

Imagining a 'better' price.

Today there is nothing small about the challenges facing small business. Achieving competitive prices generally tops the list of priorities.

Thanks to the Internet and smartphones, we live in an age of total market transparency, that relentlessly drives prices downward. All business owners are urgently asking: How can we compete better with online giants? How can our company win more customers, serve them better, reduce costs, boost revenues and achieve a fair profit?

For small companies with limited resources, these questions can be tough to answer. I know from firsthand experience. While three of the businesses I started, including Priceline, grew from zero to 50 million customers, I've been a small business owner most of my life. My successes and failures give me particular insight into the challenges facing today's small and medium-sized companies.

• • •

Small business needs a way to compete and win on price. Every day. On every product.

As we all know, big business beats small business almost every time by offering lower prices. *Small business needs a way to sell goods and services for lower or equal prices than their competition.*

How can small business get lower prices without economies of scale and volume discounts? Answer: by using the tools of the digital age to offer deeper and more immediate discounts than big companies can offer. This allows you to price everyday goods and services in a compelling new way.

For small business, the secret to winning on price is to shift the price competition from the "per item" level used today, to instead compete at the higher "basket" or "combined purchase" level.

• • •

Here's how the "basket of goods" pricing strategy can beat the Goliaths.

Smaller retailers, either alone or as part of buying networks, can obtain deep discounts from suppliers (even deeper than the big guys get) if they do one simple thing. The small retailer must *conceal* those discounts. This protects suppliers from undercutting the deals they offer their largest resellers, and any deals that appear on their own websites.

How do you conceal a discount? There's a public price on the shelf, but a unique *combined discount* when two or more items are purchased together. For example: imagine a shopper who is considering a 32-oz. bag of Brand A pretzels for \$4 and a half-gallon of Brand B orange juice for \$6. Shelf price: \$10.

Now suppose the retailer offers this shopper a combined price for those two items of \$9 through a smartphone app — or, makes a *customized* new offer: get an equal size and quality of Brand X pretzels and a half-gallon of Brand Y orange juice for the combined price of \$8. An immediate savings of 20%. Better price. More sales.

Buyers don't know or care where lower prices come from. They just want them.

In our supermarket example, the buyer does not know or care whether the \$1 or \$2 discount comes from buying the pretzels or buying the orange juice, or the combination of both. It's all about the savings.

In practice, the discount might come from one or more of several interested parties. And, the discount size might vary according to many factors, including the customer's unique purchase history; the quantity, value or profit margin of *other* items in her basket; or even because she had *never* purchased brands X or Y before, so manufacturers want her first-time trial purchase.

Discounts could even come through subsidies from an employer, insurer or even a family member who wanted to incent healthier choices.

With basket pricing using concealed discounts, consumers get a better deal and small companies get a better price strategy. Suppliers get a measurable way to offer targeted savings to new or highly desirable customers. They can do so without upsetting their largest resellers or undercutting their own prices to existing customers who are willing to pay more for their brand preference.

• • •

We're applying this "digital basket of goods" strategy in the real world at my newest company, Upside.

Upside sells airline flights and hotel rooms to all kinds of travelers, especially those at small or medium-sized companies who choose their own flights and hotels. We bundle those flights and rooms together for one low, combined price.

To protect the confidentiality of discount sources and amounts, we never reveal individual component prices. Result: Upside typically has the lowest (combined) prices on the market.

What's more, our sophisticated consumer online interface enables all parties to qualify, target, capture and serve desirable buyer segments as never before. And by using Big Data, we simplify the entire process.

• • •

This is how small business and suppliers can compete on price with anyone, anywhere.

Today, Upside's digital basket pricing has begun to transform the purchase of business travel. Soon, this dynamic approach to pricing will revolutionize trillion-dollar sectors of our economy, from health-care to insurance and beyond.

The belief that small companies cannot compete on price is a myth.

We're heading into a new era for small business.

— Jay Walker
Chairman and CEO
Upside.com

 **UPSIDE**
It's all about the upside.

Second in a series of essays imagining the future of business. @upsidetravel