



The managerial flash sales dash: Is there advantage or disadvantage at the finish line?[☆]

Katerina Berezina^{a,*}, Kelly J. Semrad^{b,1}, Svetlana Stepchenkova^{c,2}, Cihan Cobanoglu^{a,3}

^a College of Hospitality and Tourism Leadership, University of South Florida Sarasota-Manatee, 8350 N. Tamiami Tr., Sarasota, FL 34243 USA

^b Rosen College of Hospitality Management, University of Central Florida, 9907 Universal Boulevard, Orlando, FL 32819 USA

^c Department of Tourism, Recreation and Sport Management, University of Florida, 312 Florida Gym, Gainesville, FL 32611 USA

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ABSTRACT

The central intent of this qualitative inquiry is to investigate the benefits, drawbacks, and performance measures of hotel room inventory distribution via flash sales websites. Key advantages and disadvantages of using such a distribution channel fall within the categories of inventory management, revenue management, brand marketing, customer relationships, and operational challenges. The significance of the study is in providing a comprehensive review of the flash sales phenomenon in the lodging industry that may assist hotel managers with the performance evaluation of this distribution channel. Using grounded theory methodology, a flash sales evaluation framework was developed based on 46 phone interviews with hotel managers from different segments of the American hotel industry.

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1. Introduction

The effective and timely distribution of hotel room inventory is critical for hotel managers in order to accomplish the maximum revenue that could be earned via a perishable core product (room nights), which is the most significant revenue driver of the business (Croes and Semrad, 2012a; Desiraju and Shugan, 1999; Kimes, 1989). In order for managers to maximize revenue earned by room night sales, managers must diversify their distribution mix with traditional and newly emerging distribution channels. One of the newer distribution channels that have caught the quick attention of managers is that of flash sales websites. A review of relevant literature demonstrates that flash sales may be referred to as daily deals (Piccoli and Dev, 2012), private sales (Ayadi et al., 2013; Kim

and Martinez, 2013; Piccoli and Dev, 2012), and online coupons (Sigala, 2013). Flash sales websites are defined as electronic distribution channels that offer time-limited deep discounts (of about 50%) for the advanced purchase of products or services (Piccoli and Dev, 2012).

These distribution channels act as shopping intermediaries that provide a platform for potential online consumers to purchase goods and services from merchants via online promotions (e.g., GrouponTM Getaways and LivingSocialTM Escapes) (Lee and Lee, 2012). Moreover, online shopping intermediaries emerged as a place of e-commerce that afforded hotel managers the opportunity to promote their properties via online couponing. This, then, allowed managers to use the shopping intermediaries to aide in reducing the uncertainty of managing a perishable room inventory. As a result, the popularity of flash sales surged in the industry. For example, in one year of operations about 500,000 room nights were booked via LivingSocial Escapes since its launch in November 2010 (LivingSocial, 2011). However, despite flash sales websites' fast managerial adoption as a distribution channel, limited empirical attention has been dedicated to assessing the effects that flash sales may have on the host firms (Kumar and Rajan, 2012; Wu et al., 2012; Zhang et al., 2013).

Therefore, the central intent of this qualitative inquiry is to investigate the benefits, drawbacks, and performance measures of

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* Corresponding author Tel.: +1 941 359 4320.

E-mail addresses: katerina@katerinaberezina.com (K. Berezina), kelly.semrad@ucf.edu (K.J. Semrad), svetlana.step@hhp.ufl.edu (S. Stepchenkova), cihan@cihan.org (C. Cobanoglu).

¹ Tel.: +1 407 903 8048.

² Tel.: +1 352 294 1652.

³ Tel.: +1 941 359 4774.

hotel room inventory distribution via flash sales websites according to the perceptions of hotel managers. The wide acceptance of flash sales websites as a distribution channel for hotel managers seems to indicate that these vehicles assist with the distribution of perishable inventory by providing time limited deep discounts that generate consumer demand. However, the use of flash sales websites to generate consumer demand in order to avoid room night sales from possibly perishing comes with an associated high distribution cost.

For example, a hotel manager that releases hotel room nights to a flash sales website may pay up to 50% in commission fees associated with each unit (i.e., hotel room) sold via the flash sales website. When considering that the hotel reservations that are booked directly through the hotel's website cost the hotel about 5–8% (Green, 2008), and the average cost of other types of electronic distribution bookings ranges from 10% (travel agency retail model) to 35% (travel agency merchant model), it becomes apparent that the use of a flash sales website to distribute inventory may become an expensive distribution channel for a manager to adopt.

Therefore, there seems to be a trade-off, then, for managers between increasing room sales and incurring high distribution costs. Such a trade-off may pose some difficulties for hotel managers in terms of their evaluation of flash sales websites' effectiveness as a distribution channel. In other words, if a flash sale can generate increased occupancy rates but only at deeply discounted room rates while incurring a high distribution cost, then it must be considered if the deal is beneficial to the hotel or only the consumer?

In this regard, a study of benefits, drawbacks, and performance measures of hotel flash sales may contribute to the understanding of flash sales' impact on the hotel industry, and guide hotel managers in their decisions to continue (or discontinue) distribution via flash sales websites. Therefore, the current research queries why hotel managers use flash sales websites, and what are the managerial perceptions regarding their flash sales experience. To ascertain the possibilities, a grounded theory research design approach was used. Forty-six phone interviews with hotel managers from different hotel segments of the US hotel industry gave rise to the outcome of the study, i.e., a flash sales evaluation framework.

2. Literature review

2.1. Flash sales websites

Advances in information technology have created new distribution (O'Connor and Frew, 2004) and pricing opportunities for businesses (Grewal et al., 2011). For the hotel industry, such opportunities may include distribution via online travel intermediaries that offer capabilities of dynamic pricing (Abrate et al., 2012), opaque selling (Jerath et al., 2010), name-your-own-price (NYOP) (Wang et al., 2009), last-minute distribution (Chen and Schwartz, 2013), and flash sales (Piccoli and Dev, 2012).

Flash sales websites evolved from a mechanism of social shopping. Literature has addressed various forms of social shopping mechanisms such as group buying (Coulter and Roggeveen, 2012; Luo et al., 2014; Zhang et al., 2013), deals of the day (Boon, 2013), daily group deals (Wu et al., 2012), online couponing (Erdoğan and Çiçek, 2011), and social couponing (Kumar and Rajan, 2012). Most of these social shopping websites offer deep discounts for products and services. In the case of social couponing and group buying, the deals only come to fruition for customers if a pre-determined number of customers purchase the deal (Erdoğan and Çiçek, 2011; Lee and Lee, 2012). Thus, the promotion never materializes for any of the customers if enough of the deals are not sold (Coulter and Roggeveen, 2012; Sigala, 2013). This business practice is especially popular within social couponing where consumers must self-advertise the deal by placing posts about the

promotion on their social media websites, such as Facebook and Twitter.

Flash sales websites deviate from social couponing in that they do not serve as social shopping marketplaces or social shopping aggregators (Lee and Lee, 2012). Rather, flash sales websites serve as intermediaries for firms to sell goods and services at discounted prices for a specific amount of time to a wide reach of online consumers. In addition, flash sales websites do not require a specific number of customers to buy the product before the sale becomes available, and flash sales do not require the customer to promote the sale via social media sites.

2.2. The use of flash sales in the hotel industry

The trend of using flash sales websites to distribute room inventory is not widely addressed in academic literature. In fact, an extensive review of literature reveals only one descriptive study by Piccoli and Dev (2012) that presented the adoption and usage statistics of flash sales websites in the hotel industry. The results revealed that the use of flash sales is widely prominent in the hotel industry; and, that managers' reasons for adopting flash sales as part of their distribution mix revolves around the following six managerial responsibilities: (1) property branding, (2) customer acquisition, (3) increasing occupancy, (4) increasing revenue, (5) increasing profits, and, (6) desperation to sell a perishable product supply. However, the Piccoli and Dev's (2012) study does not address the benefits, drawbacks, or performance measures for this popular form of a distribution channel.

The use of flash sales websites is more prominently referenced within hotel trade literature. Topics included within trade literature shed some light on the advantages and disadvantages of such a distribution channel, and describe the actual entrance of flash sales websites into new markets (Gupta, 2012; Mayock, 2012; Schaal, 2011a,b, 2012a,b). The extant literature available from both trade and academic sources has credited flash sales websites' ability to increase exposure to new customers (Piccoli and Dev, 2012; Schaal, 2011b), fill immediate occupancy needs (Schaal, 2012b), and assist in the promotion of hotel properties online (Gupta, 2012).

However, the use of flash sales websites have also been criticized in literature for steep discounts that negatively impact a hotel's average daily rates (ADR), the associated high commission costs (Piccoli and Dev, 2012; Schaal, 2012b), violation of price parity (Piccoli and Dev, 2012; Schaal, 2012a; Starkov, 2011, 2012), and destroying brand integrity (Piccoli and Dev, 2012; Starkov, 2011). Taking into account such disadvantages of distributing rooms via flash sales websites, Starkov (2011) names hotel flash sales distribution "a recessionary phenomenon" (p. 2), and "the dumbest hotel distribution idea" (p. 4) from the economic, pricing, and branding perspectives. The lack of empirical studies pertaining to the use of flash sales websites in the hotel industry and the stark contrast among industry analysts who flip flop between favorably crediting and severely criticizing the use of flash sales as a distribution tool makes it difficult to understand if it is a smart or "dumb" management strategy.

Therefore, the overall influential effect of hotel flash sales websites on the lodging industry seems at best uncertain. Based on this uncertainty, there is a need for the advancement of academic literature that could offer directions to hotel managers regarding the benefits, drawbacks, and guidelines for how and when to use such a distribution channel. In order to provide this guidance to managers and the industry, it becomes necessary to investigate and interpret the current perceptions that hotel managers may hold regarding the benefits and drawbacks of using flash sales, as well as the existing evaluation strategies that managers use when considering the

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