



Research note

Exploring group-buying platforms for restaurant revenue management



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ABSTRACT

Capacity utilization is a major concern for restaurants as they seek to maximize revenues, because unoccupied restaurant tables, which essentially represent lost revenue, cannot be stored for use on other days. A new type of social commerce, namely group-buying platforms has achieved great success in attracting new consumers and increasing store traffic. This study attempts to discuss how restaurants can utilize group-buying platforms as a revenue management tool and to identify the key features of restaurant deals which can help generate sales and revenues on these platforms.

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1. Introduction

Capacity utilization is a major concern for restaurants as they seek to maximize revenues, because unoccupied restaurant tables, which represent lost revenue, cannot be stored for use on other days. Consequently, restaurants try to minimize the number and duration of unoccupied table spaces and sell the largest number of tables within a given period to maximize total revenue. Revenue management (RM) has therefore become an indispensable strategic tool in capacity-constrained service industries (Heo and Lee, 2010, 2011). The basic rationale behind RM is the efficient use of fixed and perishable capacities by charging consumers different prices for identical services to balance demand and revenue per capacity unit. RM strategy has been applied in the restaurant industry, but extant studies of RM practices in restaurants tend to lack depth (Bertsimas and Shioda 2003; Susskind et al., 2004; Heo et al., 2013). In particular, little research has discussed the role of external partners or distribution channels in restaurant RM, although the role of third-party channels, such as travel agencies or global distribution systems, is significant and hence a popular focus for RM studies of hotels and airlines.

The prevalence of Web 2.0 technologies and their e-commerce applications has led to new shopping trends, such as social commerce and group-buying platforms, where customers' leverage social networks to make more efficient and effective purchases. Online group buying platform unites customers apart through

Internet and enhance their bargaining power against sellers in order to make a deal in a lower price. This study therefore sets out to discuss how restaurants can utilize group-buying platforms as a RM tool. It also aims to identify the key features of restaurant deals which help generate sales and revenues on such platforms. The findings of this study will contribute to the existing literature on restaurant RM by providing insights into the use of group-buying platforms not only for restaurant operators but also those involved in many other types of capacity-constrained and smaller local businesses.

2. Research background

2.1. Social commerce and group-buying trends

Social commerce is a field of e-commerce that involves the use of online media, which support social interactions and user contributions, to facilitate the online transaction of products and services. The term was first introduced by Yahoo! in November 2005 to describe a set of online collaborative shopping tools such as shared pick lists, user ratings, and sharing of other user-generated online content containing product information and advice. Social commerce can be defined as a form of Internet-based social media that allow people to engage actively in marketing and selling products and services in online marketplaces and communities (Tedeschi, 2006). However, there is no clearly agreed definition of social commerce and it may also include social shopping, social couponing, and group buying.

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In China, *Tuangou*, which means team or group buying, is a popular shopping strategy. It involves a group of friends or strangers connected through the Internet agreeing to approach the vendor of a specific product or service to bargain as a group and hence obtain a discount. Consumers have leveraged the power of group buying, or collective buying, and businesses have benefited by selling multiple units of products at once. The website Groupon has led the worldwide social commerce movement by using the principles of online group buying. Groupon's typical offers include percentage discounts at participating restaurants, coupons for savings given a minimum purchase at retail stores, two-for-one event ticket specials, and similar promotions (Liang et al., 2014). Each promotion becomes valid only if a sufficient number of members signs up, encouraging the viral sharing of individual offers. If the minimum sign-up requirement is not met, the promotion does not proceed and nobody's credit card is charged. Over five hundred similar group-buying sites have been established worldwide, such as LivingSocial and BuyWithMe, Baidu, Chinese search giant, recently acquires Brazil's largest group buying website and has promised to invest US\$50 million in the country over the next three years.

2.2. Group-buying platform for restaurants

Restaurant RM can be conceptualized as maximizing the revenue per available time-based restaurant capacity in which profitable control of constrained restaurant capacity could be attributed to three strategic revenue management levers: utilization of space or seating, control of the meal duration, and optimization of the mix of prices and associate rate fences (Kimes and Renaghan, 2011). Abundant researchers explored the relevant issues such as meal duration management (Kimes and Robson, 2004; Bell and Pliner, 2003; Thompson, 2009), table mix management (Thompson, 2002, 2003; Kimes and Thompson, 2005), table or seating management (Bertsimas and Shioda, 2003; Hwang, 2008), and menus redesigning (Sill, 1991; Kimes et al., 1998; Sill and Decker, 1999), and pricing issue (Heo et al., 2013). Kimes (2011) addressed that restaurant distribution is rapidly changing as third-party reservation sites and pointed out that the challenge for researchers and restaurant operators is to understand how best to apply the knowledge learned in other industries to the emerging distribution and RM issues in the restaurant industry. However, little research in this area has been conducted.

What do social commerce and group-buying trends mean for restaurants? Group-buying platforms may provide restaurants with a new way of attracting additional consumers. In other words, it can be used as intermediary or distribution channel for restaurant RM in the same way that hotels and airlines use online travel agencies. Group-buying platforms have already changed the dining behavior of restaurant customers. Traditionally, consumers visit a certain restaurant, look at the menu, order food, and then pay the bill after finishing their meal. With group-buying platforms, consumers gather information about the restaurant and pay for their food before they even arrive. This change has several implications from the restaurant RM perspective. Restaurants can forecast the number of visitors because deal buyers are required to book tables. Now, restaurants can distribute confirmed consumer demand by managing such reservations.

Moreover, using group-buying platforms can be an effective and economic advertising tool, particularly for smaller restaurants. Such platforms may motivate consumers to invite others to take up promotions, making use of the existing social networks of price-sensitive consumers as a powerful word-of-mouth marketing tool. Therefore, broad and effective consumer networks can stimulate the spread of promotional uptake rapidly, without the restaurant having to make any extra efforts. Obtain-

ing advance payment is also an advantage for restaurants. The zero upfront cost of attracting consumers, especially during low-demand periods, is another benefit of using group-buying platforms.

2.3. Previous research in group-buying

As group buying has become one of the biggest social commerce trends, some researchers have discussed its implications. Lai et al. (2006) point out the importance of transaction utility in the intention of consumers to join in with group buying. Kauffman et al. (2009) show that positive textual comments have positive effects on perceived trust and negative effects on perceived risk in the context of group-buying auctions. Similarly, according to Sun and Luo (2010), reputation, uncertainty avoidance, and social norms have positive impacts on trust in the initiator, but interaction has a negative impact on perceived risk. Tsai et al. (2011) apply the Technology Acceptance Model to investigate the online group-buying behavior of consumers. Based on a consumer survey in Taiwan, the study finds that perceived usefulness, a sense of virtual community and trust in the VC are determinants of OGB intention and perceived ease of use and website quality influence perceived usefulness. Kauffman et al. (2010) note the role of perceived procedural fairness, price fairness, and price satisfaction in the intention of consumers to join online group-buying auctions. Liu and Sutanto (2012) analyze data logs from group-buying websites and show that auction times and new orders per hour have an inverted U-shaped relationship. Tien et al. (2012) show that perceived value and quality have positive effects on satisfaction and trust in group-buying websites. Kumar and Rajan (2012) found that group-buying coupons in their current format are not ideally suited to guarantee customer acquisition and produce profits for the businesses based on analytical model. Wu et al. (2013) explored restaurant group-buying deals from the restaurant operators' experience perspective. Kimes and Dholakia (2011) examined consumer perceptions of restaurant daily deals and argued that there is significant growth opportunity of restaurant group-buying deals on the consumer side. Previous research on group buying has generally applied perspectives drawn from e-commerce studies (such as perceived risk, trust, and perceived ease of use) but has tended not consider its unique features such as minimum number of transactions per deal and maximum validity duration of coupons. Theoretical explanations of these phenomena in the literature also remain inadequate.

Given that group-buying platform has become popular among consumers, it is important to identify what factors affecting the effectiveness of group-buying deals. Consumers' perceptions of the rarity of the restaurant offer on a group-buying platform may be an important aspect of uptake. That is, time-limited offers or promotions offering a limited number of vouchers may be seen as more attractive. Commodity theory, first proposed by Brock (1968), provides insights into how individuals respond to the offer of limited products. It proposes that an individual will evaluate a product as more attractive when it is scarce rather than abundant. Researchers in psychology and marketing have found that consumer perceptions and evaluations of a product's attractiveness, desirability, expensiveness, quality, and taste are affected by the knowledge that it is scarce (Lynn and Bogert, 1996). Thus, if a restaurant offer from a group-buying website is viewed as limited or rare, consumers are more likely to perceive it as more attractive. On the other hand, if the restaurant has several branches and the coupon can be used in multiple locations, consumers may view this deal as better value. Thus, this study attempts to find key features of restaurant deals which are associated with the effectiveness of a group-buying platform.

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