

Can business model
of priceline.com be
saved



With the introduction of its innovative “ Name Your Own Price” services program in April 1998, Priceline provides this unique transaction service allowing consumers and businesses to leverage the Internet for the buying and selling of leisure airline tickets, hotel rooms, rental cars, cruises, vacation packages and even home mortgages. Since launching its business, priceline. com has sold millions of airline tickets, hotel room nights, and rental car days. Priceline.

com is the patented Internet pricing system that enables consumers to achieve significant savings by naming their own price for goods and services. Priceline. com takes consumer offers and then presents them to sellers who can fill as much of that guaranteed demand as they wish at price points determined by buyers. Priceline. com licenses its business model to independent licensees, including priceline mortgage and certain international licensees.

Priceline become a famous e-business company and make great success very quickly. However Priceline encounters big problem such as poor management, too much expanding cause the economic burden, facing more and more competitors. This assignment firstly is to analyse the current competitive environment of Priceline. om by using Porter’s five force model, using SWOT analysis tool to discuss the strengths and weakness, next is to analyse the business model and what Priceline. com create value for its customer, then analyse why Priceline.

com will ultimately succeed, last is to introduce the Priceline model to be applied in other industry area. Table of Contents Q1: Analyse the current

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com Answer: 1. 1 The current environment—Porter’s Five Forces Model
In the Five Forces Model, Porter explains that in any industry there are five forces that influence what happens within the industry: 1. Existing companies, 2. Potential new companies, 3.

Substitutes for products offered, 4. The suppliers 5. The customers. These five forces combine to make up the business environment.

Porter designed his basic model to be applied to an entire industry. In this case we can identify the “ force” as the competitive environment of Priceline. com as below: Competitors: Those sites that offer the same product, service, or information as your site. Priceline will face extraordinary competition, not just from other online middlemen such as Expedia, Hotels. com, Cheaptickets. com, and Travelocity, but also from the direct discounts sales by the airlines on Orbitz. com and hotels on Travelweb. com. Potential new entrants: It is not only incumbent rivals that pose a threat to an

industry, the possibility of new firms may enter the industry also affects the competition.

Your site-less off-line competitors as well as new companies entering the industry via a Website are the potential new entrants. For example, competitors like Biddingfortravel. com and Flyertalk. com are cutting into Priceline. com's markets by providing users with the exact price people are paying for hotels and airfares.

Customers: Visitors and potential visitors to your Website and your competitors' sites. The power of buyers is the impact that customer have on the producing industry. If the buyer is strong, buyer will set the price.

Suppliers: Those companies that supply you with the products (or parts if you are a manufacturer) and/or services offered on your site. Other suppliers are the Web hosting, software, and other vendors that supply Web-enabling technology. If the supplier is strong, it can exert an influence to the producing industry, such as selling the raw material at a high price to capture some of the industry's profits.

Substitutes: Other means and sources for the same products, services, or information as your Website provides. As more substitutes become available, the demand will become more elastic since the customers have more alternative. When the demand is affected by the change of substitutes price, the threats of substitutes will exist. Using these definitions for the five forces, you can get a clearer picture of the business environment in which your Website competes. 1. 2.

SWOT Analysis As one of the most famous e-commerce company, Priceline currently encounter a lot of problem, such as revenue and profit decreasing for some years, Key executives dismissing, too much business extension, affected by bad economic environment due to terrorism. In the following let's conduct SWOT analysis on the strength and weakness. 1. 2. 1 Strength ? Create " Name your own price" unique business model Priceline.

com is the patented Name-Your-Own-Price(a) Internet pricing system that enables consumers to save money on a wide range of products and services, including leisure airline tickets, hotel rooms, new cars, rental cars, home refinancing, and home equity loans Priceline acts as the bridge connect consumers to product and service suppliers, use the information sharing and communications power of the internet to create a new way of internet. ? Innovative distribution channel and retail pricing system. Priceline is an example of using the web to achieve efficient price discrimination, enable the customer to win the equilibrium between products' brand, quality characters and low price. Customers can provide their expecting price and products and seller can get this information by Priceline. com, then realize the exchange and make profit.

Hence Priceline creates the value and survive. ? Huge registration user In the case it mentions that since beginning operations in April 1998, Priceline has registered over 16 millions users. In 2002, Priceline sold 2. 9 million airline tickets, 4. million hotel room nights, and 2. 8 million rental car days ? Great branding recognition Priceline.

com is the second biggest famous electric business company following Amazon. com? Business cover most areas of Asia Pacific, including China, Hong Kong, Taiwan, India, and other areas. Over 2/3 of the adults know Priceline. com and its' self making price model ? Build up strategic cooperation relationship with famous partner. In 2002, Priceline signed an agreement with eBay to be an exclusive provider of airline and hotel booking service on eBay.

In March of 2003, Sign cooperation agreement with Travelweb. om. In March of 2003, Priceline sign agreement with Budgethotels company. " Name your own price" e-commerce player Priceline. com (Quote, Chart) has a powerful new marketing partner, signing an agreement on Monday with AOL Time Warner (Quote, Chart) to promote Priceline's travel deals across its online outlets.

Priceline believes the tremendous strength of America Online's membership will be a powerful complement to our own customer base. " 1. 2. 2 Weakness ? Worst finance condition For most of its history, Priceline has not been profitable, although it has had profitable quarters. In1999, it lost over \$1billion. It pared losses to \$15 million by 200, but in 2002, posted a 23 million dollar loss.

Priceline's stock has been on a roller coaster. Currently the stock sells in the single digits. ? Management lack of long term thinking In autumn of 2000, for the case Web house Club (one of Priceline. com's associate) could not maintain normal operation due to capital shortage. Top management of

Priceline. com could not find out the root cause, instead they ascribe the failure to the ruthlessness of the investors.

Actually, Web house shut down is due to business operation model failure. ? Unnecessary additional cost increasing When Priceline extended to new business area, to attract the customer attendance, Priceline. com have to pay for the cost of discount of some products. It adds the cost burden before Priceline enter new business area.

? Risk of business operation diversity The cost will increase. Priceline extended its system to hotel reservation in October 1998, and in January 1999, introduced home financing services. It went to public in March 1999, and late that year, it added rent car and even new cars to the mix. To promote its products and the Priceline brand, Priceline embarked on an extensive advertising campaign.? Priceline is lack of operation feasibility in new business area.

Priceline entered new business area — food and gasoline, the operation of purchasing and product price making is not convenient. For example, when customer paid for gasoline via wet of priceline. com, then use the authorized car to draw gasoline from the market who have signed agreement with Priceline. com, in the case the market do not have this product, the customer have to change to another shop or change the time, Hence, the cost of customer exchange increase, and the planed advantage of convenient exchange lost. Key executives resigned Due to the poor finance condition, and sorts of problem from business extension, some core staff of the company left Priceline.

com, it result Priceline. com suffered even worst condition. ? Service quality is insecure It was reported, the CPSC have advanced warning to Priceline. com, they claimed they had received over 300 complaining information from the consumer, which complained about the service quality of Priceline. com. This impact on XX brand and reduced customer's loyalty 1.

2. 3 opportunity Priceline provide a new business model which is perfect for those product with due date and upgrade faster(such as airline and hotel). Those seller can use this kind of business model to avoid selling their inventory products in low price ? Great marketing demand. This new business model is a demand collection system which will be more and more popular for such industries as hotel or airline. ? Strategic cooperation relationship with famous company.

In 2002, signed with eBay as the sole agency to provide air ticket and hotel service ordering for eBay. In March of 2003, Sign cooperation agreement with Travelweb. com In March of 2003, Priceline sign agreement with Budgethotels company . The cooperation with these brand company enhance Priceline in E-business area. Create more chance for the future succeed.

1. 2. 4 threat ? Priceline business model will be easily followed up Priceline has not owned any core technical, only need to build a wet site then get some information from the consumers, can the competitors enter this industry. Thus the permission of entrance is low, competitors are easy enroll in this industry.

Poor finance condition In 1999 Priceline lost 1 billion dollars; in 2001 lose reduce to only 15 million dollars, but in 2002, it lose 23 million dollars? ? Society safety issue After 9. 11 Priceline faced scare caused by terrorism and battle, which results in shrink of all kinds of touring industry. With main airline company cut the transmit quantity by 30%, less and less air discounted ticket are available, this affect on the XX selling quantity ? More and more competitors entry Priceline faces extraordinary competitors at this moment, not just from Internet agency such as Expedia, Hotels. com, Cheaptickets. com, Travelocity, but also from the airline company who sell ticket directly via Orbitz. com ? Internet broke out economic foam worldwide. In Autumn of 2000, all industry focus on earning profit again, it made Priceline unable to raise the necessary capital for profit earning, it result the capital chain ruptured and development confined. Q2: What are the core components of Priceline. com's business model? What values can Priceline. com create for customers? Answer: 2.

1 Core components of Priceline. com's business model Priceline. com's business model is " Name your own price", which allows a buyer to set the price he or she is willing to pay for a specific product or service. This model is also known as a demand-collection model.

Priceline will try to match the customer's request with a supplier willing to sell the product or service at that price. Priceline forms its core business model by building direct distribution channel and indirect distribution channel in the internet, actsing as the agency and bridge to connect the consumer to supplier. This unique transaction service allows consumers and

businesses to leverage the Internet for the buying and selling of leisure airline tickets, hotel rooms, rental cars, cruises, vacation packages and even home mortgages Normally a business model is composed of below elements: Customer, Product or Service, Business process, Resource, Supply Chain, Revenue, and Value proposition. In Priceline. com's business model, customer, supplier and value proposition is the core components. 2.

2 Values created for customers by Priceline. com In most cases, the more value you create, the more people will be prepared to pay a good price for your product or service, and the more they will they keep on buying from you. On a personal level, if you add a lot of value to your team, you will excel in what you do. You should then expect to be rewarded in line with your contribution.

As the consumers don't know what kind of discount products can seller provide, while seller don't know what is the requirement for their discount products or service from consumer, that is why Priceline can survive by acting the internet middleman. That is also main value that Priceline provides. In the following let's analyse the values created by Priceline. com more detail.

? Standing at consumer viewpoints Firstly is to reduce the time consumer spent in seeking for the product. The consumer only need to provide necessary such as: the expected product, expected price, expected price, Priceline will finish all other things. Then is to save cost for the consumer. Cost is saved because of Priceline cut the exchange step by internet communication, It is the exchange cost saved that enable the supplier to

provide product discount, this is key component of why the Priceline can adsorb the consumer. Standing at producer viewpoints Firstly is to Help to save the cost for the product manufacturer Priceline provide information directly to the product manufacturer, reduce the exchange cost for the product manufacture, it enable the manufacturer to provide benefit of product discount. Then is to Increase the revenue for the product manufacturer It is because the Priceline can provide information to the product manufacturer, that made the manufacturer enable to provide pertinence product, increase the use efficiency of the time inelastic product(such as the airline ticket, hotel etc)Q3: Do you think Priceline.

com will ultimately succeed or fail? Why? Answer: According to the above SWOT analysis, although Priceline face many challenge, I believe it will ultimately succeed because Priceline has so much advantage listed as below:
? Branding According to the market research firm Opinion Research Corporation International of Princeton, priceline. com is the Internet's second most-recognized e-commerce brand behind amazon. com. It provides service and setup office in many countries and region worldwide. Two-thirds of all American adults have heard of priceline. com and its name-your-own-price commercial formula.

? Registration user Since operation in April 1998, Priceline own more than 16 millions registration users who bring more and more profit to Priceline. Hence, to continue survive and succeed finally, Priceline can take below action: ? Most of all, survive firstly then development Priceline should solve its current problem, such as too much business, poor management, finance crisis, when it recovers from these poor condition, it can consider to develop

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more. Seek strong cooperation partner and build up the strategic relationship, win the support and resource to develop itself. So far Priceline has great branding value and own huge registration user, it should seek cogent partner to help itself to break away from its mess condition. ? Give up excessive business, focus on its core business Two much expanding cause Priceline burden many economic pressure and exposure its management issue.

Priceline should remove its superfluous burden and concentrate on its strong business. ? Implement differentiate sales strategy Priceline create its “ name your price” reverse-aution pricing system is a unique business model that uses the information sharing and communications power of the Internet to create a new way of pricing products and services. This new business make Priceline achieve great success in short time, but it can be easily followed up by its competitors. Currently, Priceline faces extraordinary competition in the market, to dominate the marketing once again, Priceline should adjust its sales mode and differentiate its sales mode again.

To my opinion, once Priceline implements the above action taking its advantage on its branding and huge registration user, it will walk out its poor condition and succeed again finally. The spring is coming for Priceline. Q4: How widely applicable is the Priceline model? Answer: Priceline also has dedicated teams to approach hotels in Europe to make sure that we have a wide variety of hotels available to cater for different travelers' needs. As always, at Priceline, you can name your own price and book a hotel at unbelievably bargain price! You just need to enter your desired hotel star rating and area, the Priceline system will provide you the best available hotel

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that fulfill your requests within seconds. Priceline can leverage the strength and resources of its world-class e-commerce platform, including its existing supplier relationships and robust technology, to run and quickly launch a superior consumer offering.

As the consumers don't know what kind of discount products can seller provide, while seller don't know what is the requirement for their discount products or service from consumer, the condition that the above two information are not symmetry is why Priceline can survive by acting the internet middleman. Since such condition will occur long term, Priceline can survive. Even one Priceline maybe close due to poor management, million similar companies will go up quickly. So this kind of "Name your own price" business model can exist for ever till there is better new model replace it.

But currently I considered the Priceline.com business model can be applied widely in product exchanging marketing, not only include its current core market airline and hotel reservation, but also include rental cars, cruises, vacation packages and even home mortgages business to business service, human resource market etc. Priceline and its competitor can extend this business model some industries, such as: ? Guess service reservations ? Food, groceries and gasoline ? Personal finance service that offers home mortgages, refinancing and home equity loans through an independent licensee. Human resource marketing ? House renting or second selling We believe that Priceline's business models is ideally not only suited to industries characterized by expiring or rapidly aging inventory (for example, airline seats not sold by the time a flight takes off or hotel rooms not rented), but also those similar industries. Reference.

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