The Center for Hospitality Research
Hospitality Leadership Through Learning

Restaurant Daily Deals:

Customers' Responses to Social Couponing

Cornell Hospitality Report
Vol. 11, No. 20, November 2011

by Sheryl E. Kimes, Ph.D., and Utpal Dholakia, Ph.D.

Cornell University

The Robert A. and Jan M. Beck Center at Cornell University
Back cover photo by permission of *The Cornellian* and Jeff Wang.

Cornell Hospitality Reports,
Vol. 11, No. 20 (November 2011)

Cornell Hospitality Report is produced for the benefit of the hospitality industry by The Center for Hospitality Research at Cornell University

Rohit Verma, *Executive Director*
Jennifer Macera, *Associate Director*
Glenn Withiam, *Director of Publications*

Center for Hospitality Research
Cornell University
School of Hotel Administration
489 Statler Hall
Ithaca, NY 14853

Phone: 607-255-9780
Fax: 607-254-2922
www.chr.cornell.edu

The Center for Hospitality Research

Hospitality Leadership Through Learning

Thank you to our generous Corporate Members

Senior Partners

ASAE Foundation
Carlson Hotels
Hilton Worldwide
McDonald's USA
Philips Hospitality
SAS
STR
Taj Hotels Resorts and Palaces

Partners

Davis & Gilbert LLP
Deloitte & Touche USA LLP
Denihan Hospitality Group
eCornell & Executive Education
Expedia, Inc.
Forbes Travel Guide
Four Seasons Hotels and Resorts
Fox Rothschild LLP
French Quarter Holdings, Inc.
HVS
Hyatt
InterContinental Hotels Group
Jumeirah Group
LRP Publications
Maritz
Marriott International, Inc.
Marsh's Hospitality Practice
priceline.com
PricewaterhouseCoopers
Proskauer
Sabre Hospitality Solutions
Sathguru Management Consultants (P) Ltd.
Schneider Electric
Thayer Lodging Group
Thompson Hotels
Travelport
WATG

Friends

4Hoteliers.com • Berkshire Healthcare • Center for Advanced Retail Technology • Complete Seating • Cruise Industry News • DK Shifflet & Associates • ehotelier.com • EyeforTravel • Gerencia de Hoteles & Restaurantes • Global Hospitality Resources • Hospitality Financial and Technological Professionals • hospitalityInside.com • hospitalitynet.org • Hospitality Technology Magazine • HotelExecutive.com • International CHRIE • International Hotel Conference • International Society of Hospitality Consultants • iPerceptions • JDA Software Group, Inc. • J.D. Power and Associates • The Lodging Conference • Lodging Hospitality • Lodging Magazine • LRA Worldwide, Inc. • Milestone Internet Marketing • MindFolio • Mindshare Technologies • PhoCusWright Inc. • PKF Hospitality Research • Questex Hospitality Group • Resort and Recreation Magazine • The Resort Trades • RestaurantEdge.com • Shibata Publishing Co. • Synovate • The TravelCom Network • UniFocus • USA Today • WageWatch, Inc. • The Wall Street Journal • WIWIH.COM • Wyndham Worldwide

Restaurant Daily Deals:

Customers' Responses to Social Couponing

by Sheryl Kimes and Utpal Dholakia

EXECUTIVE SUMMARY

A survey of 931 U.S. consumers finds that those who have purchased daily deals from a casual dining, fast-casual, or quick-service restaurant are not noticeably different in behavior or attitudes from those who have not done so. One difference in attitudes provides insight into those who purchase social coupons: they like to be "market mavens," who stay on the cusp of market trend and price information. Those who purchased daily deals were significantly more likely to be younger, be married, and have a higher income than non-purchasers. On balance, the study indicated that the benefits of offering a social coupon seem to outweigh the disadvantages. Many of the potential concerns about offering a social coupon, including poor tipping, overwhelming the staff, and customer disloyalty, are not substantiated. There was some evidence of cannibalization, as 44 percent of those using a social coupon reported being frequent customers, but the coupons also brought back infrequent customers and attracted a substantial percentage of new customers. Most critically, many of the new and infrequent customers said they would return to the restaurant and pay regular prices, as well as recommend the restaurant to friends. New customers in particular would not have tried the restaurant without the daily deal offer. All customer groups said they considered the restaurant to be a good value, even without the discount offer.

ABOUT THE AUTHORS

Sheryl E. Kimes, Ph.D., is Singapore Tourism Board Distinguished Professor of Asian Hospitality Management at the Cornell University School of Hotel Administration, where she has also served as interim dean (sek6@cornell.edu). In teaching restaurant revenue management, yield management, and food and beverage management, she has been named the school's graduate teacher of the year three times. Her research interests include revenue management and forecasting in the restaurant, hotel, and golf industries. She has published over fifty articles in leading journals such as *Interfaces, Journal of Operations Management, Journal of Service Research, Decision Sciences*, and *Cornell Hospitality Quarterly*. She has served as a consultant to many hospitality enterprises around the world, including Chevy's FreshMex Restaurants, Walt Disney World Resorts, Ruby's Diners, Starwood Asia-Pacific, and Troon Golf.

Utpal Dholakia, Ph.D., is William S. Mackey, Jr. and Verne F. Simons Distinguished Associate Professor of Management at the Jesse H. Jones Graduate School of Business at Rice University. He has a master's degree in psychology, and a Ph.D. in marketing from the University of Michigan, a master's degree in operations research from the Ohio State University, and a bachelor's degree in industrial engineering from the University of Bombay. His research interests lie in studying motivational psychology of consumers and online marketing issues such as virtual communities and online auctions. He also studies relational aspects of consumer behavior. He has published in a number of marketing and management journals, and consults with firms in financial services, energy, health-care, and other industries.

Restaurant Daily Deals:

Customers' Responses to Social Couponing

by Sheryl Kimes and Utpal Dholakia

Over the past year, restaurant operators report that they have been inundated with sales pitches from social coupon companies to run daily deals for their customers. With the rising popularity of social couponing, restaurateurs in many categories are considering the benefits and concerns connected to group discount promotions. On the plus side, daily deals can help restaurants to fill unused capacity and to introduce new customers to the restaurant. On the negative side, the steep discounts usually included in daily deals may encourage deal seekers to patronize the restaurant in such numbers that full-paying regulars are displaced during busy periods, or regular customers may be tempted to use the discount offer, thereby cannibalizing existing business. Other issues surrounding daily deals include the possible negative effects on service resulting from increased volume and on employee morale based on the perception that daily deal customers are "cheap" and will tip poorly.[1]

[1] Other service businesses face similar issues, as explained in: Chekitan S. Dev, Laura Winter Falk, and Laure Mougeot Stroock, "To Groupon or Not to Groupon: A Tour Operator's Dilemma," *Cornell Hospitality Reports*, Vol. 11, No. 19 (November 2011); Cornell Center for Hospitality Research.

Given the interest in daily deals promotions, we wanted to specifically investigate customers' attitudes toward daily deals. In this study, we surveyed consumers to find out which ones use restaurant daily deals, what they think about such deals, how they use them, and whether they intend to return to the restaurant in the future. Other than a few proprietary studies on daily deal use,[2] to our knowledge, no published research on customer response to restaurant daily deals yet exists. The results of this study should prove useful to restaurant operators in their decision making regarding whether, when, and how to offer a daily deal.

In this report, we will first review the major daily deal sites popular in the restaurant industry followed by a discussion of the advantages and disadvantages of daily deals. We will then provide a brief review of the relevant literature on daily deals and coupons. Subsequently, we will describe our customer survey and present the results. We will conclude with a discussion of how restaurant operators can use the results of our survey.

Restaurant Daily Deal Companies

There are two basic types of daily deal sites that offer restaurant industry promotions: generic sites such as Groupon and Living Social, and restaurant-focused daily deal sites such as OpenTable Spotlight, Restaurant.com, and Savored.[3] Although the deal structure varies by site, the majority of offers are discount promotions for some percentage reduction from a stated price (usually 40- to 50-percent off). Additionally, some daily deal sites allow restaurants to set restrictions on when the offer can be used, automatically include a gratuity on the full (non-discounted) amount of the bill, and require a minimum expenditure over the face value of the deal. Such restrictions can help a restaurant operator better manage when daily deal customers dine at the restaurant, but such restrictions also risk decreasing the offer's appeal for consumers.

In a study of 22,000 shoppers from the top 100 online retailers,[4] Freed found that 51 percent of the respondents had used Groupon; 24 percent, Living Social; 14 percent, Google Offers; 10 percent, Woot!; and 7 percent had used one of several other daily deal sites. About one-third (35%) reported that they had never purchased a daily deal. About two-thirds of the respondents who had purchased a daily deal were enrolled in at least one daily deal email subscription program.

While Freed's research is not specific to the restaurant industry, the demographics of restaurant daily deal users is likely to be similar. Daily deal users tend to be between 25 and 44 years old (average of 43% across all daily deal sites), have an income between $50,000 and $100,000 per year (38%), and be predominantly female (59%).[5]

Potential Advantages and Disadvantages of Daily Deal Sites

As we mentioned at the outset, daily deals have advantages and disadvantages. The advantages include:

- **Incremental customers**. Daily deal companies promise to bring in additional customers who may return to the restaurant in the future. A recent Technomic consumer study indicated that 48 percent of daily deal purchasers were new customers, while Freed's consumer study put that number at 35 percent.[6] In an earlier study of businesses that had offered daily deals, coauthor Utpal Dholakia found that about 80 percent of coupon customers were new.[7]

- **Increased revenue and profit**. Given the increase in traffic, daily deal sites may help increase revenue and profit. Just over half (55.5%) of businesses surveyed in the Dholakia study reported that they made money on the daily deal, and 48.1 percent stated that they would participate in a daily deal promotion again in the future. However, restaurant operators were not as satisfied with the performance of daily deals. The percentage reporting that the daily deal was profitable for them dropped to 43.6 percent, and only 35.9 percent said they would use this type of promotion again in the future.

---

2 "Technomic Finds Online Daily Restaurant Deals Driving Positive Consumer Behavior" http://www.technomic.com/Pressroom/Releases/dynRelease_Detail.php?rUID=97; viewed August 14, 2011; and Larry Freed, "New Data: Groupon & Living Social Bring New Customers (and Existing Ones)," http://www.freedyourmind.com/freed_your_mind/2011/06/new-data-groupon-and-living-social-bring-new-customers.html; viewed August 15, 2011.

3 For a thorough review of the daily deal industry, please see Erik Eliason,Yohanes Frezgi, and Fatima Khan, "Daily Deals White Paper: Understanding the Industry Dynamics of Daily Deals and Implications for Merchants and Consumers," Harvard Business School (2010), http://www.slideshare.net/HackStartups/group-buying-white-paper; viewed August 27, 2011; Rip Empson, "Yipit's Daily Deal Report: Industry Revenue Dips, Groupon Gains Share, And Travel Deal Takes Off," TechCrunch (2011), http://techcrunch.com/2011/08/25/yipits-daily-deal-report-groupon-up-livingsocial-down-travel-deals-take-off/; viewed August 28, 2011; Jim Sullivan, "Get the Most Out of Group Discounts," *Nation's Restaurant News*, (2011). http://www.nrn.com/article/get-most-out-group-discounts; viewed August 14, 2011; and Brad Tuttle, "How Coupons Became Cool," *Time*, http://moneyland.time.com/2011/06/06/how-the-coupon-lost-its-dorky-penny-pinching-stigma/; viewed August 16, 2011.

4 Freed, *op.cit*.

5 *Ibid.*

6 *Ibid*.; and Technomic, *op.cit.*.

7 Utpal Dholakia, "What Makes Groupon Promotions Profitable for Businesses?," Rice University Working Paper (2011), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1790414; viewed July 7, 2011.

- **Exposure**. Daily deal sites can also serve as a marketing tool to help restaurants increase customer awareness of their business. For example, in a case study on the adoption of a Groupon promotion at a start-up catering company, the authors found that the exposure benefits of the Groupon promotion lasted well after the promotion ended.[8]

The possible disadvantages include:

- **Cost**. Many operators have expressed concerns about the costs associated with daily deals. Although the largest variable cost for a restaurant is the food cost (typically about 30%), personnel costs could increase if business picks up, and administrative costs associated with the daily deal could also play a role. Equally important, daily deal sites take a significant share of revenue—usually 30 to 50 percent of the face value of the deal.
- **Cannibalization**. If frequent customers take advantage of the daily deal, the restaurant may be cannibalizing its regular customers who would have eaten at the restaurant and paid the full amount anyway. Studies have indicated that the percentage of daily deal users who are already frequent customers ranges from 30 to 40 percent.[9]
- **Displacement**. If a large number of daily deal purchasers decide to use their voucher during a busy period, regular customers who pay full price may be displaced.
- **Employee frustration**. Employees are often concerned that coupon and daily deal users are likely to be "deal-seekers" who will fail to tip on the gross amount of the bill (and just tip on the discounted check).[10] Dholakia's research has found that the most important factor driving daily deal profitability is how satisfied employees are with the promotion.[11]
- **Brand equity erosion**. Offering a daily deal may cause customers to think less of the restaurant because of its use of discounts, leading to an erosion of its brand image.[12]
- **Poor customer match**. Deal-seekers attracted by daily deals coupons may be disproportionately sensitive to price and would fail to appreciate the restaurant's value proposition. Such customers rarely spend beyond the deal's face value or return in the future.[13]

Coupon Studies

Promotions and coupons have been widely studied by academics, but since daily deal sites are still fairly new, limited research exists on this particular form of price promotion.[14] However, we see several concepts from the coupon and promotions literature as being relevant to the study of daily deals. Among these are consumers' response to coupons, impulsive purchase behavior, relational orientation, and market maven behavior.

Coupon-responsive behavior: Consumers who purchase daily deal offers may simply be the type of customers who seek to use coupons for their purchases. Research has shown that consumers who are value conscious are more likely to use coupons.[15] Such consumers, referred to as "coupon prone" often use coupons as a sign of a good deal and may not even consider the cost savings.[16] Coupon prone is defined as a higher chance of redeeming a coupon because it makes consumers feel better about their purchase. Value consciousness is related to customers who want to pay lower prices for a product or service given a certain level of quality.

We predict that daily deal purchasers will be more coupon-responsive than non-users and will show both higher coupon proneness and higher value consciousness.

Impulsive purchasing behavior: Daily deal users may also be less impulsive in their buying behavior than non-users. Impulsive buying is defined as a customer tendency to purchase things in a spontaneous manner without necessarily thinking of why the item is being purchased. Simi-

---

8 Utpal Dholakia and Gur Tsabar, "A Start-Ups Experience with Running a Groupon Promotion," Rice University Working Paper (2011), http://papers.ssrn.com/col3/papers.cfm?abstract_id=1828003; viewed July 8, 2011; and Dholakia (2011), *loc.cit.*

9 Technomic, *op.cit.*, and Dholakia, 2011, *loc.cit.*

10 Mark Brandeau, "Group Deal Gamble," *Nation's Restaurant News*, (2011), http://www.nrn.com/article/group-deal-gamble; viewed August 28, 2011; and Hannah Howard, "Served: The Restaurant Coupon Invasion," Serious Eats (2011), http://www.seriouseats.com/2011/05/served-the-restaurant-coupon-invasion.html; viewed August 14, 2011

11 Utpal Dholakia, "How Businesses Fare with Daily Deals: A Multi-Site Analysis of Groupon, LivingSocial, OpenTable, Travelzoo, and Buy-WithMe Promotions," Rice University Working Paper (2010), http://ssrn.com/abstract=1863466; viewed November 23, 2010; and Utpal Dholakia, "Why Unhappy Employees Can Wreck Promotional Offers," Harvard Business Review, 2011, http://hbr.org/2011/01/why-employees-can-wreck-promotional-offers/ar/1; viewed July 7, 2011.

12 Brandeau, *op.cit.*; Sullivan, *op.cit*.

13 Brandeau, *op.cit.*; Howard, *op.cit.*; Sullivan, *op.cit*.

14 Please see Dholakia, 2010, *op.cit.*; Dholakia, 2011, *op.cit.*; and Benjamin Edelman, Sonia Jaffe, and Scott Duke Kominers, "To Groupon or Not to Groupon: The Profitability of Deep Discounts," Harvard Business School Working Paper (2010), http://www.slideshare.net/foodsho/to-groupon-or-not, viewed July 23, 2011.

15 Donald R. Lichtenstein, Richard G. Netemeyer and Scot Burton, "Distinguishing Coupon Proneness from Value Consciousness: An Acquisition-Transaction Utility Theory Perspective," *Journal of Marketing*, 54(3), 54-67, (1990).

16 Valarie A. Zeithaml, "Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence," *Journal of Marketing*, 52 (July 1988), pp. 2-22.

larly, daily deal users may also be more conscious of their spending than non-users. Rick *et al.* introduced a scale to measure customers' spending consciousness, the Tightwad-Spendthrift scale.[17] This ranks customers on an 11-point scale in which 1 = tightwad and 11 = spendthrift.

We predict that daily deal users will be less impulsive shoppers and that they will be more likely to be spendthrifts than non-users.

Market maven: Feick and Price examined a type of customer consider themselves as a good source of information about new products and services.[18] They called this customer type Market Mavens, who enjoy introducing new brands and products to their friends. We predict that daily deal users will have a higher likelihood of being a Market Maven than non-users.

Relational orientation: Daily deal users have been accused of being fickle and only loyal to the next deal.[19] Offsetting that fickle tendency is customer loyalty. Customers with a higher relational orientation like to be loyal to companies that treat them well.[20] We predict that daily deal users will have a lower relational orientation than non-users.

Survey Results

We conducted an online survey of U.S. adults who had purchased a restaurant daily deal within the past 3 months. We set that three-month limit for respondents because we were concerned that people might not clearly remember something that had occurred before that time. For the sake of comparison we also surveyed samples of U.S. adults who had never purchased a restaurant daily deal and those who had purchased a deal, but not in the previous three months. Working with a well-respected survey panel company to obtain our sample, we conducted our survey in August 2011, and received a total of 931 responses. Approximately one-third (31%) of respondents who started the survey had purchased a daily deal. Since the focus of our research was on daily deal users, we used a quota sample to be sure that about two-thirds of our sample had purchased a restaurant daily deal and one-third had not done so.

The respondents were fairly equally split between males and females (45% to 55%). About half of the respondents were 45 years of age or older (18-24, 9%; 25-34, 22%; 35 – 44, 17%; 45 – 54, 22%; 55-64, 19% and 65 or older, 11%). The majority (59%) of subjects were married and about two-thirds (64%) had no children at home. About two-thirds had a family income below $75,000 per year, while 18 percent had an income of over $100,000 per year. The majority of respondents lived in an urban or suburban area (urban, 24%; suburban, 50%).

Exhibit 1

Respondents' demographic profile

Gender	Non-Users	Users
Female/Male	57/43%	54/46%
Age	**Non-Users**	**Users**
18-24	5.1%	10.7%
25-34	13.4%	26.1%
35-44	16.6%	16.9%
45-54	23.9%	21.3%
55-64	25.5%	15.9%
65+	15.6%	9.1%
Marital Status	**Non-Users**	**Users**
Single	25.2%	27.4%
Married	55.1%	61.4%
Widowed	4.5%	2.3%
Divorced	15.3%	8.9%

Income	Non-Users	Users
<$25K	24.2%	15.1%
$25 - 50K	32.2%	25.2%
$50 - 75K	22.0%	23.4%
$75 - 100k	14%	16%
$100 - 150K	4.5%	14%
$150K+	2.9%	7%
Location	**Non-Users**	**Users**
Urban	18.5%	26.9%
Suburban	43.6%	53.6%
Small town	18.2%	8.5%
Rural	19.7%	10.7%
Number of Children	**Non-Users**	**Users**
0	68.8%	60.9%
1	15.3%	18.5%
2+	16.0%	20.7%

[17] Scott I. Rick, Cynthia E. Cryder and George Loewenstein, "Tightwads and Spendthrifts," *Journal of Consumer Research*, 34:6 (2008), 767-782.

[18] Lawrence F. Feick and Linda L. Price, "The Market Maven: A Diffuser of Marketplace Information," *Journal of Marketing*, 51:1 (1987), 83-97.

[19] Brandeau, *op.cit.*; Howard, *op.cit.*; and Sullivan, *op.cit.*

[20] Utpal Dholakia,. "How Customer Self-Determination Influences Relational Marketing Outcomes: Evidence from Longitudinal Field Studies," *Journal of Marketing Research*. 43, 1 (2006): 109-120.

Exhibit 2

Type of restaurant visited

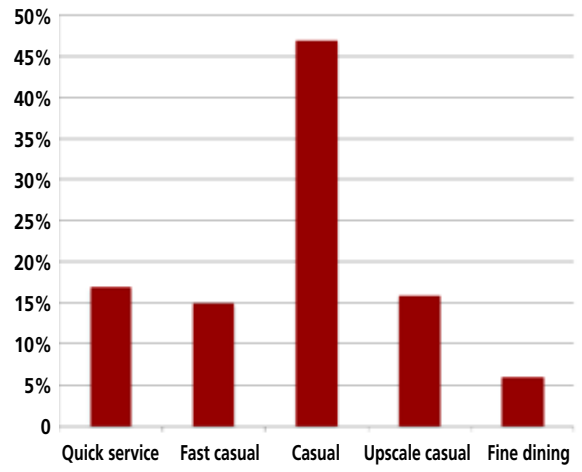


Exhibit 3

Restaurant customers' dining party

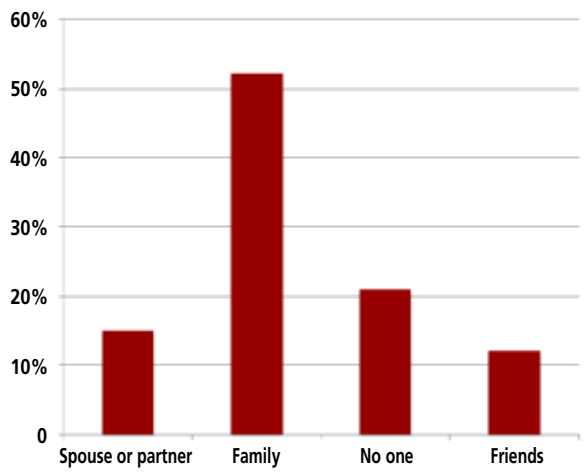
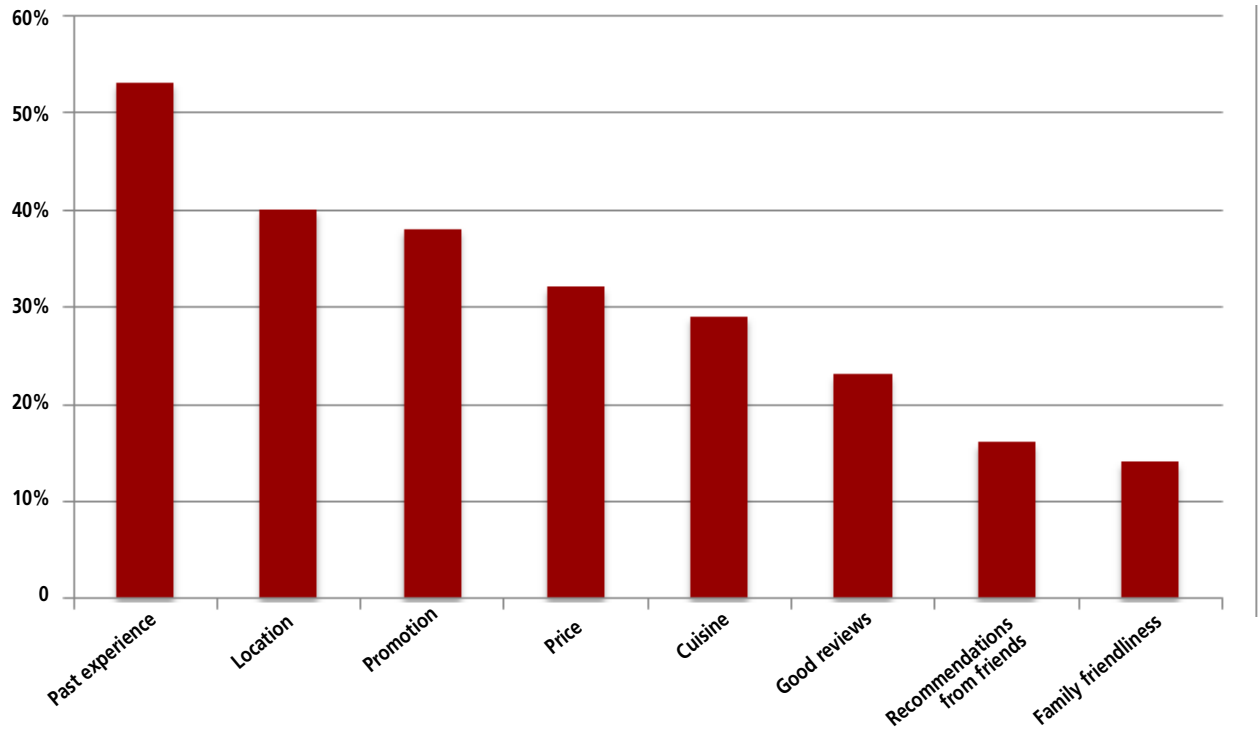


Exhibit 4

How restaurant was chosen



Demographic Profile

Daily deal users were significantly more likely to be younger, be married, have a higher income, and live in an urban or suburban area.[21] There were no significant differences in usage by gender or by the number of children in the household (Exhibit 1).

[21] We used one-way ANOVA to analyze the data. All results reported as significant were statistically significant at the $p < 0.05$ level.

Daily Deal Experience

We used a recall method in which we asked respondents to describe the last restaurant daily deal they had purchased. After they described the daily deal they had purchased, we asked a variety of questions about their experience with the daily deal.

Type of restaurant: About half (47%) of the daily deal offers purchased were for casual restaurants with another

Exhibit 5

Number of deals purchased in prior twelve months

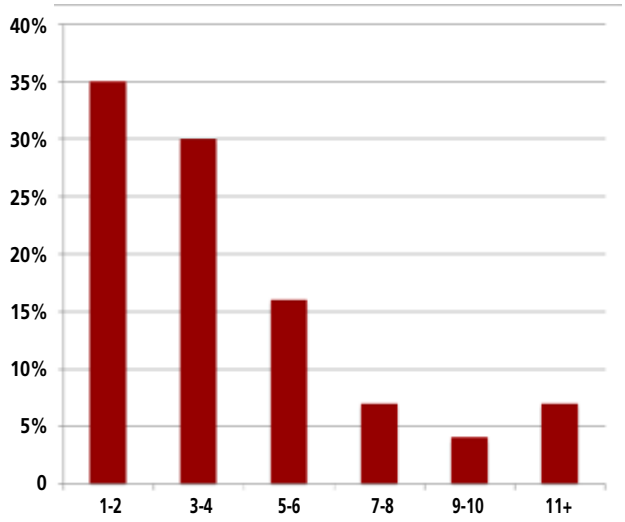


Exhibit 6

Patronage status at daily deal restaurant

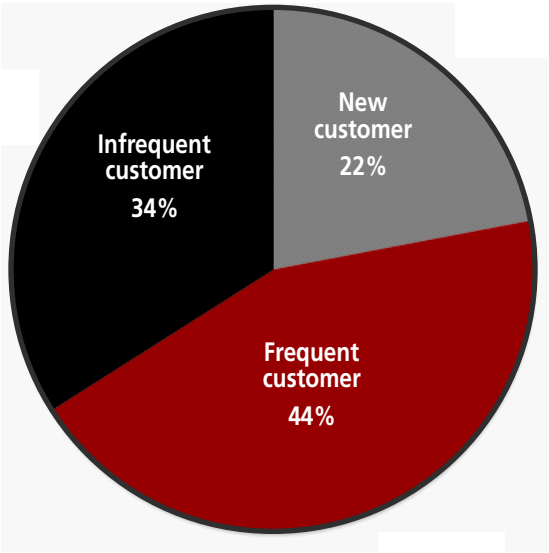
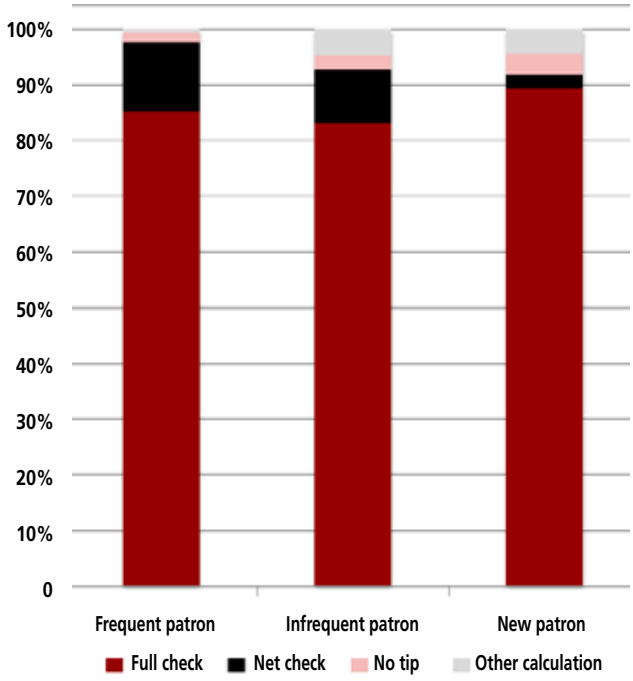


Exhibit 7

Tip behavior (based on check size)



third (32%) for quick-service or fast-casual restaurants. Only 6 percent of the daily deals purchased were for fine-dining restaurants (Exhibit 2).

Who they went with: Most respondents were accompanied by their family (52%) or spouse or partner (15%). Only 12 percent went with friends (Exhibit 3).

How they chose the restaurant: The most common reason given for choosing a particular restaurant was past experience (53%), followed by convenient location (40%), the availability of a promotion (38%), and price (32%) (Exhibit 4).

Number of deals purchased during the past year: About two-thirds of the respondents had purchased between one and four restaurant daily deals in the previous year. Thirty-five percent recalled purchasing one or two deals and 30 percent had purchased three or four coupons. About 7 percent had purchased more than ten restaurant daily deal promotions (Exhibit 5).

Relationship with the restaurant: Only 22 percent of the respondents said that they were new customers. About 44 percent of respondents were already frequent customers, and the remaining 34 percent had been to the restaurant before, but did not consider themselves regular customers (Exhibit 6). Based on these percentages, in our analysis we refer to these customer groups as "new," "frequent," and "infrequent."

Tipping: One of the concerns raised regarding daily deal customers is that they may tip on the net amount of

the check rather than the full value or amount before the discount. Our results provide evidence that this fear is unfounded, particularly for new customers.[22] In this tipping analysis, we eliminated quick-service and fast-casual restaurants to avoid confounding data. A healthy percentage of the remaining customers reported that they tipped on the full value amount of the deal. We found that new customers were significantly more likely to tip on the full amount of the bill (87.7%), followed by frequent customers (85.3%) and infrequent customers (83.1%) (Exhibit 7).

Frequency of Dining Out

Regardless of the type of restaurant, daily deal users were significantly more likely than non-users to patronize a restaurant, whether for lunch or dinner. Over half (54.7%) of daily deal users went out for lunch or dinner at least once a week, while only about one-third (34.9%) of respondents

[22] Note, however, that because this is a survey of customers, there is an issue of social desirability of responses in the sense that respondents may be less likely to admit that they tipped poorly or not at all when using the daily deal even if they did so. As such, this result should be treated as a preliminary result indicative of the customer's side of the tipping story.

Exhibit 8

Frequency of dining out

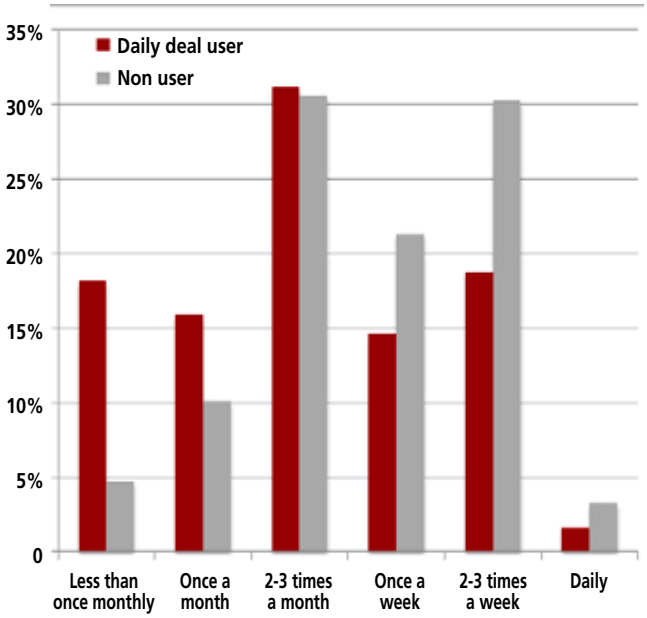


Exhibit 9

Respondents' awareness and use of daily deal sites

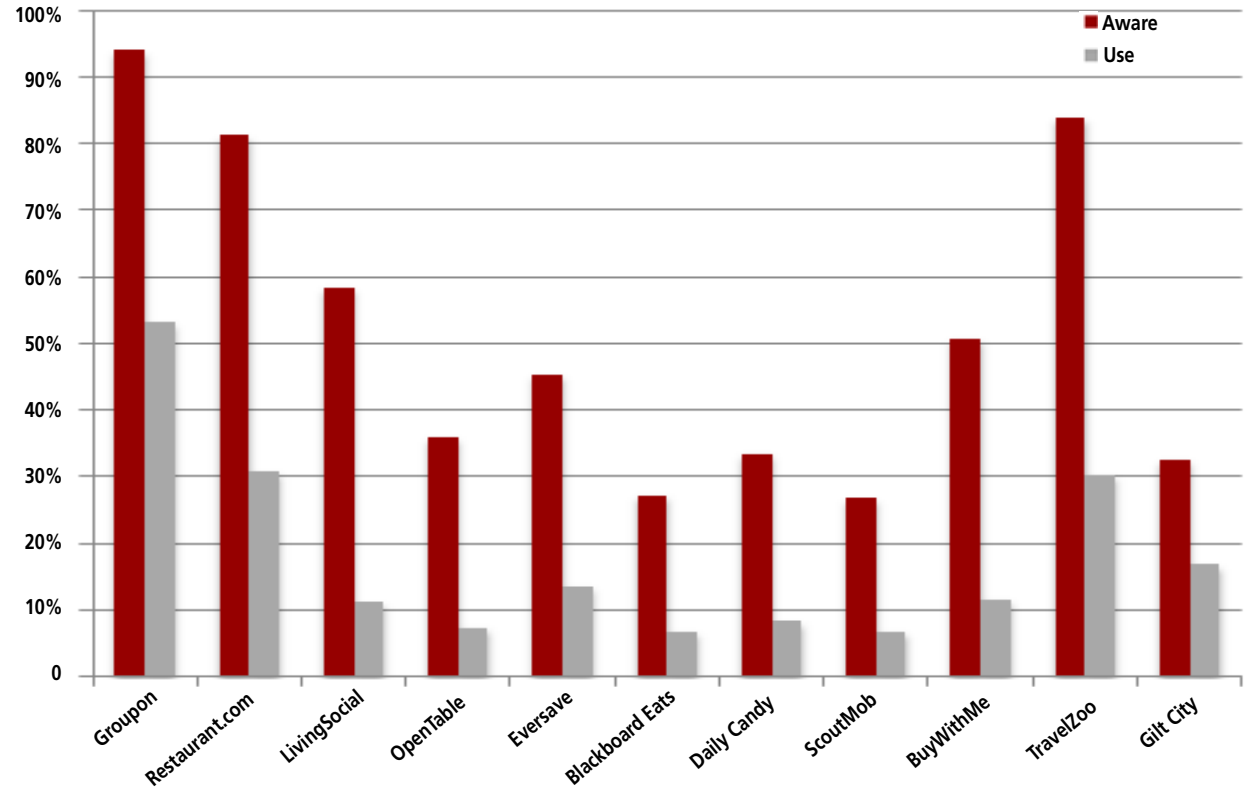
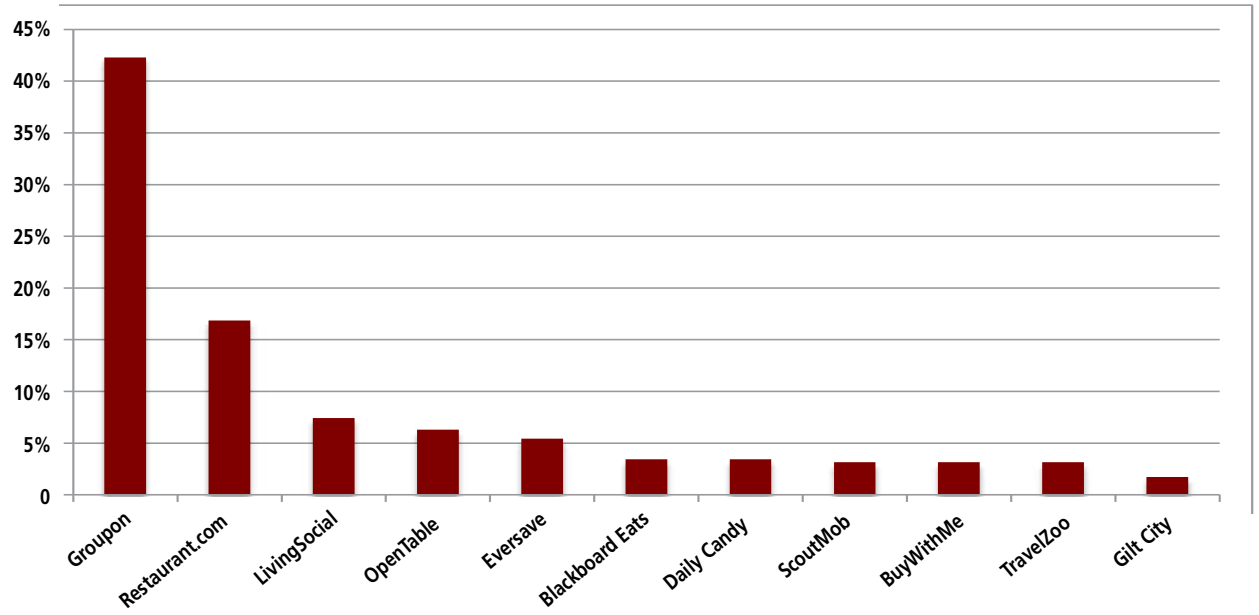


Exhibit 10

Daily deal sites' "heart share"



who had not purchased a daily deal reported that kind of patronage frequency. Respondents who dined out more frequently purchased significantly more daily deals (Exhibit 8).

Daily Deal Sites Used

We asked respondents to indicate their level of awareness and use of eleven different daily deal sites. Nearly all respondents (94.2%) were aware of Groupon, and substantial percentages knew about Restaurant.com (82.7%), Living Social (79.5%), and TravelZoo (54.1%). Less than half of respondents were familiar with Gilt City, OpenTable, BuyWithMe, Blackboard Eats, Daily Candy, ScoutMob, or EverSave. We also asked respondents which of these sites they had used. Groupon was the most frequently used site (79.8% of respondents), followed by TravelZoo (57.5%) and Restaurant.com (50.5%) (Exhibit 9).

We also asked respondents to tell us which of the daily deal sites was their favorite. This gave us a "heart share" metric for each site, which we define as the proportion of the respondents who designate the daily deal site as their favorite. Groupon has by far the largest heart share, at 42.3, which is more than twice as much as the next daily deal site, Restaurant.com (16.9). Interestingly, the heart share of LivingSocial is relatively small, at just 7.4 (or just over one-sixth the value of Groupon), followed by OpenTable (6.3) and eversave (5.4). (Exhibit 10).

Daily Deal Evaluation

Respondents were then presented with ten statements about their daily deal experience (see Exhibit 11) and asked

Exhibit 11

Statements used for restaurant daily deal evaluation

1	During my visit, I was treated like a second class citizen because I used the daily deal.
2	I spent more at this restaurant than I usually spend for a meal when eating out.
3	I would (not) have gone to this restaurant had it not offered the daily deal.
4	I will recommend this restaurant to my family and friends.
5	The fact that this restaurant offered a daily deal makes me think less of it.
6	I intend to visit this restaurant again in the future even if I have to pay full price.
7	I ordered more items than I usually do because I was using the daily deal.
8	I intend to visit this restaurant again only if it offers a daily deal.
9	This restaurant would be a good value even without the daily deal.
10	Overall, I was very satisfied with my dining experience at this restaurant.

Exhibit 12

Spending and ordering behavior

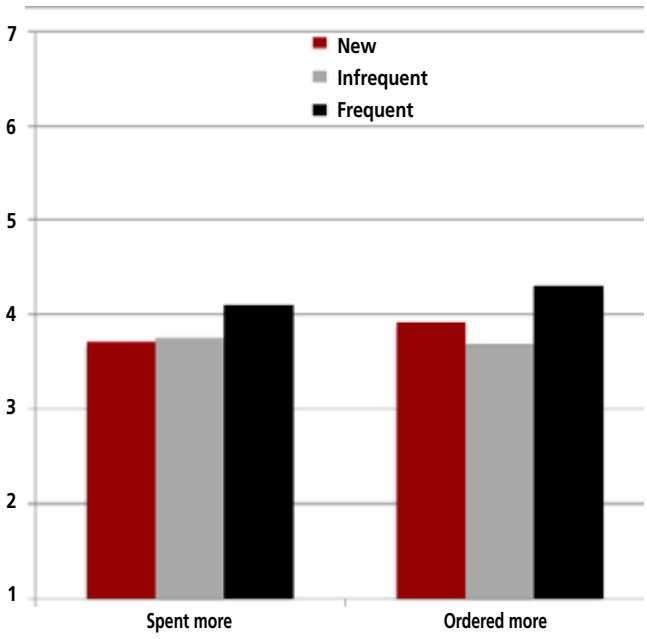
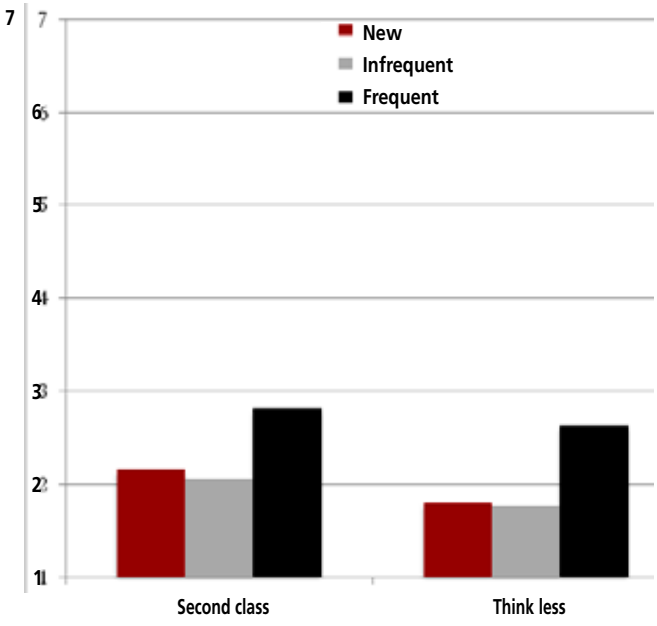


Exhibit 13

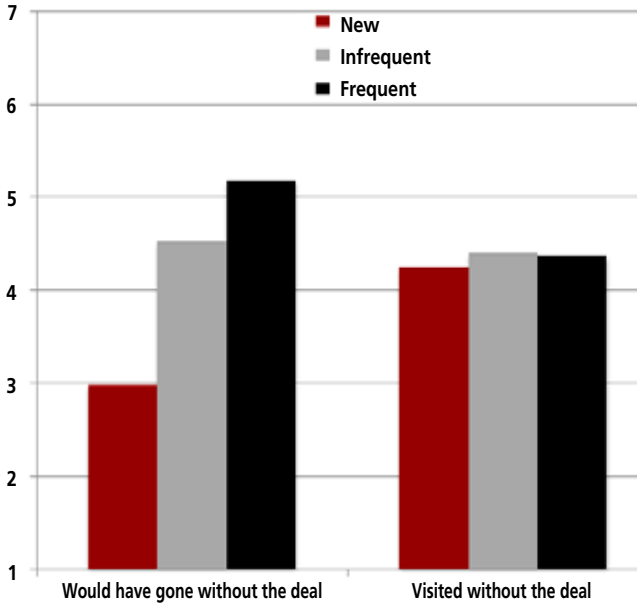
Perception of service experience



to indicate their level of agreement (1 = strongly disagree, 7 = strongly agree). The wording for new customers was changed slightly to reflect the fact that they had not been to the restaurant before. We then compared the responses of the new customers, the frequent customers, and the infrequent customers.

Exhibit 14

Cannibalization and new customers



Spending and ordering behavior: Overall, the respondents reported that they spent and ordered about the same as they usually did. However, frequent customers were significantly more likely to spend more than usual (4.20), as compared to infrequent customers (3.70) and new customers (3.63). In addition, frequent customers were significantly more likely to order more than usual (4.43), as compared to infrequent customers (3.63) or new customers (3.92) (Exhibit 12).

Service experience: Since there has been discussion about whether daily deal users are treated as well as full-paying guests, we asked respondents about their dining experience, asking them to indicate whether they were treated like second-class customers or whether the fact that the restaurant offered a daily deal caused them to think less of the restaurant. Neither of these concerns proved to be an issue. As a whole, respondents did not feel that they were treated like second-class customers (frequent customers, 2.81; infrequent customers, 2.05; new customers, 2.15) nor did the fact they had received a discount make them think less of the restaurant (frequent customers, 2.62; infrequent customers, 1.76; new customers, 1.79) (Exhibit 13).

Cannibalization and new customers: Respondents were asked whether they would have gone to the restaurant without the daily deal. On balance, respondents were still likely to visit the restaurant even if it had not offered the daily deal (Frequent, 4.36; Infrequent, 4.39; New, 4.25) (Exhibit 14). Frequent customers were significantly more likely to go even without the promotion (5.17) than infrequent

Exhibit 15

Satisfaction with restaurant

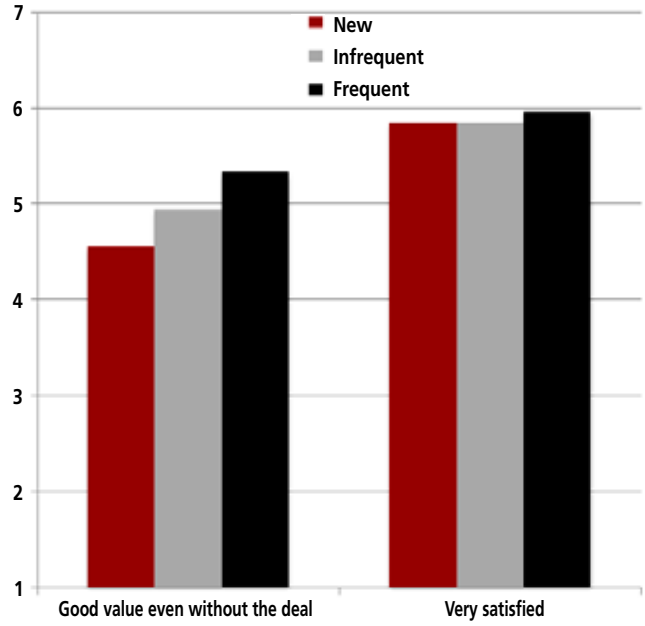


Exhibit 16

Behavioral intentions

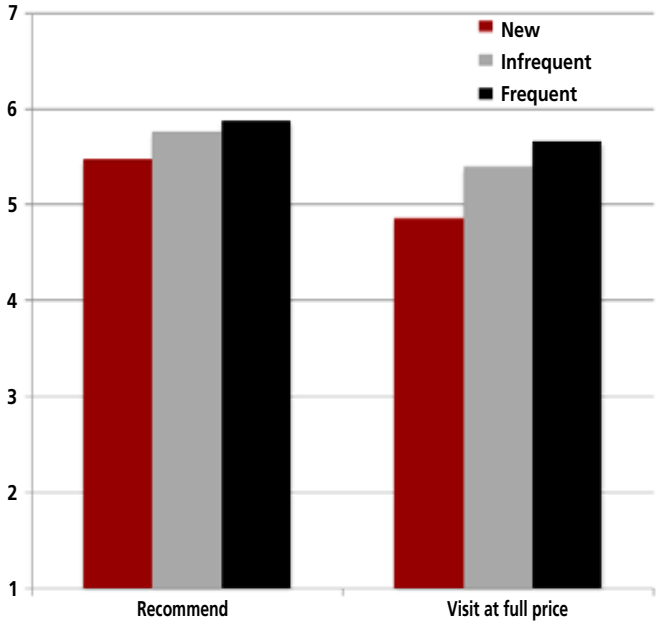
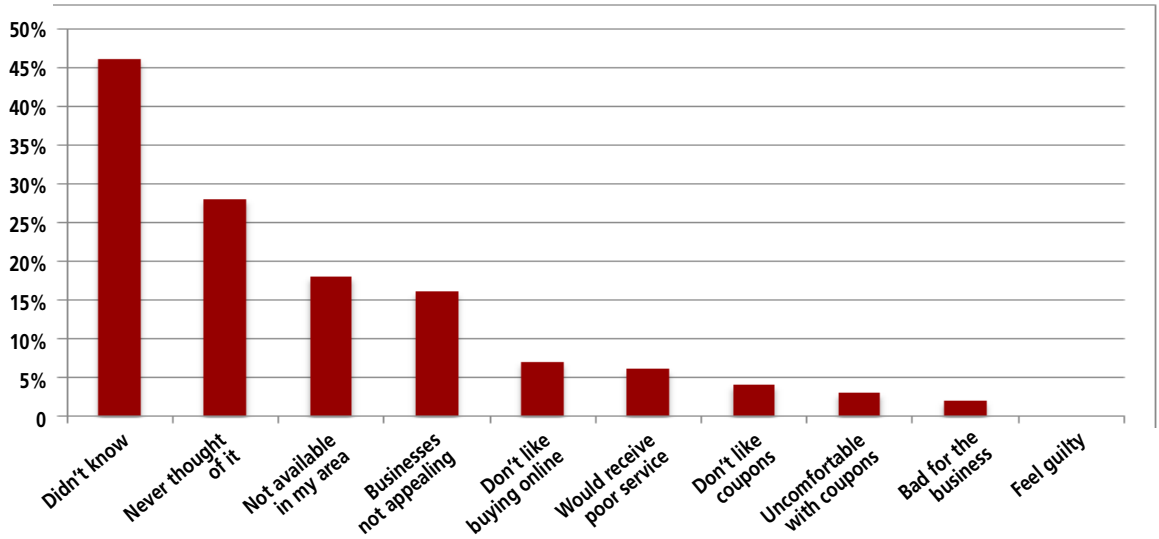


Exhibit 17

Reasons for not using a daily deal



customers (4.41). New customers were unlikely to have gone to the restaurant without the daily deal (2.98).

Satisfaction: There were no significant differences in satisfaction levels among the different frequency groups, and respondents were quite satisfied with their experience during the visit when they redeemed the daily deal (frequent, 5.96; infrequent, 5.84; new, 5.84). Frequent customers were significantly more likely to consider the restaurant to be a good value even without the daily deal (5.37) than infrequent (4.89) or new customers (4.52) (Exhibit 15).

Behavioral intentions: Respondents in all three groups were equally likely to recommend the restaurant to friends (frequent, 5.71; infrequent, 5.58; new, 5.41) and said they would return to the restaurant even if they paid full price (frequent, 5.64; infrequent, 5.22; new, 4.87) (Exhibit 16).

No Deal

We asked the respondents who had never purchased a restaurant daily deal why they had not done so. The most frequent reasons were that they did not know about them

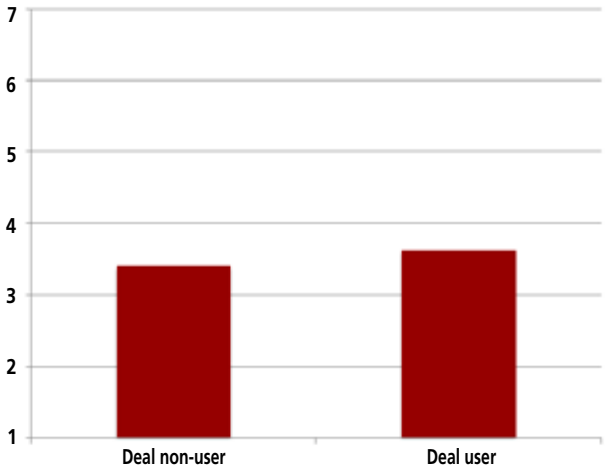
Exhibit 18

Scale items used

Construct	Items	Cronbach's Alpha
Buying Impulsiveness	I often buy things impulsively.	.848
	I buy things according to how I feel at the moment.	
	"Buy now, think about it later" describes me.	
	Sometimes I am a bit reckless about what I buy.	
Tightwad-Spendthrift Scale	Which of the following descriptions fits you better (1 = tightwad, 11 = spendthrift)	
Market Maven	I like helping people by providing them with information about many kinds of products.	.868
	My friends think of me as a good source of information when it comes to new products or services.	
	I like introducing new brands and products to my friends.	
Relational Orientation	When I find a brand I like, I tend to remain loyal to it for a long time.	.832
	I like to develop long-term relationships with products and brands I like.	
	I am loyal to companies that treat me well.	
Value Consciousness	When purchasing a product, I always try to maximize the quality I get for the money I spend.	.839
	When I buy products or services, I like to be sure I am getting my money's worth.	
	I always check prices at the grocery store to be sure I am getting the best value for the money I spend.	
Coupon Proneness	I enjoy using coupons regardless of the amount I save by doing so.	.690
	I am more likely to buy brands for which I have a coupon.	
	Coupons have caused me to buy products that I normally would not buy.	

Exhibit 19

Buying impulsiveness



(46%), that they had never thought of it (28%), and that daily deals were not available in their area. Even though some writers in food blogs have said they would feel guilty about using such a coupon because of the potential negative impact on the restaurant, only 2 percent of our respondents avoided using daily deals because they were bad for the business and none felt guilty about using them (Exhibit 17).

Factors Driving Choice

We also wanted to see what customer personality traits were associated with daily deal purchase. Respondents were presented with seventeen different statements about six different characteristics and asked to indicate their level of agreement with each on a 7-point scale (as shown in Exhibit 18).

Buying impulsiveness is a consumer's tendency to buy spontaneously, unreflectively, and immediately. Contrary to our expectations, daily deal purchasers were likely to have a higher buying impulsiveness than non-daily deal purchasers. Daily deal users' buying impulsiveness was 3.61 on the 7-point scale, on which non-users averaged 3.40 (Exhibit 19).

Looking at the 11-point Tightwad-Spendthrift scale, 1 indicates difficulty spending money (Tightwad), while 11 signifies difficulty controlling spending (Spendthrift). We

Exhibit 20

Spendthrift-Tightwad Scale

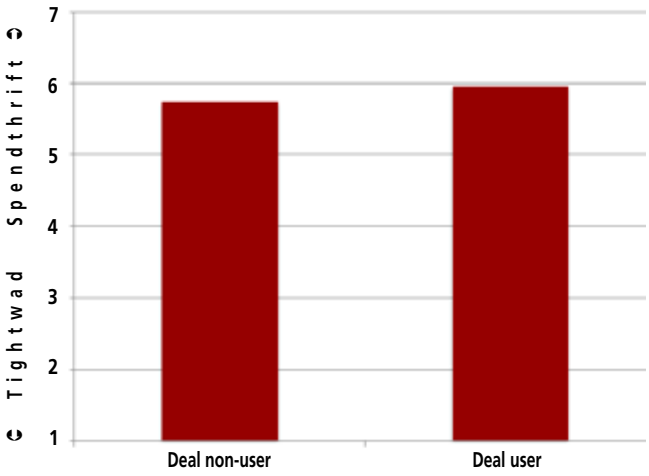


Exhibit 21

Market Maven Scale

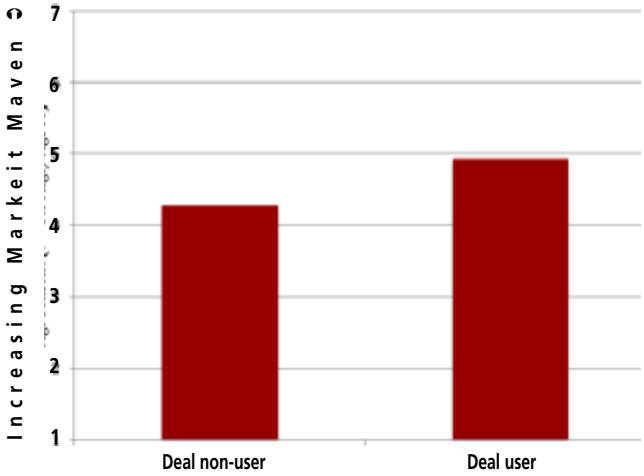


Exhibit 22

Relational orientation (restaurant loyalty)

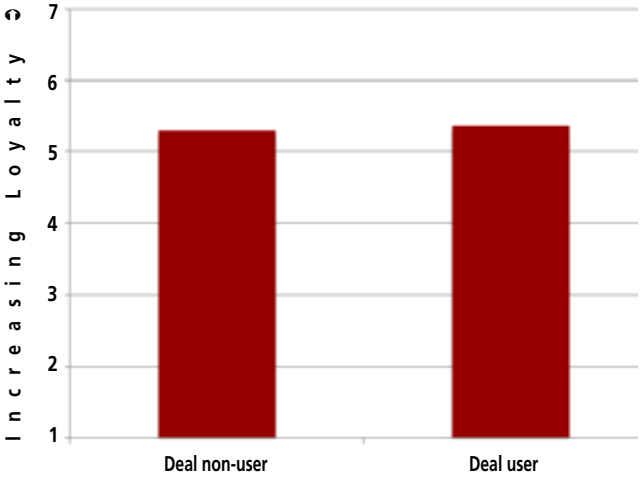
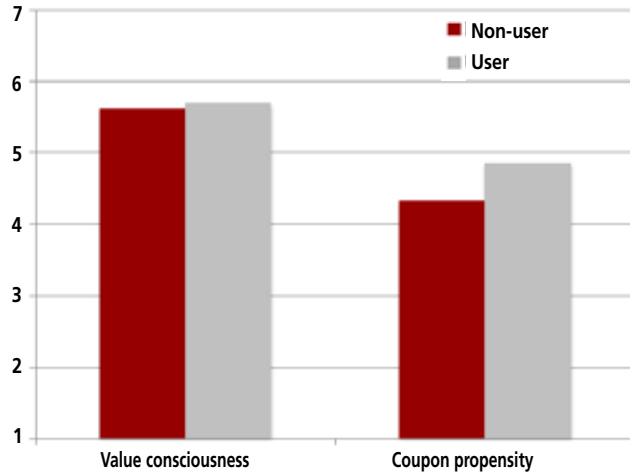


Exhibit 23

Value consciousness and coupon propensity



found no significant differences between users (5.96) and non-users (5.73) in terms of spending patterns (Exhibit 20).

Our assumption about deal buyers' wish to be on top of market and price information proved to be correct. Daily deal users were significantly more likely to be a market maven (4.93) than non-users (4.26) (Exhibit 21).

On the other hand, our prediction about loyalty was not supported. Daily deal users have been accused of being fickle and only loyal to the next deal, but our results show that this is not the case. There was no significant difference in relational orientation between users (5.36) and non-users (5.29) (Exhibit 22).

We proposed that daily deal users would have higher value consciousness and coupon propensity than non-users. This was a split verdict. There were no significant differences between the two groups in value consciousness (users, 5.69; non-users, 5.62), but daily deal users had a higher propensity to use coupons (users, 4.85; non-users, 4.32) (Exhibit 23).

Implications

Based on our results, it seems that daily deals help generate new customers who are satisfied with their experience, likely to return to the restaurant, and likely to recommend it to their friends. We also found that daily deal users were not necessarily "cheap" and unlikely to tip on the full amount and that daily deal users were no less likely to be loyal than non-users.

New customers and cannibalization: Although some cannibalization of existing customers may be occurring, our results clearly show that daily deals bring in new customers.

While 44 percent of the daily deal purchasers in our sample were already regular customers, the other 56 percent of respondents were either new (22%) or infrequent customers (34%) of the restaurant where they used the daily deal.

Intent to return and recommend: Two particularly hopeful findings are that the new customers were unlikely to have gone to the restaurant without the daily deal (2.97), but were likely to visit the restaurant again even if the restaurant did not offer another deal (4.86). These new patrons also were inclined to recommend the restaurant to their friends (5.47). Not surprisingly, frequent and infrequent customers were likely to have gone to the restaurant even without the daily deal (frequent, 5.18; infrequent, 4.52), and they also were likely to return to the restaurant even without a daily deal (frequent, 5.65; infrequent, 5.39) and recommend the restaurant to their friends (frequent, 5.88; infrequent, 5.76).

Satisfaction: Daily deal users, regardless of their previous customer status, were quite satisfied with their experience and also thought that the restaurant they patronized was a good value even without the daily deal. Given that customer satisfaction has been linked to a firm's profitability, customer satisfaction of this type may lead to increased restaurant revenue.

Overstated Concerns

In summary, let's specifically address the concerns about daily deal sites that we tested. Our results show that some of the concerns may be overstated.

Cannibalization: Given that 44 percent of the respondents were already frequent customers of the restaurant, we can conclude that some cannibalization may be occurring among these customers, since they said that they were likely to go to the restaurant, deal or no deal. Consequently, for a daily deal to be profitable, this possible cannibalization must be offset against any incremental revenue that may be generated from the new customers, plus stepped-up patronage from infrequent customers. Fortunately, we have strong indication that the deal did attract new customers and also brought back infrequent patrons.

Brand equity: Our results did not support the concern that customers may think less of a restaurant if it offers a daily deal. To the contrary, respondents offered favorable comments about the restaurant and their dining experience. Also not supported was the idea that daily deal users would feel like they are treated like second-class citizens.

Customer type attracted: The "deal seeker" concern also was not supported. This involves the concern that daily deals only attract deal-seekers who will not return to the restaurant if they do not get a discount similar to the one that attracted them in the first place. Again, our results showed that these fears may be overstated. Instead, the new and infrequent customers whom we surveyed stated that they could see the value offered by the restaurant with normal pricing, and they were likely to return to the restaurant even if they had to pay the full bill.

On average, daily deal users were just as value conscious as non-users, but they were no more likely to be "tightwads" than non-users. One difference we did notice in terms of spending patterns is that daily deal users tend to be more impulsive as buyers. We infer that restaurants may be able to create successful opportunities for suggestive selling, which benefits both the customer (who receives even greater value from the experience) and the restaurant (which boosts average check).

Another common concern, namely that daily deal users will fail to tip appropriately also may be overstated, particularly for new customers. We found that about 85 percent of all customers surveyed reported that they tipped on the full amount of the bill rather than the discounted amount. Moreover, new customers were significantly more likely to tip on the full amount of the check than were infrequent guests (most of whom nevertheless also tipped on the full bill). However, we caution that this is a self-report that should be confirmed by further research.

Finally, some operators believe that daily deal users are fickle and will only have loyalty to the next deal. Our results showed that there was no significant difference in this regard between daily deal users and non-users. This implies that both daily deal users and non-users may exhibit similar loyalty patterns.

In conclusion, although we cannot recommend that a restaurateur use daily deals or avoid using them, we can say that many of the non-economic concerns are overstated. Based on this study, it appears that daily deal customers are not all that different from regular customers, except that they like to try new things and they appreciate a deal. These customers like to feel that they are ahead of the curve on market trends, and once you have provided them with good value, they will be just as loyal as other customer groups. Thus, it seems fair to say that a well designed coupon deal will benefit both the restaurant operator and customer. Our next study will examine the experience of restaurant operators with daily deal–type promotions. ■

Cornell University
School of Hotel Administration

Advancing Business and Personal Success

Explore, develop and apply ideas with global hospitality leaders and expert Cornell professors.

Professionals from around the world are invited to attend 3-day, 10-day or online courses at the world's leading institute for hospitality management education in:

- *Strategic Leadership*
- *Finance*
- *Foodservice*
- *Human Resources*
- *Marketing*
- *Operations*
- *Real Estate*

Visit our website to apply.

The Executive Path

Hospitality Leadership Through Learning

Complete program information and applications available online:
www.hotelschool.cornell.edu/execed

Phone + 1 607 255 4919 Email exec_ed_hotel@cornell.edu

Cornell Center for Hospitality Research

Publication Index

www.chr.cornell.edu

Cornell Hospitality Quarterly

http://cqx.sagepub.com/

2011 Reports

Vol. 11 No. 19 To Groupon or Not to Groupon: A Tour Operator's Dilemma, by Chekitan Dev, Ph.D., Laura Winter Falk, Ph.D., and Laure Mougeot Stroock

Vol. 11 No. 18 Network Exploitation Capability: Mapping the Electronic Maturity of Hospitality Enterprises, by Gabriele Piccoli, Ph.D., Bill Carroll, Ph.D., and Larry Hall

Vol. 11 No. 17 The Current State of Online Food Ordering in the U.S. Restaurant Industry, by Sheryl E. Kimes, Ph.D.

Vol. 11 No. 16 Unscrambling the Puzzling Matter of Online Consumer Ratings: An Exploratory Analysis, by Pradeep Racherla, Ph.D., Daniel Connolly, Ph.D., and Natasa Christodoulidou, Ph.D.

Vol. 11 No. 15 Designing a Self-healing Service System: An Integrative Model, by Robert Ford, Ph.D., and Michael Sturman, Ph.D.

Vol. 11 No. 14 Reversing the Green Backlash: Why Large Hospitality Companies Should Welcome Credibly Green Competitors, by Michael Giebelhausen, Ph.D., and HaeEun Helen Chun, Ph.D.

Vol. 11 No. 13 Developing a Sustainability Measurement Framework for Hotels: Toward an Industry-wide Reporting Structure, by Eric Ricaurte

Vol. 11 No. 12 Creating Value for Women Business Travelers: Focusing on Emotional Outcomes, by Judi Brownell, Ph.D.

Vol. 11 No. 11 Customer Loyalty: A New Look at the Benefits of Improving Segmentation Efforts with Rewards Programs, by Clay Voorhees, Ph.D., Michael McCall, Ph.D., and Roger Calantone, Ph.D.

Vol. 11 No. 10 Customer Perceptions of Electronic Food Ordering, by Sheryl E. Kimes, Ph.D.

Vol. 11 No. 9 2011 Travel Industry Benchmarking: Status of Senior Destination and Lodging Marketing Executives, by Rohit Verma, Ph.D., and Ken McGill

Vol 11 No 8 Search, OTAs, and Online Booking: An Expanded Analysis of the Billboard Effect, by Chris Anderson Ph.D.

Vol. 11 No. 7 Online, Mobile, and Text Food Ordering in the U.S. Restaurant Industry, by Sheryl E. Kimes, Ph.D., and Philipp F. Laqué

Vol. 11 No. 6 Hotel Guests' Reactions to Guest Room Sustainability Initiatives, by Alex Susskind, Ph.D. and Rohit Verma, Ph.D.

Vol. 11 No. 5 The Impact of Terrorism and Economic Shocks on U.S. Hotels, by Cathy A. Enz, Renáta Kosová, and Mark Lomanno

Vol. 11 No. 4 Implementing Human Resource Innovations: Three Success Stories from the Service Industry, by Justin Sun and Kate Walsh, Ph.D.

Vol. 11 No. 3 Compendium 2011

Vol. 11 No. 2 Positioning a Place: Developing a Compelling Destination Brand, by Robert J. Kwortnik, Ph.D., and Ethan Hawkes, M.B.A.

Vol. 11 No. 1 The Impact of Health Insurance on Employee Job Anxiety, Withdrawal Behaviors, and Task Performance, by Sean Way, Ph.D., Bill Carroll, Ph.D., Alex Susskind, Ph.D., and Joe C.Y. Leng

2011 Hospitality Tools

Vol. 2 No. 4 ServiceSimulator v1.19.0, by Gary M. Thompson, Ph.D.

Vol. 2 No. 3 The Hotel Competitor Analysis Tool (H-CAT): A Strategic Tool for Managers, by Cathy A. Enz, Ph.D., and Gary M. Thompson, Ph.D.

Vol. 2 No. 2 Hotel Valuation Software, Version 3, by Stephen Rushmore and Jan A. deRoos, Ph.D.

Vol. 1. No. 7 MegaTips 2: Twenty Tested Techniques for Increasing Your Tips, by Michael Lynn

2011 Industry Perspectives

Vol. 2 No. 1 The Game Has Changed: A New Paradigm for Stakeholder Engagement, by Mary Beth McEuen

2011 Proceedings

Vol. 3 No. 7 Improving the Guest Experience through Service Innovation: Ideas and Principles for the Hospitality Industry, by: Cathy A. Enz, Ph.D.

Vol. 3 No. 6 Fresh Thinking about the Box, by: Chekitan S. Dev, Ph.D., and Glenn Withiam

Vol 3, No. 5 Building Brands in the Internet Age: Analytics, Loyalty, and Communication, by Glenn Withiam

Vol. 3, No. 4 Brave New World: Online Hotel Distribution, by Glenn Withiam

Cornell Center for Hospitality Research Publication Index

Vol. 3, No. 3 Social Media and the Hospitality Industry: Holding the Tiger by the Tail, by Glenn Withiam

Vol. 3 No. 2 The Challenge of Hotel and Restaurant Sustainability: Finding Profit in "Being Green," by Glenn Withiam

Vol. 3 No. 1 Cautious Optimism: CHRS Examines Hospitality Industry Trends, by Glenn Withiam

2010 Reports

Vol. 10 No. 18 How Travelers Use Online and Social Media Channels to Make Hotel-choice Decisions, by Laura McCarthy, Debra Stock, and Rohit Verma, Ph.D.

Vol. 10 No. 17 Public or Private? The Hospitality Investment Decision, by Qingzhong Ma, Ph.D. and Athena Wei Zhang, Ph.D.

Vol. 10 No. 16 Best Practices in Search Engine Marketing and Optimization: The Case of the St. James Hotel, by Greg Bodenlcos, Victor Bogert, Dan Gordon, Carter Hearne, and Chris K. Anderson, Ph.D.

Vol. 10 No. 15 The Impact of *Prix Fixe* Menu Price Formats on Guests' Deal Perception, by Shuo Wang and Michael Lynn, Ph.D.

Vol. 10 No. 14 The Future of Hotel Revenue Management, by Sheryl Kimes, Ph.D.

Vol. 10, No. 13 Making the Most of Priceline's Name-Your-Own-Price Channel, by Chris Anderson, Ph.D., and Radium Yan, D.B.A

Vol. 10, No. 12 Cases in Innovative Practices in Hospitality and Related Services, Set 4, by Cathy A. Enz, Ph.D., Rohit Verma, Ph.D., Kate Walsh, Ph.D. Sheryl E. Kimes, Ph.D., and Judy A. Siguaw, D.B.A

Vol. 10, No. 11 Who's Next? An Analysis of Lodging Industry Acquisitions, by Qingzhong Ma, Ph.D. and Peng Liu, Ph.D.

Vol. 10, No. 10 Cases in Innovative Practices in Hospitality and Related Services, Set 3: Cayuga Sustainable Hospitality, Chic & Basic, JetBlue Airlines Jumeirah Essex House, The Ritz-Carlton Hotel Company, Runtriz, The Seaport Hotel, Thayer Lodging, TripTelevision, and Xsense Experiential Design Consulting, by Cathy A. Enz, Ph.D., Rohit Verma, Ph.D., Kate Walsh, Ph.D. Sheryl E. Kimes, Ph.D., and Judy A. Siguaw, D.B.A.

Vol. 10, No. 9 Building Customer Loyalty: Ten Principles for Designing an Effective Customer Reward Program, by Michael McCall, Ph.D., Clay Voorhees, Ph.D., and Roger Calantone, Ph.D.

Vol. 10, No. 8 Developing Measures for Environmental Sustainability in Hotels: An Exploratory Study, by Jie J. Zhang, Nitin Joglekar, Ph.D., and Rohit Verma, Ph.D.

Vol. 10, No. 7 Successful Tactics for Surviving an Economic Downturn: Results of an International Study, by Sheryl E. Kimes, Ph.D

Vol. 10, No. 6 Integrating Self-service Kiosks in a Customer-service System, byTsz-Wai (Iris) Lui, Ph.D., and Gabriele Piccoli, Ph.D.

Vol. 10, No. 5 Strategic Pricing in European Hotels, 2006–2009, by Cathy A. Enz, Ph.D., Linda Canina, Ph.D., and Mark Lomanno

Vol. 10, No. 4 Cases in Innovative Practices in Hospitality and Related Services, Set 2: Brewerkz, ComfortDelgro Taxi, DinnerBroker.com, Iggy's, Jumbo Seafood, OpenTable.com, PriceYourMeal.com, Sakae Sushi, Shangri-La Singapore, and Stevens Pass, by Sheryl E. Kimes, Ph.D., Cathy A. Enz, Ph.D., Judy A. Siguaw, D.B.A., Rohit Verma, Ph.D., and Kate Walsh, Ph.D.

Vol. 10, No. 3 Customer Preferences for Restaurant Brands, Cuisine, and Food Court Configurations in Shopping Centers, by Wayne J. Taylor and Rohit Verma, Ph.D.

Vol. 10, No. 2 How Hotel Guests Perceive the Fairness of Differential Room Pricing, by Wayne J. Taylor and Sheryl E. Kimes, Ph.D.

Vol. 10, No. 1 Compendium 2010

2010 Roundtable Retrospectives

Vol. 2, No. 1 Sustainability Roundtable 2009: The Hotel Industry Seeks the Elusive "Green Bullet."

2010 Industry Perspectives

No. 6 The Future of Meetings: The Case for Face-to-Face, by Christine Duffy and Mary Beth McEuen

No. 5 Making Customer Satisfaction Pay: Connecting Survey Data to Financial Outcomes in the Hotel Industry, by Gina Pingitore, Ph.D., Dan Seldin, Ph.D., and Arianne Walker, Ph.D.

www.chr.cornell.edu