

# PRICELINE.COM: NAME YOUR OWN PRICE

Priceline.com flipped a conventional marketing system on its head. Founder Jay Walker explained: "In the traditional model of commerce, a seller advertises a unit of supply in the marketplace at a specified price, and a buyer takes it or leaves it. Priceline turns that model around. We allow a buyer to advertise a unit of demand to a group of sellers. The sellers can then decide whether to fulfill that demand or not. In effect, we provide a mechanism for collecting and forwarding units of demand to interested sellers . . ."<sup>1</sup> Priceline's initial service, launched in April 1998, sold airline tickets. A customer logged onto the company's Web site and through Priceline.com—to adopt Walker's terminology—posted a free "advertisement" that he wanted to go somewhere. The customer specified only the desired days of travel and destination (not carrier or arrival and departure times) and named the price he was willing to pay for the roundtrip tickets. Priceline.com then searched the databases of cooperating airlines with whom it had negotiated availability and prices.

Customers had to be flexible on time of travel and "brand" of supplier. If Priceline.com found a routing, it was assigned to the customer and his credit card was automatically charged the customer's named price. No backing out was allowed even if, for example, the customer's specified Friday to Sunday trip from Boston to Orlando, Florida, turned out to arrive in Orlando at 10 P.M. on Friday evening, leave Sunday morning at 6 A.M., entailed switching planes in Detroit in both directions, and be on one of the customer's least favorite carriers.

Priceline.com thus clearly targeted the budget-minded leisure traveler. About a year after inception, on April 28, 1999, it had its first \$1MM day, selling over

5,000 tickets. In this first year of operation, more than 1 million individuals had "named their price" (though not necessarily served at that price). Throughout 1998 and 1999, Priceline.com expanded beyond airlines, introducing "name your own price" services for automobiles, hotel rooms, and home financing. In January 2000, Priceline President and CEO Richard Braddock commented: "It's obvious to everyone that Priceline is working extremely well. Growth is happening before our eyes. We're writing 10 times the ticket volume we did in January '99, and we're rolling out new product areas, and our customer generation has continued at a dramatic pace. We've done a great job at building our brand."<sup>2</sup> While airline tickets still accounted for the vast majority of Priceline's revenues at the end of 1999, Priceline executives were confident about the suitability of the "name your own price" business model for other product categories. Walker saw great opportunity for the model: "You'll see it everywhere. We've already announced that we intend to extend our pricing model to hundreds if not thousands of products and services."<sup>3</sup> Priceline.com termed its business model highly "horizontally scaleable" and the airline service "just the beginning."

While revenues for calendar year 1999 reached \$482 million (see Exhibit 1 for financial statements for 1998 and 1999), some observers remained skeptical especially about its performing in a way justifying the company's market capitalization from its March 1999 IPO. For example, a *Fortune* article entitled "The Hype Is Big, Really Big at Priceline" (a take-off on Priceline's own earlier advertising tag-line delivered by celebrity spokesperson William Shatner of *Star Trek* fame that Priceline was going to be "big, really big") opined:

The clear-eyed truth is that buyer-driven commerce has so far proven to be more of a marketing gimmick than the centerpiece of a revolution. . . .

Sure, consumers can "name" prices at Priceline, but it remains the airlines that set them. Indeed, because Priceline keeps the prices of its available

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*Professor Robert Dolan prepared this case from published sources as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.*

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<sup>1</sup>N. Carr, "Redesigning Business," *Harvard Business Review*, November–December, 1999, p. 19.

<sup>2</sup>R. McGarvey, "Is Priceline Vulnerable," *Upside*, January 2000.

<sup>3</sup>N.Carr, op. cit., p. 20.

tickets secret, the company offers consumers what is truly a revolutionary opportunity: the chance to pay more than the asking price.<sup>4</sup>

Others saw the logic of the “name your own price” model for perishable inventories—such as airline tickets, hotel rooms, vacation homes, and car rentals—but questioned the extendibility of the Priceline brand and pricing model to situations where the supplier was not under pressure to sell but could wait for demand to materialize. As one commentator put it: “Hotel rooms, yes: grocery staples, no.”<sup>5</sup>

Priceline was also presented with direct competition in the “name your own price” model by Expedia, a leading online travel service spun off by Microsoft in November 1999. (Microsoft maintained an 86% share stake.) Expedia had announced a “Hotel Price Matcher” service similar to Priceline’s in September 1999 and followed with “Flight Price Matcher” in December. Priceline believed these services infringed the business process patent granted to it by the Patent Office in August 1999. It filed a complaint in October. Microsoft and Expedia filed for dismissal of the charges in December and it was as yet unclear what the result of the legal process would be. Expedia differentiated itself from Priceline by positioning itself as “the first single Web site to allow customers to specify their own prices for airline tickets and have access to a complete resource of airline and travel planning services.”<sup>6</sup> Expedia provided extensive destination information and strong editorial content along with multiple booking options. Whereas Priceline was extending its brand across multiple product categories, Expedia focused on travel: flights, hotels, cars, vacations, and cruises.

The year 1999 had been an exciting year for Priceline.com. Sales had increased more than tenfold; the number of individuals who made at least one “guaranteed offer” reached 3.8 million; research data showed it was the second-most well known e-commerce site, behind only Amazon. Its \$16/share public offering closed the first day at \$69 and reached \$165/share within a month. (See Exhibit 2 for chart of stock price.)

In January 2000, the company bolstered its marketing talent with the appointment of a new Chief Marketing Officer. In the year ahead it sought to continue to

enhance the brand, strengthen its position in multiple product categories, expand into new categories, and grow revenues to over \$1 billion. Which categories were best suited for the Priceline service? A broader question was, as a player across multiple categories, how could its brand be strong enough to compete against niche players like Expedia in travel, CarsDirect in automobiles, and Lending Tree in home financing?

## Building and Extending the Franchise

### Services

Priceline.com launched its airline ticket service in April 1998. While not publicized at the time, the cooperating airlines at launch were only America West and TWA. Delta was added as an airline partner shortly thereafter as it received warrants to purchase 18.6 million shares of Priceline stock for .93¢ per share if sales targets were met. Northwest and Continental followed. In November 1999, United (the largest airline in the United States), American (#2) and U.S. Air joined as partners, giving the company broad coverage of the U.S. market as its participating airlines then accounted for over 90% of U.S. domestic capacity. Twenty international airlines also joined. Airline participation agreements did *not* require

- The airlines to make tickets available for any particular route, or to provide any specific number of tickets;
- Particular prices or discount levels;
- Exclusivity in dealing with Priceline to sell discounted tickets.

An airline’s ability to exercise its stock options were, however, tied to achieving certain sales levels. Priceline saw its system providing airlines a new channel via which to sell some of the 500,000 empty seats which were being flown each day. While firms in some industries sold perishable goods by price discounting at the last moment, this was not an economically appealing option for the airlines as the “last moment” was when the price-insensitive business traveler showed up. Walker saw Priceline providing value to airlines via brand and price “shields,” viz.

Because the seller is anonymous through the buying process, it gets two clear benefits in addition to incremental sales.

<sup>4</sup>P. Elkind, “The Hype Is Big, Really Big at Priceline,” *Fortune*, September 6, 1999.

<sup>5</sup>R. McGarvey, op. cit.

<sup>6</sup>Expedia Press Release, “Customers Can Now Find the Right Flights for Less on Expedia.com,” December 9, 1999.

First, it gets a brand shield. If it had publicly advertised a lower price for its product or service, it would have eroded its brand. But since it can accept the unit of demand without letting the buyer know in advance, it suffers no such erosion.

Second, the seller gets a price shield. It can maintain the integrity of its established prices because it never advertises that a lower price is being filled.<sup>7</sup>

While developing its airline supplier base, Priceline also expanded into new product categories introducing services for

- New automobiles (July 1998)
- Hotel rooms (October 1998)
- Home financing (January 1999)

By November 1999, it had also made agreements with (i) Budget Rent A Car and National Car Rental Systems to support a car rental service, and (ii) Net2Phone to support a long distance telephone system. Both systems were to roll out in early 2000. In addition, it entered into a licensing agreement with WebHouse Club to bring “name your own price” to groceries.

## Brand Building

Priceline.com described its strategy as an “aggressive brand-enhancement strategy, which includes mass market and multimedia advertising, promotional programs and public relations activities. These activities will involve significant expense.”<sup>8</sup> Sales and marketing investments were \$24.4 million in 1998 and \$79.6 million in 1999. In April 1998, Priceline made a commitment of a large portion of these funds to a radio and newspaper campaign featuring celebrity spokesperson William Shatner. (Shatner was well known as Captain James Tiberius Kirk of the U.S.S. Enterprise in the Star Trek television series and movies.) In late 1999, Walker described this decision undertaken in early 1998:

Two years ago, conventional wisdom was not in favor of celebrity endorsements for Internet products. Internet companies were supposed to focus their advertising online through banner ads and portal deals. Priceline.com believed that the right star power

concentrated in more traditional radio and print advertising would effectively reach both Netizens and non-Internet users alike. Our innovative service and targeted media buying, combined with Bill Shatner, did the trick.<sup>9</sup>

Priceline was the #9 dot.com advertiser in traditional media for the first half of 1999, according to *Advertising Age* estimates. Priceline engaged Opinion Research Corporation to assess the results of its investment in sales and marketing. The company conducted surveys on awareness of “Internet brands” in September 1998 and April 1999. Results for September 1998 placed Priceline in the top five, as shown in Table A.

Brand Institute, a leading brand identity company, referred to the seven brands shown in Table A as “mega-brands” as the survey result projected to over 50 million U.S. adults being aware of the brand. Priceline had achieved “mega-brand” status within 150 days of its April 1998 launch. By April 1999, Priceline.com’s awareness reached 46.5%, putting it in the company of Amazon.com (51.7%), e-Bay (32.2%), and E-Trade (29.9%) as the four most well known e-commerce sites. This group of four had distinguished itself from other e-commerce sites as eToys was fifth at 21.6% awareness, followed by Autobytel at 17.9%. Priceline competitors such as Cheaptickets, Travelocity, Preview Travel, and Expedia all stood in the 8% to 10% awareness range among U.S. adults.<sup>10</sup> Another mechanism used to drive traffic to the Priceline.com site was the Affiliates Program. Priceline paid operators of the affiliate site \$1 each time a visitor coming from that site posted a qualifying offer (over \$150 “named price” for a domestic ticket). Special sweepstakes for affiliates were also held.<sup>11</sup>

In December 1999, Priceline signed Shatner to a two-year renewal of his endorsement contract. Hill, Holliday, Connors Cosmopolos, Boston, was selected as the agency to develop a new “image campaign” with heavy planned national television exposure.

<sup>9</sup>Priceline Press Release, December 16, 1999.

<sup>10</sup>Priceline Press Release, “New Study Shows Top E-Commerce Brands Distancing Themselves from Pack,” May 3, 1999.

<sup>11</sup>Affiliate programs are quite common on the Internet. The site Refer-It.com lists and rates over 1,600 programs. An affiliate simply posts a logo/small ad on its site and a link to the sponsor. The affiliate is paid according to a variety of arrangements ranging from cents per click through to commission on sales made at the site on that visit to continuing commission on all future purchases made by the referred person.

<sup>7</sup>N. Carr, op. cit., p. 19.

<sup>8</sup>Priceline SEC, Registration Statement, July 1999.

**Table A** Internet Brand Awareness<sup>a</sup> Among All U.S. Adults  
(September 1998; Sample Size = 1,013)

Internet Brand	Percentage Aware
1. America On-line	78.8
2. Yahoo	51.4
3. Netscape	48.6
4. Amazon.com	37.4
5. Priceline.com	32.2
6. Infoseek	27.2
7. Excite	26.2

Source: Priceline.com Press Release, "McDonald's, Coke and Nike, Look Out: Here Come the Internet Mega-brands," September 21, 1998.

<sup>a</sup>Typically, a brand awareness question is of the form: "which of the following brands are you aware of?" An interviewer reads list and respondent replies.

## Priceline Services

As of January 2000, Priceline offered four services on a broad geographic basis:

1. Airline Tickets
2. Hotel Rooms
3. Home Financing
4. New Cars

Through a license with WebHouse, a grocery service was available in the metropolitan areas of New York, New Jersey, Connecticut, and in Philadelphia. During the first quarter of 2000, the service was to be introduced in Baltimore, Boston, Detroit, Milwaukee, and Washington, D.C. Noted as "Coming Soon" on the Priceline.com web site were Rental Cars and Long Distance Telephone Services. For these services, the site ([www.priceline.com](http://www.priceline.com)) had a picture of spokesperson William Shatner with the caption "This is gonna be bigger than big!"

## Airline Services

In 1998, about 600 million passengers enplaned on scheduled U.S. airlines.<sup>12</sup> Scheduled airlines generated over \$75 billion in revenues. Frequent business travelers

accounted for a large portion of trips, e.g., the 8% of people who flew more than 10 trips per year accounted for 45% of industry business. In 1999, industry "load factors" (i.e., the percentage of seats sold on a flight) ranged from a low of 65% in January to just over 75% during June, July, and August when vacation travelers swelled industry demand. Travel agents were the primary distribution mechanism for airline seats as these 30,000 agents, using airline-owned reservation systems, sold 85% of industry tickets. Pricing in the industry was complex as more than 90% of tickets sold were discounted to some extent and discounts averaged 2/3 off the listed "full fare." Access to highest discount levels typically required booking well in advance of travel dates and staying over a Saturday night. In 1999, the average price for a 1,000-mile economy class flight was \$117.30 each way.

The emergence of the Internet provided many alternatives to the travel agent model. Major airlines established their own web sites, sometimes offering special inducements to book direct to bypass travel agents. Many airlines posted special "last-minute" deals on their sites. Sites such as Travelocity and Expedia offered customers online access to a full set of suppliers at published fares. Online bookings were approximated at \$4 billion in 1999, with half of these made directly by the airline companies.

Priceline.com's airline service, which accounted for a large portion of company revenues during 1999, offered access to unpublished fares. For nine months ending September 1999, five airline partners accounted for over

<sup>12</sup>This paragraph is based on information provided by Air Transport Association, the trade group for the principal U.S. Airlines, at its web site [www.air-transport.org](http://www.air-transport.org).

90% of airline service revenues.<sup>13</sup> Key elements of the airline service were as follows:

- A logged-in customer specified
  - Dates of travel;
  - Departure and arrival cities;
  - Number of passengers in the party (up to eight).
- The system queried about acceptable airports (if relevant). For example, a customer specifying Boston as the Departure City was asked to indicate which of (i) Logan in Boston, (ii) Manchester, New Hampshire, and (iii) Providence, Rhode Island, airports were acceptable departure locations. Customers were encouraged to “check as many airports as you can to increase your chances.” The system provided information on the location of the airports, e.g., “The Providence-TF Green Airport is 47 miles SSW of Boston, Massachusetts.”
- Customers were given another opportunity to “increase their chances” by indicating a willingness to fly
  - In off-peak hours (before 6:00 a.m. and after 10:00 p.m.);
  - On non-jet aircraft;
  - Routes with more than one connection.
- The customer was then asked to “Name Your Price” with the notation that price does not include “standard fees/taxes and a \$5 per ticket processing charge.”
- The customer guaranteed the price to a credit card. Specifically, as noted on the Web site, “If we find tickets at your price, we immediately purchase those tickets and charge your credit card. Because you get to name your own price, tickets purchased through Priceline cannot be changed, transferred, or cancelled.”

The service applied only to round trip travel originating in the United States or Puerto Rico. Unless the customer indicated willingness to fly off-peak times, the system guaranteed “you’ll always depart between 6:00 a.m. and 10:00 p.m.” on a “major full-service U.S. or International airline or its affiliate.” Priceline tickets were not eligible for frequent flyer miles.

Given the complete set of customer information and a guarantee of the “named price” to a credit card, Priceline searched airline partner databases containing availability and the prices at which the supplier would provide the seats to Priceline. In some cases, Priceline subsidized sales by supplying tickets even though the charge from the airline partners to Priceline was more than the “Name Your Price.” For the first three months after the service was introduced in April 1998, Priceline paid airlines \$1.13 for every dollar’s worth of tickets sold.<sup>14</sup>

Searching the database showed the supplier and routing fitting the customer’s somewhat loose specification (i.e., days of travel only, no brand stipulation) which maximized the spread between the customer’s “Named Price” and the necessary payment to airline partner. Within an hour, Priceline either provided a routing to the customer and billed the credit card or rejected the customer’s offer. In the event of a rejection, a customer could not just increase the “Named Price” and try again. Only one offer was permitted in a seven-day period—unless the customer changed an aspect of the itinerary, e.g. the travel dates and/or acceptable airports. A revised request could be submitted immediately.

During the first nine months of 1999, Priceline filled 25.8% of customer offers received and 52% of “reasonable” offers, which it defined as no less than 30% below the lowest generally available advance-purchase fare.<sup>15</sup> During the fourth quarter of 1999 (ending December 31, 1999), it sold over 700,000 leisure airline tickets.<sup>16</sup> It also entered into an agreement with Travelocity and Preview Travel on a co-marketing agreement to develop a fully integrated system wherein a customer could have “seamless access” to Travelocity and Preview’s published fares and Priceline.com’s “Name Your Price” method. Combined, the three sites had a user base exceeding 20 million individuals.

## Hotel Rooms

The hotel service operated in a similar fashion. Priceline offered hotel partners the same “brand-shield,” telling customers only “you’ll always stay in a nationally recognized, name-brand or well-known independent hotel.”<sup>17</sup>

<sup>14</sup>D. Machan, “An Edison for a New Age?” *Forbes*, May 17, 1999.

<sup>15</sup>Priceline Form 10-Q, November 15, 1999

<sup>16</sup>Priceline Press Release, “Priceline.com Sees Record Customer Growth,” January 5, 2000.

<sup>17</sup>Priceline Web site.

<sup>13</sup>Priceline.com, Form 10-Q, November 15, 1999.

Although specific names were not publicized to consumers, more than 12 “leading national hotel chains” were involved, offering space in 1,300 cities, towns, and resorts.<sup>18</sup> The customer specified date(s), acceptable locations, and required level of room from one-star/economy to four-star/luxury. As with airlines, the customer guaranteed the demand to a credit card and received an answer within an hour. On some days, the service booked over 1,000 rooms.

## Home Financing

“Name Your Price” financing was available for mortgages, home equity loans, and refinancings. While the information to be submitted was more extensive for this service, it operated under the same general “Name Your Price” principles as airlines and hotels.

For example, in the case of a new home mortgage, the customer specified:

- Type of loan: fixed (term of 10, 15, or 30 years) or adjustable rate (term of 3, 5, 7, or 10 years)
- Amount to be borrowed
- Down payment
- When money was needed (30, 45, 60, 90 days)
- Information about the property
- Information about own credit history
- “Name Your Price” interest rate

Priceline forwarded information to participating lenders. An answer was delivered through Priceline within six hours. If the customer’s rate and terms were accepted, the lender charged a \$200 “good faith” deposit to be applied to closing costs. Unlike the hotel and airline systems where no counteroffer was made on rejected named prices, lenders could respond with a counteroffer via e-mail if no one was willing to meet the exact rate and terms originally named by the customer.

## New Cars

Unlike its policy for other services, Priceline charged a fee (\$50) to the customer of the car-buying service if the process resulted in a transaction. The process began with the potential buyer specifying desired make and model.

The system provided both the dealer cost and the Manufacturers Suggested Retail Price (MSRP) of the car plus options selected. Other fees such as destination and advertising were also specified. The buyer then specified acceptable color combinations. Before the customer “named own price,” Priceline also provided a “market price” based on previous sales as a guide. The customer then filled in the “Name Your Price” number and specified acceptable locations for pickup. The information, absent any identification of the buyer, was then sent to participating factory-authorized dealers in the acceptable locations. An answer was provided within one business day. If the exact car specified was found and customer’s price offer accepted, a \$200 penalty was charged if the customer did not show up at the dealership.

Priceline described its competitive positioning in a field populated by many car-buying services such as Autobytel, CarPoint, and CarsDirection.com as follows:

Priceline.com Auto Services is unique among Internet car buying services in that it enables consumers to research a car or truck and anonymously fill in the price they want to pay for the vehicle. Priceline.com Auto Services distributes the offer to all factory-authorized dealerships in the geographic area specified by the buyer. Because the offers are made anonymously, no car salesman calls to haggle or negotiate a different price. The first dealership to accept the consumer’s price gets to sell the car.<sup>19</sup>

Priceline dealers filling the demand pay a fixed fee to Priceline in addition to the \$50 collected from the customer. As of January 2000, the service was available in 26 states, with national rollout to be completed in the first half of year 2000.

## Grocery Items

Believing in the horizontal extendibility of the pricing model to a large number of product categories, Priceline sought the next category to place under its brand umbrella. According to founder Jay Walker, “When looking for what the next category would be for the horizontal Priceline ‘name-your-own-price’ model, we were told overwhelmingly by consumers that it should be groceries.”<sup>20</sup>

<sup>19</sup>Priceline Press Release, “Priceline.com Announces 100% Expansion of Its Name Your Own Price New Car Service,” January 12, 2000.

<sup>20</sup>Priceline Press Release, “Priceline’s ‘Name-Your-Own-Price’ Service to Sell 25 Million Items This Year on the Internet in New York Metro Area,” January 11, 2000.

<sup>18</sup>Priceline Form 10-Q, November 15, 1999.

To move into groceries, Priceline licensed its business method, affiliated trademark, technology and software to privately held start-up WebHouse Club in return for royalties and warrants to acquire a majority interest in the company. WebHouse Club did not offer home delivery. The process began with a WebHouse Club member (membership was free) accessing the Priceline website where approximately 175 product categories were available, ranging from newborn-baby diapers to cola-cans to ice cream to live lobsters. Selecting a category, the customer was presented with options and was required to specify at least two acceptable brands within each category shopped. For example, in cola-cans, choices were Coca-Cola, Pepsi, and RC Cola and two or all three had to be designated as acceptable. The system provided the "Typical Price Range" (for cola, \$2.59 to \$3.29 for a 12-pack), and the customer designated one of four prices characterized by Priceline as offering a "Great Chance" (for cola — \$2.31), "Good Chance" (\$2.15), "Fair Chance" (\$2.02) or "Low Chance" (\$1.89) of being accepted. (Or, the customer could type in the exactly desired "own price," if desired, rather than select one of the four designated choices.) Multiple categories were shopped with prices named in each. Prices were "locked-in" via a credit card. Within 60 seconds, the "WebHouse Price Machine" indicated which offers had been accepted and charged them to a credit card guarantee. The user printed out a "Prepaid Grocery List" of items and accepted prices. The customer went to a chosen store (selecting from 1,000 participating stores in the New York rollout for example), collected the items on the grocery list from store shelves, proceeded to the checkout counter, and claimed the order with the WebHouse Club Membership card.

During the first two months of the New York rollout, more than 100,000 customers signed up. Priceline projected WebHouse would make groceries "the top selling item on the Internet in New York" with 25 million items sold in 2000.<sup>21</sup> *Consumer Reports*, in its February 2000 issue, tested Priceline in shopping for 20 items and concluded it "offers potential for substantial savings—if you're willing to shop twice: once, filling out an electronic shopping list, and then again cruising the supermarket aisles." A Forrester Research Analyst opined: "... this venture is an excellent example of where Priceline should not go. Very few consumers are

going to bid on their daily necessities—it's just not worth the time or the effort."<sup>22</sup>

## Challenges Ahead

In preparation for the challenges ahead, Priceline added to its marketing expertise by naming Michael McCadden Executive Vice President and Chief Marketing Officer on January 17, 2000. McCadden came to Priceline from a position as Executive Vice President of the Gap, Inc. Direct where he managed all Gap, Inc. non-store businesses. Previously, he had been EVP of Gap Global Marketing. McCadden assumed his position as Priceline rolled out the new major television campaign featuring Shatner, readied further horizontal expansion into car rental and long distance telephone calling, and prepared enhancements to the core airline service, e.g., a Priceline Quick-Answer™ system providing answers in 2 minutes rather than an hour. Priceline's goal for year 2000 was to more than double revenues to over \$1 billion.

However, while Priceline had become an Internet "megabrand" with astonishing speed, competition in its core airline business intensified. In December, Microsoft and Expedia filed court documents calling for dismissal of Priceline's suit, calling into question Priceline's ownership of the disputed patent. Expedia's vice president of product development stated "... it is clear there are serious questions surrounding Priceline's lawsuit. We remain ready to show that Priceline's claims are without merit and that the Expedia® Price Matcher services do not infringe. . . ."<sup>23</sup> Expedia differentiated its Price Matcher service as follows: "Because these features are deeply ingrained within a broader set of services, customers are better equipped to make educated requests and can feel more confident . . . customers won't overpay with their Flight or Hotel Price Matcher requests because Expedia.com checks those requests against published rates. . . ."<sup>24</sup> If a customer "names a price" higher than the published rate, Expedia charges the lower published rate.

While Priceline had dominated Expedia and other online services in terms of brand awareness among all

<sup>22</sup>C.B. Corral, "WebHouse Club puts Priceline in Grocery biz," *Discount Store News*, October 9, 1999.

<sup>23</sup>Expedia Press Release, "Expedia and Microsoft Move to Dismiss Priceline Case."

<sup>24</sup>Ibid.

<sup>21</sup>Ibid.

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U.S. adults, Expedia was the most visited online travel site for eight months in a row from April to November 1999 according to Media Metrix.<sup>25</sup> Following its November IPO raising \$73 million, Expedia was about to launch its first brand campaign with a budget estimated at \$50 million. Both the strength and extendibility of the Priceline brand promised to be tested in the year ahead. How

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<sup>25</sup>Ibid.

could Priceline best continue to enhance the brand, expand the Priceline franchise, and grow revenues to over \$1 billion while keeping to the “commitment to steadily reduce our operating losses and improve our operating margins”<sup>26</sup>—the commitment it had reiterated to analysts as the year began?

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<sup>26</sup>Priceline.com Press Release, “Priceline.com Reports Record Fourth Quarter Financial Results,” January 27, 2000.

**Exhibit 1** Priceline Financials 1998, 1999 (all figures in 000s)

	<b>Calendar Year 1998</b>	<b>Calendar Year 1999</b>
- Revenues	\$35,933	\$482,410
- Cost of Revenues		
- Product Cost	\$33,496	\$423,056
- Supplier Warrant	3,029	1,523
- Gross Profit (Loss)	(\$1,288)	\$57,831
- Expenses		
- Warrant Costs, Net	\$57,979	\$998,832 <sup>a</sup>
- Sales and Marketing	24,388	79,577
- G&A	18,005	27,609
- Systems & Business Development	11,132	14,023
- Total Expenses	\$111,503	\$1,120,041
- Operating Loss	(\$112,791)	(\$1,062,210)

Source: Priceline.com Press Release, January 27, 2000.

<sup>a</sup>\$910,400 of this is related to issuance of warrants to certain of Priceline's airline partners incurred during Q4 of 1999, e.g., United Airlines was granted 5.5 million shares at an excise price of \$52.625 per share.

**Exhibit 2** Stock Price Chart

