

# Case Study Questions

## 1. What are the core components of Priceline's business model?

The core components of Priceline's business model are its value proposition and revenue model. Priceline offers a compelling value proposition for both consumers and vendors. It allows consumers to save money by trading off flexibility about brands, product features and/or sellers in return for lower prices. On the vendor side, it allows sellers to gain additional revenue by selling products they might not otherwise be able to sell by accepting below-retail price offers without disrupting their existing distribution channels or retail pricing structure. Priceline primarily utilizes a transaction fee revenue model, receiving a fee for enabling or executing a transaction. Other elements of Priceline's business model include:

- realistic market opportunity-- at this time it appears primarily limited to the travel services markets, based on Priceline's failed attempts to extend its business model to other markets
- competitive environment, although Priceline initially was able to claim first mover advantage
- competitive advantages, which include Priceline's strong brand name and its patented "Name Your Own Price" business model
- market strategy, which has taken a number of turns and is now focused on selling to the travel services consumer
- management team, which appears to have stabilized for the time being
- organizational development

## 2. Do you think Priceline will ultimately succeed or fail? Why?

a. Students who take the position that Priceline will ultimately succeed could cite the following: Priceline will ultimately succeed because it has one of the strongest brand names in the discount travel services market. Its long-term viability looks strong because it is the dominant player in its niche market. There will always be customers seeking to pay as little as possible for air travel and customers willing to forfeit such conveniences as choosing their own departure times, flying direct, or earning frequent-flier miles. Priceline has a loyal core of users; brand loyalty could help Priceline fend off competitors. Also, Priceline has proven that its business model works in the travel services market, and its strategy of focusing primarily on this market is enabling it to achieve profitability.

b. Students who take the position that Priceline will ultimately fail could cite the following: Priceline will ultimately fail because its rivals offer a simpler way to buy airline tickets. Priceline's tickets are nonrefundable; consumers agreeing to purchase tickets through the site are locked into buying flights before they know the travel schedule, and often end up flying at inconvenient times with multiple transfers. While some believe that Priceline presents an opportunity for customers to make trade-offs, these trade-offs appear to be far too numerous for the long haul. Furthermore, Priceline seems to depend, at least to some extent, on customers overbidding in order to make a profit. Relying on the lack of sophistication of customers would seem to be a shaky premise on which to build a business model. Priceline has had to retreat from markets for

non-perishable goods, and its non-extensibility into other markets makes it a poor market risk. They have also experienced customer service problems, which hurt their image and may drive customers away.

The competition is also intensifying: Hotwire, Expedia, Travelocity and Orbitz all pose a challenge to Priceline, as do the airlines and hotel owners themselves. The proliferation of discount airlines such as Southwest, Jet Blue, and Spirit offer additional competition. All of these competitors offer a far simpler way to purchase airline tickets than does Priceline at a competitive price.

### **3. How has Priceline (and similar online services) impacted the travel services industry?**

These companies have impacted the travel services industry by introducing a price sensitivity signal into the industry that segments the market. Consumers, by revealing their flexibility on issues such as brand, scheduling, type of aircraft, departure time, and number of connections, are signaling that they are sensitive to price. The simple fact is that all consumers aren't created equal. Some have strong brand preferences, while others are sensitive to price and care little about brands. Priceline's initial and continuing success in the airline industry points out the flaws in the airline industry's post-deregulation yield management systems. It has also created a brand new distribution channel: Priceline users can buy specially priced tickets from all of the major U.S. carriers. This demonstrates that the industry values the incremental revenues it can earn on seats that would have otherwise gone unsold through traditional distribution channels and by using the traditional yield management systems.

### **4. Follow up on developments at Priceline since September 2008 when this case study was prepared. Has its business model and/or strategy changed at all, and if so, how? Who are its strongest competitors? Is it profitable or operating at a loss?**

For further updates to the Priceline case study, students should visit the Securities and Exchange Commission's Web site, [Sec.gov](http://Sec.gov), which contains SEC filings of public companies, including financial statements, and should then follow the directions to see a list of reports filed by Priceline. Find Priceline's most recent 10-Q or 10-K report and examine the financial results reported. Students can also visit the Priceline Web site, read the press releases on the site, and conduct a search for articles in the popular business press (Forbes, Fortune, Wall Street Journal, etc.) for up-to-date articles on the developments at Priceline.

## **End-of-Chapter Questions**

### **1. What is a business model? How does it differ from a business plan?**

A business model is a set of planned activities (business processes) that are designed to result in a profit in the marketplace. A business plan on the other hand, is a document that outlines the details of a business model.

## **2. What are the eight key components of an effective business model?**

The eight key components of an effective business model are:

- value proposition
- revenue model
- market opportunity for the firm (the marketspace and how big it is)
- competitive environment for the firm (who the competitors are in the marketspace)
- competitive advantage the firm brings to the marketspace (the unique qualities that set the firm apart from others in the marketspace)
- market strategy the firm will use to promote its products and services
- organizational development of the firm that will enable it to carry out its business plan
- capabilities of the management team to guide the firm in its endeavors

## **3. What are Amazon's primary customer value propositions?**

Amazon's primary customer value propositions are unparalleled selection and convenience.

## **4. Describe the five primary revenue models used by e-commerce firms.**

The five primary revenue models used by e-commerce firms are:

- the advertising revenue model
- the subscription revenue model
- the transaction fee revenue model
- the sale revenue model
- the affiliate revenue model

The advertising model derives its profit by displaying paid advertisements on a Web site. The goal is to convince advertisers that the site has the ability to attract a sizeable viewership, or a viewership that meets a marketing niche sought by the advertiser. Firms that use the subscription model offer users access to some or all of their content or services for a subscription fee. Firms that use the transaction fee model derive profit from enabling or executing transaction. For instance, transaction fees are paid to eBay when a seller is successful in auctioning off a product, and E\*Trade receives a transaction fee when it executes a stock transaction for a customer. In the sales revenue model, companies draw profit directly from the sale of goods, information, or services to consumers. In the affiliate model, sites receive referral fees or a percentage of the revenue from any sales that result from steering business to the affiliate.

## **5. Why is targeting a market niche generally smarter for a community provider than targeting a large market segment?**

Targeting a market niche is generally a smarter strategy for a community provider than targeting a large market segment because targeting large market segments will only pit a company against bigger and more established competitors. Small sub-segments of larger markets have a greater potential for growth without the intense competitive pressure. Communities that place a strong emphasis on the advertising revenue model will find marketers more interested in placing ads on a site that targets a specific niche.

**6. Besides music, what other forms of information could be shared via peer-to-peer sites? Are there legitimate commercial uses for P2P commerce?**

Some other forms of information that could be shared through peer-to-peer sites using shareware are organizational materials and digital video. You can use P2P software to efficiently distribute massive amounts of information across an organization, and also make it searchable. P2P software can be used to transmit movies over the Internet as encrypted files. Furthermore, it can be used to search other computers for the sorts of information found on Web sites. For example, it can establish a direct peer-to-peer exchange where buyers could gather information, check out suppliers, and collect prices not from a centralized server hub, but directly from each of the supplier's client server computers.

**7. Would you say that Amazon and eBay are direct or indirect competitors? (You may have to visit the Web sites to answer.)**

Amazon and eBay are direct competitors because they sell products and services that are very similar, and they sell to the same market segment. They both sell books, music, computers and software, games and toys, electronics, tools, movies and DVDs, and camping equipment. However, eBay has a consumer-to-consumer business model while Amazon has a business-to-consumer business model. Even though eBay sells new, overstocked, remaindered, and used products at discounted prices, the two compete for essentially the same market segment of consumers. eBay may attract the bargain hunter variety of shopper who would not stop at Amazon first, but it is still essentially the same market segment.

**8. What are some of the specific ways that a company can obtain a competitive advantage?**

Some specific ways a company can obtain a competitive advantage are by developing a global market while its competitors only have a national or regional market; by obtaining favorable terms from shippers, suppliers, or labor sources that its competitors do not have; by developing a more experienced, knowledgeable, and loyal employee base than its competitors; by obtaining a patent on a product that its competitors will not be able to imitate; by having an inside track to investors willing to put up capital; by establishing a powerful brand name or a popular image that it will be difficult for competitors to duplicate; and by any type of asymmetry that will give it more resources than its competitors in any area such as financial backing, knowledge, information, and/or power.

**9. Besides advertising and product sampling, what are some other market strategies a company might pursue?**

One market strategy is to form strategic alliances with business partners who will help you to attract new customers and extend your market reach. Another market strategy is to use product name, packaging, and advertising to create a distinct mood or feeling about each of your product lines, and carefully target each line to a specific audience. Some firms may choose to pursue a marketing strategy that positions them as a "one-stop-shop" which carries a broad based line of products, saving the customer search time. Others may choose to position themselves as category experts who have an in-depth and "personal" knowledge of their customers. Such firms will offer extensive customer

support networks to assist their customers in their purchasing decisions and will advertise themselves accordingly. One critical factor is that a company needs to find a way to differentiate itself from the competition.

**10. What elements of FreshDirect's business model may be faulty? Does this business scale up to a regional or national size?**

FreshDirect's vertically integrated approach, in which it does its own food preparation, is really quite different from other players such as Safeway. It is unclear if FreshDirect's model can scale up to be successful outside of urban areas. It is unclear if the FreshDirect model, which focuses on perishables, can also work well with frozen foods, prepared dinner dishes, and more processed foods such as cereals, where margins are quite low. FreshDirect even owns its own fleet of trucks. It is unclear if any business can be the most efficient player in all these areas. Why not use FedEx or UPS delivery?

**11. Why is it difficult to categorize e-commerce business models?**

It is difficult to categorize e-commerce business models because the number of models is limited only by the human imagination, and new business models are being invented daily. Even within the broad-based generic types, there are overlaps, and fundamentally similar business models may appear in more than one. The type of e-commerce technology used can also affect the classification of a business model. Also, some companies may employ multiple business models. For example, e-Bay is essentially a C2C marketplace, but also functions as a B2C market maker, and in addition, has an m-commerce business model.

**12. Besides the examples given in the chapter, what are some other examples of vertical and horizontal portals in existence today?**

Some other examples of vertical portals (vortals) include ESPN.com (sports), iVillage (women's issues), NFL.com (sports), Blackvoices.com (African-Americans), WebMD (physicians, nurses, teachers, medical office managers and consumers), Aflcio.org (labor issues), Gamers.com (games), Away.com (travel), and T-online (Pan-European portal). Some other examples of horizontal or general portals include Earthlink.net, Lycos, Orange.co.uk, and Sympatico.msn.ca (Canadian). Note that many of these can also be considered community sites as well.

**13. What are the major differences between virtual storefronts such as Drugstore.com and bricks-and-clicks operations such as Walmart.com? What are the advantages and disadvantages of each?**

The major difference between virtual storefronts and bricks-and-clicks operations is that virtual storefronts do not have any ties to a physical location. The major advantages of the virtual storefronts are that they have low barriers to entry into the Web e-tail market and that they do not bear the costs associated with building and maintaining physical stores. The disadvantages are that they must build a brand name from scratch, quickly, and become profitable with no prior brand name or experience, which can be very difficult. The major advantages of the bricks-and-clicks operations are that they have an already established brand name, an established customer base, an established sales force, and the resources to operate on the very thin margins associated with the retail industry. It

is also much less expensive for them to acquire new customers than it is for the virtual storefronts. The major disadvantages of the bricks-and-clicks firms are that they face new competition in an extremely competitive environment from new firms who may have more expertise at building credible Web sites, and who can focus exclusively on building rapid response order systems.

**14. Besides news and articles, what other forms of information or content do content providers offer?**

Besides news and articles, content providers may also supply music, photos, video, artwork, educational materials, or games.

**15. What is a reverse auction? What company is an example of this type of business?**

A reverse auction is one in which a consumer offers to pay a certain price for a product or service and the bid is either accepted or not. The premier example of this type of business is Priceline, in which the consumer makes an offer for airline tickets, hotel rooms, car rentals, and other travel accommodations.

**16. What are the key success factors for exchanges? How are they different from portals?**

The key factor to success for exchanges is size-- the size of the industry and the number of registered users. If the industry the exchange seeks to serve is not large enough, the site will most likely not survive. The site must also be able to reach a critical mass by attracting both a large number of sellers and a large number of buyers, or customers will go elsewhere. An exchange is a digital electronic marketplace where suppliers and commercial purchasers can converge to conduct transactions. Most portals operate in the B2C sector rather than the B2B sector, and their main business objective is to be a destination site for consumers. Although some portals provide a shopping component, that is not their main business objective.

**17. What is an application service provider?**

An application service provider (ASP) is a company that sells access to Internet-based software applications to other companies. They charge transaction fees based on the number of workstations running the application, or annual licensing fees to companies for the right to use the software program. They offer their customers the advantage of providing a "best of breed" application that many firms will need, but which would be expensive for them to buy and install. It would be even more so for them to build themselves.

**18. What are some business models seen in the C2C and P2P e-commerce areas?**

The most common business model seen in C2C commerce is a market creator, which helps consumers or businesses to connect with other consumers. P2P businesses are generally content providers that link users so that they can share files and computer resources without having to go through a common server.

**19. How have the unique features of e-commerce technology changed industry structure in the travel business?**

The ubiquity of e-commerce has created new marketing channels and expanded the size of the overall market. The global reach of e-commerce has changed industry structure by lowering barriers to entry, but at the same time expanding the market. The costs of industry and firm operations have decreased, enabling global competition. The universal standards of e-commerce have also lowered barriers to entry and intensified competition. However, firms have cheaper costs for computing and communication enabling broad-scope business strategies.

The richness of e-commerce reduces the strength of distribution channels, decreases a firm's reliance on traditional sales forces, and helps a firm develop better post-sales support strategies. Firms can use the interactive properties of e-commerce to develop differentiation strategies and customization techniques to reduce the threat from substitutes. Interactivity, personalization, and customization techniques also decrease a firm's reliance on traditional sales forces, helping them to reduce operational costs. Using these techniques, some firms are successful in differentiating themselves from the competition, thereby raising barriers to entry for potential competitors. The information density of e-commerce weakens powerful sales channels, shifting some bargaining power to consumers. It also lowers the operational costs for firms associated with obtaining, processing, and distributing information about suppliers and consumers.

**20. Who are the major players in an industry value chain and how are they impacted by e-commerce technology?**

The major players in an industry value chain are the suppliers, manufacturers, distributors, transporters, retailers and customers. E-commerce technology has helped manufacturers to reduce the costs they pay for goods through the use of Web-based B2B exchanges. Some manufacturers have also developed direct relationships with their customers online thereby eliminating the distributors and the retailers from the value chain. Distributors can develop highly efficient inventory management systems to reduce their costs, and retailers can develop highly efficient, customer relationship management systems to strengthen their services to customers. Customers can use the Web to search for the best quality, delivery, and prices, thereby lowering their overall transaction costs and reducing the final price they pay for goods.

**21. What are four generic business strategies for achieving a profitable business?**

The four generic business strategies for achieving a profitable business are differentiation, cost, scope, and focus. Differentiation involves setting your firm or product apart from the competition by establishing some unique property or consumption experience that your competitors do not have. A firm that adopts a cost strategy must have a unique set of business processes, a unique resource, or a low cost supplier. It is essential that other firms in the marketplace do not have access to, or cannot duplicate, this since it will allow them to charge a lower price while still making a profit. A scope strategy sets out to compete in all markets around the globe, rather than just locally or regionally. A focus strategy on the other hand, is a plan to compete within a narrow

market segment or product segment. Specialization strategists seek to become the premier provider in a small market segment or niche.

## Projects

**1. Select an e-commerce company. Visit its Web site and describe its business model based on the information you find there. Identify its customer value proposition, its revenue model, the marketplace it operates in, who its main competitors are, any comparative advantages you believe the company possesses and what its market strategy appears to be. Also try to locate information about the company's management team and organizational structure. (Check for a page labeled "the Company," "About Us," or something similar).**

Instructors may want to provide some parameters for students in choosing a company (i.e., sector (B2C; B2B, etc); industry (retail, services, etc.)) to limit student search time. Students can be asked to provide either a written report or an oral report accompanied by a slide presentation.

A student choosing a company such as PetSmart might provide the following information:

Petsmart is a B2C e-tailer. Its main customer value proposition is that it offers the broadest assortment of pet supplies at the lowest prices. Petsmart uses a sales revenue model: it operates in the specialty retail marketplace, and focuses on the pet supplies niche. Petsmart is the leading online pet supply company; many of its original online competitors, such as Pets.com and Petstore.com, have gone out of business. Its main competitors appear to be local pet stores and pet supply catalogs and Petsmart's main comparative advantage is its brand name. Petsmart appears to be using a "bricks-and-clicks" market strategy: it started as a traditional pet supplies retailer with over 500 physical "superstores" and leveraged its brand to the online environment. Its marketing strategies include: pricing (low prices); providing interesting content and community on its Web site for its target market; affiliate marketing; and email marketing through free email newsletters. Information about Petsmart's management team and organizational structure is available if the student follows the "Investor Relations" link from its "About Us" page.

**2. Examine the experience of shopping on the Web versus shopping in a traditional manner. Imagine that you have decided to purchase a digital camera (or any other item of your choosing). First shop for the camera in a traditional manner. Describe how you would do so (for example, how you would gather the necessary information you would need to choose a particular item, what stores you would visit, how long it would take, prices, etc.) Next, shop for the item on the Web. Compare and contrast your experiences. What were the advantages and disadvantages of each? Which did you prefer and why?**

The purpose of this assignment is to help students understand how e-commerce differs from traditional commerce. In reporting on this project, students should identify the product they shopped for and detail how they traditionally shopped for the product. For example, they might have gathered information about the product from newspapers and magazine articles, advertisements, called or visited one or more stores, or perhaps shopped for the product via mail-order catalog. They should note what stores, if any, they visited or catalogs they looked at; how long it took them to find the product they were seeking; the level of service; the stores' policies (e.g., on returns); and how long it took them to find and purchase the product.

For their Internet shopping experience, students should prepare a comparable analysis. They should explain their strategy for finding information on the product (e.g., identify the search engines, if any used, the searches performed, and links followed), and then describe the shopping experience at the company from which they have decided to "purchase" the product. They should report which shopping experience was quicker, easier, more convenient, which offered better prices, and any other specific advantages or disadvantages of each type noted. They should explain which experience they preferred and why.

**3. Visit eBay and look at the main types of auctions available. If you were considering establishing a rival specialized online auction business, what are the top three market opportunities you would pursue, based on the goods and auction community in evidence at eBay. Prepare a presentation to support your analysis and approach.**

One way a student might approach this project is to look at the different categories in which eBay conducts auctions. Start by clicking the "Visit all categories" link on eBay's home page. A student might choose to focus on those areas which have the most auctions; on commodity items such as books, CDs, electronic equipment; on a niche area; or on categories in which eBay does not appear to be strong (i.e., few auctions; or not covered in the list of categories).

**4. During the early days of e-commerce, first mover advantage was touted as one way to success. On the other hand, some suggest that being a market follower can yield rewards as well. Which approach has proven to be more successful - first mover or follower? Choose two e-commerce companies that prove your point and prepare a brief presentation to explain your analysis and position.**

For students that argue for first mover advantage as a way to success, examples might include Amazon, Yahoo, Travelocity, eBay, RealNetworks, VeriSign, Priceline, E\*Trade, and PayPal. Although each of these has encountered competition, their early arrival and commitment to becoming the predominant player in their respective marketplace have helped to assure their continuing success.

Those who argue for market followers can point to the demise of many of e-commerce's first movers. Examples might include Pets.com, Garden.com, Webvan, eToys, Kozmo, and theGlobe.com. They might point instead to companies who were not among the first on the Web, but today are successful such as Walmart.com, JCPenney.com, PetSmart, Williams-Sonoma.com, Fidelity.com, and Merrill Lynch.

**5. Prepare a research report (3 to 5 pages) on the current and potential future impacts of e-commerce technology on the book publishing industry.**

The publishing industry has several components: newspapers, books, and magazines. For leads, students can do a search on the following terms: online newspapers, e-books, and online magazines.

A good report will describe how big the audience for each of these types of publishing, both offline and online. It will detail how online versions differ from offline versions. Students should cover how new e-commerce technologies are changing where and how content is delivered. For instance, students might explore dedicated e-book readers such as the Amazon Kindle or Sony Reader, e-book reader software from Microsoft and Adobe, and e-book reading software for PDAs. The concept of convergence, or the merging of technology, content, and industry ownership, is another topic reports might cover. How will recent mergers in the cable television and satellite industries affect content owners?