

TEACHING NOTES:
Priceline.com (Theme 4, Part 2)

A. SUMMARY OF THE CASE

This case discusses the details of the development and growth of Priceline.com and represents one of the pioneering stories in e-business innovation. Priceline is best known for being one of the first e-business organizations to succeed at securing patent protection for an innovative business method or transactionary process, now known as the reverse auction business model. It went on to implement this business model in a variety of application contexts including surplus airline tickets, hotel bookings, and grocery purchases, while at the same time licensing out the business method for application in a host of other contexts. The case also details the challenge made by Microsoft's Expedia on the legal basis for Priceline's securing of the patent. The case highlights a critical aspect of e-business innovation related to business processes. It also describes Priceline's rapid efforts at quickly implementing its innovation in a variety of application contexts to secure a monopoly-like advantage in a key segment of the e-business sector.

B. TEACHING OBJECTIVES AND TARGET AUDIENCE

The main message that the case gets out to students of e-business is the importance of careful planning and rapid implementation of the roll out of a business model, often termed execution capability in the jargon of e-business dot-coms. This provides a good learning basis for students interested in the phenomenon of e-business entrepreneurship and budding e-business entrepreneurs attending entrepreneurship boot camps. Instructors focusing on the patent protection and legal aspects of e-business innovation may also want to use the case to demonstrate the close link between business process innovation, execution strategy, and implementation challenges. This case is especially relevant for advanced undergraduate courses,

graduate courses, and executive seminars in e-business to emphasize the significance and impact that an innovative e-business business model can have in creating a new industry segment while transforming others.

C. TEACHING APPROACH AND STRATEGY

A good way to start the class discussion is get the students to focus on the consumer-to-business (C2B) business model that was popularized by Priceline. It is best to have students use actual examples that are described in the case as the basis for the discussion to ensure that they understand the procedural aspects of the model and appreciate its wide range of applicability. Exhibit 5, which depicts the procedural flow of Priceline's grocery business, and Exhibit 8, which lays out Priceline's multiple revenue streams can be used effectively for these purposes. Once students have mastered the business model, it is recommended that the instructor guide the class discussion towards an evaluation of the execution capability of Priceline's management team. It soon emerges that some students will question the wisdom of rapid roll out in such a wide range of application contexts and will argue that in a sense this contributed to a sub-optimal situation where Priceline had over-extended its operational execution capabilities. This of course has to be traded off against the strategic need to get the business model in place in all the key areas before other organizations with second-mover advantages arrived on the competitive screen.

Towards the end of the case discussion session, the instructor may want to emphasize the nature of Priceline's innovation and get students to focus on the costs, value, and reliability of securing a patent on an e-business model. This usually generates a healthy set of differences of

opinion, and the instructor might want to remind students of the fact that venture capitalists in e-business place high value on the protection of e-business innovations.

Another key aspect that must be brought to the attention of students is the manner in which Priceline went about executing its plans for securing a critical mass of surplus airline tickets from the various airlines. It must be emphasized that while initially it had to concede to many stringent contractual conditions that were placed on it by its airline suppliers, once critical mass was reached, the relationship tilted to its advantage.

Instructors may also want to use the case to generate discussion of e-commerce business models in the consumer-to-business (C2B) and consumer-to-consumer (C2C) (ebay) market segments. Students of entrepreneurship may want to use the case to understand the personal histories and motivations of Priceline's founder Jay Walker and other members of the management team as presented in Appendix 3.

D. ANALYSIS

The class should generate discussion pertaining to the following key issues from the case.

1. It is critical for e-business entrepreneurs to have a sound understanding of patent law especially in terms of what can or cannot be patented, the long process of filing and securing a patent, as well as tactical methods of protecting one's patents and exercising patent rights in international jurisdictions. Priceline had an executive vice president, Jeffrey Boyd, whose primary function was to serve as general counsel for the company managing the patent legalities.

2. While share prices in the financial markets do not directly impact e-business implementation, they have to be carefully monitored, especially if a new venture plans to seek new financing for further growth.
3. A technology-supported business process innovation can provide the basis for a monopolistic market and legal position if implementation and execution issues are managed soundly and patent protection is secured.
4. In e-business implementation it is critical to pay careful attention to the many sources of revenue that are possible and to select the most sustainable sources. It is also critical to structure the organization appropriately into revenue streams. Priceline had senior managements called Presidents who were responsible for implementation in the various revenue-generating areas such as travel, hotels, and auto services. Ask the class to identify other revenue streams that were not targeted by Priceline along the lines of its lead-generation and click-through fee arrangement with Budget.
5. The grocery business of Priceline, called WebHouse Club, was one of the first application areas that was later cut back by Priceline when the shakeout in the business-to-consumer e-business market started. It is useful to have the class work through the business processes laid out in Exhibit 5 to assess some of the reasons why it failed. Ensure that students also pay careful attention to the product prices and margin estimations that are included.
6. Consider the timeline of the launch of Priceline's various product offerings as presented in Exhibit 7, and have the students evaluate both the speed of implementation as well as the relevance of Priceline's unique business process to consumer purchasing decisions for each product category. Given the timeline, ask the students to make a list of implementation

challenges that Priceline must have faced during that period. These can be structured into technical, organizational, and marketing categorizations.

7. Most information systems textbooks suggest conceptual alternatives for managing systems implementation such as the turnkey, phase-by-phase, and pilot approaches. It is fruitful to have the students apply this alternative approach to the implementation of Priceline's business model.
8. Students should also discuss the relationship between the rapid growth of Priceline's revenues between 1998 and 1999, and its market capitalization; these are presented in Exhibits 6 and 9. Have the students think of reasons for the relationship, given that of the competitors of Priceline in the traditional industries. This discussion can be extended by having the students focus on the specific attributes of its e-business method innovation as well as methods for calculating the value of the business model from a market perspective.
9. Consider the marketing activities and approaches that Priceline employed in executing its concept for airline tickets. Would it have been better for Priceline to license its reverse auction business model to the airlines? This would have provided a stable source of revenue streams without the hassles of undertaking such a large implementation with limited financial, human, and other resources.
10. Many e-business cyber-ventures are proceeding with business implementation immediately after filing their patents and before the patents are secured; others are moving away from filing altogether. Ask the class to suggest reasons for these courses of actions. Make the point that it is critical to have a close linkage between competitive strategy in a new market and implementation strategy.