



## Stanford eCorner

### Efficient markets - Great for Customers, Tough on Business

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During the economic downturn that followed the dot-com bust, there were many travel bargains to be found through new websites such as Expedia and Priceline. In what is called an efficient market, customers had a flood of bargains at their fingertips. Joie de Vivre Hotels was forced to lower room prices and pay commissions to these third-party websites.



#### Transcript

We live today in an era where there is a very promiscuous customer and as to a hotel business too. One of the things that happened to us in the downturn is everybody is started going online to actually book their hotel rooms, right? Because Expedia and Travelocity and Orbitz, and Priceline, and all those companies, they all started in 1998, 1999, 2000. They started at exactly the right time does hurt because post 9/11, everybody knew that there were travel bargains out there, but they did not know how they actually go find them and I think, you know, the difference between inefficient market and efficient market. So an efficient market is when the customer wins and it is efficient to go out and find the choices as a consumer. An inefficient market is what the hotel business used to be. So if you want to go out and book a hotel room in 1995, you would actually call a travel agent and have them do that or if you did it yourself, you have to call 8 or 10 hotels, how many you want to learn about and call each one and ask the prices of a particular day and try to get the answer from them. So what happened post 9/11 is everybody all of a sudden went to Expedia or Travelocity. Now, why was that a problem for us in terms of customer? Well, the problem for few reasons. Number 1, it made a more efficient market so for average room rate in year 2000 was 200 dollars. By 2002, the average rate is 160 dollars.

So it dropped 40 dollars. But what a lot of people do not know is Expedia charges us a 25% commission less now, but back then, it was 25% commission. And if you book your hotel room with us for 160 dollars on Expedia, we only received 120 dollars. So for average room, it was 200 dollars before and it dropped to 120 dollars two years later, that was a prescription for serious problems.