that Pernova's stakeholders are not damaged as a result of foreseen or unforeseen events. Through continual monitoring and analysis of industry trends, derived-demand trends, and external forces affecting the company, our intent is to be strategically positioned to maneuver the swift tides of change.

Pernova will vigilantly seek to mitigate any potential difficulties and risks that it sees in the present or anticipates in the future.

#### Moving Forward

Pernova must go beyond application hosting to create outsourcing value premises for new business models. Pernova anticipates the convergence of hosted applications, value added services, and new e-business models that can propel distribution through consistent participation in enterprise

application deployment. A fully mature ASP model will focus on business processes—not just application outsourcing.

For Pernova, the next frontier lies in the integration of business process outsourcing into a holistic enterprise application environment. The conceptual extension that becomes key to the next step is the addition of business process services. Adding supply chain visibility and analytical tools to process the entire procurement activity, Pernova will combine multiple applications, application-to-application integration, business community integration, technology infrastructure, and expanded services that enable end users to move more than just the applications offsite.

To ease the move forward, Service Level Agreements (SLA) need to gain validity in our customers' minds. Pernova will create SLAs that are expressed in business and operational terms, not in technology terms. Pernova's SLAs will carry penalty clauses for nonperformance or underperformance based on business and technology conditions. Our goal is to continually give our customers the peace of mind with Pernova's focused attention to their evolving business needs.

The ASP model is gravitating toward a common model emphasizing application, service, integration, and industry expertise. Pernova focuses on the travel industry and its

particular customer profile. Pernova's experience in knowing, beyond understanding, this vertical market from customer to supplier, is key to the continued success of our customers, Travel Procurement Providers. In response, TPPs will now be able to service and target travelers, based on their dimension of desired service, integration, and industry expertise. Thereby providing business and leisure travelers an option when choosing a travel provider.

Part of Pernova's value premise is based on managing a changing technology environment, not just upgrading, to support changing business and competitive requirements. Pernova has the application portfolio strategies and scalability to accommodate this more fluid environment.

Coupling the vertical market of travel procurement, with an ASP market that is young and emerging, opens vast potential for revenue flow. By joining winning business and service models, Pernova intends to emerge and maintain leadership as the front running technology candidate for the travel procurement market.



## CHAPTER FIVE

### CONCLUSION

Our business strategy includes pursuing opportunities to expand our business, both internally and externally through strategic alliances and partnerships. Our ability to implement this strategy depends, in part, on our success in developing the most integrative and comprehensive travel solutions. Internally, we will develop products scaled for the TPP's operations; support our sales with trained technical and managerial staff; and actively seek new channels and business partnerships. Strategic alliances include a long-term relationship with complementary software and hardware vendors, content providers and value-added travel industry groups.

Although the online travel service market presents attractive opportunities, there are challenges that must be overcome to enter the online travel marketplace. We believe, that in order to succeed in this market, travel procurement providers must invest in technology and infrastructure, establish strategic relationships to promote online traffic, incur the costs of building a brand, and obtain travel-related information and integrate it with booking

capabilities. This is where Pernova's ASP products and services come into play.

Our strategies reflect the values of each and everyone involved with Pernova. For survival is just the start in one's infancy. Success is the fruit of wisdom. Our goal is to achieve that wisdom, both quickly and profitably through every available channel.

The proceeds granted to Pernova will be used as according to the following section on finance objectives.

#### Financing Objectives

First Year US Operations	4,000,000
Second Year US Operations	3,000,000
Second Year International Operations	6,000,000
Total Capitalization	<u>\$13,000,000</u>

As the above table presents, Pernova's financing objectives are staged over two years. In the first year, development of our product lines is at the forefront with sales and marketing rising towards year-end. Pernova achieves profitability in the US within 22 months of inception.

Our second year focuses on internationalization. To support operations abroad, Pernova plans to push products developed domestically through overseas channels on the way

to a 12-month profitability goal after opening an international subsidiary.

#### Exit Plan

Pernova sees a phenomenal opportunity for purchase by either shareholders, or a company seeking the skills and technology that Pernova possesses. It is our intent to take the road that leads to the greatest returns for all vested parties. Given the capitalization requirements and subsequent cash flows being injected towards the end of the second year, Pernova will be at a unique juncture to reward its stakeholders with high equity. The excess value's appeal to Nasdaq or a large travel entity will provide the greatest opportunity for Pernova; not only to handsomely reward its stakeholders, but move to an even higher level of service that the additional capitalization will make available.

With the global travel industry's distribution network dominated by six global distribution systems—and the high levels of capital required to support such a position, we see this as the greatest chance for a buyout. The six GDSs are not about to lose any market share to disintermediators. As with any well-run organization, they seek not only to maintain market position, but also to increase it. Therefore, we see a potential GDS buyout as our strongest

exit strategy for the stakeholders involved. As an example, SABRE purchased GetThere.com on August 28, 2000 for roughly \$750M—a 42% premium on its then current market capitalization. Given Pernova's broader suite of products and services proposed, we see the \$750M as a credible start for future market valuation.

It is the principal's sincere enthusiasm, determination and dedication that propel the concept of Pernova. We hope that success in demonstrating these points has been achieved, so that you too may be rewarded with a first-class seat on Pernova.

APPENDIX:

ACRONYMS

ASP	Application Service Provider
CoBOB	CoBranded Online Booker
CRM	Customer Relationship Management
CRS	Central (Computer) Reservation System
CTC	Common Travel Components
CuGAR	Customer Gain And Retain
DSI	Direct Supplier Interface
EDI	Electronic Data Interchange
ERP	Enterprise Resource Planning
GDS	Global Distribution System
IT	Information Technology
LTPP	Large Travel Procurement Provider
OLAP	OnLine Analytical Processing
OMA	Online Management Analysis
PCC	Pseudo City Code
PNR	Passenger Name Record
QC	Quality Control
SLA	Service Level Agreement
SMTA	Small to Mid-sized Travel Agency
SMTPP	Small to Mid-sized Travel Procurement Provider
SQL	Structured Query Language
TPP	Travel Procurement Provider
TSI	Travel Supplier Interface
UBOI	Universal Back-Office Interface
VASP	Vertical ASP
XML	eXtensible Markup Language

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