Priceline.com, Incorporated

E-commerce Student, S 10
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Executive Summary

History

Priceline.com, Incorporated (Priceline) is an online travel agency that offers multiple service options to its customers. This firm was started in 1997. It took Priceline about two years to become a publicly traded company now located on NASDAQ as PCLN, and about a year after that to become a global corporation and has continually grown to currently offer their services on mobile devices. Priceline is well known for its airline services, but is becoming increasingly more popular for its hotel services.

Online Travel Industry

Currently like many other businesses, online travel agencies are facing hardships from the poor economy. There is also competition from physical travel agencies and physical hotels that remain a threat to these online services. These services continually try to find the best prices. With this competition the online services may be forcing some smaller organizations out of the industry while making their company larger and acquiring more.

SWOT Analysis

The consumers favorite online travel service has characteristics that appeal to them as well as characteristics that do not appeal to them. Priceline’s strengths consist of its high growth revenues. On the other hand, many of the profits that help Priceline remain profitable are coming from the United States. Priceline is a global corporation but they also have a high dependence on the United States which is a weakness for them. An opportunity for Priceline would be to increase their brand name awareness. Even though the declining economy poses a threat for Priceline, the rise in minimum wage is also causing issues for them.
**Competition**

Like any business, Priceline expects to have competition in many different forms, all from various business firms. Priceline competes directly with physical travel agents and other online travel agencies. Its online competitors include Expedia, Sabre Holdings, and Orbitz Worldwide. Priceline is not in the number one spot in online travel but has different strategies to keep them near the top.

**Recommendations**

Priceline uses a business to consumer electronic commerce strategy coupled with their own “name your own price” strategy to attract customers. These strategies have proven to be successful for Priceline. To remain successful, Priceline needs to continue to strive to remain profitable and keep their debts consistently low. Priceline can try to catch up to its competitors by offering more services and keeping their prices reasonable compared to others, and working to spread out their sources of revenue.

**History**

Priceline is an online travel company, who presents opportunities to consumers who are looking to purchase airfares, hotels, cruises, vacation packages, rental cars, as well as destination services. Beginning in 1997 as a limited liability company in Delaware, it did not take more than a few months to become a corporation. In 1999, Priceline became a publicly traded company on NASDAQ, listed as PCLN. They offer numerous choices for airlines such as Aero California, Delta Airlines, Great Lakes Airlines, Philippine Airlines, and Wings of Alaska.\(^1\) Some of the hotels they provide reservations with include Hampton Inn, Days Inn and Suites, and Hyatt

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\(^1\) Airline Partners
Place.² Priceline is a unique travel company because it allows its travelers the capability to
“name their own price” for the service they are looking for. This was something new to travelers
and helped Priceline gain popularity, along with a competitive advantage.

While beginning in the United States, Priceline became a global company in 2000 when it
partnered up with Japan, Europe, and New Zealand. To date, Priceline offers services in 78
different countries. One accomplishment of Priceline was when it was deemed “Best Travel
Deals” by Yahoo in 2002. Brett Keller, Priceline’s CMO stated, "Priceline.com has worked hard
over the past year introducing product and service enhancements that make it even easier for our
customers to get the best travel deals on the Internet, often at savings of up to 40 percent or more
over retail.”³

**Current and Future Profile**

Currently, Priceline is one of the leading travel services offered due to their reputation of saving
money for the traveler, and for the ease of creating packages of with the travel services for a
reasonable price. Priceline is a successful and quickly growing company with its revenues
reaching $1,884 million in fiscal year 2008.⁴ With the gaining popularity of consumers using
mobile devices for Internet use, Priceline now offers the capability of consumers to search prices,
hotel availability, and book hotel rooms with a click of a button on their mobile device(s).

Priceline is constantly updating and changing their services to stay on top of the hot trends that
circulate our society. The most current change for Priceline took place in July 2009, when
Priceline formed a partnership with Ticketmaster to become an official partner of
ticketmaster.com, which offers more options to their travelers.

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² Priceline’s Hotels
³ Priceline.com named “Best Travel Deals”
⁴ Priceline’s Datamonitor
In the future, Priceline will strive to be more competitive and successful. They will work to maintain their reputation and to stay on top of the technology changes and other societal changes to help maintain and increase their wide customer base.

**SWOT Analysis**

**Strengths**

One of Priceline’s strengths is its high revenue growth. According to Yahoo! Finance, Priceline has had outstanding financial years from 2006-2008 with constant increases in revenue.\(^5\) Its revenues have constantly been on the rise, with an annual growth rate of approximately 30 percent over those three years. Another one of Priceline’s strengths is their wide range of business services it provides. Priceline has many different service options for consumers, from car rentals to cruises and destination services. With the large range of services provided, Priceline is continually able to expand and maintain a strong position in its market.

**Weaknesses**

One weakness of Priceline is its dependence on the United States. Since Priceline began in the United States, nearly 67 percent of its revenue generated comes from the United States.\(^6\) With the economic down fall in the United States over the past several years, distributors like Priceline have seen declines in their travel service markets. Since Priceline is dependent on the United States, the U.S. economy can be very dictating on Priceline’s success or failure, even though they are a global firm.

**Opportunities**

Priceline has many different ways to strengthen their brand image. A considerable amount of Priceline’s advertising expense was invested or spent on search engines and through affiliate

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\(^5\) Income statement for Priceline.com  
\(^6\) Priceline’s Datamonitor
marketing with other companies. By affiliating with another company, Priceline is provided with a great opportunity to get their name out to many people, who do not visit their website. Not only does this help Priceline retain their previous customers but it also provides them with the opportunity to draw in new customers as well.

The rise in online travel is also an opportunity for Priceline. Tourism is one of the largest revenue producers in America. The Internet provides numerous opportunities not only for Priceline but for every business firm and every individual. Many people rely on the Internet because it is extremely simple to instantaneously find information and purchase items. The preferences of people, especially of travelers are changing. This means Priceline can become more popular and gain more brand name recognition to increase its profit.

**Threats**

A decline in the economy on a global basis poses a major threat for Priceline. Since the economy, especially in the United States, is currently on a downslide, travel expenditures are falling as well. Businesses are not able to spend the same amounts on travel for their employees, compared to when the economy was booming, and the same goes for individual travelers.

Another threat to Priceline is the increase of minimum wage. This has a direct effect on Priceline’s profitability. The government mandated increase in minimum wage increases Priceline’s labor costs and operating costs. Many employees are also working overtime to complete their work, and with the extra costs of overtime, it has a larger effect on the labor costs.

**Unique Virtual Sales Strategy**

Priceline offers a business to consumer electronic commerce business model. Priceline’s competitors include Expedia, Inc., Sabre Holdings, and Orbitz Worldwide. All of them have similar sales strategies which allow travelers to choose their own flight varying from the time of
the flight and the airline preferred. Priceline did not start out with this strategy but has since adopted it. Priceline has always been more focused on saving money for the traveler. Originally, Priceline made all the decisions for the traveler. Priceline has set itself apart from its competitors with its unique “Name Your Own Price” strategy. According to Eugene Bukoveczky, “One factor working in its favor could be its policy of not charging booking fees on airline tickets.”

Priceline uses this “no-fee” service as a competitive advantage in comparison to other companies who may charge the extra fees for baggage, or even refreshments, and food.

With the “Name Your Own Price” strategy, the traveler names a price for their desired service. From there, Priceline compares the named price to a database in their computer system. Customers are required to enter their credit card number when requesting a price. Once the traveler agrees on the price, the credit card is immediately charged. Unfortunately, many people may not realize that after the traveler agrees to the price, they are unable to obtain a refund if they decide not to proceed with their trip due to contract agreements with Priceline and the airline companies, hotel chains, etc. When Priceline receives the payment from the traveler, the reservations are final.

Priceline has recently implemented a twist into their original strategy. Priceline now offers a set price for specific hotels, airlines, etc. This service has become fairly popular for them as well. Travelers may choose that price but they will still be allowed to choose their own price.

Marketing and advertising is essential for any business. One technique Priceline uses in order to attract its customers is through television commercials. Priceline uses William Shatner as their celebrity spokesman, or also known as the “Priceline Negotiator,” to enhance customer’s interests in Priceline. Since many people are familiar with Shatner, Priceline hopes it will inspire people to visit their website and check out their services.

7 Priceline Soars Above The Competition
Hotels were not always a specialty of Priceline, but they have become one of its largest services over the last few years. Priceline believes they can save money for travelers on their hotel prices. The traveler has to be flexible with their travel plans. The traveler indicates what rating of hotel they would like and the location they would like to stay in. From there, Priceline picks a hotel that matches the travelers’ criteria from its inventory, or connections with certain hotels. The best matches are at the top of the list for the customer to choose from. These rooms can also be booked up until the night before the traveler would need the hotel. This may not be ideal for people traveling for business because it requires some flexibility, but this is an ideal option for leisure travelers that have flexibility.

Besides Priceline’s no booking fees, they also offer a twenty-four hour free pass, and the ability to earn frequent flyer miles. Priceline offers all these options to satisfy their customers and to stay competitive. As mentioned earlier, Priceline does not charge any booking fees for their flights. The twenty-four hour free pass is best described as a 24 hour time period where Priceline will refund the travelers money if for example: a mistake was made on the ticket, or the traveler changes their mind after the purchase. After twenty-four hours, there is no refund if there is a cancellation.\(^8\) This may seem like an ideal offering, but there are some catches. For example, it cannot be used if the ticket is purchased with the “Name Your Own Price” method or vacation packages. Also, certain airlines will not refund your money for cancellations. Priceline offers and accepts any frequent flier miles. Priceline only needs the traveler’s frequent flier number to credit them with their miles earned. This number is then passed onto the airline who receives your reservation.

Another strategy Priceline uses is allowing the traveler to track a certain flight in order for the traveler to know when to purchase the flight at the best price. By signing up for the services

\(^8\) 24 Hour Pass
provided by Inside Track, Priceline asks for the travelers email address in order to send alerts relevant to the flights specified by the traveler. Priceline will also send alerts about the trends of prices that previous travelers received with the “Name Your Own Price” strategy. This can help assure the traveler they would be receiving the lowest price for the flight.

Priceline may have some similar sales strategies to its competitors, but none of the travel services have identical strategies. The biggest difference between Priceline and their competitors is the “Name Your Own Price” strategy. This option allows travelers to feel better and more comfortable about their purchase because of their bargaining ability. It may have some setbacks regarding the flexibility or certain items or services, like being able to only choose a specific airline, but if the traveler does not have a preference, this strategy is a perfect match. To combat this problem for travelers with a preference, Priceline also uses the strategy of providing prices to all the different airlines at reasonable prices. Priceline’s strategy is proving to be successful since it was first started in 1997.

**Competitors**

Priceline has many competitors in the online travel industry. They directly compete with other online travel companies who also provide airfare tickets, hotel services, car rentals, and hotel packages. Expedia, Inc., Sabre Holdings Corp., and Orbitz Worldwide, Inc. are some of Priceline’s competitors in the airline tickets.

**Expedia**

Expedia began in 1996 when Microsoft launched this travel service. Expedia was the first online travel service that provided these new options. Expedia began by making reservations for airline tickets, and has continued to grow throughout the years, gradually offering a wider variety of services like hotel and car reservations. One of Expedia’s strengths is its brand recognition with
its airline partners. With these well known brand names, many more customers are aware of Expedia. Expedia has incurred many court cases which could damage their reputation.

**Sabre Holdings Corporation**

Sabre began in 1959 as a software program that assisted travel agents in replacing procedures that took much time to do, such as handwriting the airline reservation to inputting them into an automated system. Sabre now operates its business through Travelocity. Sabre’s is well known for its airline brands that it provides to its customers, which may hinder Priceline’s customers travel decisions. Both Priceline and Sabre have a high dependence on the United States for a majority its profitability.

**Orbitz Worldwide**

Orbitz was started later than most of its competitors, beginning in 2000. Since Orbitz is a new company, customers are drawn to this website and want to see what types of deals they offer. This can draw customers away from Priceline, but if the customer does not like Orbitz or does not have full trust in a newer company, the customer would be more likely to stick with their most trusted online travel company.

**Industry Analysis**

The declining economy has placed a burden on many people’s pocketbooks, but the travel industry has continued to stay strong. They have only had small declines since the downfall, but see continual increases in the future. In a research study conducted by Chen, Lee and Barnes, they report that “The online travel business has been one of the few e-commerce sectors to really shine, and its growth continues.”9 Online travel services continue to be popular because there are usually no excess fees for tickets and they are extremely convenient. Today’s society wants

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9 An Analysis of E-Commerce Strategy Used by Internet Travel Sites
convenience. For example, it is much easier to sit at home on the computer and build your own travel reservations than visit with a travel agent. The traveler gets instant feedback from the websites, and has a full range of options for making their vacation perfect. Diane Clarkson reported that “Online travel revenue will represent $111 billion, or 36% of travel revenue, in 2008; by 2009, online travel revenue will grow to $117 billion, or 39% of total US travel revenue.” The online travel continues to grow because of the consumer satisfaction and the ease of transaction. The suppliers continue to make the services offered even more cost-effective for its consumers. From personal to business, there will always be travel, especially in today’s world. And with the continuous growth in Internet usage, online travel services will continually have the capabilities to expand and offer more services to the consumer.

**Short Term Recommendations**

In the short term Priceline could work on a few different aspects of its business. Priceline could continue to expand its business to offer more services. Along with the travel services, Priceline could also provide scheduled taxi services for the traveler from the airport to their hotel destination. This could be a service offered directly in correlation with the traveler’s flight. Another option for Priceline would be to offer their own cruise or tour packages. Priceline could set up a specific trip that leaves and returns on certain days. It could involve having special destination stops and set times to do activities. It could include the hotel, taxi, special entertainment tickets, airfare, and other attractions. This could attract more customers and would take the work out for the customer. This trip could be marketed at a special price through Priceline’s website.

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10 US Online Travel Forecast
Privacy is important for any online business. With Priceline’s “name your own price” option, the customer is required to input a credit card number that is not charged until the customer agrees, but to receive the quote or the approval of the named price Priceline asks for the credit card number. Today, many people are leery about giving out their credit card number. Priceline could develop a system like PayPal to help the customer feel better protected.

Another option Priceline has to increase customer’s satisfaction is to offer incentives and rewards. Currently, Priceline offers frequent flier miles credited to the customer, but could offer other types of rewards. It could be a reward within Priceline that adds up each time a ticket is purchased from Priceline, after a specified number of purchases, the next purchase would receive a significant discount or a free stay at the hotel of their choice.

**Long Term Recommendations**

With the current economy, one of Priceline’s biggest challenges would be to remain profitable during this economic downfall. Online travel agencies may not have suffered the worst from this crisis, but to continue to grow, Priceline needs to work to stay competitive to remain one of the top choices for consumers. This also means keeping their prices reasonable so the consumer can afford the travel expense. Keeping the prices reasonable could be a challenging task for Priceline. Priceline should try to form agreements with the airline companies to continue to sell tickets but for a specified price that will not vary with the other societal trends. To remain profitable, Priceline needs to keep their costs down and continue to receive the reservations from travelers.

Priceline should work to provide more name brand airline options to gain more popularity from customers. This is an advantage some of its competitors have over Priceline. Expedia and Sabre are more popular for the airline brands they offer than most other online travel services. To
remain competitive Priceline should try to expand their services to offer more variety to their airlines.

Priceline’s dependence on the United States could stand as an issue that Priceline needs to work out. Priceline does offer its services in 78 different countries, some of them including New Zealand and United Kingdom. The United States is their primary source of revenue, but could work to change that. With the services in these other countries, Priceline could develop marketing tactics to attract more customers outside of the United States. Maybe, in the other countries, Priceline is not a reasonable price so is not as popular. Priceline needs to become more competitive around the world and especially gain more popularity outside of the United States. This will help them gain more profits to remain successful, and they will not be as reliable on the United States economic trends.

Conclusion
Just a few years ago, many people did not believe they would be able to purchase airline tickets or make hotel reservations online. Today, Priceline along with the other online travel agencies have proven many people wrong, and the trend is to make the purchase online. Sometimes it is difficult for customers to have complete confidence in companies because of security issues. Many people are still a little leery about giving out their credit card number to make a purchase. Companies try to combat this fear by offering assurance that the credit card number the customer provides is kept confidential. Since 1997, Priceline’s “name your own price” sales strategy has proven to be successful. Priceline still remains in the top for online travel agencies. Like many other businesses, Priceline has areas it needs to work on to remain competitive and successful. Overall, Priceline does a very good job of maintaining their business and keeping up with the trends of our society.
Methodology
When assigned this paper, I began to research different websites that would help me find information about Priceline.com. I began writing this paper and tried to work out some of the more difficult parts first. I then went and researched Priceline’s competitors and determined what was different between them and Priceline. I then researched to find out about the online travel industry and the trends it has taken. Many of my sources came from different websites. To learn about the formatting and structure of this paper, I viewed previous student case studies.