

Analysis of NYOP Business Model: Take Priceline for Example

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Abstract

With the popularization of global information technology in the world, the Internet companies develop rapidly. Now, Priceline.com is the world's largest Internet service online travel company since its build in 1998. The success is mainly due to its core business model Name Your Own Price (referred NYOP). This paper introduces Priceline's development and operation of NYOP unique business model. Innovative business model achieves without putting in a lot of resources in the case of lean value creation. This article also analyzes the reasons that NYOP make Priceline success. Finally, paper analyzes the company's future development and the potential development in China.

Key words: Priceline.com; Online travel; Name your own price; Business model; Market potential

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INTRODUCTION

It is the information age now. Internet businesses have a very important influence on all walks of life. Many Internet companies are very successful, such as Baidu.com, Tencent.com, Google, eBay and so on. And, we know that Google's ranking in the global market capitalization of Internet companies is the first on December, 2012. Google exists as the Internet giant whose stock prices have already exceeded 1,300 dollars,

however, Google's stock price is not the highest. Priceline.com (referred to Priceline) has a higher share price. In the past five years, Priceline's share price soared from less than 100 dollars to 1,300 dollars these days, and the company's operating income maintains at least 20% growth for several years. So, Priceline is nothing short of a dark horse. Priceline is founded by Jay Walker in 1998. The American company is an online travelling service website which is based on C2B, its unique business model allows creative development to become the world's largest online travel service company.

Results of a study sponsored by SAP showed that: business model innovation is more important than product innovation (Kagermann, 2008). Therefore, if there is a good unique business model, the company is half the battle. Now Priceline Company's share price is more than 1100 dollars, whereas 15 years ago the just listed price is only 80 dollars. Why does the share price rise so quickly and what makes the dark horse success? The main reason is due to its unique business model "Name Your Own Price" which has been registered patent. For NYOP sales model, Priceline Company set the only minimum limit price for each commodity, and the limit price is unknown to the consumers. When consumers visit the websites for the required goods to bid, Priceline Company compares the reported bidding price and the internal minimum limit price. If and only if the offered bidding price is higher than the only minimum limit price of the required goods. Then transaction establishes with transaction price the consumer's bidding prices (Hann & Terwiech, 2003; Terwiech, Hann, & Savin, 2005). So Priceline Company achieves profit and success from NYOP Priceline's business model.

1. COMPANY HISTORY OF PRICELINE

Priceline Company is the service website initially just provides hotel and ticket booking service in the United

States. And Priceline Company has become the world's most profitable online travel service website now. Priceline website business is mainly operated by ordering online hotel, flights, travel insurance, cruise rental and car rental and so on.

Priceline Company is a typical network agency company that offers 32 languages online travel booking services. And the scope of services covered 125 countries and regions. Priceline Company provides an information platform for buyers and sellers to facilitate transactions. At the same time, company extracts corresponding trading commissions. The development is rapid, now company businesses include: Priceline.com, Booking.com (global hotel booking service providers), Agoda.com (global hotel booking service providers), TravelJigsaw.com (global car rental service provider), and Kayak.com (travel vertical search engine). These company's businesses sales mainly rely on NYOP business mode service.

In 1998, Priceline Company established that set the core business model is NYOP. And the company's core business model NYOP gets a patent registration.

In the first quarter of 1999, Priceline Company sold a total of 195,000 tickets and could sell 6,000 tickets a day at the peak. Meanwhile, there are 18 airlines joined Priceline season ticket sales program.

In March 1999, Priceline Company listed on NASDAQ with the listed price of 80 dollars.

In 2000, the company suffered serious losses by the influence of Internet bubble economy, and the share price once fell to two dollars.

In February 2001, Cheung Kong Holdings and Hutchison Whampoa invested 73,520,000 dollars for a 17.54% stake in Priceline Company (after gradually holdings exceed 30%) and became the largest shareholder. Then a series of reforms started to reduce the operating costs and layoffs. The company turned to focus on airline tickets and hotel reservation service. The company also started to improve their quality of service. These series of measures help Priceline Company survive from the Internet bubble crisis and the shortly after crisis market.

Later in 2003, the market environment gradually improved. With rapid growth, Priceline Company began to outshine its unique business model NYOP.

In September 2004, Priceline Company spent 161 million dollars on the acquisition of the UK online hotel reservations company Active Hotels.com. Thus, Priceline began its operations in the European market with its NYOP business model.

Priceline expands in the European market. In July 2005, Priceline purchased Dutch online hotel reservation company Bookings BV at a price of 133 million dollars. Priceline integrated Active Hotels and Bookings BV, founding Booking.com, which, currently has developed into Europe's largest online travel service website.

In November 2007, Priceline acquired online hotel reservations company Agoda.com which is located in

Bangkok and Singapore. NYOP business model thus began to expand in the Asian market.

In order to continue its business growth, Priceline introduced innovative sales: the car rental business. In May 2010, Priceline acquired Manchester UK online car hire website TravelJigsaw.com with aims to increase its car rental business and to continue expanding overseas.

In November 2012, Priceline Company spent 1.8 billion dollars on travel search engine Kayak Software (Yeung, 2011). The purpose was to increase the flow and strengthen the advantages of its core business model.

It can be seen from the company's development process, Priceline's core business model is NYOP. And Priceline also uses NYOP business model to expand overseas business operations and increase innovation in order to strengthen its core strengths.

2. THE UNIQUE NYOP BUSINESS MODEL

Priceline's business model NYOP is unique. The company's application for patent registered in 1999 to ensure the competition and the income in a competitive tourism market for quite a long time. Priceline is just like the network medium. Buyers and sellers spend a certain percentage of commission fee to provide an information platform for transaction services.

Priceline has a wide range of revenue sources, including hotel and airfare booking commissions, spreads profits, patent licensing fees, advertising revenue, revenue from its other sites and other incomes. But Priceline's main revenue source comes from wholesale revenue and agency sale income. What is wholesale revenue? Priceline negotiates with each service provider company which sells hotels, flights and other goods, then, Priceline signs an agreement at fix prices and quantities to get the corresponding wholesale goods. Priceline Company will be sold to consumers in higher prices than the wholesale prices which is in order to obtain the price difference. This difference is called wholesale revenue. What about agency sale income? Priceline plays a role of agent between consumers and service providers in the transactions. Priceline Company extracts a certain percentage of agency commission fee from the transactions. This commission fee is called agency sale income. The company's last year Financial Report has shown that wholesale revenues accounted for 40% of the company's total revenue, while Agency Sale accounted for 59.7% of total revenue and other incomes rarely accounted for less than 1%. Wholesale occupied a considerable amount of income in total income, but agency sale had relatively large proportion of income. Observed in previous years financial reports, revenue in recent years has maintained a high growth rate. Just like that operating income for the second quarter of 2013 year on year growth of 28%,

and in the third quarter with an increase of 29%. The sale in NYOP business model is very different from the traditional sales model. Traditional sales process is that the supplier sales goods to consumers with the known price. However, the NYOP sales model which is unique to Priceline Company is that the commodity price is decided by the consumers. Be priced by the consumers is NYOP business model. It is a revolution in the network marketing of the times. Consumers do not know the commodity price and also unknown the other specific product information except for some of the information. Simply, on a buyer pricing trading platform, consumers want to buy the product on a desired price and listed approximate properties of the product, then wait for the product suppliers to decide whether to accept the prices and serve for consumers.

Take hotel for example, a consumer would like to book a hotel on Priceline website. The consumers just generally know the location and hotel star rating of the hotel. Information is limited. Then the consumer follows the steps to submit into the website system the information on the hotel star rating, location, the number of rooms, booking dates and the bidding prices, etc. According to the website tips, feedback information will arrive soon that whether this bidding price is acceptable. These hotel rooms are not selling out in traditional market and the rooms must be sold on low prices in order to get more benefit for the timeliness product. Price-sensitive consumer bids for hotel rooms through NYOP business systems. If the bidding price is profitable for the company, the consumer obtains the room, otherwise, the booking failed and the consumer cannot get the room. It is possible to know the name and detailed address of the bidding rooms only after a successful bid (Hann & Terwiesch, 2003; Terwiesch, Hann, & Savin, 2005; Xu, Wei, & Hu, 2008).

Of course, Priceline's website also has traditional online sales channel. Priceline also offers traditional hotel reservation service to consumers who want to know exactly accommodation or have high brand loyalty. In this case, consumers can depend on accurately information, such as maps, descriptions and consumer reviews, to choose the hotel room they want, and the price is in accordance with the published price.

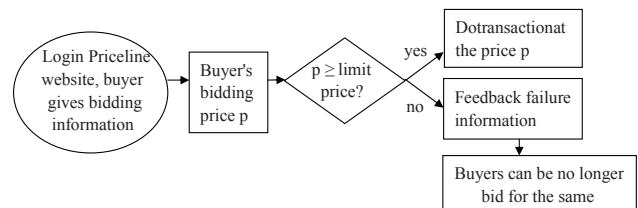
Priceline's main sources of goods are those time-sensitive unsold goods. For the tourism market, hotel rooms, airline tickets, car rentals and other tourism products are perishable goods. The value of goods with timeliness and the value of unsold goods will become zero after deadline. The value of a product can be reflected through the price. But the closer is the shelf life of the products, the less is its value. In theory, the product value will become zero at the shelf-life point. Specific to air tickets and the hotel industry in the tourism market, the closer boarding or hotel check, the smaller actual value of tickets and hotel rooms. But once the plane takes off or

rooms vacant for more than limit time, there is no value in use and salvage value is zero. How to make these "shelf life" products to get the most use and benefits? It is a very interesting question. A manager of Priceline had indicated something about it. "For airlines, selling one more ticket near the 'shelf life' moment means one more passenger aboard with a marginal cost of the cabin food. But it can maximize the marginal benefit. While for hotel operators, selling out the last room, the marginal cost is just toiletries and water and electricity charges. Therefore, suppliers will sell the final takeoff vacancy aircraft ticket and the last vacant hotel room in order to make a most use of".

In NYOP business system, the website is viewed as a vendor so that consumers may be faced with the following decision problems on bidding. As limit price is determined by the seller and the consumer is unknown, it can get the return only when the consumer bidding price is over the limit price. If consumer quotes higher than the limit price, it cannot get anything in return, but also the losses may be incurred due to the waiting costs. It is profitable while bidding price quotes above restriction. Profits come from the difference between the price of its specific restriction and bidding price. Meanwhile, the consumer recognized that his bid may allow additional vendors to obtain higher profits (Xu, J. H. & Xu, W. J., 2008).

The operational processes of NYOP business as follows:

- a. Service providers sign an agreement with Priceline. Meanwhile, the company obtains unsold goods from the service provider at wholesale price.
- b. As intermediaries, Priceline choose commodity's limit price. The limit price is to determine whether consumers can get the lowest price of goods.
- c. Consumers decide commodity bidding prices. If the price exceeds the limit price, feedback successful information and do business transactions at the quoted price. Successful bidding is estoppels. If the offer does not reach the limit price, quotation fails and consumers can no longer bid for the same goods. Figure 1 is the bidding process of consumers.



3. ANALYSIS OF THE SUCCESS

Being established for 16 years, Priceline Company becomes the world's most profitable online travel service providers. Its successful can be analyzed from the perspective of the following aspects.

First is the analysis from the perspective of the service provider and take Priceline's hotel sales for example.

A sale of traditional sales channels is unfavorable. Hotel prices in traditional channels are known fixed. It is impossible to sell out the whole hotel rooms in most instances. That is to say, some of the hotels may sold out due to good sales, but not all the hotels can sold out all rooms, especially in the sales season. There will always be some rooms cannot be sold in the low season while operating costs remains the same, then the idle is a loss for the hotel room.

Since more than one room sold more of a gain, hotels may consider a sale of the discount method to gain more profits. Discount price sales will attract potential customers to competitors into actual customers of competitors in a short time. But it is not wise in the long run. A sale would lead consumers to believe that the hotel brand positioning is low so that the price is not conducive to future price recovery. And at the same time, a sale may also make consumers mistakenly believe that poor management of the hotel, low hotel prices, and other negative thoughts. Therefore, in order to maintain the hotel's corporate image and brand value, the traditional sales channels hotel will think discounts intensity to be limited even with a discount promotion. Hotel prices in traditional sales channels are generally high when considering the company corporate image, brand and long-term benefits. The unsold perishable products like hotel rooms would be a loss. So, NYOP model provided by Priceline Company satisfies the hotels. NYOP model ensures the details of the hotel is unknown. Timeliness of these unsold hotel rooms sell through Priceline website, thus it is not only will not affect the hotel's corporate image and brand value, but also help improve the hotel's sales profits.

Successful sale of hotel rooms also indirectly reduces some transaction costs and marketing costs of the hotel (Hann & Terwiech, 2003; Xu, 2008). It also reduces the safety and potential compatibility problems in the individual hotel website which may come from third-party payment platform. And then customers will operate easier.

Moreover, through the travel market forecast, the hotels usually sells the rooms in advance at low prices to wholesalers of Priceline to ensure profits, which is transferred the potential market risks of the hotels.

Second is considering the consumer's point of view.

Consumers are willing to spend to Priceline website is due to the site meets the demands of consumers.

a. The price determined by the buyer increases consumer autonomy.

b. NYOP business channels first attracted price-sensitive consumers. Although there is no specific information about Priceline's hotel room, price-sensitive consumers certainly can get restrict commodity prices lower than traditional channels. Buyers participate in the auction for purpose of enjoying a great degree of discount.

c. NYOP sales model actually is equivalent to a auction, so NYOP sales model is also known as reverse auction. Reverse auction meets consumer's curiosity

stimulated mind. Asymmetric information between two parties is obvious than the general auction transactions. Such transaction with the gambling both meet consumer discounts and enjoy the stimulation.

d. In order to prevent the customer to guess the hotel auction prices, website limits the number of bids. Each consumer has only one bidding opportunity. Theory has suggested that every auction generates consumers transaction costs (Hann & Terwiech, 2003). Limit the number of bids helps enhance consumer's expected bidding price and lead profit to improve. This limited process also increases the stimulus of the purchase process, and attracts more consumers. The increasing potential customers indirectly enhance the effectiveness.

e. Opaque information transaction allows consumers to use experience and psychological acceptance in trading. The quoted bid price either failed or succeeded. Successful bid makes consumers reach expected optimal valuation and failure bidding makes almost no loss. Testing consumer psychological and level of knowledge improves the amount of fun.

f. This makes the original boring transactions interesting and increases the attractiveness so that consumer will log onto Priceline website for deal again.

Third and last is considering the viewpoint of Priceline website.

i. Hotels sell unsold rooms to Priceline Company for their own interests. These rooms are the formation of the company's product sources and the material basis of Priceline for the normal operation.

ii. It is a good time for Priceline Company to make the best wholesale business expansion while hotels forecast and avoid the potential market risk. In recent years, the expansion of overseas markets is very timely, making a contribution to the company's earnings.

iii. Priceline site using new information technology to carry out a revolution in online sales has changed the rules of network marketing. Priceline takes advantage of opportunities to get the site to expand the business. Development of new information technologies will increase the company's competitive advantage, will provide customers service quality, and ultimately will improve the company's profits.

4. DEVELOPMENT OF NYOP BUSINESS MODEL IN THE CHINESE MARKET

Priceline is the world's largest online travel service website. After years of development, Priceline Company in Europe is very mature since entering into Europe in 2004. After a firm foothold in the European market, Priceline eyes and aimed at the Southeast Asian market. It can be seen Priceline overseas integration strategy is correct from the traces of the company's expansion, and Asia-Pacific markets as well has a great potential.

Although Priceline Company has been conducting overseas operations for several years, the company did not begin Priceline products online travel booking services to the Chinese market directly, just making a simple approach to the Chinese market.

Priceline provides indirect services to Chinese consumers through foreign tourism website booking.com and agoda.com, as well as cooperation with China Ctrip Travel Network. China Ctrip Travel Network obtained real-time inventory data and updates directly by means of cooperation with Booking.

In December 2010, China Ctrip launched a mysterious special room activity to promote mysterious hotel room business. The mysterious hotel rooms served to customers with opaque information are all very cheap. Ctrip mysterious hotel in January 2012 changed its name to *huixuan* hotels.

In November 2011, Qunar.com network hotel reservations with C2B reverse auction model formally launched the product “*yueyu* hotel”. *Yueyu* hotel had changed to a new on-line state named “one price discount hotels” at the end of 2012 (Zhang, 2012).

Ctrip selected channel benefits since its online. Performance grows steady, even early on-line had achieved a substantial yield. Statistically speaking, Ctrip experiences the benefits from selected holidays such as Christmas, New Year, Valentine’s Day, Mid-autumn festival and even Ching Ming Festival. It can be seen that weekend holidays and various size of holidays are especially welcomed by consumers on *Huixuan* hotels booking. There is a significant volume orders improved on holidays.

Huixuan hotels and one price discount hotels operation the hotel booking process by hiding the names of hotels. And the hotels offer buyers partial information only. So, *huixuan* hotels and one price discount hotels are scaled-down version of Priceline. The appearance of *huixuan* hotels and one price discount hotels illustrates NYOP business model began to develop in the Chinese market.

The size of Chinese online travel business is very small compared to the foreign market, and penetration rate is low as well. NYOP commercial business model has just started in China. There is a great room for development and it should take steps to exploit its potential in Chinese online travel market (Xue, 2010).

Priceline is aimed the crowds affected by a higher level of education and a higher quality of life. These people browse Internet frequently with a certain desire to travel and require bargaining cheaper prices. *Huixuan* hotels and one price discount hotels provide service more for business people. But different types of consumers have different acceptability and preference. There are big differences in consumer behavior and consumption concept between domestic consumers and foreign consumers. Therefore, the domestic online travel companies should conduct reverse auctions to meet the domestic consumer behavior and buying patterns.

NYOP business model in China should first focus on local business. China is a tourist destination for its large number of scenic spots. Reservation service of both domestic and foreign tourists is very big in the Chinese market. But, domestic tourists occupy a large proportion and tend to choose domestic points of interest. Meanwhile, Chinese domestic holidays centralized, and paid vacation system is worse than abroad. Therefore, it is more appropriate to carry out local businesses. NYOP businesses should be noted the booking experience and habits with differentiated services.

To sum up, as the company’s core business model, NYOP business model is promising in the Chinese market. Company must pay attention to geographical factors and go ahead with times as well.

5. FUTURE PROSPECTS OF NYOP BUSINESS MODEL

NYOP business model makes Priceline Company successfully launch its domestic business to the world. The Asian market still has great potential. Therefore, the future direction of the company is that Priceline should continue to expand overseas business.

Car rental business of Priceline is another developing business. It can be seen a rapid growth of car rental business at a growth rate of 34.9% from its annual financial report.

As mature hotel reservations, hotel booking businesses and car rental businesses complement each other. With mature European market, leisure tourism is constantly evolving in overseas online travel market. Leisure travel can promote further development of car rental business. Thus, car rental business is the business to be developed and Car rental business strengthens the competitiveness of NYOP business model.

With the globalization of information, the mobile devices develop rapidly, such as iPhone, iPad, Android and other mobile terminals. Mobile applications in tourism market are scarce. It is a opportunity to develop a new online travel market by using mobile applications.

With the globalization of information, the rapid development of mobile devices, mobile applications market scarcity of tourism, the development of new mobile applications is imperative to provide opportunities to develop new value-based online travel iPhone, iPad or Android and other mobile end-users. The new mobile application will need to develop new markets, should seize opportunities, Mo miss. Quality of service should be improved with the times whether or not to carry up new business field. So, Priceline Company should always pursue good quality of service.

The current developments of Priceline Company is not only relating to the overseas expansion, but also its unique

business model NYOP. For short, Priceline's core business is about "Name Your Own Price" no matter what kind of expansion or development. However, the validity of the patent application is limited. Therefore, in the long term planning, company should find new business model for profits. In all, business should always explore with the times.

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