Priceline:

Name your own price!!

by

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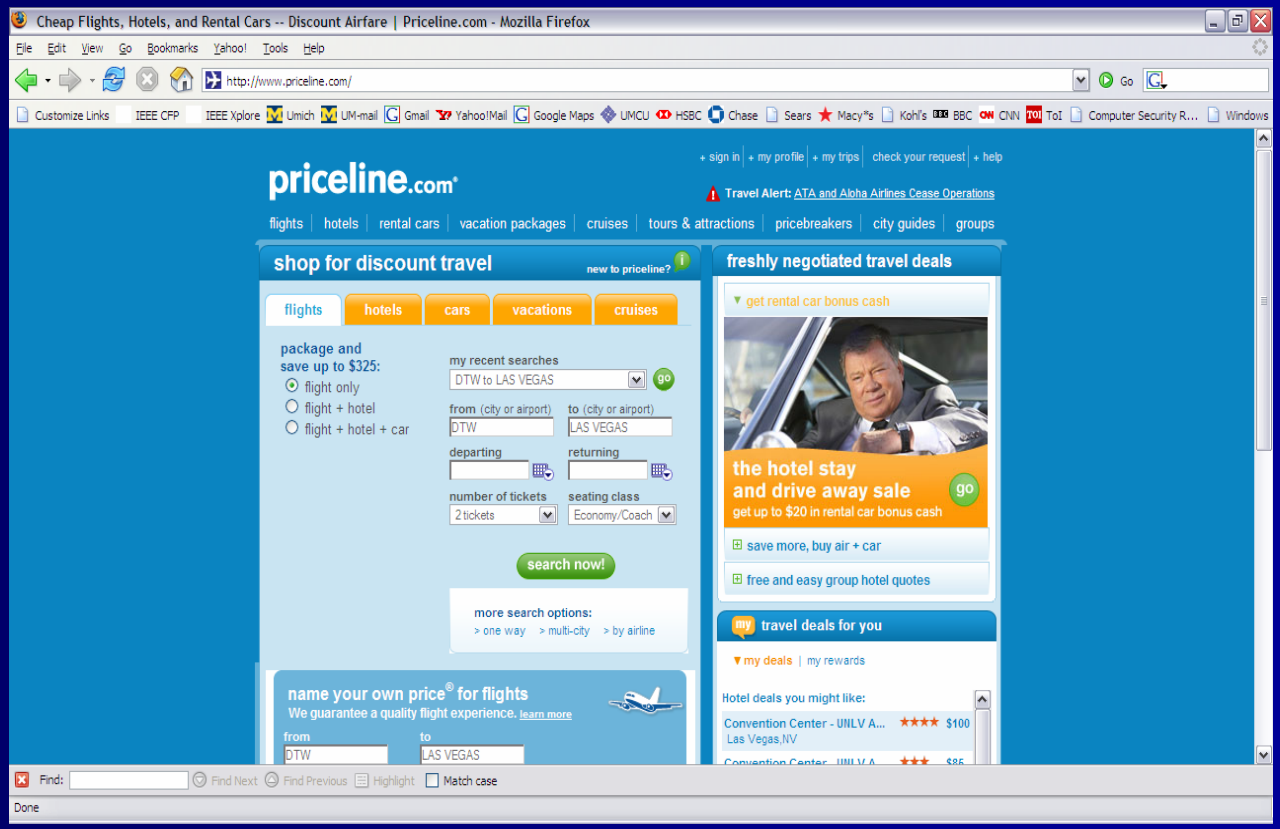
Outline

- Introduction
- Name Your Own Price mechanism
- Analysis
- Conclusion

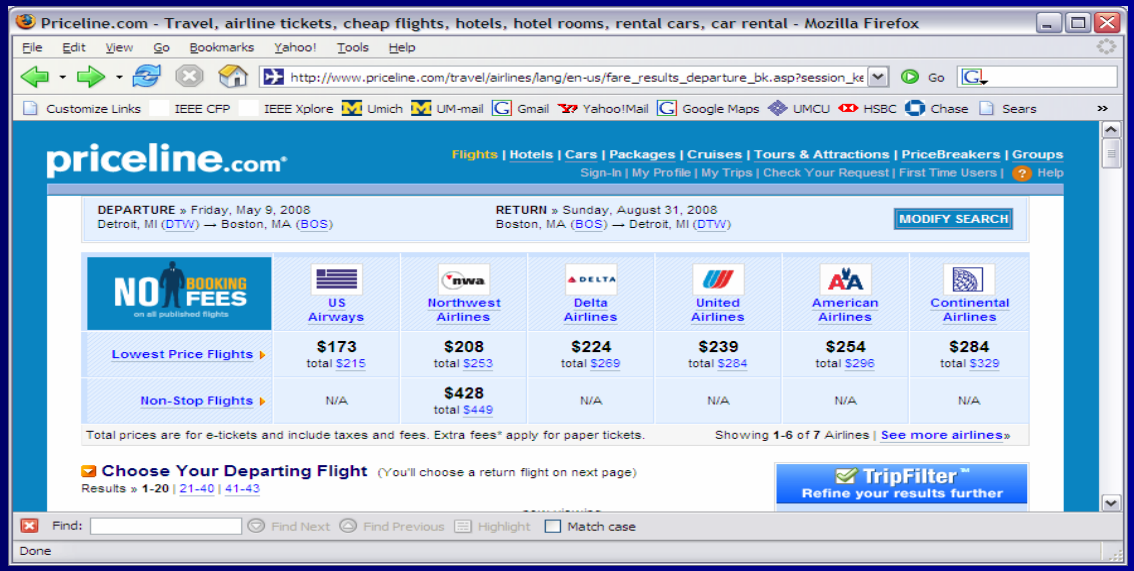
What is priceline?

Website that helps “discover” discount rates for travel-related services



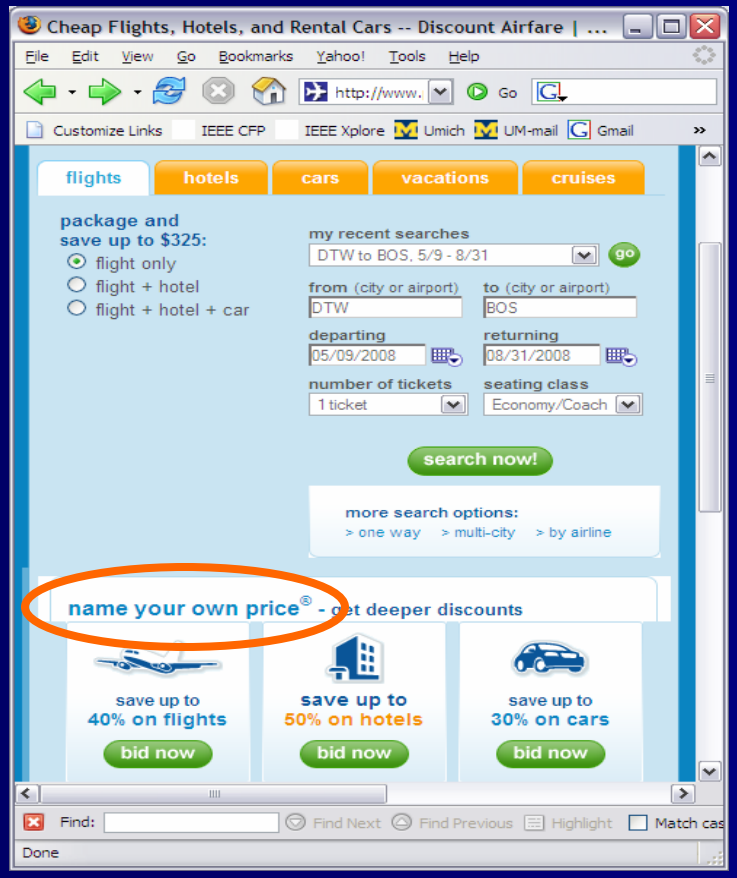
Discovery of discount rates for services

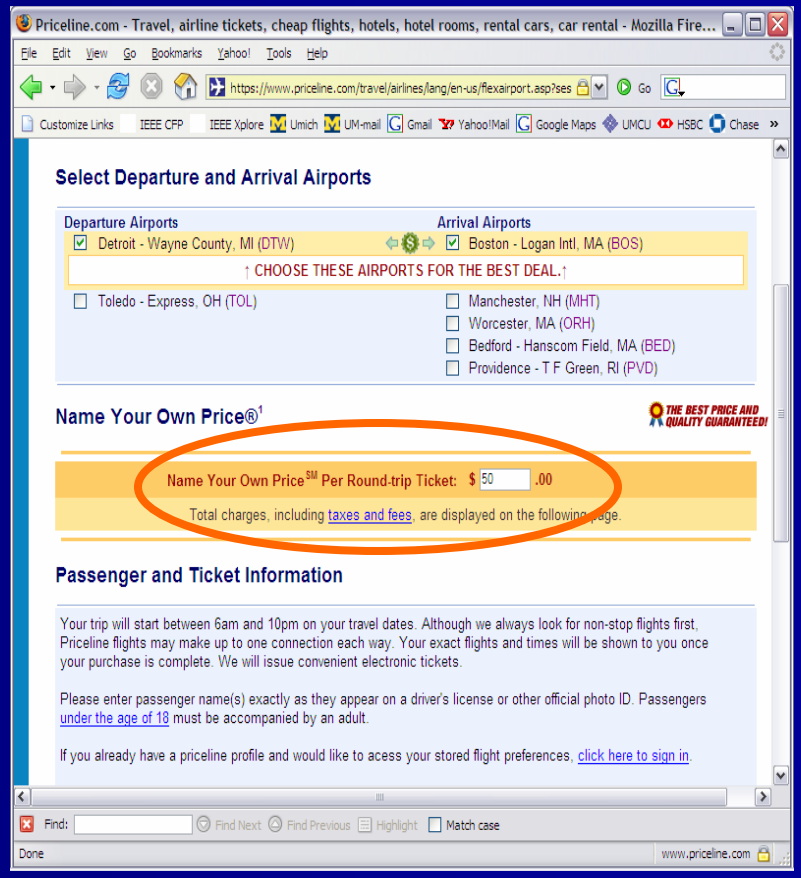
- Similar to Expedia, Travelocity, Orbitz, Kayak
- Buyers enter details of their itinerary / preference
- Priceline searches for discount deals offered by service providers and shows best match to the buyers
- Buyers select from the discovered deals and proceed with purchase



Special feature:
Name your own price (NYOP)

- Buyers can “name the price” at which they want to make the purchase!
- Available for flights, hotels and rental cars





How does NYOP work?

- The buyer enters itinerary details
  - Departure / destination cities, Arrival / departure dates and times
- A list of options are presented to the buyer to indicate his preference
  - Flights: Arrival / departure airports
  - Hotels: Hotel location, Star level
  - Rental cars: Car type, Pick-up / drop-off location, Flight information
- The buyer enters a “bid” indicating the amount it is willing to pay
- The buyer enters personal information required for reservation
- The buyer enters his credit card information
- If a service is available that matches buyer’s preference and bid, the reservation is made and buyer’s credit card is charged

How does NYOP work?

Behind the scene

- After the buyer puts in his bid, it is passed on to a search engine.
- The search engine connects with all participating service providers' Computer Reservation Systems and queries whether any provider is willing to release a desired item at a wholesale price below the bid price.
- The wholesale price is released only to the Priceline - secret database
- If the system finds a match in 60 sec, the reservation is made as follows:

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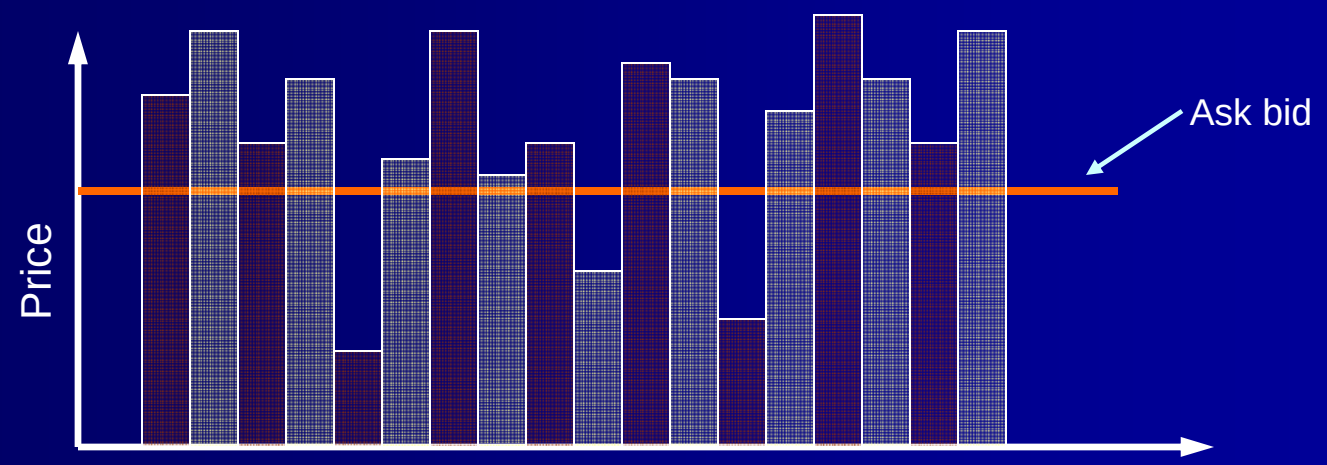

Result from SPs' wholesale price search within 60 sec

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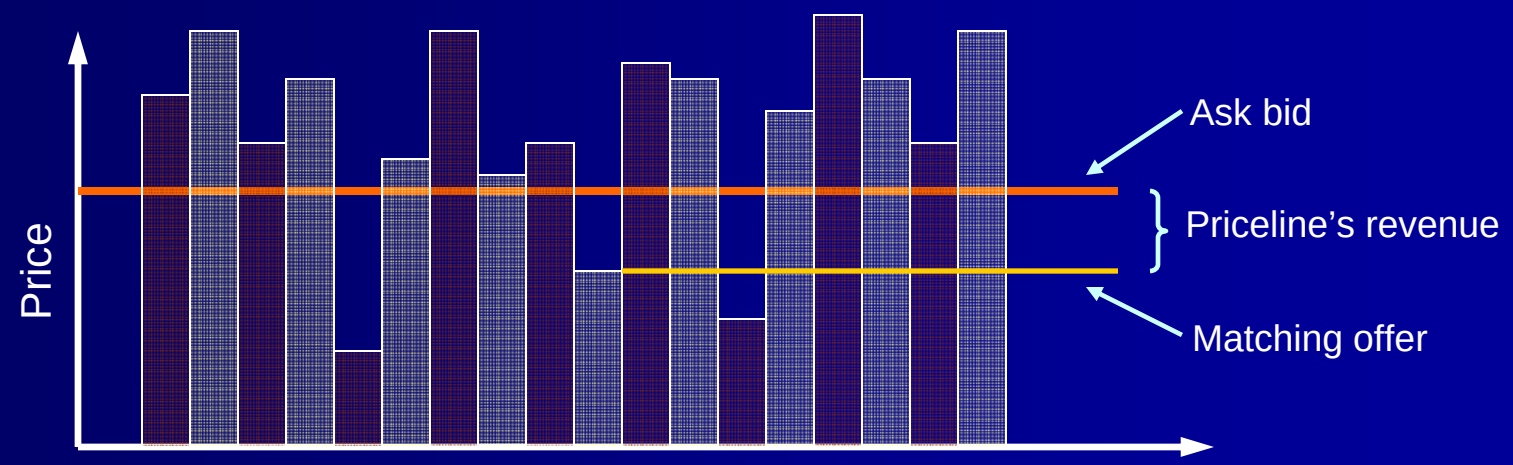
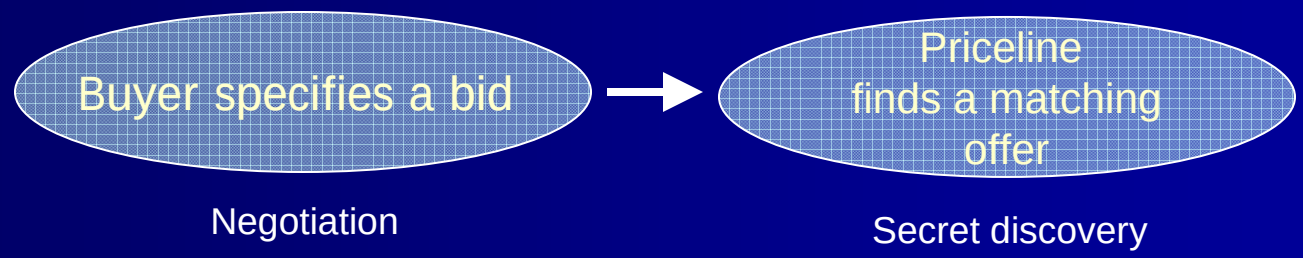


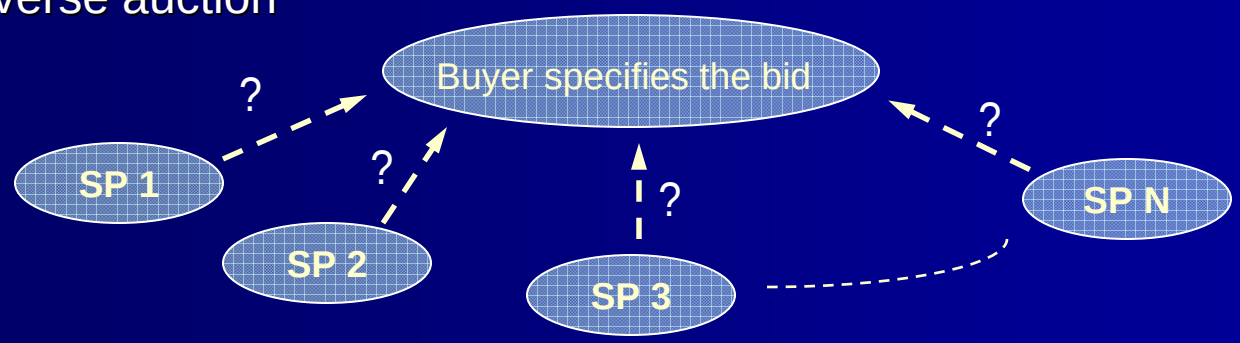
Result from SPs' wholesale price search within 60 sec

Comparison with e-commerce model studied in class

- Negotiation before Discovery



- Reverse auction



Service providers decide the minimum acceptable price

Pros

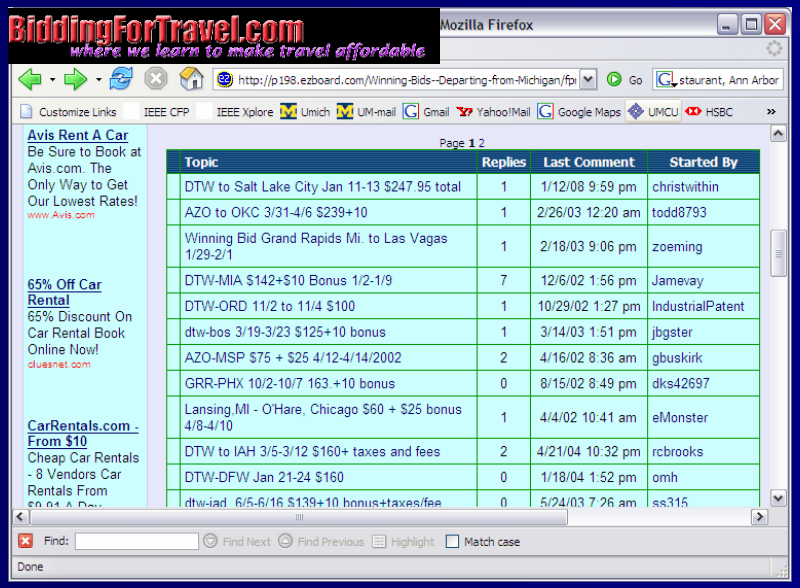
- For buyers
  - Can get deals much cheaper than published prices
  - Certain quality parameters are guaranteed
  - Never have to pay more than published price – Priceline refunds
  - Can bid again if previous bid unsuccessful
- For sellers
  - Do not need to lower the published retail or discount price
  - Better off by selling the item at a lower price than not selling at all

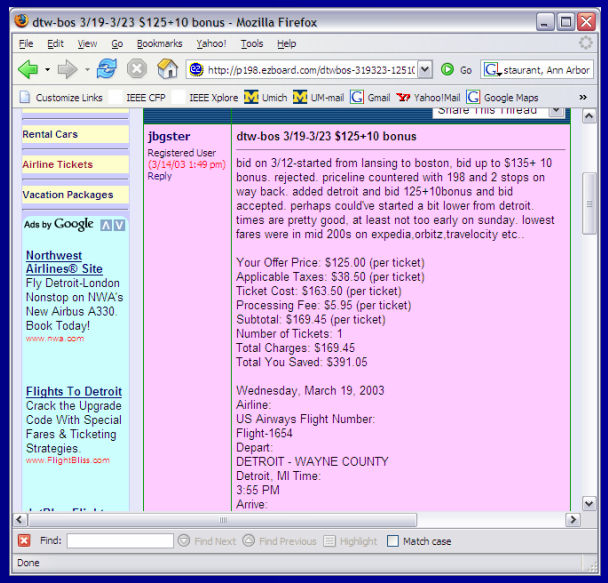
Cons

- For buyers
  - Do not know the exact details of the offer until reservation is made
  - Must enter credit card information before bidding
  - Cannot change / cancel the purchase if a match has been found
  - Do not get associated rewards – frequent flyer miles, special discounts
  - Have to wait 24 hours before bidding again for the same itinerary
  - Requires time for pre and post bidding search to be an efficient bidder
- For sellers
  - Suffer from thinness of market during reverse auction
  - Do not have complete information about demand / bids

Buyers can game the system

- Search for published retail and discount prices on other websites
- Learn the bidding and winning trend for similar itineraries

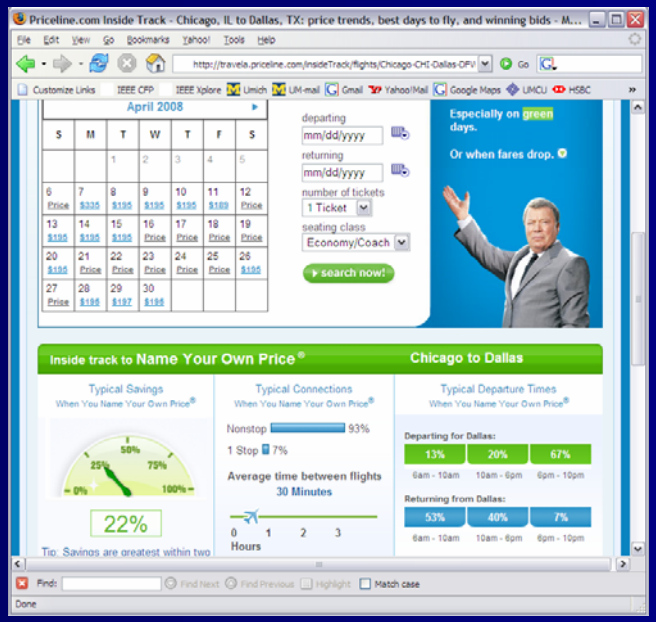


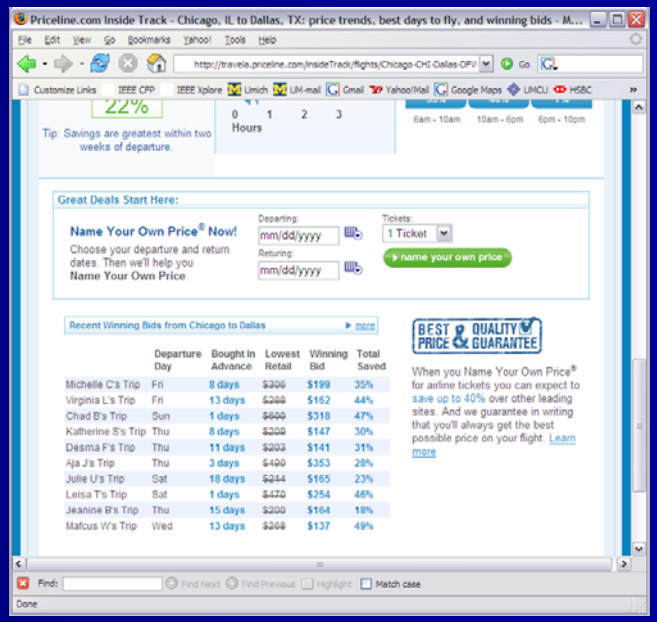


- Re-bid strategically

Priceline's take to ensure buyer satisfaction

- Responds in 60 sec (earlier 60 min), buyers can re-bid in 24 hours (earlier 72 hours)
- Inside track on flight deals (introduced March 12, 2008)
  - Shows market trend for flight price from major cities
  - Provides inside look at NYOP winning bids





- Acquisition of Lowest Fare
  - If a bid is not successful, Priceline will offer retail fares from Lowest Fare

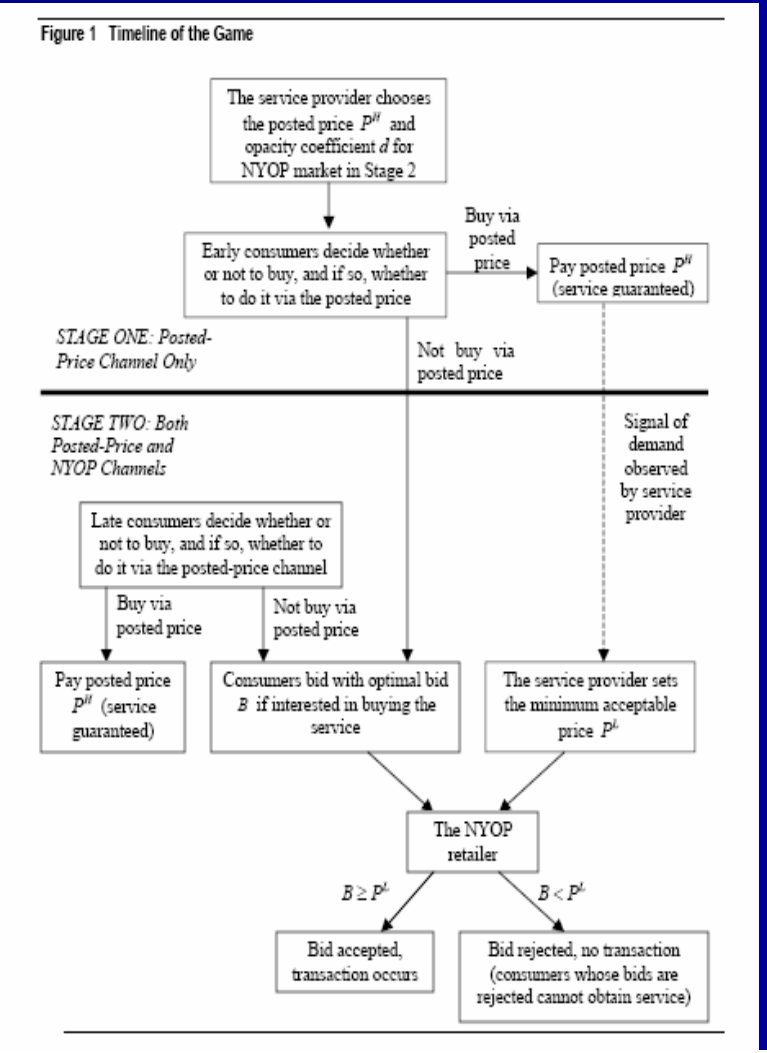
Why does NYOP model exist?

Example study

- Why an NYOP channel makes sense for service providers
  (or: who needs Priceline, anyway?),
  by Wang, Gal-Or and Chatterjee

- Formulate a two stage game for buyers' and service providers' behavior in Priceline

- Study properties of Bayesian Nash equilibrium in the two stage game with a monopolist service provider



Some results from literature

Monopolist SP

- NYOP channel is profitable for the SP for intermediate opacity
- In absence of demand state information, the SP prefers posted-price channel for high capacity and NYOP for low capacity

SP with competitors

- In the presence of a competitor using posted-price channel, an SP prefers NYOP
- Competition influences optimal structure of NYOP mechanism

NYOP firm perspective

- Same expected profit is obtained by NYOP firm if buyers are restricted to single bid vs. repeat bids
- With partial bidding, profit changes non-monotonically with percentage of repeat bidders

Conclusion

- Priceline's Name Your Own Price system provides an alternative to the traditional posted-price sales of travel packages
- Under certain scenarios, NYOP is a profitable channel for the service providers
- Customers who cannot afford to, or, do not want to make the purchase at the posted price, can obtain great money saving deals with proper survey

Resources

- Google, google, google….!!
- Why an NYOP channel makes sense for service providers (or: who needs Priceline, anyway?), by Wang, Gal-Or and Chatterjee
- Partial-Repeat-Bidding in the Name-Your-Own-Price Channel, by Scott Fay
- Competitive reasons for the Name Your Own Price channel, by Scott Fay

Questions?

Thank You!