E-BUSINESS MODELS IN THE TRAVEL INDUSTRY

Summary

Drawing on recently published data, this paper examines some of the trends in travel e-commerce. Using a case study approach, the author examines in detail some of the e-business models impacting on the travel industry both in the Business-to-Business (B2B) and Business-to-Consumer (B2C) markets. Although B2C leisure transactions currently account for just 1 per cent of the value of global travel, there is real potential for future growth. However to be successful both new entrants and existing players will need to ensure their e-business model adds value for the customer, otherwise their position in the value chain will be threatened. The most immediate potential for growth and profitability lies in the B2B market, particularly in the development of vertical portals or community extranets. These are virtual spaces enabling travel buyers and suppliers to trade online. The integration of legacy systems with Internet Protocol (IP) technology is taking place across a range of travel sectors and will provide the platform on which a wide range of e-business applications can be developed. This development will lead to the ultimate catalyst for travel e-business – the convergence of data (Internet), voice (telephone) and video (TV).

E-business defined

Amid the dot com fever and the letter “e” prefixing just about everything, it is helpful to set out some parameters to define what is meant by e-business. There are three key areas in which the Internet will impact on a business.

- E-commerce – this involves selling online and managing the organisation’s relationship with the customer. It includes email marketing and gathering information about the customer.
- E-working – this relates to the organisation’s internal processes and covers areas such as product development, training, financial planning and recruitment.
- E-procurement – this concerns the organisation’s relationship with its suppliers and includes product sourcing, purchase process management and account payable management.

The Internet and Internet Protocol (IP) technology is the driving force behind the growth of e-business. The open standards of IP and the
rate at which organisations are adopting them are creating a platform on which a wide range of business applications and communication technologies are being developed.

The accessibility and relatively low cost of the Internet is bringing all players online – businesses and consumers, buyers and suppliers – resulting in a new business environment and new ways of doing business.

The following quote by Andy Grove, chairman of Intel, taken from The Wall Street Journal in July 1999, concisely sums up the impact of the Internet on business:

“Today we are preoccupied with Internet companies. In five years all companies will be Internet companies.”

A global survey undertaken by Oracle confirms that e-business will be a key factor for competitive advantage in the future.

**Figure 1: Impact of e-business on competition**

(Source: Oracle, 2000)

Oracle’s findings are supported by the findings of a global survey of more than 500 business leaders, illustrated in figure 2. Nearly half the respondents said the Internet would transform the market. The focus is on using the Net to improve customer satisfaction, however a significant number realise the potential of the Net for improving business processes, for example improving speed to market and fostering innovation.

**Figure 2: E-business opportunities**

**The growth of B2B e-commerce**

Most of the publicity and the headlines regarding the value of e-commerce are centred on the B2C market. The travel industry conferences are primarily B2C focused. However, as figure 3 shows,
most Internet forecasts predict that the value of global B2B e-commerce will be 10 times that of B2C.

**Figure 3: B2B to outstrip B2C e-commerce**

Figure 4 illustrates the potential value and growth of the B2B market in four key world regions. Unsurprisingly North America leads the way but Europe is forecast to catch up fast. This may be due to the development of mobile e-commerce (m-commerce), an area in which Europe has the leading edge over North America. The Asia and Pacific and Latin American regions are also predicted to show explosive growth, albeit from a smaller base.

**Figure 4: Growth of B2B e-commerce in four world regions**

(Source: Gartner Group 2000)

**The growth of travel e-commerce**

The growth of general e-business is mirrored in the travel industry. The chart in figure 5 shows that, as with e-business in general, Europe is trailing the US by 2-3 years. However it is likely that the m-commerce revolution will enable Europe to close the gap.

**Figure 5: The growth of travel e-commerce in Europe and the US**

It should be noted that travel e-commerce projections are constantly being revised, as the following charts demonstrate.

**Figure 6: Online travel spend 1996-2002**

Figure 6 is based on data extrapolated from 1996 and estimates the global online travel expenditure in 2002 will be almost $9 billion.
The following chart shown in figure 7 is using baseline data from 1998 and estimates total travel e-commerce revenues to be $20 billion in 2001. That is almost $13.5 billion higher than the projection based on 1996 data.

Figure 7: Value of global travel e-commerce 1998-2001

E-business models in the B2B travel market

Many travel businesses are certainly waking up to the opportunities, which the Internet brings. However the majority of them are looking for ways of integrating the Internet with their existing business practice as opposed to reinventing themselves as Internet businesses. In many cases, today's best practice in e-business is little more than the integration of legacy system functionality into the Web architecture. What is exciting is the way in which this integration is enabling travel organisations to improve their business processes and add value for their customers.

This integration strategy has led many industry observers to conclude that those traditional ‘bricks and mortar’ players who are willing to adapt to the new e-economy and leverage the power of their rich content will join the dominant players in the online travel space.

The community extranet model

While the Internet is in principle open to every user, similar to a public transport system, extranets are only open to closed user groups. Resulting from this, the main benefits of extranets, when compared to the Internet, are:

- **Security**: Extranets offer a higher degree of security to their users. Guarded through secure ‘firewalls’, extranet users can have access World Wide Web within a secure environment.
- **Guarantee of service, particularly speed**: As extranets are managed services, they provide a guaranteed service and typically much higher speeds. This level of ‘mission-critical’ functionality is of primary importance in the B2B market.
The Endeavour extranet: case study

In October 1999 Telewest Communications PLC, an integrated communications and media group, launched “Endeavour” as part of its B2B product offering. Endeavour is an Extranet, aimed at the independent travel agency community in the UK. At present the Extranet serves 500 agencies, providing them with a range of e-business solutions.

Holiday distribution in the UK – the legacy model

Endeavour is based on a concept prototyped by Imminus, a travel network provider, which Telewest acquired in 1998. Videotex-based reservation systems (commonly referred to as Viewdata) have been the principal technology for electronic package holiday distribution in Britain for two decades and remain so today. In late 1997, Imminus controlled an estimated 50% of the on-line holiday reservations market in Britain, linking 150 tour operators to half of the UK’s travel agency community. This service was delivered via two extensive networks - an X.25 and a Frame Relay network.

The Imminus vision

In 1996 the senior management at Imminus realised there was a need to move away from this proprietary technology platform towards a more open and flexible electronic commerce environment in which travel and tourism companies could trade. The proposed solution, illustrated below, allowed for a co-existence of Viewdata and Internet-based technologies.

Figure 8: A proposed extranet solution

(Source: Karcher: presented in a paper to international ENTER conference, 1998)

The need for co-existence was a key factor. Viewdata has served the UK travel trade successfully for 20 years and making sure ‘the baby wasn’t thrown out with the bath water’ was a key consideration in the development of the project. The Imminus extranet was piloted in 1997 and the first live booking was made on the prototype between the travel agent Apollo Travel and the tour operator Crystal Holidays.
The Endeavour strategy – migrating to IP

Endeavour is described in the Telewest 2000 annual report as “a travel portal targeted at independent travel agents that allows access to reservations systems and a range of new on-line travel services.” The diagram below illustrates the strategy for achieving this.

Figure 9: Telewest’s e-business strategy

(Source: Telewest strategy presentation 2000)

The strategy is based on an incremental approach starting with the initial step of migrating the travel community to IP. Following this is the creation of a travel portal focusing on the needs of the travel agent. This scaled approach to development is critical for e-business development, helping to ensure that technology is seen as the facilitator of business processes and not vice versa.

The Endeavour vision – convergence

The diagram below illustrates the Endeavour vision for creating a new business model.

Figure 10: A new e-business model

(Source: Telewest strategy presentation 2000)

The vision is of a community extranet incorporating a central commerce hub in which agents and principals can trade. Having achieved a critical mass of content the extranet will be accessible to the consumer via a number of channels including the Internet and iDTV.

Endeavour is aiming to achieve this vision in two layers.

Layer 1: Developing the physical platform – from legacy to IP system

The Endeavour mission to create an “open access” commerce hub was not possible on the old X.25 legacy platform and the first ‘layer’ of the Endeavour project has involved replacing this platform with an IP system. Endeavour has integrated a range of protocols including IP Viewdata, IP hosting, integration with iDTV, extranet and intranet. This new platform will e-enable the UK travel trade, presenting them with a number of advantages
The transition from legacy system to IP has been achieved on a gradual scale to minimise the cost and disruption to travel agencies. Although re-branded as “Fastrack 2000”, agents will continue to use character-based Viewdata albeit on an IP platform. There is an important distinction to be made here between the B2C web sites on the Internet, which require rich multimedia in order to attract the fickle Internet consumer and the B2B ‘mission-critical’ requirements of the travel agent. Endeavour will continue to provide travel agents with a fast and reliable service with which they are familiar.

Instead of one single front-end the travel agent now has access to a number of front ends. These might include online training, email service, travel industry information, late availability and a travel picture library.

The legacy system only allowed travel agents to make one booking per session. With the move to IP agents can now undertake multiple booking sessions. This enables travel agents to make optimum use of the telephone line and telephone call, thereby improving overall cost effectiveness.

IP enables reservations to be made and information to be exchanged at much faster speeds.

Agents will not lose any tour operator business, as operators don’t have to change their legacy systems to be compatible with the new IP-based Viewdata.

IP facilitates the integration of different platforms including Wide Area Networks (WAN), Local Area Networks (LAN), and Internet protocols including Point-to-Point Protocol (PPP), Post Office Protocol (POP) and Ethernet. This integration presents a number of advantages. For example, it is now possible to achieve seamless integration of the front office with the back office. PPP enables a computer to connect with a server via a modem and become an actual node on the Internet. This enables the agent not only to connect from the office but also remotely say from home or from a hotel. The PPP link also allows the agent to communicate via email and to browse the Web.

Potentially the greatest advantage of this integration lies in the opportunities for the convergence of data (Internet), voice (telephone) and video (TV). Once the platforms are integrated, then applications can talk to each other. Agents, tour operators and principals can begin to take advantage of open languages such as HTML and Java.
**Layer 2: Developing the applications**

Having developed the physical IP platform, Telewest is now focusing on the development of applications. Layer 2 has a number of objectives

- The development of a browser interface for travel agents providing them with multimedia capability. This will enable agents to offer their clients e-brochures, e-tickets and e-fulfilment. This will enable forward-thinking agents to add real value for their customers and help them maintain their position in the travel value chain.
- Viewdata will be replaced with structured messages, including EDI, Interactive EDI and XML. This will enable all community participants to integrate with iDTV, consumer web sites and Internet search engines.
- The reservation system functionality will be improved, enabling transaction processing and electronic funds transfer.

**Connecting to the Extranet**

The travel agent has a number of connection options including

- Local rate dial up
- ISDN – unmetered at £199 per month
- Leased line – fully managed customised service
- High speed via cable modem

**Current benefits**

- Free email, hosted remotely - so no need for on site email servers
- Better Viewdata performance & company name email registration
- On link Travel Links & controlled Internet access
- Secure private network with high levels of availability and speed

**Future benefits**

The significant benefits lie in the future when the project has achieved true convergence and travel agents, tour operators and principals can trade in a secure e-business environment. These future benefits include

- Digital encryption and certification
- Electronic ticketing
- Online personalised brochure service
- Multiple search facilities
- Secure payment at point of sale
- Direct booking with principals (ferries, hotels, airlines)
- Interactive TV distribution for tour operators and principals
- Customer management information based on transaction activity

From the consumer perspective Endeavour will create a multi channel environment in which B2B and B2C activity can take place.

The success of global e-business is analogous to the success of the telephone - unless everyone has simple and inexpensive access, it won't work. From this perspective, iDTV is likely to be the ‘killer app’, which brings travel e-business into the consumer’s home. Table 1 below illustrates the penetration of iDTV in Europe. The UK is a clear market leader and is well positioned to exploit the e-business opportunities presented by iDTV.

**Table 1: Growth of iDTV in Europe**

<table>
<thead>
<tr>
<th>European Interactive Digital TV Penetration in Selected European Countries, 1999–2003 (Percent of Homes)</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1%</td>
<td>2%</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>France</td>
<td>10%</td>
<td>12%</td>
<td>13%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>Italy</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Spain</td>
<td>4%</td>
<td>6%</td>
<td>7%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>UK</td>
<td>3%</td>
<td>13%</td>
<td>21%</td>
<td>29%</td>
<td>34%</td>
</tr>
<tr>
<td>Total Europe</td>
<td>2%</td>
<td>4%</td>
<td>7%</td>
<td>9%</td>
<td>12%</td>
</tr>
</tbody>
</table>

*Source: Morgan Stanley Dean Witter (MSDW), 1999*

The days of analogue broadcasting are numbered. The consumer will no longer be a passive recipient of transmissions, but will expect a truly interactive experience. The multimedia-rich travel product is well suited to this medium.
I-markets

The Computer Sciences Corporation (www.csc.com), a strategic IT research organisation, identifies I-markets as an increasingly significant e-business model.

An I-market is defined as a

“Net-centric business model, which is based upon identifying broken processes in supply chains, identifying niche services, and leveraging these to add value to all participants.”

By March 2000, there were over 50,000 I-markets operating in over 700 industry categories. I-markets are destined to become a significant force in the B2B travel market, particularly in the aviation sector. Table 2 contrasts the old economy with the new and summarises the benefits of e-procurement.

Table 2: Procurement benefits created by the shift to e-commerce

<table>
<thead>
<tr>
<th>Procurement Benefits Created by the Shift to E-Commerce</th>
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</thead>
<tbody>
<tr>
<td><strong>Old Economy</strong></td>
</tr>
<tr>
<td>Supplier-centric</td>
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<tr>
<td>Long-term contracts</td>
</tr>
<tr>
<td>Outdated buyer guides</td>
</tr>
<tr>
<td>Local sourcing</td>
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<tr>
<td>Hierarchical searching</td>
</tr>
<tr>
<td>Phone-, fax-based communications</td>
</tr>
<tr>
<td>Inventory overcapacity</td>
</tr>
<tr>
<td>Fragmented buys</td>
</tr>
<tr>
<td>Paper trail</td>
</tr>
<tr>
<td>Manual tracking</td>
</tr>
<tr>
<td>Expensive, proprietary legacy systems</td>
</tr>
<tr>
<td><strong>New Economy</strong></td>
</tr>
<tr>
<td>Buyer-centric</td>
</tr>
<tr>
<td>Dynamic pricing</td>
</tr>
<tr>
<td>Real-time information</td>
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<tr>
<td>Global sourcing</td>
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<tr>
<td>Universal searching</td>
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<tr>
<td>Web-based communications</td>
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<tr>
<td>Reduced inventory</td>
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<tr>
<td>Aggregated buys</td>
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<tr>
<td>“Paperless” or digital trail</td>
</tr>
<tr>
<td>Automatic tracking</td>
</tr>
<tr>
<td>Inexpensive, open extranet systems</td>
</tr>
</tbody>
</table>

(Source: www.aviationx.com 2000)

Aerospan.com – an I-market in the aviation sector

Aerospan.com is a new business-to-business I-market, positioning itself as a starting place on the web for airlines, manufacturers, suppliers, and service providers who wish to buy and sell products and services. Aerospan.com, a joint venture between SITA and AAR Corp., is an e-procurement portal, to serve the Air Transport Industry. AAR will provide the web database and SITA the IP applications.
Product and service offering

Aerospan.com’s features will include: new and surplus parts provisioning; non-technical provisioning for items such as catering, fuel, paper products, etc.; capability to submit provisioning lists electronically (broadly or specifically to “approved suppliers”); capability to submit sales lists electronically (broadly or specifically to “approved customers”); optical imaging for document review; news; airworthiness directives/service bulletins; and an escrow service/parts clearinghouse.

Super infomediaries

According to CSC the most successful I-market players will establish themselves as “super infomediaries” providing qualified, relevant information together with easy to use transaction software. Aerospan.com aims to become one of these super infomediaries by offering participants a range of features including

- Ability to view inventory listings and catalogues on-line
- Ability to view traceable documents associated with spare parts
- Ability for buyers and sellers to use their current Enterprise Resource Planning (ERP) system to complete the transaction on-line
- Ability to request bids for a part, or basket of parts, from a user-defined group of suppliers
- Ability to purchase goods and services via “reverse auction” or on a negotiated basis

Aerospan.com will offer its members a range of benefits including

- Reduced procurement costs
- Lower prices
- Streamlined process
- Improved access to sellers
- Ability to locate the most geographically desirable parts
- Confidence to reduce inventory levels

B2C Models

The potential of B2C travel e-business

As figure 11 shows, the impact of the Internet on the global B2C travel market has only scratched the surface. Online leisure bookings represented less than 1 per cent of the total travel market in 1999.
However the value of transactions from consumers influenced by the Internet is much more significant at $80 billion. This refers to consumers who are researching their travel online but buying offline.

**Figure 11: Global value of online and offline travel 1999**

(Source: Forrester, World Travel & Tourism Council 2000)

**‘Clicks and Mortar’ model**

The value of the ‘online influenced’ market helps to explain the appeal to ‘traditional’ travel businesses of the ‘clicks and mortar’ business model, whereby the web is used primarily to raise awareness and drive traffic through offline distribution channels.

Although sometimes criticised for taking too long to get online, many established travel and tourism players are now developing their Internet capabilities and online content. They are adopting both organic and acquisitive growth strategies. Many traditional ‘bricks and mortar’ companies have developed their own web sites and interactive divisions. Some are also acquiring Internet travel companies. For example, French hotel group Accor has taken a 2.5 per cent stake in the Californian Internet hotel reservation group WorldRes.com for just over $23 million. Thomson Travel, the UK’s largest holiday company, has formed an alliance with TravelChest.com, a pure Internet travel company, specialising in upmarket and adventure holidays.

**Online auctions**

Online B2C auctions have introduced elements of fun and excitement to the buying process. The big brand sites generate huge volumes of traffic. In February 2000 eBay received 14 million visitors.

Two key types of online travel auction have emerged – the reverse auction and the traditional auction. In a reverse auction the customer submits his requirements and the providers, which can match these bid for his business with the best price securing the sale. In a traditional auction the customer bids against other customers for a specific travel product. The customer can view the progress of the bidding and submit new bids within a given time frame. Lufthansa hosts traditional auctions on its site.
**Is this an end to fixed pricing?**

These new business models may herald the beginning of the end for fixed pricing strategies in the travel industry. Auctions are a prime example of how the Internet has introduced a new model for buying and selling travel. They introduce the concept of bid and ask as opposed to buy and sell. This is particularly important in the service industries such as travel where the product is perishable.

Proponents of these business models would argue that both the customer and the provider benefit. The customer is ‘in the driving seat’ and actually dictates the price he is prepared to pay. From the comfort and convenience of his home or office PC or mobile phone he can name his own price and doesn’t have to invest large amounts of time searching through the increasing number of choices on offer. At the same time the provider has the opportunity to sell ‘distressed’ inventory – hotel beds, flight seats or car rentals which otherwise remain unsold.

**Travel as a commodity**

But are reverse auctions really a ‘win-win’ business model? There are some concerns from the suppliers’ perspective that price-based auctions will reduce the travel and hospitality product to the level of a commodity, with price being the only differentiator. This has obvious implications for profit margins. The UK travel trade price wars in the 1980s resulted in business failures and concerns over product quality.

‘Commoditisation’ was one of the major issues discussed by senior hospitality executives at a February 2000 International Hotel & Restaurant Association (www.ih-ra.com) think-tank. Participants observed that commoditisation could result in significant brand erosion, an obvious concern given the levels of investment which hotels make in brand development and marketing. An additional concern was that online reverse auction sites such as priceline.com could take advantage of their customer knowledge and relationship and become the dominant travel and hospitality brands of the future. This latter concern demonstrates the growing awareness that, in the e-business environment, having ‘ownership’ of the customer relationship is the key to future survival.
priceline.com: a B2C auction

priceline.com is widely regarded as having invented the reverse auction concept. The way in which the system works is explained in the box below.

How priceline.com works — behind the scenes

Bidders are matched with suppliers through the priceline.com allocation system. This system works as follows.

1. A bid is received (e.g. a bid for a hotel room).
2. priceline.com computer identifies all hotels capable of satisfying the order (in the market requested, at the appropriate quality level, etc.).
3. priceline.com then looks to see if there is availability at a qualifying rate. A qualifying rate is one that meets priceline.com’s minimum margin requirement.
4. The allocation system then kicks in on the search for availability.
5. “First looks” (an opportunity to match a hotel with a qualifying rate) are rotated among all suppliers capable of satisfying the bid.
6. However all suppliers are not given the same percentage of first looks, but rather is weighted by market share. For example, a hotel with 200 room nights available on priceline.com in a market with 1,000 available room nights will get more first looks than a hotel with 50 room nights available. Also, preferred partners (hotels with brand and owner/management groups participating) get additional allotments of first looks.
7. If no match is made on the first look, then priceline.com proceeds to a second look, and so on, until a match is found and a booking is made.
8. priceline.com rewards its most successful partners (those that book the highest percentage of first looks presented) through the process it uses to determine who gets the second look if a match isn’t made on the first look. Second and subsequent looks are given to specific hotels based on past performance within the priceline.com system. Each hotel is ranked based on its success rate on first looks. The supplier who books the highest percentage of first looks is at the top of this list and is the first to get a second look. If that doesn’t result in a match, priceline.com goes down the ranking list in order until a match can be found.
9. Once a hotel is found with availability at a qualifying rate, the search ends and the booking is made.

Source: Bear Stearns & Co. Inc 2000
The priceline.com business model is very simple. It collects broad demand through its patented ‘Demand Collection System’ and then allows sellers of a product to look at that demand and decide whether or not they want to accept it. The company argues that its model has created a win-win scenario for buyers and sellers. It provides sellers with an optional channel for distributing distressed inventory, while on the other it puts the buyer in the driving seat by letting him name his price.

The simplicity of the model has reaped its rewards. According to Media Metrix, in February 2000 priceline.com was the 69th-most-visited site on the Web and the 11th-most-popular shopping site, generating approximately 3.9 million unique visitors. According to priceline.com data, the average customer saves 65% off the best applicable retail fit.

The company sells around 120,000 tickets a week and, on peak days, processes over 20,000 leisure tickets a day. In their first year of trading priceline.com turned over $500 million in revenue. The market capitalization now exceeds $8 billion.

The seller’s perspective

priceline.com argue that in several aspects the reverse auction business model is a positive development for sellers, offering them the following advantages.

1. **A channel for distressed inventory** – customers are shopping on price only and therefore priceline.com is a tailor-made channel for selling distressed inventory.

2. **A scalable supply chain** – because priceline.com sources inventory from the GDS, sellers are free to decide how much inventory to make available to priceline.com, providing them with useful flexibility. priceline.com works within existing legacy systems, plugging directly into the revenue management systems of its hotel, air and car rental partners. This contrasts with the way in which suppliers sell through consolidators. Consolidators usually buy bulk inventory in advance at a price, which is likely to result in relatively short yields for the supplier. Although the supplier may find it in a position to sell that product at a much higher price it is not normal practice to be able to buy that inventory back from the consolidator. This lack of flexibility places great pressure on suppliers to manage their yield.
3. **Protects brand and pricing integrity** – the customer never knows which hotel he is bidding for, the exact price he has paid, nor competitor prices. priceline.com argue therefore that the seller’s branding and pricing strategies are not compromised. priceline.com contrasts this with selling through a consolidator where the prices and the brand name are both available to the customer. This could potentially have a negative effect on the customers’ perception of the brand associating knockdown prices with lower quality. A further argument is that customers who are paying the full fare or rack rate will not be pleased to see the same product at a reduced rate.

4. **Creates incremental demand** – Bear Stearns, the US investment bank, has evidence, which indicates that priceline.com is creating demand not just redistributing it:

   - Two-thirds of its offers are for weekend stays
   - About half of the hotel requests are for properties within driving distance of the bidder
   - More than half of hotel bids come within 14 days of the stay
   - The average length of stay is just over two days
   - Weekend requests tend to come farther in advance
   - While three-quarters of offers within 30 days of the stay are for weekends, 90% of offers made 60 or more days in advance of the stay are for weekends

There is no doubt that Priceline.com has used the Internet to create a business model with real added value. However there are a number of areas for discussion.

**Who owns the customer relationship?**

priceline.com can potentially offer the customer the right product at the right price at the right time. This is the goal of most marketers and it puts the company in a very strong position. Priceline.com captures huge volumes of customer data providing them detailed knowledge about the customer’s buyer behaviour and preferred choice. The mantra “location, location, location” traditionally used to describe the source of competitive advantage in the hospitality industry is being replaced by “knowledge, knowledge, knowledge”. priceline.com can use its customer database to run highly targeted price-driven marketing campaigns which may undermine the supplier’s own customer relationship marketing activities.
Creating a price culture

Although priceline.com would argue that it is has merely created a model to match supply and demand the possibility exists that it is creating a customer buying culture based exclusively around price. While it is true that the customer does not know at the time of booking which provider he has chosen he will of course know after his booking has been processed. This may well influence his future perception of that provider. The power of word of mouth referral should not be underestimated in the travel industry. This could all combine to create an environment in which the customer is determined to ‘get the best deal’.

Is the customer really getting the best deal?

As already indicated in the section on how priceline.com works behind the scenes, priceline.com favours the larger providers who can afford to allocate more inventory. Although priceline.com clearly state on their web site that, in the case of hotels, they use independent and chain properties, the nature of the ‘first looks’ system operated by priceline.com may mitigate against the smaller properties. Of course the company would argue that as the customer is aware from the outset that price is the only basis for the search then the customer need is met whatever the property. However whether or not they consciously express it at the outset, the way in which customers define the best deal involves a range of subtle and fairly complex criteria.

It is too early to gauge the true impact, which priceline.com will have on the industry. However there is little doubt that as a pricing and distribution-based business model it has a role to play in a supplier’s yield management strategy. More research is needed on how it will influence consumers’ buyer behaviour however it will focus the suppliers’ minds on how to differentiate their product among the less price sensitive market segments. Perhaps it is the consolidators who have most to fear as their position in the value chain may be directly threatened by priceline.com.

Conclusions

There is little doubt that the Internet has introduced new and innovative business models to both the B2B and B2C markets. It has shortened the value chain and put increasing pressure on all players, but especially intermediaries, to add value or risk extinction. The US investment bank, Bear Stearns, in its study of the online travel industry, estimates that 80 per cent of online travel businesses will
disappear over the next couple of years. The winners will be the big brand names and the niche players. This sobering statistic points the way to increasing consolidation in the B2C market.

Traditional travel businesses have solid management experience, strong brands, customer ownership and quality product content, all of which means they will be a force in the future providing they can integrate their operations into the new economy. Increasing numbers of alliances will be formed to develop new content for the consumer and provide a range of channels to market. Competitive advantage will lie in using these channels – both ‘clicks’ and ‘bricks’ – to improve yield management.

In the B2B market Internet technology has enabled the development of dynamic virtual trading places where buyers and suppliers are brought together. The rigid buyer/supplier relationships will disappear. With IP system platforms in place, innovative applications will be developed, which will create new business opportunities and offer multi channel access to the virtual marketspace.