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# Revenue Management in Restaurants: Unbundling Pricing for Reservations from the Core Service

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# Revenue Management in Restaurants: Unbundling Pricing for Reservations from the Core Service

## Abstract

A substantial minority of restaurant guests would be willing to pay separately for a restaurant reservation, while a much larger group is not supportive of this approach, according to an online survey of 297 U.S. residents. Those respondents who are most likely to accept the idea of paying for a reservation represent customers who are also relatively familiar with this practice. The survey respondents were reacting to three possible scenarios for unbundling the value of the reservation from that of the meal itself. Based in part on actual industry practice, the three scenarios are (1) a reservations company charges for a reservation but does not share the proceeds with the restaurant; (2) a reservations company charges for a reservation and shares the revenue with the restaurant; and (3) the restaurant charges a reservation fee without involving a third party. For revenue management purposes, familiarity with the unbundling practice is related to guest acceptance of that practice. Since numerous companies now sell prime restaurant reservations as a separate product, it seems likely that over time the guests' familiarity with paying for at least some reservations will grow, along with their acceptance of the practice.

## Keywords

restaurant reservation, revenue management, variable pricing practices

## Disciplines

Food and Beverage Management | Hospitality Administration and Management

## Comments

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# *Revenue Management in Restaurants:*

## Unbundling Pricing for Reservations from the Core Service

by Sheryl Kimes and Jochen Wirtz

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### EXECUTIVE SUMMARY

**A** substantial minority of restaurant guests would be willing to pay separately for a restaurant reservation, while a much larger group is not supportive of this approach, according to an online survey of 297 U.S. residents. Those respondents who are most likely to accept the idea of paying for a reservation represent customers who are also relatively familiar with this practice. The survey respondents were reacting to three possible scenarios for unbundling the value of the reservation from that of the meal itself. Based in part on actual industry practice, the three scenarios are **(1)** a reservations company charges for a reservation but does not share the proceeds with the restaurant; **(2)** a reservations company charges for a reservation and shares the revenue with the restaurant; and **(3)** the restaurant charges a reservation fee without involving a third party. For revenue management purposes, familiarity with the unbundling practice is related to guest acceptance of that practice. Since numerous companies now sell prime restaurant reservations as a separate product, it seems likely that over time the guests' familiarity with paying for at least some reservations will grow, along with their acceptance of the practice.

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## ABOUT THE AUTHORS



**Sheryl E. Kimes**, Ph.D., is a professor of operations management at the Cornell University School of Hotel Administration. From 2005–2006, she served as interim dean of the school, and from 2001–2005, she served as the school's director of graduate studies. Kimes teaches 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 50 articles in leading journals such as *Interfaces*, *Journal of Operations Management*, *Journal of Service Research*, *Decision*

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# *Revenue Management in Restaurants:*

## Unbundling Pricing for Reservations from the Core Service

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**A**lthough restaurants have long varied their price structure under certain circumstances, those price changes generally have involved specific promotions, set menus, or minimum-check requirements. Many restaurant businesses use time of day pricing, such as happy hours or early bird discounts, but these do not necessarily respond to daily (or hourly) demand.<sup>1</sup> More to the point, restaurants generally do not explicitly charge for table capacity, although they do not know how much revenue a particular cover will bring in. This stands in contrast to such businesses as Uber and Lyft, which have demonstrated that customers are willing to pay different prices for some services based on demand and timing.<sup>2</sup> It's also a contrast to airlines and hotels, which include the value of the reservation as part of a stated price at the time of booking. Given the popularity of early (or late) dining promotions, it should not be a surprise that our previous research has shown that consumers find variable pricing practices in the restaurant industry acceptable in certain circumstances, particularly when framed as discounts.<sup>3</sup> Less common is the practice of explicitly charging for table capacity. In this article, we explore ways that restaurants might separate the pricing for the table itself (at a particular time) and the meal consumed.

<sup>1</sup> For an analysis of variable restaurant pricing, see: Sheryl E. Kimes, Robert Phillips, and Lisabet Summa (2012), "Pricing in Restaurants," in *Oxford Handbook of Pricing*, ed. Ozalp Ozer and Robert Phillips (Oxford, UK: Oxford University Press); and Gary M. Thompson (2015), "Deciding Whether to Offer "Early-Bird" or "Night-Owl" Specials in Restaurants: A Cross-Functional View," *Journal of Service Research*, 18 (4): 498-512.

<sup>2</sup> Jochen Wirtz and Christopher Tang (2016, forthcoming), "Uber: Competing as Marketing Leader in the U.S. vs. Being a Distant Second in China," in: Jochen Wirtz and Christopher Lovelock, *Services Marketing: People, Technology, Strategy*. 8th ed., Singapore: World Scientific.

<sup>3</sup> Sheryl E. Kimes and Jochen Wirtz. (2003). "When Does Revenue Management Become Acceptable?," *Journal of Service Research*. 7 (2): 125-135; and Jochen Wirtz and Sheryl E. Kimes. (2007). "The Moderating Role of Familiarity in Fairness Perceptions of Revenue Management," *Journal of Service Research*. 9 (3): 229-240.

The fact that customers are accustomed to purchasing an experience consisting of both the meal and the time of the reservation presents a key challenge in applying revenue management (RM) to restaurants.<sup>4</sup> In general, U.S. restaurants attempt to recoup the cost of the table time with the sale of food, rather than charging separately for those two products. While restaurants in some countries do have a separate cover charge, that amount is often nominal and rarely varies by time of day. We suggest that by charging a separate price for the reservation, restaurants would essentially be unbundling their two service offerings into the reservation time and the core service of food and beverage. That change would reflect the fact that the value of the reservation varies over time. Unbundling the reservation from the core service allows more effective pricing of capacity, since the restaurant doesn't really know in advance whether the guests' meal spending will actually cover the implicit cost of the time that they occupy the table.

By contrast, hotels, airlines, and sporting and entertainment venues price their product based on their reasonable expectation of how much customers will spend at the time of the reservation. For these industries, bundling the reservation with the core service makes it easier to apply RM since the total price for the service bundle is largely fixed when the reservation is made, and bundling allows them the ability to vary the price based on demand. Moreover, these businesses can reasonably count on their guests to purchase additional, ancillary services, although those amounts are small relative to the cost of using the service itself (e.g., paying for checked bags or purchasing food on site).

Unbundling the price of the reservation from the core service seems an interesting approach to RM in any industry where the total revenue at the time of the reservation is highly uncertain. Companies are using this unbundling approach in some locations, as in the case of Singapore's taxis. Most taxi companies base their fares on the distance traveled, which means that, like restaurants, they cannot be certain how much they will earn from each fare. Moreover, in a distance-based fare system, mileage rates typically do not vary by demand level (even if there is an additional tariff for time spent in traffic or time of day, such as a nighttime fee). Because of the structure of demand in Singapore, however, its taxi firms offer pre-booking for a fee of S\$8 (in addition to the fare). Customers who want certainty about when their taxi will arrive willingly pay this fee,

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<sup>4</sup> Breffni M. Noone, Jochen Wirtz, and Sheryl E. Kimes (2012), "The Effect of Perceived Control on Consumer Responses to Service Encounter Pace: A Revenue Management Perspective," *Cornell Hospitality Quarterly*, 53 (4): 295-307; Breffni M. Noone, Sheryl E. Kimes, Anna S. Mattila, and Jochen Wirtz (2009), "Perceived Service Encounter Pace and Customer Satisfaction: An Empirical Study of Restaurant Experiences," *Journal of Service Management*, 20 (4): 380-403. 59; Sheryl E. Kimes, Jochen Wirtz and Breffni M. Noone (2002), "How Long Should Dinner Take? Measuring Expected Meal Duration for Restaurant Revenue Management," *Journal of Revenue and Pricing Management*, 1 (3): 220-233.

particularly those who might have an early flight or meeting. Charging this reservation fee effectively unbundles the booking from the core service of transportation. It also ensures the availability of a taxi for would-be passengers.

The Singapore taxi approach is still relatively uncommon in other locations or industries. It is therefore an interesting problem to explore how reservations can be unbundled and priced separately from the core service for restaurants, taxis, and industries with similar characteristics. Those firms include casino hotels, which can estimate (but not be certain of) the probable net win from each guest and do not have an express cost of entry, and theme parks, which do have a set entry fee, but where guests' additional purchases can be substantial (although not necessarily known until after the guests leave). Interestingly, in 2016 the Walt Disney Company implemented revenue management for its entry tickets when it announced plans to introduce variable pricing for its Walt Disney World theme parks, based on three levels of anticipated attendance. This policy change is motivated in part by a desire to reduce overcrowding on popular days.<sup>5</sup>

## Revenue Management Applied to Restaurants

Restaurant reservations have traditionally been offered at no explicit cost in the U.S., but in reality, some reservations provide more value than others. For example, a reservation at a popular restaurant during prime time has more value than a reservation at a less popular restaurant at any time, especially an off time. Even with a popular restaurant, reservations during a prime time offer more value than those during off-peak times.

Knowing that the room will fill up, restaurants often hold back prime time inventory so that they can control who gets those tables. By doing this, restaurants can ensure that their prime inventory is available to their highest value guests, such as regulars or VIPs. However, this approach is typically based on history and experience, rather than an analysis of expected arrivals and spending. As a result, managers may hold back too much inventory, and end up with empty tables during a peak time. On the other hand, if the restaurant seats walk-ins who spend less than the restaurant's VIP guests or if insufficient walk-ins materialize, a restaurant may end up reducing a potentially great night into just average performance by declining potentially lucrative reservations.

Aside from regular customers whose orders are fairly predictable, restaurant operators generally do not know how much their potential guests will spend when accepting a reservation. Restaurants can take one of three approaches to address this issue: **(1)** they can pair their reservations data with their point-of-

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<sup>5</sup> Sandra Pedicini, "Disney to Set Seasonal Prices," *Orlando Sentinel*, February 27, 2016 ([www.orlandosentinel.com/business/tourism/os-disney-demand-pricing-20160226-story.html](http://www.orlandosentinel.com/business/tourism/os-disney-demand-pricing-20160226-story.html)); and Brad Tuttle, "What Disney's Big Theme Park Price Changes Are Really All About," *Money*, October 5, 2015 ([time.com/money/4061526/disney-price-changes-increase/](http://time.com/money/4061526/disney-price-changes-increase/)).

sale (POS) data so that they have a better understanding of how much potential customers are likely to spend; **(2)** they can offer tickets for *prix fixe* meals, thereby guaranteeing at least a base for guest spending, similar to Nick Kokonas at Next and Tock; or **(3)** they can explicitly charge a fee for their prime-time reservations. Approach 1 has the disadvantage that restaurants may not know the guests well enough to predict the check per person, and new guests would not be in the database even though they could potentially be high value parties. Because approach 2 offers limited choice to guests (and sometimes no choice), it would restrict the customers who are willing to book a seat. Moreover, the limitations may end up damaging guest satisfaction. Thus, we see approach 3, pricing the reservation separately from the core service, as conceptually the cleanest solution to this issue. The restaurant is guaranteed a certain amount of revenue per seat, and we anticipate that only higher value guests will be willing to pay a reservation fee. Moreover, guests will still be paying for the meal. Much of this is supposition, however, since charging for reservations is not a common practice, and restaurants may be reluctant to do so because they fear negative customer responses due to potential perceptions of unfairness and price gouging.

In this report we begin unraveling this issue by examining the extent of consumer acceptance of charging for hard-to-get reservations at popular restaurants. We begin with a brief overview of the existing practice of restaurants or third parties charging a fee for reservations, and then present the theoretical background of our research approach followed by our findings and implications.

## Overview of Fees for Reservation Services

Guests at many restaurants probably already believe that they pay expressly for a restaurant reservation when they tip the captain for a table. For many years, customers have been able to obtain hard-to-get tables at desirable restaurants by tipping the maître d', and this is still the case in some restaurants. The exact date of when this practice started is unclear, but tipping the maître d' in the U.S. was common practice in the 1950s and 1960s, and it is depicted in movies from earlier decades.<sup>6</sup> An amusing article in *Gourmet* magazine from a few years ago recounts the author's experiment in seeing how much he needed to tip the maître d' to get into popular New York City restaurants without a reservation.<sup>7</sup> Although this practice does not expressly increase a restaurant's revenue or cover the value of a reservation to the restaurant, owners might accept it since customers who are willing to pay a premium to get a table are presumably likely to spend more in the restaurant. Restaurant

owners might also favor this practice because the captain's additional income should reduce turnover, and a good maître d' is valuable to a restaurant.

The idea of separating reservations from the meal itself is not totally alien to today's diners. A number of companies have sprung up that help customers get reservations at popular restaurants for a fee. The idea of using the internet to charge for reservations emerged in January 2005,<sup>8</sup> when withoutreservations.biz started offering \$40 reservations for some 75 popular upscale restaurants in New York City, Los Angeles, and San Francisco. The way this operated is that owners of the company used fictitious names to make one reservation per restaurant (for which they did not have to pay). They then sold those reservations to their customers. While some restaurateurs complained that this was scalping, neither New York nor California law considered it to be scalping, since the business was not selling purchased event tickets, but was instead selling a free service.<sup>9</sup>

Also in 2005, Pascal Riffaud, the former concierge of the Ritz in Paris and the St. Regis in New York City, purchased PrimeTime Tables from an entrepreneur who had aimed her business at hotel concierges. PrimeTime Tables used a membership model in which members paid an annual fee in exchange for access to \$35 reservations at popular restaurants. Riffaud used the connections he had developed in his many years as a concierge to get the reservations. He would make only one reservation per restaurant, and in the event that the reservation was not sold, he would call the restaurant to cancel.

Criticism was quite harsh, and the issue of scalping again arose. Eater.com, a U.S.-based food blog, railed: "This site is no more legitimate than the ticket scalpers who cruise outside Yankee Stadium during the playoff."<sup>10</sup> Riffaud responded: "At the best restaurants, more than half of the prime weekend tables are unavailable to the ordinary diner before the reservations books open. Tables are set aside for the chef, the maître d'hôtel, and friends of the house."<sup>11</sup> In essence, he argued that he was not selling reservations, but was instead receiving payment for a service, much akin to a tip to a concierge.<sup>12</sup>

These services essentially replaced the tip given to the maître d', and redirected the additional revenue to the outside company. Several similar services emerged, including TableX-change and Celebrity Tables, but the 2008-09 recession crushed these and most of the other pay-for-reservations companies.

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<sup>8</sup> McLaughlin, *op. cit.*

<sup>9</sup> *Ibid.*

<sup>10</sup> Leventhal, Ben. (2007). "PrimeTime Tables: WTF?" eater.com. 1/18/07. Viewed 7/6/15. ny.eater.com/2007/1/18/6819777/primetimetables-wtf

<sup>11</sup> Heilemann, *op.cit.*

<sup>12</sup> *Ibid.*

<sup>6</sup> David Rubinstein. (1988). *Autobiographical Memory*. New York: Cambridge University Press, p. 129.

<sup>7</sup> Bruce Feiler. (2000). "Pocketful of Dough," *Gourmet*. October 2000. web.archive.org/web/20010907175756/http://www.epicurious.com/g\_gourmet/g06\_feature/james\_beard/dough.html. Accessed 7/6/15.

Even the most popular restaurants had plenty of tables available in 2009, so there was no longer a market for this service.

Fast forward to 2014. The economy had picked up and these services re-emerged along with demand for restaurant tables. The approaches generally applied to paid reservations are: **(1)** Third party charges for a reservation and does not share with the restaurant; **(2)** Third party charges for a reservation and shares with the restaurant; and **(3)** Restaurant sells tickets for a set menu with prices varying by time, demand, or other criteria. We also see the possibility of: **(4)** Restaurant bypasses the middleman and directly charges for the reservation. Once again, we believe that restaurants are shying away from this practice for fear of negative customer reactions. Let's examine each of these four approaches.

**(1) Reservation company does not share fees with the restaurant.** Given that restaurants have been reluctant to charge a premium during busy periods, a number of services have arisen to fill that vacuum, by booking a table under a fictitious name, selling the reservation, and pocketing the proceeds. Companies pursuing this approach include Shout and Killer Rezzy. Some of these services, such as Today's Epicure, charge an annual membership fee that entitles members to an unlimited number of reservations. We infer that members would spend more than non-members (and perhaps visit more frequently), and thus customers of these services can provide good value to the restaurant. The fact remains, however, that the restaurants are not sharing in the value of their reservations.

Not surprisingly, this approach has been quite controversial within the restaurant industry.<sup>13</sup> We note, for example, that the extremely busy restaurants at Walt Disney World have become targets of the paid reservations trend. A number of companies have sprung up (including Disney Dining Buddy, Disney Dining Scout, WDW Table Finder, and DiS Dining Agent) that charge customers between \$1 and \$15 for hard-to-get Disney World restaurant reservations.<sup>14</sup> Disney World generally frowns on this practice, and some sites have been forced to shut down.<sup>15</sup>

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<sup>13</sup> Lora Kolodny (2014), "Table8 Helps Diners Get Last-Minute Reservations at Booked Restaurants," *Wall Street Journal*, Venture Capital Dispatch. 5/6/14. Viewed 7/4/15 ([blogs.wsj.com/venturecapital/2014/05/06/table8-helps-diners-get-last-minute-reservations-at-booked-restaurants/](http://blogs.wsj.com/venturecapital/2014/05/06/table8-helps-diners-get-last-minute-reservations-at-booked-restaurants/)); Christine Lagoria-Chafkin (2015), "Hot Seats: The Cutthroat New Ecosystem for Restaurant Reservations," *Inc.com*. 2/13/15. Viewed 7/15/15. ([www.inc.com/christine-lagorio/new-startup-restaurant-reservation-ecosystem.html](http://www.inc.com/christine-lagorio/new-startup-restaurant-reservation-ecosystem.html)).

<sup>14</sup> Sandra Pedicini (2015), "Can't Book a Disney Dining Reservations? Websites offer help, for Price," *Orlando Sentinel*, 9/8/15. Viewed 10/11/15 ([www.orlandosentinel.com/business/tourism/os-disney-dining-reservations-scalping-20150908-story.html](http://www.orlandosentinel.com/business/tourism/os-disney-dining-reservations-scalping-20150908-story.html)).

<sup>15</sup> Brenna Houck (2015), "Disney World is Cracking Down on Third-Party Restaurant Reservation Services," *Eater.com*. 9/26/15. Viewed 10/11/15 ([www.eater.com/2015/9/26/9401849/disney-world-restaurant-reservation-disney-dining-buddy](http://www.eater.com/2015/9/26/9401849/disney-world-restaurant-reservation-disney-dining-buddy)).

**(2) Reservation company shares fees with the restaurant.** Like the firms in category one, these companies make fictitious reservations. However, they not only share the reservation fee with the restaurant, but they attempt to provide the restaurant with additional value. For example, Reserve charges \$5 per reservation, and provides the restaurant with customer information and a seamless payment experience. Table8 collaborates with Concur, a business travel company, and integrates the restaurant reservation into the entire business traveler experience. With this model, the restaurant has the choice of making inventory available to the reservation company, can vary the price for a reservation by demand level, and can even offer free reservations during slow times.<sup>16</sup>

Gary Vaynerchuk, the co-founder of Resy, a company that shares revenue with restaurants, asserts that Resy has "democratized" hard-to-get reservations. "People who were complaining that this was elitist—they weren't getting the tables in the first place! There was the misnomer that these tables were available. They weren't available to anyone but VIPs."<sup>17</sup>

**(3) Ticketing.** This approach, which is taken by restaurants such as Next and Alinea in Chicago, can eliminate third parties. The restaurant offers a set menu that is sold at varying prices. As occurs with other revenue management strategies, customers can see how the per-person price varies by day of week, time of day, and table size. They can make their selection based on their preferred set of criteria and then pay for their meal in advance by credit card. Recently, a third-party firm, Tock, has rolled out this approach to about 20 other restaurants.<sup>18</sup> Note that this study does not examine customer response to ticketing, since it doesn't expressly separate the reservation cost from that of the meal.

**(4) Restaurant charges and keeps all revenue.** As we indicated above, this is conceptually the most elegant solution, since it allows the restaurant to retain all incremental revenues obtained from the sale of reservations and it makes clear the value of the reservation to the guest. However, this approach is alien to the restaurant industry. To the best of our knowledge, this has not yet been applied, given the concerns about negative customer reactions that we mentioned above.

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<sup>16</sup> Matt Buchanon (2014). "Can you Uber a Burger?" *New York Times Magazine*. 10/26. Viewed 7/6/15 ([www.nytimes.com/2014/10/26/magazine/can-you-uber-a-burger.html](http://www.nytimes.com/2014/10/26/magazine/can-you-uber-a-burger.html)); Jay Cheshes (2014), "Ticket to Dine: The Restaurant Reservation Revolution," *Wall Street Journal*. 5/30/14. Accessed 7/4/15 ([www.wsj.com/articles/ticket-to-dine-the-restaurant-reservation-revolution-1401463548](http://www.wsj.com/articles/ticket-to-dine-the-restaurant-reservation-revolution-1401463548)).

<sup>17</sup> Lagoria-Chafkin, *op cit*.

<sup>18</sup> Cheshes, *op. cit.*



## Theoretical Bases of Revenue Management Fairness

As we have indicated above, the heart of this issue is whether consumers consider restaurant revenue management practices, and particularly reservations fees, to be fair.<sup>19</sup> Defined as whether consumers view an outcome or the transaction process as reasonable, acceptable, and just, perceived fairness has been shown to be directly related to customer satisfaction and intent to return to a business.<sup>20</sup> As we discuss next, the factors that can affect perceived fairness include customer familiarity with the practice and the perceived motive for charging an additional fee.

### Perceived Fairness Frameworks

Two conceptual comparative frameworks widely used to explain fairness perceptions are the principle of dual entitlement, and the concepts of reference price and reference transaction. The principle of dual entitlement states that most customers believe that they are entitled to a reasonable price and the firm is entitled to a reasonable profit.<sup>21</sup> In this view, an increase in price is considered to be fair if it is due to a cost increase (or similar factor), but considered unfair if the price rises without any increase in cost or value. Given that there are no added costs associated with reservations fees, arbitrarily imposing such a fee may violate customers' beliefs about dual entitlement and cause them to view reservations fees as being unfair.

**Reference transactions and reference prices.** A reference transaction is how a customer thinks a transaction should be conducted, while a reference price is defined as how much a customer thinks the service should cost.<sup>22</sup> Logically, the refer-

<sup>19</sup> For a review of the literature on customer responses to RM practices, see: Sheryl E. Kimes and Jochen Wirtz (2015), "Revenue Management: Advanced Strategies and Tools to Enhance Firm Profitability," *Foundations and Trends in Marketing*, 8(1): 1-68; Jochen Wirtz, Sheryl E. Kimes, Jeannette Ho Pheng Theng, and Paul Patterson (2003), "Revenue Management: Resolving Potential Customer Conflicts," *Journal of Revenue and Pricing Management*, 2(3): 216-228; and Sheryl E. Kimes and Jochen Wirtz (2002), "Perceived Fairness of Demand-Based Pricing for Restaurants," *Cornell Hotel and Restaurant Administration Quarterly*, 43 (1): 31-37.

<sup>20</sup> For example, please see: Lisa E. Bolton, Luk Warlop, and Joseph W. Alba (2003), "Consumer Perceptions of Price (Un)Fairness," *Journal of Consumer Research*, March, 29(4): 474-492; and Lan Xia, Kent B. Monroe, and Jennifer L. Cox (2004), "The Price Is Unfair! A Conceptual Framework of Price Fairness Perceptions," *Journal of Marketing*, 68: 1-15.

<sup>21</sup> Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler (1986a), "Fairness as a Constraint on Profit Seeking: Entitlements in the Market," *American Economic Review*, 76: 728-741; and Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler (1986b), "Fairness and the Assumptions of Economics," *Journal of Business*, 59(4): 285-300.

<sup>22</sup> Kahneman *et al.*, 1986b; Lan *et al.*, *op.cit.*; Sheryl Kimes and Jochen Wirtz (2003), "Has Revenue Management Become Acceptable? Findings from an International Study on the Perceived Fairness of Rate Fences," *Journal of Service Research*, 6 (2): 125-135; and Jochen Wirtz and Sheryl E. Kimes (2007), "The Moderating Effects of Familiarity on the Perceived Fairness of Revenue Management Pricing," *Journal of Service Research*, 9(3): 229-240.

ence transaction for restaurant reservations would be that they are available without fee, and the reference price would be zero. Under this assumption, it would be logical to find that consumers view having to pay for a restaurant reservation as violating both their reference transaction and their reference price.

### Familiarity

Inherent in the concept of reference transactions and reference prices is the level of familiarity that customers have of a particular practice. If they are familiar with a practice, they are more likely to view it as normal. However, they still may not see it as just and appropriate.<sup>23</sup> Because acceptance tends to grow with familiarity, reference prices and transactions may change over time as customers become more familiar with various pricing practices.

As customers' familiarity grows, the unfairness perceptions of pricing practices tend to decline.<sup>24</sup> We see this in the hotel industry, for example. A 1994 study found that RM pricing practices were considered more acceptable for airlines than for hotels.<sup>25</sup> In a follow-up study just eight years later, there were no longer significant differences between the acceptability of those practices in the two industries.<sup>26</sup> This was most probably due to the increased prevalence of RM in the hotel industry. By comparison, airline passengers have had many years to become accustomed to airline fare changes, which were introduced by American Airlines in 1977.<sup>27</sup>

In the context of this study, these findings suggest that customers who are unfamiliar with reservations fees would be more likely to view them as unfair, but customers who are familiar with such fees would be less likely to view them as unfair.

### Inferred Motive

Customers tend to make inferences about a firm's motive for increasing a price or imposing additional fees.<sup>28</sup> If customers feel that a company intends to take advantage of them, they are more likely to believe that the firm is behaving in an unfair fashion. On the other hand, if they believe that a company does not intend to take advantage of them, they are more

<sup>23</sup> Kahneman *et al.* (1986a, 1986b), *op. cit.*

<sup>24</sup> *Ibid.*

<sup>25</sup> Sheryl E. Kimes and Breffni M. Noone (2002), "Perceived Fairness of Yield Management: An Update," *Cornell Hotel and Restaurant Administration Quarterly*, 43(1): 28-29.

<sup>26</sup> *Ibid.*

<sup>27</sup> L.J. Davis, "And Now, Can Bob Crandall Have It All?," *New York Times Magazine*, September 23, 1990 ([www.nytimes.com/1990/09/23/magazine/and-now-can-bob-crandall-have-it-all.html?pagewanted=all](http://www.nytimes.com/1990/09/23/magazine/and-now-can-bob-crandall-have-it-all.html?pagewanted=all)).

<sup>28</sup> Margaret C. Campbell (1999), "Perceptions of Price Unfairness: Antecedents and Consequences," *Journal of Marketing Research*, 36(2): 187-199.

### Three test scenarios

#### *Scenario 1: Reservation Company Does Not Share with Restaurant*

You really want to go to a very popular restaurant, but realize that it's very difficult to get a reservation at it. While searching online, you come across a company that can get you a reservation on the date and time you want for \$30. The \$30 is not shared with the restaurant.

After thinking about this for a while, you realize that you really want to go to this restaurant and decide to make the reservation and pay the \$30.

#### *Scenario 2: Reservation Company Shares with Restaurant*

You really want to go to a very popular restaurant, but realize that it's very difficult to get a reservation at it. While searching online, you come across a company that can get you a reservation on the date and time you want for \$30. The \$30 is shared with the restaurant.

After thinking about this for a while, you realize that you really want to go to this restaurant and decide to make the reservation and pay the \$30.

#### *Scenario 3: Restaurant Charges for Reservation*

You really want to go to a very popular restaurant, but realize that it's very difficult to get a reservation at it. While looking at the restaurant's website, you notice that can get you a reservation on the date and time you want for \$30.

After thinking about this for a while, you realize that you really want to go to this restaurant and decide to make the reservation and pay the \$30.

likely to believe that the firm is behaving fairly.<sup>29</sup> As with acceptance of a practice, the negative perception that a reservations company or restaurant is just trying to make extra revenue and take advantage of the guest should diminish as a guest becomes more familiar with reservations fees.

### Empirical Survey

To examine consumer responses to various ways to unbundle the reservation from the core service, we examined customer reaction to the following three scenarios. *Scenario 1*: the reservations company charges for a reservation, but does not share the revenue with the restaurant; *Scenario 2*: the reservations company charges for a reservation and shares with the restaurant; and *Scenario 3*: the restaurant charges a reservation fee without intervention by a third party. Based on popular press articles and blogs, it seems that customers could have a negative reaction to reservation fees, but it also seems possible that certain customer segments may view them as desirable because they make tables available in hard-to-book restaurants. The intent of this study is to provide non-anecdotal insight into this issue.

### Method

In November 2015 we used Amazon Mechanical Turk to conduct a survey of U.S. residents over the age of 18 who had gone to a restaurant that takes reservations at least once in the previous year.<sup>30</sup> Respondents were randomly assigned to read one of the three scenarios and respond to a series of questions about their familiarity with the practice, the perceived unfairness of the situation and the pricing practice, their inference regarding the motive, and their satisfaction level and willingness to return to the hypothetical restaurant. The scenarios are shown in Exhibit 1.

We received a total of 297 completed surveys. Respondents' average age was about 36, and they were about evenly divided on gender. However, age and gender had no noticeable effect on the response.<sup>31</sup> All respondents were familiar with restaurant reservations.

<sup>29</sup> Margaret C. Campbell (2007). "Says Who?! How the Source of Price Information and Affect Influence Perceived Price (Un)fairness," *Journal of Marketing Research*, 44(2): 261-271.

<sup>30</sup> The survey was limited to respondents living in the U.S. Attention measures and validity checks were used to ensure that the respondents had read the questions. Research has shown that data obtained Amazon Mechanical Turk samples are equivalent to that obtained from other sampling methods. See: Michael Buhrmester, Tracy Kwang, and Samuel D. Gosling (2011), "Amazon's Mechanical Turk: A New Source of Inexpensive, Yet High-Quality, Data?," *Perspectives of Psychological Science*, 6 (1): 3 – 5; and Connor Huff and Dustin Tingley (2015), "Who Are These People? Evaluating the Demographic Preferences of MTurk Survey Respondents," *Research and Politics*, July-September: 1–12.

<sup>31</sup> Because a separate ANCOVA controlling for age and gender showed no significant effects, we dropped those variables from further analysis.

## Measurement items and reliability

Construct	Variable	Mean	S.D.	Cronbach's Alpha
Familiarity	I am familiar with this pricing practice	2.97	1.76	0.83
	This pricing practice is usual	3.39	1.83	
	This pricing practice is typical	3.01	1.66	
	This pricing practice seems rather unusual (reverse)	2.89	1.69	
Reservations Company's Inferred Motive	Bad intentions–Good intentions	3.67	1.64	0.94
	Intention to take advantage of customers–No intention to take advantage of customers	3.09	1.73	
	Intention to exploit customers–No intention to exploit customers	3.06	1.71	
Restaurant's Inferred Motive	Bad intentions–Good intentions	3.52	1.69	0.95
	Intention to take advantage of customers–No intention to take advantage of customers	3.04	1.77	
	Intention to exploit customers–No intention to exploit customers	3.09	1.80	
Scenario Fairness	Unfair–Fair	3.52	1.86	0.97
	Unacceptable–Acceptable	3.53	1.87	
	Unreasonable–Reasonable	3.38	1.85	
Reservations Company Fairness	Unfair–Fair	3.35	1.81	0.98
	Unacceptable–Acceptable	3.42	1.85	
	Unreasonable–Reasonable	3.38	1.85	
Restaurant Fairness	Unfair–Fair	3.05	1.80	0.97
	Unacceptable–Acceptable	3.05	1.81	
	Unreasonable–Reasonable	3.00	1.82	
Scenario Satisfaction	Dissatisfied–Satisfied	3.41	1.87	0.98
	Unhappy–Happy	3.35	1.85	
	Displeased–Pleased	3.33	1.87	
	Disappointed–Delighted	3.33	1.80	
Scenario Intent to Return	I would go to this restaurant again in the future	3.77	1.67	0.97
	If someone asked me, I would say that it's likely that I'd go to the restaurant again.	3.82	1.78	
	I will tell my friends to go to this restaurant	3.58	1.72	
	I will recommend this restaurant to other people	3.57	1.74	

**Measures.** Using a seven-point rating scale, we measured perceived fairness,<sup>32</sup> familiarity, inferred motive,<sup>33</sup> and satisfac-

tion. All scale items, together with their means, standard deviations, and Cronbach alphas are shown in Exhibit 2.

<sup>32</sup> Campbell (1999), (2007), *op.cit.*; Peter R. Drake and Darren W. Dahl (2003). "Fairness and Discounts: The Subjective Value of a Bargain," *Journal of Consumer Psychology*. 13 (3):328-338; and Xia and Monroe (2004), *op. cit.*

<sup>33</sup> Campbell (2007), *op. cit.*

### Results: The Familiarity Effect

We used ANOVA to test for the impact of the scenario, familiarity with paid restaurant reservations, and the interaction between scenario and familiarity for each of the seven constructs.

### EXHIBIT 3

#### Means by construct and familiarity level

	Reservation company does not share			Reservation company shares			Restaurant charges		
	Low	High	Overall	Low	High	Overall	Low	High	Overall
Familiarity Level									
Inferred Motive: Reservations Company	2.56	4.29	2.97	3.14	4.83	3.56			
Inferred Motive: Restaurant				3.09	4.97	3.56	2.51	5.31	2.87
Fairness of the Situation	3.00	4.99	3.47	3.51	5.21	3.93	2.69	5.33	3.03
Fairness of the Reservations Company	2.63	4.88	3.17	3.15	4.91	3.38			
Fairness of the Restaurant				2.93	4.85	3.41	2.33	4.87	2.63
Satisfaction with the Situation	3.00	5.12	3.51	3.14	5.39	3.70	2.52	5.29	2.87
Intent to Return	3.68	5.07	4.02	3.41	5.23	3.86	2.87	5.23	3.19

Note: All mean differences for low and high familiarity are significant at  $p < 0.001$ . See Exhibit 4 for a formal test of means differences.

### EXHIBIT 4

#### ANOVA results (significance levels)

Construct	Familiarity Level	Scenario	Familiarity x Scenario
Inferred Motive: Reservations Company	.000	.017	.921
Inferred Motive: Restaurant	.000	.640	.081
Fairness of the Situation	.000	.303	.285
Fairness of the Reservations Company	.000	.296	.338
Fairness of the Restaurant	.000	.309	.279
Satisfaction with the Situation	.000	.373	.573
Intent to Return	.000	.543	.172

We used the midpoint of our scale (4 out of 7) as the dividing line for respondents who were familiar and those who were unfamiliar with paying for reservations and for acceptance of the practice. All differences presented are significant at the  $p < 0.05$  level. The summary statistics and the results of our analysis are shown in Exhibits 3, 4, and 5.

**Familiarity.** The overall average rating showed that the respondents as a group were unfamiliar with paid restaurant reservations (3.07/7). However, when we split the respondents into two groups (again using a rating of 4 as the dividing line), we discovered a small group who expressed higher familiarity. Because these 61 respondents gave a familiarity rating greater than 4 on our 7-point scale, we compared their fairness rating of the three scenarios to that of the remaining 236 respondents,

so that we could assess the impact familiarity has on fairness perceptions. In general, we found a similar effect in each case. That is, the size of the unfamiliar group pulled down the overall ratings, but the smaller familiar group generally accepted the unbundling scenarios.

#### Perceived Fairness

We asked respondents to evaluate both the fairness of the situation (the reference transaction) and the fairness of the pricing practice (the reference price), with the following results.

**Fairness of situation.** As we indicated, the overall ratings indicated that all three scenarios were seen as unfair to various degrees (Scenario 1, 3.47; Scenario 2, 3.93; Scenario 3, 3.03). However, the previous pattern held when the familiar respondents' ratings were broken out. Respondents who were familiar with reservations fees considered each situation to be fair (Scenario 1, 4.99; Scenario 2, 5.21; Scenario 3, 5.33), while unfamiliar respondents rated the situations as unfair (Scenario 1, 3.00; Scenario 2, 3.51; Scenario 3, 2.69).

**Fairness of pricing practice.** Because of the differences in the scenarios, respondents assigned to Scenario 1 were asked to indicate their perceptions of the pricing practices of the reservations company only, respondents assigned to Scenario 2 were asked to evaluate the pricing practices of both the reservations company and the restaurant, and respondents assigned to Scenario 3 were asked to evaluate only the restaurant's pricing practice.

**Reservations company.** Once again, the overall rating for the reservations company's pricing practices was below 4, or unfair (Scenario 1, 3.17; Scenario 2, 3.38). Respondents who were familiar with paying for reservations had a moderately positive view of the company's practice of selling the reservation, however, whether the firm kept the proceeds (4.88) or shared with the restaurant (4.91). Respondents not familiar with

## Correlation table

	Familiarity	Inferred Motive: Reservations Company	Inferred Motive: Restaurant	Fairness of the Situation	Fairness of the Reservations Company	Fairness of the Restaurant	Satisfaction with the Situation	Intent to Return	Scenario***
Familiarity	1								
Inferred Motive: Reservations Company	0.59*	1							
Inferred Motive: Restaurant	0.64*	0.81*	1						
Fairness of the Situation	0.69*	0.64*	0.64*	1					
Fairness of the Reservations Company	0.64*	0.69*	0.57*	0.85*	1				
Fairness of the Restaurant	0.67*	0.63*	0.75*	0.75*	0.76*	1			
Satisfaction with the Situation	0.66*	0.61*	0.69*	0.73*	0.68*	0.71*	1		
Intent to Return	0.65*	0.67*	0.66*	0.83*	0.77*	0.68*	0.68*	1	
Scenario***	0.06	0.17**	-0.08	-0.03	0.18**	-0.08	-0.07	-0.02	1

Notes: \* Significant at  $p < 0.001$ ; \*\* Significant at  $p < 0.05$ ; \*\*\*Scenario is coded as a continuous variable (1 = Scenario 1, Reservations company does not share; 2 = Scenario 2, Reservations company shares with the restaurant; and 3 = Scenario 3, Restaurant charges directly). The higher the number, the more revenue the restaurant receives.

reservation purchases rated the practice low in both scenarios (Scenario 1, 2.63; Scenario 2, 3.15).

**Restaurant.** The restaurant was also viewed as acting unfairly by the respondents unfamiliar with reservation sales (Scenario 2, 2.93; Scenario 3, 2.33), in contrast to the group of familiar respondents, who viewed the restaurant's actions as being reasonably fair (Scenario 2, 4.85; Scenario 3, 4.87).

### Inferred Motive

The negative ratings of unfamiliar respondents carried over into a dim view of the inferred motives of both the restaurant and the reservations company (Scenario 1, 2.56, Scenario 2, 3.14). However, the familiar respondents' relatively positive view of the company's motives (Scenario 1, 4.29, Scenario 2, 4.83) partially offset the negatives in the overall ratings. Even so, the overall rating of the reservations company's motive remained negative, especially when the firm kept all proceeds (Scenario 1, 2.97; Scenario 2, 3.56).

Similar results were found for the inferred motive of the restaurant. The overall respondents' rating showed a neutral to negative view of the restaurant's motive (Scenario 2, 3.56, Scenario 3, 2.87). These weak ratings were again weighted by the unfamiliar respondents, who offered a low opinion of the restaurant's motive (Scenario 2, 3.09, Scenario 3, 2.51), even though familiar respondents had a positive view (Scenario 2: 4.97, Scenario 3: 5.31).

### Satisfaction

The results for satisfaction also showed the weight of the large group of unfamiliar respondents. The overall satisfaction rating for all three scenarios was negative (Scenario 1, 3.51; Scenario 2, 3.70; Scenario 3, 2.87). In the split groups, unfamiliar respondents indicated low levels of satisfaction (Scenario 1, 3.00; Scenario 2, 3.14; Scenario 3, 2.52), while familiar respondents indicated high satisfaction levels (Scenario 1, 5.07; Scenario 2, 5.23; Scenario 3, 5.29).

## Intent to Return

Finally, the rating patterns held with regard to likelihood to return to the restaurant, with overall ratings ranging from neutral to negative depending on the scenario (Scenario 1, 4.02; Scenario 2, 3.86; Scenario 3, 3.19). Unfamiliar respondents were noticeably unlikely to return (Scenario 1, 3.68; Scenario 2, 3.41; Scenario 3, 2.87), while familiar respondents were significantly more likely to return (Scenario 1, 5.07; Scenario 2, 5.23; Scenario 3, 5.23).

## Conclusions, Implications, and Further Research

Our key finding is that familiarity is crucial for consumer acceptance of the concept of unbundling restaurant pricing and charging for a reservation. Regardless of the specific approach used, we found that consumers who are familiar with reservations fees were positive toward the practice. They viewed the inferred motive of the restaurant in a far more positive light, saw the transaction as relatively fair, had higher levels of satisfaction, and said they'd be more likely to return to the restaurant. This implies that restaurants and reservations companies should do all that they can to familiarize consumers with the unbundling concept and the idea of paying for a reservation—particularly in prime time. Based on the experience of hotels and airlines, this may take some time.

One approach might be to show the benefit of this practice. For example, restaurants can let their customers know that it may be difficult to get a reservation at certain times on particular days of week, but that it is possible to get a reservation for a nominal fee through either the restaurant or through a reservations site. The restaurant can clearly indicate this policy on their website, and can also mention it to customers who are unsuccessful with obtaining a reservation for high demand periods. Although this does represent an additional charge, it also provides considerable potential value for guests who want a table at a particular time but find all tables booked. Thus, restaurants can show that they are attempting to meet the requirement of offering value for an increased cost, under the principles of dual entitlement and inferred motive.

Our findings have implications for other businesses, including taxis, spas, and hairdressers, businesses where the amount people will spend is unknown in advance and certain times are heavily booked. By unbundling the service from the appointment, it is possible to separate the cost or price of a reservation or booking from the core service. This is in contrast to the hotel and airline industries that essentially bundle the reservation and tariff upon booking—a practice that makes sense since the price (or the bulk of guest spending) is established in advance.

**Looking ahead.** The concept of unbundling reservations from the core service presents a number of interesting topics for future research. It would be interesting to study consumer response to variably priced reservations fees (for example, different fees at different times of day and days of week). More fundamentally, it would be worthwhile to establish the value of a reservation. At the moment, since a reservation has no express cost, its value may not be part of a restaurant customer's calculation. Yet we know that reservations do have value, especially on Friday or Saturday night, when all seats are taken in many popular restaurants. In related research, further study of customer response to ticketing systems such as that used with Tock could provide good insights into other unbundling methods. Finally, it would be interesting to study the spending behavior of customers who pay a fee for a reservation. It is possible that their price sensitivity is lower and as a result they may spend more per person than customers who are unwilling to pay the fee.

Like all studies, this research has weaknesses. Data come from a survey of a convenience sample of internet users, so it is possible that the results are not representative of the general population. In addition, the survey was only conducted in the U.S. and only considered the restaurant industry. It would therefore be interesting to conduct similar studies in other countries and other industries (perhaps the taxi or spa industries) to establish the generalizability of our findings.

Further research on the RM implications and the overall economics of unbundling provide interesting further avenues for both theory and practice. Unbundling the reservation from the meal experience can give restaurants better control of their capacity and manage their revenue since the value of a reservation varies based on day of week, time of day and season. ■

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