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RETAIL VS. E-TAIL: A LOOK AT EXPEDIA.COM

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ABSTRACT

The Internet has revolutionized the way consumers shop for and price various products. This study compares prices listed on individual airline websites and prices listed on a third-party travel booking website, expedia.com. The findings indicate a significant difference in prices between the sources. However, no single website consistently had prices lower than the other. Thus, it benefits the consumer to thoroughly price shop when making airline reservations online.

INTRODUCTION

The Internet has had a dramatic impact on the way in which consumers shop in the airline industry by offering easy and convenient websites that allow consumers to readily compare prices and find the best deal for airfare. More and more Americans are booking travel online. Internet sales in the travel industry have increased significantly in the past few years, and this growth trend is predicted to continue in the future (van den Berg, 2003). To be competitive, airlines must concern themselves with exactly how Internet pricing works and how best to exploit this new system in order to maximize occupancy rates and thus revenues. Both the airlines and Internet websites use a dynamic pricing schedule in order to secure the best possible rate for the flight.

The purpose of this paper is to examine how the consumer can procure the best possible airline ticket price via the Internet. This study examines the rates posted on individual airline websites versus the rates posted for the same type of flight at the same times on a well-known third-party travel booking site, expedia.com. Our findings indicate that the consumer can get a reduced ticket price by using expedia.com website in lieu of the individual airline websites.

The key to using the Internet as a medium of exchange is that it can be a means of obtaining pertinent and salient information. The Internet is an effective network that can adapt to changing information much more rapidly than a typical bureaucracy (Arquilla and Ronfeldt, 2001). Hoteliers have a clear understanding of how the dynamic pricing works in conjunction with the Internet (Enz, 2003). However, in a January 2003 edition of the Wall Street Journal, a reporter was able to procure a suite at the Westin Maui for \$150 that typically retails for \$269 by placing bids on four different Internet websites. This transaction was in direct conflict with the Westin Maui website, which claims that it has the lowest price for its room on its website (Lieber, 2003). With this kind of information posted on a companies' website, what is the consumer to believe?

E-tailers often try to offer the lowest prices during their formative years in order to firmly entrench a loyal customer base (Cao and Gruca, 2003). In contrast, traditional retailers use their existing customer base and name recognition as leverage to build their online customer base. Since e-tailers have established themselves in the online marketplace, consumers must discern who to use for shopping purposes--the traditional company or the e-tailer. This is especially relevant since North American Airlines have the most advanced ticket systems (Law and Leung 2000). If the market for online airline tickets is efficient and fair, then no significant price difference between expedia.com and the individual airline websites should exist.

DATA AND METHODS

In order to test the validity of efficient markets in e-commerce, the research method in this study included visiting the expedia.com website and surveying the first three listings as listed on expedia.com for five respective cities: Atlanta, Chicago, Las Vegas, Los Angeles, and New York City. For all five cities, we surveyed the dates of September 25, 26, and 27 of 2003. These dates were chosen to uniformly keep the data consistent, and because these dates encompass the weekend, a time in which airlines usually exhibit higher occupancy. The final destinations and points of origin are the other cities used in the survey (i.e., from Atlanta the destinations are Chicago, Las Vegas etc). There are a total of sixty observations for each city. Next, the prices for these specific dates were examined by visiting the individual airline websites. These prices from the individual airline websites were then compared against the prices denoted from expedia.com using an independent samples t-test. If the e-commerce market is indeed efficient, there should be no statistically significant difference between the prices on expedia.com and the prices on the individual airline websites.

RESULTS

The findings of this study indicate a significant difference between the expedia.com website prices and the prices directly obtained from the individual airline websites. However, there seems to be no clear and discernable pattern to the prices. In Atlanta, Las Vegas, and Los Angeles the consumer would benefit most by going through the third-party site, expedia.com. In both Chicago and New York City, the consumer is able to obtain a lower price directly from the individual airline websites. The results of this independent samples t-test are shown in Table 1.

TABLE 1

City	Mean Price for Expedia.com Website	Mean Price for Individual Airlines' Website	T-Statistic	P-Value
Atlanta	214.48	201.55	18.81	.000
Chicago	243.67	252.15	20.76	.000
Las Vegas	234.43	230.14	18.98	.000
Los Angeles	235.44	219.05	23.47	.000
New York City	238.25	247.41	37.57	.000

CONCLUSION

The results of this study show a significant difference between the prices on expedia.com and the prices on the individual airline websites. Further, this implies that the market for e-commerce airfare is not efficient and the consumer does benefit from shopping around and seeking additional information. In this study, there is no single website to ensure that the consumer will get the lowest price. The price discrepancy in these websites is completely random, suggesting the consumer should shop both the third-party travel booking website and individual airline websites in order to ensure that he/she is getting the lowest available price.

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