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Entrepreneurialism on the Internet: A User's Guide[†]

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I. INTRODUCTION

^{§1} This talk is divided into three parts. First, I am going to talk about e-commerce, because there are a lot of misunderstandings about e-commerce and I might be able to give you a perspective on it that you have not heard before. Second, I am going to talk about Priceline and what we do, because what we do is not well understood. Third, I am going to talk about being an entrepreneur.

II. E-COMMERCE

A. Emergence of the Information Grid

^{§2} Many people are wondering what is going on in e-commerce. The best way I can describe what is happening is that the information layer of society is being detached from the physical layer of society, and that information layer is moving to the Net. Everything to do with business that is information is leaving the physical layer and moving to the network. Price, guarantee and availability are simple types of this information: Do you have a product?; what is it?; where is it?; what is the price of the product?; what features are available with the product?; what guarantee is available with the product?; and much more.

^{§3} We have not seen a transition this big since the emergence of ubiquitous energy-what we now call the electric grid-changed every part of society. At that time, all aspects of the economy and of society in general moved from horsepower or steam power to electric power. Just as today there are no companies, houses, or individuals who are off the electric grid, in the future there will be no businesses, families, or individuals off the information grid. The grid will be pervasive, ubiquitous in the sense that you will use it all the time, and it will disappear into the fabric of who and what we are. The information grid promises to be as fundamental a change as the electric grid, the transportation grid, the telephone grid, and, ultimately, it will be as big a change as the entertainment grid (what we think of as radio and TV).

^{§4} All of those things that used to be embedded in the physical layer are going to be moved-literally ripped out of the physical layer-and put on the network. The result is that all business and its delivery of value to the consumer, or to the ultimate buyer, will be reinvented because the information layer will no longer be connected to the product. Priceline is just one example of what happens when you yank the price of something away from the thing itself.

^{§5} The idea that information is part of the value change is not a well-understood concept. Yet, students of commerce can quickly identify businesses that have capitalized on change in the information nature of their own products. Federal Express is a great example of a company that capitalized on the information nature of the product, versus the product itself: Where is the package?; what is the price?; who signed for it?; is it lost?; who saw it last? Thus, FedEx became a superior product, compared to its competitors, simply because the information about the product-

which was always much more important than the product itself-was made instantly and readily available. With this information layer being ripped out of the physical world and put onto the Net, the real question becomes, what kind of e-commerce companies can be created to deliver new kinds of value in this enormous transition?

B. The Creation of New Value--WOW

^{§6} The question for e-commerce entrepreneurs might be, how are we going to create new value? Moreover, what kinds of value can we create in this enormous transition from an Industrial Age economy to an Information Age economy? One word can be used to test whether or not your e-commerce idea is any good. The word is "WOW." E-commerce that is successful is about WOW. If you can do something where the user says, "Wow," then you know you have it right. You have exceeded the user's beliefs, hopes, and even imagination about what constitutes value, and prompted the user to then say, "Wow, I want this!"

1. Historical Examples of WOW

^{§7} Disneyland is a good example of WOW. There used to be amusement parks in America, until Disney came along and invented something called a theme park. The first time any of us visit Disneyland, we say, "Wow! Look at this place!" Disneyland is a guaranteed WOW.

^{§8} The test for WOW is what you do when you are done consuming the experience. If you immediately email sixteen friends, then it is a WOW. The first time you went into Costco, or BJ's Club, or Sam's Club, you said, "Wow, look at this place!" The first time you picked up 24 rolls of toilet paper that were the same price as the four rolls in your local supermarket, you thought, "Wow, I paid as much for four rolls!"

^{§9} Until sports were first televised back in the 1960s, sports had been something either you did yourself or for which you went to a stadium. TV sports reinvented the whole notion of what it was to be a spectator of sports. And it was a WOW. It allowed people to see on television what they could never see before. There was even a time when a long distance call was a WOW.

2. Examples of WOW in E-commerce

^{§10} WOW is the essential ingredient that indicates that you have transcended simply taking an old idea and putting it in a new place. An old idea in a new place is almost never a WOW. E-commerce has had a few WOWs. For example, before there was on-line stock buying, you used to pay \$200 to a Merrill Lynch stockbroker to buy or sell a single security. It took time; it was a pain in the neck; it was a very different world. The first time anybody bought or sold an equity or security on-line, her first reaction was, "Wow, I just bought/sold this stock!" Now, 30% of all equity trades are on the computer. A whole industry has been completely and totally transformed because of that WOW. For those of you who have ever bought or sold something in an auction on-line, which is still only about six percent of the U.S. population, it is a WOW. It is a WOW because America's closets and houses are filled with Furbys and all kinds of useless collectibles, and the idea of being able sell them simply by processing digitized information at almost no incremental cost-is a WOW.

3. Four Building Blocks of WOW

^{§11} There are just four ways to get to a WOW: convenience, information, entertainment and savings. Your e-commerce business can incorporate any one of them, or all four of them. Up to now, the WOWs on the Internet for e-commerce have been fairly limited because they have only addressed at most three of the four building blocks of WOW. If you were to draw a mental map, you could imagine each business graded on each dimension of the building blocks of WOW.

a. Convenience

§12 The first building block of WOW is convenience. The ATM machine was a WOW predicated on convenience. It used to be you had to wait in line during banking hours to get your money from the bank. That is how it was until somebody invented the ATM machine and persuaded banks that it was cheaper to have machines than tellers and that banking consumers could be better served by a machine not only at their bank, but eventually as part of a whole network of ATM machines. Today, we would be irritated if we could not get money out of an ATM machine within a five-minute walk, any time of the day or night. But it was a big WOW when it started. Now, of course, it is just part of banking. The ATM machine was all about convenience, the first building block of WOW.

§13 Many businesses on the Net are built on convenience: you can shop at night, shop 24/7, and have your purchases delivered to your house. Convenience is a way to sell people their own time back, and that is how you measure the value of convenience. In America, this is not a particularly good idea because most Americans will pay almost nothing for convenience. They want it, but they will not pay for it. Consider that the average American watches six hours of television every weekday and eleven hours per day on weekends. If they have time to watch six hours of television a day, their time is not worth very much.

§14 However, that does not mean they like to be inconvenienced; no one likes to be inconvenienced. My point is only that convenience is selling you your own time back and Americans are probably not willing to pay much for it. There is a market for convenience in this country; it is just a small market. The success of Walmart is demonstrative. Walmart is never convenient. It is never downtown. It is always on the outskirts of town. The warehouse club is even farther out and the outlet mall is 50 miles away, and those are the big businesses in our society. The downtown was convenient, and it died. Convenience is a force, and it can be used, but do not project your personal desire for convenience into the market as a whole. To do that would be a potentially fatal mistake.

b. Information

§15 The second building block of WOW is information. The poster child for information is the search engine. The web is filled with information on hundreds of millions of webpages. We need to find it. I use a search engine and suddenly I can find information. The first time you ever used a search engine, you said, "Wow, look at this! I got 11,000 references." It was a WOW. It is a WOW every time you use the Net to search for information.

§16 Unfortunately, there is almost no market in the United States for information. It is a nice thought, but nobody in our country pays for information, and there is no sign that they ever will. People get information primarily for free; it is called broadcast television. People like to watch the TV news and the Discovery Channel, and they will watch other things on TV, as long as they do not have to pay for it. They also do not pay for search engines, except to give up a little of their attention span to ignore the banner ads, and they do not pay much for newspapers, which often cost less than a dollar. Because there is little market for information, selling information is a bad idea. However, it is a building block of WOW because information is desired by consumers—they simply do not want to pay for it.

c. Entertainment

§17 The third building block of WOW is entertainment. This is a big one. Americans have an insatiable appetite for entertainment. In fact, almost around the globe, we are the world's leading purveyors of entertainment. Despite what you may think, or not think, about the quality of it, we are the producers of it. The need for entertainment is an enormous, insatiable need, almost everywhere. In America, we will consume entertainment until we are literally exhausted and no longer able to do so, as evidenced by the fact that millions of our friends and neighbors typically fall asleep while being entertained by the television set.

§18 Entertainment is a very powerful force for WOW. When we walk out of a great movie, we say, "Wow!," and then we tell sixteen friends about it.

§19 Unfortunately, it is even harder to make money from entertainment than it is from information. It is very difficult to charge for entertainment because there is almost always someone else who can produce it better than you can, cheaper than you can, or who can distribute someone else's entertainment for lower marginal costs than you have fixed costs. As a result, entertainment is a very, very difficult component to fold into e-commerce, even though it is critically important.

§20 An example of entertainment folded into e-commerce is grocery shopping made fun on Priceline.com. People really do not like grocery shopping; they prefer it to be done for them, until you tell them how much it is going to cost them. Then, they decide to do it for themselves. At Priceline, we thought about ways we could make grocery shopping entertaining because we knew that naming your own price for groceries was actually adding work to the process.

§21 We decided to create a slot machine on the last page of the site, which consumers saw after they have named the price for the items they want. For each item you bid for, we had a spinning wheel that said, "Yes, No, Yes, No. . . ." For 60 seconds those wheels spin right on the website, just like a slot machine. After 60 seconds they indicated whether or not you got your prices. It is hard to believe, but people's excitement has prompted them to actually clap when they get their prices. I am not making a comment about the American population, I am just telling you the way it is. But, as a marketer, I am also telling you that we very intentionally put an entertaining process into a name-your-price grocery service, because we saw people in focus groups clap when they got their prices.

§22 The engineers said, "Give them the answer, and we are done. We can do it in 8.4 seconds." It was the marketers who asked, "How are we going to make this fun?" That is what real marketers do, they think about how to take the real experience and make it a perceived better experience. That is a high-value function in our marketplace. In as much as entertainment is the third building block of WOW, you may not be able to produce original content for your entertainment, and you may not have enough bandwidth to move video down the pipe, but that does not mean that you cannot be creative in figuring out how to entertain your customers.

d. Savings

§23 The fourth building block of WOW is the big building block, the one that separates all of the successes on the Internet from everything else, with a handful of exceptions. That fourth building block is savings. Savings has driven every commercial revolution in our country's history, and it will not be any different this time. It has nothing to do with the Internet; it has everything to do with human behavior.

§24 To save money, people will do amazing things. They will drive far, they will go places that they do not want to go, and they will wait in lines when they do not want to wait. This is because most people live on a budget. They are trying to save for their kid's college education, and they are trying to give enough money to the church. They are trying to make ends meet, pay their credit card bills, and get a second little vacation place. Anyone who can give people more for their money is very popular in our country.

§25 Walmart sort of snuck up on Wall Street, because Wall Street is clueless about Main Street, but Main Street is where all the real action is, not Wall Street. Main Street made Walmart the biggest company in America, now the biggest retailer in the world, with a really simple slogan: "*always* the lowest price." Walmart was on the outskirts of town, it was in a big store, and it did not have local, friendly sales help like the downtown store. Those downtown stores had your neighbors and friends behind the cash register. Those grocers and pharmacists were people you knew, but Walmart wiped them all out. It was not even a contest because savings drives the consumer equation.

§26 On the Net, savings is a tricky problem. Delivering savings cannot be done in the classic way. You cannot have lower prices on the Net because somebody else might match your price. Obviously, the classic form of savings, which is to mark down a retail price, is not going to work on the Net. That does not mean that you cannot save people money on the Net, it just means you cannot be intellectually lazy and save people money on the Net. You are going to have to think and come up with entirely new ways to save people money. Putting a store on the Net is a bad idea because it is not going to give you savings; some other store could price for less. Even Walmart would have to reinvent its business proposition to live on the Net. A store might offer convenience on the Net. It might wrap its product with some information, and it could even be entertaining, but, ultimately, savings wins.

§27 You are the ones who have to reinvent what it means to provide savings. You are going to have to invent new ways to deliver savings if you want to be an e-commerce success. If you would like to take a business from the real world and put it on the Net, be my guest, but your odds of success are very low. If you can devise new ways to deliver value, then your odds of success get very interesting, because there is not that much innovation on the Net. There is a lot of activity; there is a lot of smoke, but there is not a lot of heat, and there is not a lot of savings. I know because I am one of the few who have created a savings company-Priceline.

III. PRICELINE.COM

§28 At Priceline, we say to the consumer, "We have figured out a new way to save you money." If you are willing to be flexible, we can lock in prices on the Internet that are 20% to 80% below the lowest price you can find anywhere else. We only ask that the consumer be somewhat flexible. For example, with groceries, you would have to be willing to choose two brands of an item and let us pick. But, how many people care whether they get Glad or Hefty trash bags? How many people care whether they get Energizer or Duracell batteries? We found that people are willing to be flexible.

A. Capitalizing on Consumer Flexibility

§29 The key here is how you describe flexibility to the consumer. In our original service, which was for airline tickets, the consumer had to be very flexible because otherwise the airlines would not cooperate. We had to go to the airlines and say, "We are going to find the customers who are going to drive or not go. Would you like those?" The airlines were very interested in those customers because they were new customers. Those are customers the airlines can take from cars and couches. To find those customers, we tell consumers that they have to be willing to fly at any time of day. The only people who will fly at any time of the day are people who would not have gone otherwise or who were going to drive, because the plane is always faster than the car at any time of day.

§30 We let people name their price, their own personal elasticity. That is, we ask them how deep the discount has to be for them to fly at any time of the day. Each one of us knows how deep the discount has to be for him or her. It varies based on the trip, the price for which we can buy a fixed ticket, and a million other things, but everybody has a price for which they are willing to fly at any time of the day.

§31 In fact, for hundreds of thousands of people a month, any time of day is just fine if they can get their price. Not only is any time of the day fine, but any airline is equally fine. Up to one stop or connection, no refunds, no changes, and no frequent flyer miles are all fine if you were going to drive anyway. Every last one of those customers was not the airlines' customer, it was a new kind of customer. It was a customer who was so flexible you were growing the business. You were filling a seat that, by definition, would not dilute somebody who was already going to buy that seat. At Priceline, we were able to put conditions on the product such that we protected the seller while we attracted the buyer.

§32 For hotel reservations, you only have to tell us the area in the town and the star rating of the hotel that you want. For cars, you only have to tell us the car dealership in the county from which you are willing to pick up your new Chevy. For groceries, you would just pick two brands. In every market, we interpreted the amount of flexibility necessary so that the seller would know that the unit of demand was probably incremental. That is an example of how to reinvent what it means to save people money. It is not intuitive; in fact, we truly invented it at Walker Digital. It is a process of invention that comes from a process of thinking.

B. Creating Value Through Competitive Advantage

§33 That process of thinking starts by asking how you can use the tools of the digital age to create whole new customer value solutions. That is your challenge as entrepreneurs, to invent new forms of value and to deploy what you invent in order to create real shareholder value. You create real shareholder value the same way it has always been done, by creating a sustainable competitive advantage. There are no exceptions to this rule. If you do not have a sustainable competitive advantage, then you do not even have a business. You can create competitive advantages that are temporary, but there is no business there. You can even create advantages that are not competitive, but there is no business there either. Ultimately, large businesses are all built around sustainable competitive advantage, by which customers get value that the business creator has designed to deliver.

C. Reinventing Savings

§34 Thus, it is not about old models in new places on the Internet. E-commerce is primarily about WOW. The four building blocks of WOW—convenience, information, entertainment and savings—apply to each business in the e-commerce space, whatever it may be. The most important and hardest of these building blocks is savings, but if you can offer savings to your customers and invent new ways to deliver it, then you do not have to worry about customer retention. Savings is its own customer-retention program.

§35 Also, you do not have to worry about advertising in a big way, because savings advertises itself. This is not to say that advertising will not make it go faster, though. I spend a lot on advertising and it does make word spread faster, but word-of-mouth is even better. The average person tells sixteen other people about her successful Priceline experience. Advertising just gives people confidence that when they try the product, it is going to work for them too.

IV. ENTREPRENEURIALISM TODAY

A. The Best of Times

§36 This is the best of times and, in many cases, the worst of times to be an entrepreneur. It is the best of times because the entrepreneur is currently in vogue in our society. It is like being a "computer person" was fifteen to twenty years ago. It is like being a car mechanic was at one point in our history.

§37 What is more, entrepreneurs have a great opportunity today because there has never been more capital available to people with ideas. Enormous fortunes have been made by people with ideas, and, as a result, there is an enormous amount of capital chasing people. Good ideas stand out in this marketplace, and, if you have one and can articulate it in the form of a business plan, you have an excellent chance of finding people who are interested in helping you fund it. From that standpoint, it is the best of times. When I raised \$100 million to launch Priceline, over the period of a year, I had to beg, borrow, and grovel, and the first \$20 million was my own. More recently, I have raised \$100 million much more easily because there is so much capital chasing so few good ideas.

B. The Worst of Times

§38 This is also the worst of times because most ideas are so bad, most business plans so poorly thought out, and most opportunities so misunderstood, that the failure rate is far higher today than ever before. Any time capital is too cheap, the resulting biological effect is a profusion of weeds; the lot becomes overgrown with them, and they choke out the real plants. It becomes more difficult to stand out because there is so much noise in the air, so little in the way of substance. As the world begins to recognize that we do not have a lot of quality in what we are creating, there will be an enormous backlash against the entrepreneur and business in general. There is going to be a "baby out with the bath water" effect in entrepreneurialism in the next few years.

§39 Also, there is a casino effect taking place in our economy that is corrosive at the entrepreneurial level. People move to different companies simply because they are chasing the next dot-com jackpot. The sense of people coming to work for companies to build things of great value is lacking. There is a gold rush mentality. All entrepreneurs feel the effect of this as they try to recruit teams and keep people together. When things do not work well, they lose people very quickly. We have been very fortunate in this regard at Priceline in that we have seen much less of this than many others. As entrepreneurs, you are facing some very unusual challenges in terms of people, keeping focus, and creating stable value, as opposed to overnight value.

C. The Value of Thinking

§40 The demands on entrepreneurs to get it out, get it done, get it going, and go public are not healthy. One of the reasons we went as slow as we did at Priceline is that we spent two years just thinking about our business before we raised our first dollar in capital. By the time we started raising capital, we had thought through enormous sets of challenges to our business, which is not to say we were not surprised by all kinds setbacks. We were, but we were way ahead in understanding how we were going to deliver value and what our role was as a company in getting customers and keeping them. For instance, we did not follow others who utilized banner advertising. We went to the real world and did regular advertising. We had the confidence that comes from thinking.

§41 As an entrepreneur, I have learned that the enormous pressure to do is overwhelming the need to prepare, to think, and to talk to potential customers, and to use discipline in routing out the 99 out of every 100 ideas that are no good. You need to focus on what really matters in the business, and not be distracted by what everybody else tells you matters. That is your challenge as entrepreneurs, and it is a tough challenge. Spend time thinking about how you want to be an entrepreneur. Think about your value proposition, the team you might want, and how you are going to sustain your competitive advantage. Think through what you can do on paper so you will not do it wrong in the marketplace.

D. Entrepreneurialism as a Calling

§42 The rewards for entrepreneurs have never been greater. I am living proof of that. However, those rewards are not the reason most entrepreneurs are entrepreneurs. When I hear somebody tell me that they want to make a lot of money being an entrepreneur, inside I say, "No way." Entrepreneurs are a lot like artists—they do what they do because it is who they are. They create businesses and they create value because they cannot imagine doing anything else, any more than an artist can get up in the morning and decide not to paint. Those of you who are entrepreneurs do not have to ask yourself if you are—it does not make sense to you to be anything else. If you have to ask, you probably are not an entrepreneur, but that is not necessarily a problem. You can go through an entrepreneurial phase to create a business, and then you can be the executive who runs it. There are many more people who are good managers and executives than there are creators.

§43 Typically, an entrepreneur creates many businesses over her life because most of them fail. I am no different; most of my businesses have failed. Some have failed spectacularly; some have failed miserably, but most have failed. Each time I failed, I got myself up, wiped myself off, and worked on the next one. Now I have had some successes, but I am sure that I will have plenty of failures in the future. Even though I am very active in Priceline, I do not manage the company. Soon, I will move on and build the next business out of Walker Digital because, as an entrepreneur, I can not imagine not building businesses; and I could never imagine running them.

§44 My advice to you is to grow to like failure. If you are an entrepreneur, you are going to have a lot of it, just as every big-league hitter strikes out. Failure is a pretty good teacher. As a general rule, you learn ten times more from failure than from success if you are paying attention. Every time you fail, you will know why. You will know just what you did wrong, and you will not make that mistake again.

V. CONCLUSION

§45 I have given you a description of how you can determine a great e-commerce business, by the measure of WOW. I have given you a brief description of what Priceline is all about as a pricing system, and why it delivers savings in an entirely new way. I have also talked a little bit about my experience as an entrepreneur and shared some of the things that I have learned. I have found that all entrepreneurs really enjoy sharing the lessons that they have learned with others, especially younger entrepreneurs. I hope my comments will help you to learn from my old mistakes, and to make only new ones, as you start your e-commerce businesses.

† Edited transcript of remarks delivered to the Yale Entrepreneurial Society and the Yale Law and Technology Society on March 1, 2000.

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| [Home](#) | [Volume 3, 2000](#) | [Volume 2, 2000](#) | [Volume 1, 1999](#) |

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