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JAY S. WALKER—PRICELINE.COM

*“Name Your Own Price”*





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When Jay S. Walker was a 13-year-old summer camper who visited the camp store with his friends to buy candy, they didn't see what he saw. They saw chocolate bars, Cracker Jacks, and cookies. He saw a marketing opportunity and a chance to set up an alternate channel for selling candy to his fellow campers. He proceeded to make a profit by buying in bulk and undercutting the prices at the camp store. With the grin of someone who enjoys coming up with winning sales propositions and who identifies himself as primarily a marketer, he recalls with relish being a teenage “black marketer” who was “serving” customers. “I simply bypassed the monopoly.”

Thirty years later at age 43, he was the multibillionaire founder of priceline.com, the online phenomenon with the buyer-driven slogan, “Name Your Own Price.” When *Barron's* inventoried the IPO centimillionaires who emerged in the 12 months preceding June 30, 1999, he topped the list. Among all of them, including the two-thirds whose fortunes were Internet based, Jay Walker was number one at \$6.7 billion. (At one point in the world

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of high-flying Internet valuations, priceline.com's stock soared past 140 and Jay's 49 percent share topped \$9.5 billion.)

In the 30 years between summer camp and priceline.com, Jay never stopped thinking of marketing ideas and putting them to work in 15 different enterprises that qualified as winning ideas even when they failed as businesses. "The hardest thing about being an entrepreneur," he says, "is knowing when to quit. It's an ego thing. Most entrepreneurs view quitting as a failure, when it's really the end of an inning, not the end of the game."

Appropriately, Jay's priceline.com success earned him the title of The Consummate Entrepreneur from a leading trade publication, *Target Marketing*, which named him the 1998 Direct Marketer of the Year. In an authoritative close-up of Jay, marketing expert Denny Hatch called him "a revolutionary whose vision and execution" of his vision "may put a stamp on commerce, communications and business well into the 22nd century."

When Jay talks about marketing, he means business.

*I view myself as a marketer who solves problems using the mechanism of marketing. What marketers do—and it's widely misunderstood—is create business solutions that are end-to-end processes. I would say that I'm a marketer who invents business methods that are almost exclusively market driven. The problem always comes first. And, by the way, problems are not secret and they generally aren't that difficult to isolate. What's difficult today is to recognize that there are entirely new tools to solve the problems. In the past, because so many problems required physical solutions, you were highly constrained on what you could do. Now that so many solutions are in the information layer of the process, you can quickly*

*deploy real solutions that are information solutions. Look at priceline with more than 2 million customers in 15 months. What you see is an information solution. We decoded a solution that was information.*

With priceline.com, Jay pioneered a new type of e-commerce that meets the consumer demand for goods and services below the retail price line—hence the name of the company. Jay's solution turns the traditional auction formula upside down—changing the perspective from high bidder to low-priced sellers, shifting power from the seller with offerings in demand to buyers who want to pay less, and changing focus from items in rare supply to products and services in excess supply.

Jay's unique patented business model is a “demand collection” system that provides what have been called “take-it-or-leave-it” bids by consumers. It is unlike any of the five historic methods of buying and selling: barter, the open-air marketplace, retail (with prices fixed by the seller), auction (with many bidders for one item), and request for proposal (RFP) in which buyers openly solicit bids from many suppliers.

Add Jay's business model, possible only in the Internet world: Patent No. 5,794,207: “Method and apparatus for a cryptographically assisted commercial network system designed to facilitate buyer-driven conditional purchase offers.” Or as graphically stated in a priceline.com document: What the system does is “literally hang buyer money on a ‘clothesline’ for sellers to see. Attached to the money is a note describing what the seller is agreeing to in order to take the money down off the clothesline.”

Conditional purchase offers (CPOs) are at the heart of Jay's marketing invention. The Internet news magazine, the *Industry Standard*, called it “a whole new way of doing business on the Internet” after hearing him describe his thinking process. “When we invented CPOs, we were

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struggling to solve a problem. It was clear to us that dynamic pricing mechanisms had a role to play in all of the future of commerce. The problem was: Who needed dynamic pricing the most? Obviously, anybody with perishable or excess inventory needs to price dynamically in order to clear the market.”

The process appeals to both companies and consumers while profiting the service provider, priceline.com, which collects fees and benefits from the “spread”—when buyers get what they want at a price higher than what the seller asks. For companies, it resolves a catch-22 problem. On one hand, they want to sell offerings that would otherwise be unsold or unused—plane seats, hotel rooms, mortgage funds, the latest car models. On the other hand, if companies publicly discount their retail prices or sell through a liquidator, they undercut their retail channels and alienate their full-price customers. Priceline.com enables sellers to meet customer demand anonymously without hurting themselves and their sales channels.

On the customer side, the process appeals to the many people who want to pay less and are flexible (but still selective) about what, when, and where—*what* brands they buy, *when* they want to take advantage of a service, *where* they make a purchase. They name their price and guarantee their bid with a credit card. Priceline.com circulates the customer’s offering price to participating sellers who can then decide to sell or not. Since the customers don’t know which brand they will get until after their offering price is accepted, retail channels are not disrupted and can continue to sell to customers who will pay a premium for a particular brand or specific product and service.

The seller has every right to refuse to sell, but it’s the buyer who is establishing the offering price for the “billion-dollar-arm” (in this case, a high-end price, but the buyer is

still setting the price). In effect, the same thing happened with airline tickets, the first offering from priceline.com when it began operations on April 6, 1998 (attracting more than a million customers in its first week). This was followed by hotel rooms the following October, then home mortgages and cars, followed by rental cars and groceries. The deal is an up-front exchange: Buyers surrender flexibility (but not quality) in exchange for a lower price; sellers get less than their standard price, but less is better than nothing.

Airline tickets provided a fast takeoff because of an “inventory” problem for major airlines. Each day they took off with an average of 500,000 empty seats—revenue lost, never to be recovered. Priceline.com enables customers to make a reasonable offer under set conditions covering advance booking, departure times, and nonrefundable, nontransferable tickets. Jay met the challenge of getting the word out on what he offered by relying largely on the old-fashioned medium of radio, featuring *Star Trek*’s William Shatner as spokesperson. In 150 days with a modest \$25 million outlay for a major advertising campaign, priceline.com became the second-most-recognized Internet brand in the country among adults, second only to Amazon.com.

Priceline.com sold 300,000 airline tickets in its first 12 months. When hotel rooms were added, 100,000 rooms were booked in the first 3 months. When home mortgages were offered, homeowners sought \$1 billion in the first 3 months, with \$125 million in financing approved. When the selling of new cars was tested in the New York area, \$11 million in sales was generated within 9 months. In priceline.com’s fast start, new customers rushed in at the rate of 5,900 a day and in no time at all they let it be known that they wanted more offerings. Surveys showed that customers wanted the site to add computers, TVs, camcorders, stereos, car insurance, cable TV service,

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credit card interest rates, cruises, rental cars, and long-distance telephone service.

With priceline.com, Jay is doing what he has always done as entrepreneur/marketer: Identify problems and find solutions that can make money. That's how you know the solutions are worth anything. In college, he set out to market a solution to winning at Monopoly after becoming the northeast champion and a recognized player of world-champion caliber (who was banned from competition because of his winning ways). His strategy worked regardless of the uncertainties of the dice. When Jay approached Parker Brothers with the offer to write a book about winning at Monopoly, he got an answer he never forgets: "If you do, we will sue your ass!" He published the book anyway on his own—and it became a success that failed. The book, *1000 Ways to Win Monopoly Games*, sold more than 100,000 copies and earned \$50,000 in profits. Parker Brothers sued, as threatened, and though it later dropped the suit, Jay's legal fees devoured his profits.

His next venture in college was another winner that lost. He dropped out in his junior year to start a weekly newspaper that went head-to-head with the local *Ithaca Gannett Daily*. He even obtained a \$500,000 loan from Bankers Trust to finance a paper run by a college dropout and a staff of college students. This time, as he recalls, he "ticked off Gannett big time." The newspaper chain sent in a SWAT team to launch a competitive weekly that gave away most of its advertising. In five months, Jay's *Mid-week Observer* went out of business and he went back to school for a B.S. degree in industrial relations from Cornell University.

As the son of a successful real estate developer, Jay had a firsthand role model in entrepreneurship. His father thought that, after his son's Monopoly experience, real estate was where he should head. To his mother, a cham-

pion bridge player, Jay ascribes the sense of competitiveness he developed while growing up in Queens, New York. Both parents encouraged his penchant for risk taking. For Jay Walker, there was no question. Entrepreneuring was his career through success and setbacks, ideas that worked and those that didn't. The following postgraduation ventures deserved a better fate.

- *Visual Technologies*: a company that manufactured light sculptures and sold them by catalogs. One thousand copies of the \$1,200 sculptures sold out in just 30 days, but Jay's manufacturing facility couldn't keep up with the demand. The business failed.
- *Advertising in catalogs*: an idea born out of Jay's success in selling light sculptures via catalogs. He came up with a plan for selling ads in catalogs to major companies, signing up 12 immediately. Jay remembers the venture as a "leveraged business method" in which he didn't touch the underlying business or inventory. He just sold ads as he would for a magazine—without any editorial, production, or circulation costs. It was an appealing idea that foundered on a problem. In practice, catalogers wouldn't commit to setting aside space where and when the ads would have the greatest impact. Ads would be postponed to later editions of catalogs or to the back of the book. What Jay describes in recollection as a "marriage of two unwilling partners" lost money and folded.
- *Selling catalogs*: to consumers in bookstores and newsstands so that they could get the catalogs they wanted immediately. Jay set up the process based on "a negative cost of goods." The catalogs didn't cost him anything. The customers paid \$2 for catalogs of choice with the price offset by a \$5 discount sticker. The retailer kept an enticing 60 percent of the price. The companies happily picked up new customers. It was an immediate success that was derailed by the cover stickers, for postal

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codes and for the discount, on the catalogs. They fell off because the printer used the wrong glue. "The business was profitable from day one," Jay reports—then the stickers fell off en route to the retailer and the business collapsed.

Then there were the Jay Walker successes that succeeded all the way to the bottom line and beyond. He sold Federal Express on providing overnight or second-day delivery for catalog companies, generating \$400 million in additional revenue for FedEx. It was a natural winner, enabling customers to get fast delivery throughout the year and Christmastime retailers to sell goods right up to a couple of days before the shopping rush ended. He teamed up with Chuck Tannen, a leading figure in the magazine industry, to set up the Direct Marketing to Business Conference, which was eventually sold for a multi-million-dollar price. Next, he and Tannen launched a successful trade magazine for direct marketing organizations. In another partnership enterprise, Walker identified a problem in the magazine industry—annual renewals: "No other service in the world forces its customers to reevaluate its usefulness once a year and decided whether or not to continue." The highly profitable solution is automatic renewal tied to a credit card until and unless the subscriber cancels. It became NewSub Services, whose profits in the millions enabled Jay to set up Walker Digital, his own think tank. It has one ongoing goal: to come up with new solutions for business methods and patent them. Its first soaring success is priceline.com, which uses 19 of Walker Digital's patents.

Reviewing his successes and his failures, Jay speaks as a current billionaire who has "had a negative net worth for most of my life." He has gone completely broke four times so he speaks from firsthand experience when he

compares the winners and losers and then identifies the reasons why—almost.

*Generally when you fail you know why and generally when you succeed you're much less sure. Failure, like death, has very specific causes. I didn't capitalize right, I didn't understand the market properly, I didn't understand my customers and competition properly. As a result, I failed. You can almost always put your finger on a failure. Success is far more complex. Success is about the interrelationship of a wide number of factors. I use the term a garden as a metaphor. A successful garden isn't about one thing or two things. It's about a whole garden. It's how it works together. It's the whole garden that's successful. An ecosystem is a good parallel. Great businesses are like great ecosystems. When you succeed, it's usually because you've figured out how to balance the 5 and 10 critical variables in a way that is sustainable for the whole. It's almost never about one thing. You see businesses that have enormous sales and fail and you see businesses with very little sales that succeed. You see businesses that have high profits at the start and fail. Success is not about one thing. That's why it's so elusive—because you have to do a lot of things right to succeed. Whereas you only have to do one big thing wrong to fail. That's business.*

In the online world, as Jay points out, there's a transforming new dimension to problem solving and the pursuit of success.

*We look at solutions on the Net in two groups: There are transported forms and there are indigenous forms. A transported form is something that exists in the real world and that gets transported on the Net. I've got a*

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*catalog in print, I'll put a catalog on the Net. An indigenous form is one that can only exist on the Net. There can be 50,000 different prices on the Net all at the exact same moment in time and each customer can name his or her own price and each seller can decide in that moment in time whether to accept that price. This could never exist in a bricks-and-mortar context.*

*As to problems, there are no secrets. Maxwell House has to figure out how it's going to sell more coffee. Wal-Mart has to figure out how it's going to keep customers from going to Kmart. American Airlines has to figure out how it's going to get more people on planes. You name it, the problems generally aren't that difficult to isolate. What's difficult is to recognize that there are entirely new tools to solve the problems. In the past, because so many problems required physical solutions, you were highly constrained on what you could do. Now that so many solutions are in the information layer of the process, you can quickly deploy real solutions that are information solutions. I mean look at priceline with more than 2 million customers in 15 months. What you see is an information solution.*

*As to using technology, it's not a magic box. It's still a computer at the end of the day. You can hire programmers to execute what you want if you can describe what you want very specifically. If you ask technologists to invent your business, then you're going to have a business that doesn't work. But you can ask technologists to implement what you want the software to do. They are very available and they may be expensive, but not any more so than if you wanted to build a steel mill.*

If online entrepreneurs are divided into those who figure out how to carry on established business practices faster and better on the Internet and those who invent

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new ways of doing business via the Internet, then it's obvious where Jay Walker belongs and why the *Industry Standard* selected him in 1999 as the "person with the most original ideas for Net businesses." Priceline.com personifies Jay's own description of the quintessential online entrepreneur: "What very few people have done is start with the Internet and build a derivative business. Priceline is a business that was built by starting with the Internet and saying 'What is the Internet good for?'"

Idea-focused, invention-centered, patent-directed Jay is interested in launching ideas rather than companies. "Starting companies is very hard and time-consuming," he says. "You want to keep those to a minimum." Instead, he's interested in licensing patents to established companies. When *Forbes* magazine asked him to look into the future, the essential Jay Walker emerged, someone who's always trying to think ahead of the rest of the business world and definitely ahead of where he is now. He sounds like a coach planning for the next season or, more appropriately, like a mathematician at the blackboard mapping an equation from here to infinity.

*Computing is becoming universal. Mips [millions of instructions per second of processing power] will be free and ubiquitous. Mips trend to zero [cost] and bandwidth trends to infinity. Network access trends to continuous. What we do at Walker Digital is ask, How will business be reinvented, given that reality? It's a question most businesses are not working on.*

Walker identifies the difference between the world of entrepreneurs before the Internet and after, reflecting on the fact that he succeeds by capitalizing on the difference.

*There is a fundamental difference between an entrepreneur on the Internet and an entrepreneur off the*

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*Internet. In the bricks-and-mortar world—whether it's an auto parts firm, a retail shop, a chain store, or a computer manufacturer—physicality imposes an enormous amount of restraints that you've got to deal with. For information-based entrepreneurs, nonphysicality means a completely different reality and a completely different set of tools to deal with. For example, a physical entrepreneur cannot scale from zero to 5 million of anything in a matter of a month. The newest version of Netscape could be on 6 million desktops in an hour. Amazon can do something and in one minute have 100,000 new customers. It's as if QVC, which was a dramatically successful launch, were suddenly the rules of all the games—without having to go sign up cable systems. Even QVC had to set up all these cable systems and build studios and build warehouses, etc. Net entrepreneurs are in a completely different place.*

*The great victory of our age is the victory of imagination over current belief. We, as a culture, have embraced the Star Trek ethos—that if you can imagine it and it has a technological base to it, it's probably going to happen. Electrification would be the closest metaphor I can think of. Before there was electricity in everything, all prophecies left out electrification. Electrification changed everything when it became a practical tool for all of society, affecting every factory, every business, every government process, every military process, every household. Now, in the information age, the information architecture changes everything. The closest thing would be DNA, which is an information architecture. There is information coded in your DNA that makes you different from a tree. Interestingly, you share about 98 percent of your DNA in common with a tree—98 percent—and yet you don't think of a tree as being another form of information. You may think of a*

*tree as being another species, but it's not. It's just different encoding of the same information.*

So what does Jay do? He never stops looking for ideas that “can be structured in a way that they effectuate significant change.” His focus is not on ideas for their own sake, but ideas that can be put to work. He counts himself among idea-driven entrepreneurs, individuals who change, even create, an industry where one didn’t exist before—the way Federal Express changed the system of delivery. Jay is at his best when he sits down with one of his teams at Walker Digital, “which work to create solutions to business problems.”

Jay calls Walker Digital “a new way to think about the Internet and about the tools and powers of the Internet.” It’s modeled after Thomas Edison’s famous laboratory in Menlo Park, New Jersey, in which teams, rather than solitary inventors, came up with discoveries. Jay regards that team approach, rather than the lightbulb, as Edison’s greatest achievement. Something else that ties Jay’s laboratory to Menlo Park is the practical focus. “When you study it, you find that Edison was a brilliant marketer. He never invented without a customer in mind and he would disdain any invention that wasn’t practical in a commercially obvious way.”

That’s what happens at Walker Digital with its mixed staff of inventors and patent attorneys. The inventors invent. The lawyers protect their inventions with patents. The heart of the operation is “invention sessions” where Walker presents business problems in such areas as retailing, telecommunications, credit cards, lotteries, television, and vending machines. Teams take up the search for solutions under the personal direction of Walker, using the make-or-break test of commercial viability. Ideas and solutions that fail that test never make it to the patent attorneys.

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The people around the table at Walker Digital sessions are carefully recruited by Jay; practically all of them are in their twenties or early thirties. They have all kinds of backgrounds—patent attorney, apprentice pastry chef, financial analyst, fine arts salesperson, management consultant, cryptography consultant, advertising intern, patent attorney, bus driver. They have degrees in law, business, applied economics, biology, philosophy, liberal arts, music, computer engineering. No parade of Ph.D.'s absorbed in their specialties, but rather a variety of B.A.'s mixed with law, business, and master's degrees. Walker describes it as his "own personal laboratory that works alongside an operating company [priceline.com] with very different cultures in how they address and solve problems, yet they work cooperatively."

*In the people at Walker Lab, I look for overwhelming intellectual curiosity, for an ability to communicate, for a demonstrated capacity to think creatively. Also a good attitude about working in groups, a strong need to succeed, and an incredible desire for truth. On my part, I am one of those marketers that sit in the room analyzing and critiquing various solutions put forth by invention teams to solve very specific problems. So right now—when we finish talking—I'm going back to work on a set of problems that about 15 of us are working on. I'm going to spend the day [a Saturday] working on them. We're going to find a solution to that problem and when we do, it's going to look like an "aha." But it's not, it's going to be the result of a lot of hard work. Walker Digital is much more like a genetics laboratory than it is like anything else. In a genetics lab you're working hard to look for ways to structure the DNA to solve problems. It's no accident when you find it. You might be lucky in one sense of the word, but most of the time you're just disciplined. You're*

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*spending your time evaluating what might work and what might not.*

*The problem always comes first. I'm always thinking about ideas and problems. You can't find something you're not looking for. People who complain that they don't have enough ideas or that other people seem to have more ideas often don't realize that you need to be looking for ideas to find them. I spend most of my time looking, prospecting for ideas. I surround myself with people who are challenging and who themselves are looking for ideas. The vast majority of my time is spent in problem-solving sessions and meetings that are focused on finding the diamonds in the rough. I might be better at it because I've been working at problem solving for 25 years, but I don't believe there's any magic to it.*

*I read a lot—two to three hours a day, usually from 7 to 10 in the evening—and I use my reading time as sort of my private thinking time. I read a fair amount of physics—quantum mechanics. I read Kevin Kelly's book, Out of Control, which I thought was a phenomenal book. I read books on biology. I have dozens of things that I read. I read hundreds of magazines a month on almost every subject. I read fast. I skim for what I'm interested in, but once I read I concentrate. I read the Economist and I read the National Enquirer. I don't think many people read both. I read anything that I find can stimulate my thinking about what people are doing and working on. All the time, I'm constantly ripping things out and writing notes.*

To manage priceline.com, he turned over daily operations to a major figure in the banking business, Richard Braddock, who was president of Citicorp when he resigned in 1992. Months later—after meeting and being impressed by Jay—he surprised Internet skeptics and

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stunned the investment community by signing on as chair and CEO of five-month-old priceline.com. Braddock had identified the Internet as "the ultimate leverage point" on the way toward targeted marketing. The same *Barron's* centimillionaire inventory that put Jay at the top of its list confirmed that Braddock knew what he was doing. *Barron's* listed him as number five at \$2.1 billion.

Braddock has a firsthand insight into why Jay Walker has succeeded. He has the "impressive trait" of thinking "outside the box" and of coming up with ideas with a wide reach. "There are a lot of people around who have a good idea that they are peddling at some time or another. But there aren't many people like Jay, who have taught themselves to think in such a way that they actually come up with a string of great ideas that aren't even particularly segment- or niche-specific." Chuck Tannen, Jay's partner in his magazine ventures, goes further in depicting him: "Jay doesn't think out of the box; he thinks out of the planet."

The teenage camper who saw opportunity where others only saw candy bars still is a nonstop lookout scouting for what others miss, constantly analyzing the world around business, and test piloting ideas to see whether they fly and how high and fast. His natural habitat is Walker Digital, which already has generated more than 250 patent applications. More and more, he's leaving priceline.com in the hands of seasoned executives who know how to mind the store.

*I've hired and brought into priceline a senior management team that's really capable of handling a company that reached hundreds of millions of dollars in sales in its second year. You've got an entire senior management team that is used to handling companies and structures with hundreds of thousands and millions of customers. It's a management team that's*

*designed to take priceline through the next level with the necessary infrastructure and processes. You wouldn't ask entrepreneurs to do that. I am not a business executive in that sense. You wouldn't want to hire me to do that. Ultimately, my plan is to do what I do best—spending most of my time at Walker Digital. It's the laboratory that is inventing the business methods and models out of which will come businesses that create value. We own a set of ideas about the way commerce is done. Those ideas are unique, novel, different, and original; and we have invested in them and taught them to the world in the form of patents.*

As to priceline.com, Jay looks ahead to its “long-term legacy.” That depends, he says on “whether we can successfully introduce the first new pricing system in probably 500 years.” It would fulfill the official prediction of priceline.com: “Someday, you’ll buy everything this way.” Meanwhile, he will do what he has always done, in bankruptcy or boom: “I’ve always been an entrepreneur. I start businesses for a living. I always have two or three businesses on the burner—like a farmer rotating crops.”

His shift from being an entrepreneur in the bricks-and-mortar world to the online world was both natural and inevitable—because he is an entrepreneur. If fish are characterized as the last to realize that they’re swimming in water, the smartest fish are the first to recognize the changing of the waters and go where the water is. Entrepreneurs go where the newer, bigger, and better opportunities are. Walker views entrepreneurship as a form of exploring.

*In every age, there are great innovations toward which people who are explorers naturally move. When Columbus came along in the fifteenth century and said there’s a whole new world out there, explorers*

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*would say, "Let's go check it out." That's the way it is with entrepreneurs. Primarily, they're opportunistically driven. They take ideas, assemble resources around the ideas, and take reasonable risks to bring those ideas into reality. As the Internet becomes the landscape—the most exciting landscape of our generation—it's natural that entrepreneurs migrate to that landscape. It's our new world.*