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Emerging Marketing Channels in Hospitality: A Global Study of Internet-Enabled Flash Sales and Private Sales

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Abstract

The potential uses of flash deals or daily deals have caught the attention of many restaurant and hotel firms, as well as third-party distributors, such as Expedia. A survey of nearly 200 international hospitality practitioners found that a remarkable 42 percent had tested a flash deal promotion, and some of those firms had offered numerous flash deals. At the same time, 46 percent of the responding hospitality firms had no intention of offering a flash deal, with some citing concerns about the potential damage of group discounts to brand integrity. Individual hotels that had offered flash deals tended to be on the large side, averaging more than 150 rooms. Discounts offered in the deals ranged widely, from 15 to over 75 percent off rack rates. Likewise, commissions paid to deal vendors saw a wide range, as the most typical commission was 15 to 20 percent, but some hotels paid as much as a 40-percent commission. Most of the deals reported in this survey had been offered through Groupon or LivingSocial, but Jetsetter unexpectedly appeared as the number-three flash-deal channel for these respondents. Deal structures also varied widely, although many deals were offered for mid-week. Although most offers involve a non-refundable purchase, deal vendors are increasingly offering their customers opportunities to obtain refunds in certain circumstances. Respondents' general assessment of the deals' success was moderate. They agreed that their deals brought in new customers, but repeat business was more tenuous. One favorable outcome was that the respondents saw little evidence of cannibalization of existing business, particularly when they packaged their deal carefully. On balance, hoteliers who were most pleased with the outcome of their deals were also the ones who managed the cost of the deal most assertively.

Keywords

hospitality, internet flash sales, marketing channels, discounts

Disciplines

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Comments

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by Gabriele Piccoli, Ph.D., and Chekitan S. Dev, Ph.D.

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Chekitan S. Dev, Ph.D., is associate professor of strategic marketing and brand management at the School of Hotel Administration. Recognized as a leading authority on strategic marketing and brand management, his award-winning research has been published in several peer reviewed journals, including the *Journal of Marketing and Harvard Business Review*. He has won all major hospitality research awards including the 2002 John Wiley & Sons award for lifetime contribution to hospitality and tourism research. A former corporate executive with Oberoi Hotels & Resorts, he has served corporate, government, education, advisory, and private equity clients in over 35 countries on five continents as consultant, seminar leader and expert witness. These include Accor, Crystal Cruise Lines, Disney, Expedia, ExpoGourmand Chile, Four Seasons Mumbai, French Culinary Institute, Hilton, Holiday Inn, Horwath Austria, HOTUSA Spain, Hyatt, IHRAI Philippines, InterContinental, Jumeirah Dubai, Kerzner Mauritius, Leela India, Mandarin Singapore, Marriott, Moevenpick Switzerland, Orbitz, Peninsula, PlanHotels Italy, Priceline, Rosewood, Sarovar India, Starwood, Taj India, Travelocity, and Westin. Professor Dev was selected as one of the "Top 25 Most Extraordinary Minds in Sales and Marketing" for 2009 by The Hospitality Sales and Marketing Association International (HSMAI).

EXECUTIVE SUMMARY

The potential uses of flash deals or daily deals have caught the attention of many restaurant and hotel firms, as well as third-party distributors, such as Expedia. A survey of nearly 200 international hospitality practitioners found that a remarkable 42 percent had tested a flash deal promotion, and some of those firms had offered numerous flash deals. At the same time, 46 percent of the responding hospitality firms had no intention of offering a flash deal, with some citing concerns about the potential damage of group discounts to brand integrity. Individual hotels that had offered flash deals tended to be on the large side, averaging more than 150 rooms. Discounts offered in the deals ranged widely, from 15 to over 75 percent off rack rates. Likewise, commissions paid to deal vendors saw a wide range, as the most typical commission was 15 to 20 percent, but some hotels paid as much as a 40-percent commission. Most of the deals reported in this survey had been offered through Groupon or LivingSocial, but Jetsetter unexpectedly appeared as the number-three flash-deal channel for these respondents. Deal structures also varied widely, although many deals were offered for mid-week. Although most offers involve a non-refundable purchase, deal vendors are increasingly offering their customers opportunities to obtain refunds in certain circumstances. Respondents' general assessment of the deals' success was moderate. They agreed that their deals brought in new customers, but repeat business was more tenuous. One favorable outcome was that the respondents saw little evidence of cannibalization of existing business, particularly when they packaged their deal carefully. On balance, hoteliers who were most pleased with the outcome of their deals were also the ones who managed the cost of the deal most assertively.

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The hotel industry was initially slow to adopt the internet for marketing purposes. When the worldwide web first opened to commercial traffic in 1993, few people in the hospitality industry (or other businesses) foresaw its full commercial possibilities. However, even when it became clear that the internet offered great potential for both disintermediation—by allowing suppliers to interact directly with the consumer—and reintermediation—enabling the birth and strengthening of a new breed of intermediaries (e.g., Expedia, Travelocity)—the hotel industry maintained a conservative stance. In the words of Ted Teng, CEO of The Leading Hotels of the World: "When the internet came into prominence, most of us, the hotel industry leadership, were asleep at the wheel. Rather than jumping to build our new channel of distribution we ceded our domain to others who sold our products as commodities and, at times, even undercut our prices!" Since the late 1990s, when many industry practitioners realized the situation, hotel operators that have aggressively incorporated the new channel in their distribution strategy have benefited greatly from its contribution. The strongest online intermediaries have carved out a substantial position for themselves and are today established players in the distribution value chain.

Today, the web of the 1990s—characterized by dial-up connections, desktop computers, and text-heavy sites—is a distant memory for some and ancient history for others. Instead, the dominant paradigm is what has been called web 2.0, which is itself almost a decade old (2004). We no longer think only in terms of web pages, news groups, and personal computers. Rather, we design interactive web applications that are context sensitive to user-generated data and social relationships. Users are no longer tied to a desk, and instead carry powerful mini computers (smart phones and tablets) that allow them to search out information and make real-time purchases and reservations. A relatively recent outgrowth of the resulting time compression in marketing and sales is the phenomenon of social couponing, also known as daily deals, flash sales, and private sales.

As initially occurred with the web itself, the hotel and restaurant industries are not entirely certain of what to make of these sites or how to use them effectively. For this report, we undertook a survey of current practices of the global hotel industry as it relates to these emerging intermediaries. We sought to go beyond simply benchmarking existing practices and conduct a study that would help us understand the daily deal strategies and approaches that have succeeded and those that have failed. The information supplied by our respondents, coupled with our own in-depth research, allowed us to develop guidelines for success by pinpointing the opportunities and identifying the challenges.

Emerging Distribution Approaches

In 2010, e-commerce in the U.S. generated $228 billion in sales, including $85 billion for travel services. It's no secret that travel sites are a large portion of this volume. While overall e-commerce grew by 59 percent from 2005 to 2010, the travel segment grew by 73 percent over the same period.[1] Among the contributors to the growth in e-commerce are the daily deal or flash sale sites.

Flash Sales

In fact, we argue that the fastest growing e-commerce category is flash sales, which we divide for our purposes into *daily deal* sites such as Groupon and LivingSocial, and *private sale* sites, which require some form of membership. Flash sales of both types typically offer customers promotions of short duration that provide dramatic savings—usually contingent on achieving a threshold of customers accepting the proposed deal. When a deal goes live on a flash sale website, past customers and e-mail subscribers receive e-mail notification, and many flash sale sites also promote deals via social networking sites.

The flash sales concept emerged on the internet in the early 2000s on websites such as uBid and Woot.com. By late 2006, with the advent of social media, flash sale websites began to proliferate, with hundreds of regional and internet-based competitors entering the space. The rise of the category leader, Groupon, which transformed advertising into content and popularized social commerce, is emblematic. Launched in the late 2008 in Chicago, the firm famously declined an acquisition offer of $6 billion from Google in late 2010. In June 2011, it achieved an Alexa rank of 44 in the U.S. and 270 globally, attracting almost 30 million unique monthly visitors to its website. Groupon went public in November 2011 and as of late January 2012 had achieved a market cap of over $13 billion.

Daily Deals vs. Private Sales

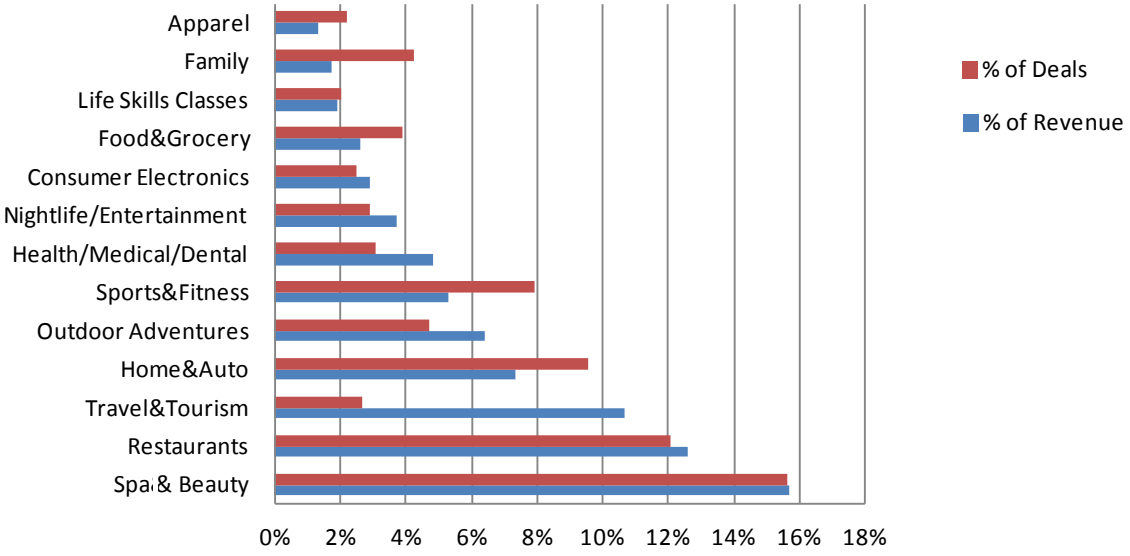
Given low barriers to market entry, the flash sales competitive space is in constant evolution in terms of both size of operation and business model. Daily deals sites, such as Groupon and LivingSocial, offer open access, requiring only a simple registration process to view deals. As we said, the initial business model involved a group-buying mechanism that required a minimum number of buyers to activate a given deal. We now see this kind of activation approach diminishing. When a deal that requires a certain number of participants hits its purchase threshold, the site charges customers' credit cards, sends electronic vouchers to purchasers, and remits the agreed-upon revenue amount to the deal supplier, who then redeems the vouchers according to the terms of the deal.

In contrast, private sale sites, led by GiltGroupe, Rue La La, HauteLook, and Ideeli, restrict access to deals by requiring membership, in some cases by invitation. These sites offer flash sales on designer goods at discounted prices, targeting high-end suppliers who are reluctant to use the open mass-market sites. However, as often occurs

[1] "Monetizing the Internet through Sales and Advertising," PowerPoint presentation by GianFulgoni, Executive Chairman and Co-Founder, comScoreInc, April 2011.

Exhibit 1

Daily deal industry category frequency by deals and revenue



on the internet, the two communities are increasingly overlapping. The marketing strategy behind private sales assumes that requiring consumers to register for membership creates a perception of exclusivity that prevents deep discounts from harming the brands. Instead, brands are promoted by targeting a select subset of consumers, for a short time, presumably thereby strengthening consumer-brand relationships.

Since 2008, flash sale websites have increasingly targeted the hospitality industry, which provides a good promotional match, given hotels' and restaurants' recurring need to fill unoccupied seats and beds. The phenomenal popularity of flash deals has made them appealing marketing channels for restaurants and, increasingly, hotels and resorts. Although there are concerns of cannibalizing existing demand, the exposure that hospitality firms enjoy through intermediaries such as Groupon or LivingSocial is thought to help bring in new customers, increase sales, increase brand recognition, and encourage repeat business (particularly from infrequent customers). The catch for hospitality firms is that these intermediaries are able to charge significant commissions (ranging from 20 to 50 percent) on top of requesting significant discounts in the nominal value-to-price ratio of the items sold (50 percent and up). Given the interest in flash sale websites as a marketing channel for hospitality businesses, we wanted to test the assumptions made about flash deals by conducting a systematic evaluation of their benefits and drawbacks. After we present an analysis of the market and current trends, we discuss the results of the study and offer recommendations for improving their success.

The Flash Sale Hospitality Market

Daily Deal Travel Websites

With the exception of a few websites such as Travelzoo and Bloomspot that focus on travel and hospitality, most daily deals websites are opportunistic and offer a variety of goods and services, including travel. In August 2011, with estimated revenue of $19.9 million, travel deals were the third largest category, producing 11 percent of overall daily deal industry revenue, even though travel offers accounted for only 3 percent of the total number of deals (see Exhibit 1). With an average of 284 vouchers per hospitality deal (slightly less than the average of 323 for offers of all types), an average price per voucher of $125.72, and an average discount per voucher of 53.2 percent, the travel and tourism category yielded the highest revenue per deal.

That revenue potential has attracted considerable interest. For example, since June 2011, Priceline has been testing local deals for spas, restaurants, and retail offers. In September 2011, Travelocity launched its "Dashing Deals," which are daily deals that can be booked directly instead of requiring redemption of a coupon or voucher for future travel. Perhaps the most interesting development so far is the partnership between Groupon and Expedia.

The Groupon–Expedia partnership debuted in June 2011, with "Groupon Getaways." This new website is a direct competitor with LivingSocial Escapes, LivingSocial's travel deals product, which has enjoyed considerable success since its launch in November 2010. The new Expedia-based venture offers deep discounts on travel-related services by tapping Expedia's access to rooms in 135,000 hotels, as

Exhibit 2

Groupon Getaways Vs. LivingSocial Escapes (August 2011)

	Total Revenue	Number of Deals	Number of Vouchers perDeal	Average Price Per Vouchers	Average Discount Claimed
GrouponGetAways	$9.6 million	110	476	$182.66	51%
LivingSocial Escapes	$6.7 million	138	234	$208.83	49.4%

Source: Yipit data in "Daily Deal Trends in North America," TheYipit Data Report, August 12, 2011. www.digitaltrends.com/web/despite-downward-trend-groupon-revenue-grew-13-percent-in-august/, viewed on 09/26/2011.

Exhibit 2

Leading travel private-sale sites

	Year Founded	Affiliate	Membership	Discounts	Sales Window	Referral Credits	Unique Features
Jetsetter	2009	Gilt Groupe	Yes	30-50%	5-7 days	$25, purchase required	Wide variety, wait list
SniqueAway	2010	Smarter Travel Media/ TripAdvisor	Yes	Up to 50%	7 days (15 minutes to book selected trip)	$25, purchase required	Minimum 4-star, high ratings
Tablet Hotels	2010	Independent	Yes	Up to 50%	3 days	$25, purchase required	Boutique hotel list based on anonymous reviews; $10 credit per booking
Trip Alertz	2009	Conscious Living Ventures	Yes	30-75%	NA	25% discount for 1 referral, 50% for 2, free trip for 3	Viral discounts: Prices go down as more customers book a given destination
Vacationist	2010	Luxury Link/ Travel + Leisure	Yes	Up to 60%	3-7 days	No	*Travel + Leisure* hotel reports
Voyage Privé	2006, 2010 in US	Ideeli	Yes, by invitation only	Up to 75%	5-7 days	€10 in Europe	French company specializing in European properties

Sources: Companies' websites.

well as car rental and cruise options. According to a senior director of new channel sales at Expedia, Groupon Getaways functions as "a low-cost, low-risk customer acquisition and brand introduction channel."[2] She underlined the cross-selling opportunities as well as the prospect of attracting off-season business and selling rooms that would otherwise remain vacant.

The partnership between Expedia and Groupon has instantly created a combined audience of more than 50 million U.S. subscribers comprising young and affluent consumers with a median annual income exceeding $70,000. The business model assumes that these consumers will use the channel to seek travel opportunities that they would not otherwise have found, while businesses seek to generate revenue by packaging additional nights, room upgrades, and dining and in-room entertainment options. According to Expedia, "Groupon customers have been shown to spend as much as 60 to 80 percent on top of the value of the Groupon."[3] While this projection seems overly optimistic when compared with the results of our study, we also find that business generated by emerging intermediaries typically results in customer spending beyond the value of a voucher.

Because many flash sale travel bookings tend to be "spontaneous and incremental," the partnership between Expedia and Groupon is expected to attract a wide range of online travel consumers. If we consider Groupon customer demographics, it is small wonder that Expedia was eager to add this channel to its portfolio. Grouponers typically are

[2] "Expedia: What Groupon Getaways with Expedia means for hotels," posted by Special Nodes on 22 June 2011. http://www.tnooz.com/2011/06/22/news/expedia-what-groupon-getaways-with-expedia-means-for-hotels/, viewed on 06/22/2011.

[3] *Ibid.*

young (68 percent fall within the 18-to-34 age group), well educated (50 percent had bachelor's degrees and 30% had graduate degrees), employed (75 percent were working full time), and the largest component group were single women (77 percent female with 49 percent single) earning substantial salaries (48 percent with earnings above $70,000).[4] These consumers are heavy users of social media.

Preliminary results for Groupon Getaways clearly indicate its potential. In its first full month of operations in August 2011, according to Yipit, Groupon Getaways outperformed LivingSocial Escapes, generating 42 percent more revenue than LivingSocial Escapes did and averaging 78 percent higher revenue per deal (see Exhibit 2).[5]

The Groupon–Expedia matchup may be a straw in the wind, as some observers argue that the group sales sites and the online travel agencies will eventually merge.[6] Meanwhile, new entrants (notably online travel agents) and new daily deal propositions keep changing the boundaries of the travel deal sector.

Private Sales Travel Websites

We present the "private sales" site model as it exists, but we anticipate that this model will be subject to gradual change, as the "membership" aspect erodes. The table in Exhibit 3 provides a snapshot of six leading private sale travel websites that represent the latest developments in the online travel sales market. The business model works as follows. Customers sign up or "enroll" in the program, usually with no fee or payment required, and receive regular e-mail notices about time-limited discount offers and promotions. Private sale operators fall roughly into the following three categories.

- **Travel only sites** such as VoyagePrivé, SniqueAway, Jetsetter, or Vacationist. Many of these sites are affiliated with more familiar brands such as TripAdvisor-Expedia (SniqueAway), Travel + Leisure and American Express (Vacationist), and the Gilt Groupe (Jetsetter).
- **Retail-oriented sites** such as Rue La La, Hautelook, and Ideeli, which include a travel component in their offer, often through partnership with travel specialists. For example, Ideeli partnered with VoyagePrivé in June 2011 to create a co-branded travel channel called Ideeli travel that offers 100 travel opportunities curated by VoyagePrivé. Similarly, Rue La La teamed up in August 2011 with Virtuoso to offer limited-capacity, luxury travel packages handpicked by Virtuoso. Hautelook also features Hautlook Getaway, a travel arm formed in October 2010 through the acquisition of BoVoYou, a members-only upscale travel site.
- **Online travel agent sites** that have added "private sales" to their websites. For example, in July 2011, two Orbitz Worldwide properties, Orbitz and CheapTickets, launched members-only flash sales for hotels. Orbitz has introduced "Insider Steals," a weekly members-only flash sale that gives Orbitz members 50 percent or more off handpicked hotels in top destinations around the world. Sister company CheapTickets offers similar private flash sales, although they are branded as Members Only Prices.

To increase membership, most sites offer referral credits—virtual or actual cash that can be used on future bookings for referrals that lead to purchases—and unique amenities or features such as virtual brochures or thematic tie-ins to charities, although membership policies differ slightly among the sites. For example, TabletHotels is open to the public, except for access to their "private sales," which requires consumers to "like" the site on Facebook or follow it on Twitter. Vacationist also offers access through social networking sites. Voyageprivé.com requires an invitation from an existing member.

Discounts from advertised rates on private sale sites are usually around 30 percent, but occasionally run much higher. The purchase window is typically no longer than a week. Some sites seek differentiation by adopting a slightly different model. For example, TripAlertz follows a group-buying model in which the discount increases as more buyers sign up for it.

Most sites offer firm reservations for fixed dates and vouchers that remain valid over a period of several months, subject to availability, which as we said usually involves midweek dates. For this reason, not all consumers can use the voucher in the specified time. From the consumer's point of view, reneging on private sale deals is costly, since most are either nonrefundable or carrying large cancellation penalties.[7] The sites offer variations on this theme, however. SniqueAway buyers may select their travel dates when they purchase their voucher, but the sale is nonrefundable. Jetsetter members can put down 10 percent to hold a reservation request for 72 hours; if the trip is not booked, the money is applied as credit toward a future trip. Spire,[8] which claimed to be a "second-generation" site when it went online in June

[4] www.grouponworks.com/why-groupon/comparison-guide, viewed on 06/05/2011.

[5] "Daily Deal Trends in North America," TheYipit Data Report August 12, 2011. www.digitaltrends.com/web/despite-downward-trend-groupon-revenue-grew-13-percent-in-august/, viewed on 09/26/2011.

[6] www.travelweekly.com.au/news/group-deals-soar-amid-online-debate, viewed 08/25/2011.

[7] http://travel.usatoday.com/deals/inside/story/2011-08-25/How-to-navigate-travel-flash-sale-sites/50125442/1, viewed 09/05/2011.

[8] Spire belongs to Perfect Escapes Inc., the company that heads other luxury travel websites like PerfectEscapes, Chic Retreats, Suzanne's Files and TravelIntelligence.

2011, allows easy cancellations up to 72 hours after a trip is booked, minus a $29 fee.[9]

Market Trends in Travel Flash Sales

The skyrocketing rise of online travel sales makes it difficult to track developments in the marketplace, because any statement made today could well be out of date tomorrow. The U.S. Travel Association predicts that in 2012, as the economy slowly rebuilds, travel expenditures will have increased by $1.3 billion from 2009 levels. With a new, rapidly growing class of luxury shoppers seeking moderate price points, travel and hospitality vendors have begun embracing the online flash sale model. In a crowded marketplace, the many sites have already attempted to differentiate themselves.

The core market involves travel sites that offer enticing discounts at top-end properties, which are seeking to fill rooms when occupancy rates are low. Flash sales allow hotels to connect with new customers. These sites seem to appeal to a growing segment that skews toward women and the well-educated with above-average incomes. While some customers may find discounts for previously planned trips, others are seeking travel arrangements and accommodations for specific destinations, and a few have sufficient time and cash at their disposal for impromptu vacations.

The market is also beginning to accommodate customers in the mid-scale range, distinguishing themselves with a focus on another set of target demographics as they jockey for customer loyalty. For example, LivingSocialEscapes now offers trips for people who prefer to stay close to home. With its Escapes travel site, LivingSocial offers deals that include day trips and weekend jaunts that do not involve air travel. What makes such deals doubly attractive to mid-scale consumers is that planning a trip under this model is easy, since the logistics are not complicated.

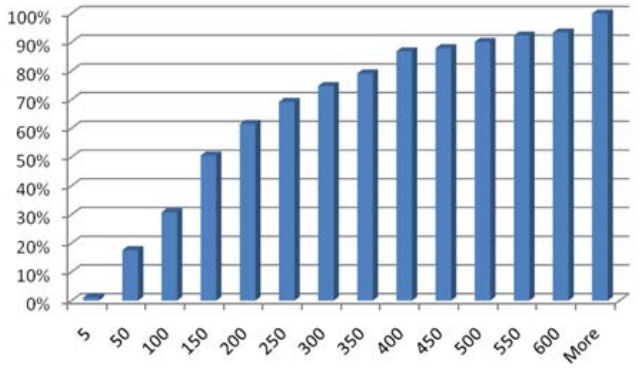
Launched in April 2011, Yuupon targets another set of customers with both modest and high end offers with considerable flexibility. Yuupon users are not required to choose travel dates at the time of purchase, and refunds are available until the day before travel. There is no group minimum required for a deal to go live and offers last for seven days. All vacations are fully transferable.

Jetsetter began in early 2011 to offer discounted travel deals without flash sales, intended to appeal to consumers who do not enjoy the time pressure or group connection involved in flash sales. However, Jetsetter generally features exotic or unique locales, which may not be a realistic option for many consumers.

[9] The company promises to refund half of the difference (in the form of Spire credits) if the customer finds the same offer 30-percent higher somewhere else.

Exhibit 4

Size distribution of hotels surveyed



On September 30, 2011, Priceline joined the fray by announcing its Tonight-Only Deals. This site offers same-day bookings at three- and four-star hotels in 34 cities with discounts of as much as 35 percent off the published price. "Usage trends show that approximately 70 percent of priceline.com's mobile customers are booking hotels for same-day check-in, so there's a clear market need for the Tonight-Only Deals service," said John Caine, priceline.com's senior vice president of marketing.[10]

It appears that the hotel chains are testing their own flash deals. Late in 2011, for instance, one of us received a private sale offer from Accor Hotels, presenting an "exclusive" offer valid for 48 hours. Clearly, the major hotel companies have realized the value of this type of marketing initiative.

Our Study

Recognizing the importance and potential impact of these new travel marketing channels, we developed a survey that went beyond mere benchmarking and examined the purpose, strategies, and outcomes for hospitality firms that had used flash deals and those who had not done so. Our aim was to create an understanding of the strategies and approaches that have succeeded and of those that have failed when using these channels.

Using a convenience sample, we sent our survey to the global subscriber base of the Cornell Center for Hospitality Research (CHR). While 225 respondents started the survey, 136 answered all the questions, and thus we have different numbers of respondents to some of the questions. Even so, our respondents constituted a fairly well distributed global sample with respondents from five continents. A slight majority are from North America, which reflects the CHR subscriber database. Of the 189 respondents who addressed the question of usage, we found a fairly even split between

[10] http://www.hotelmarketing.com/index.php/content/article/priceline.com_launches_tonight_only_deals/, viewed 09/30/2011.

Exhibit 5

Most commonly used flash- and private-sale sites

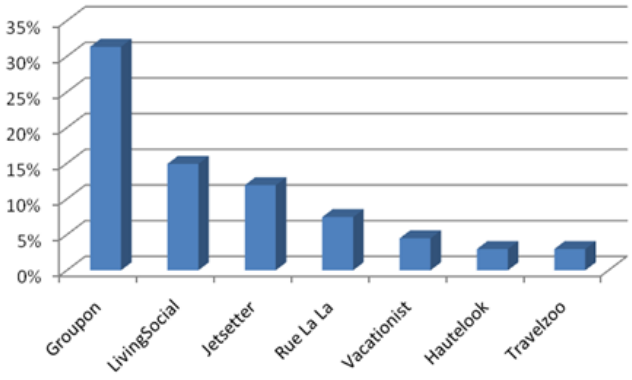
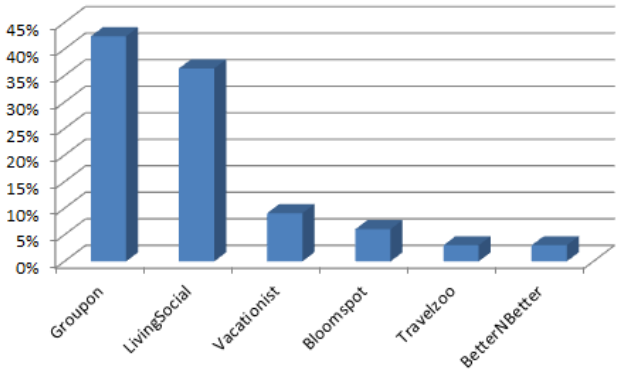


Exhibit 6

Anticipated intermediates for future deals



those who had used flash sale sites (42%) and those who had not considered using such channels (46%). The remaining 12 percent of the respondents were considering the possibilities.

We found this result surprising. Although we acknowledge the possibility that companies that have used flash and private sale sites are more likely to respond, a usage rate of over 40 percent is much higher than we anticipated. On the other hand, we also did not expect such a large percentage to rule out flash sales entirely. One senior global brand executive told us that his brand had forbidden member hotels from participating in such programs and that doing so would constitute a violation of brand standards. Interestingly we had respondents from hotels affiliated with that very same brand, an outcome that suggests that enforcement of these online standards is not easy. Having lived through the first revolution in online distribution in the late 1990s we don't find this surprising at all.

In terms of job functions, our respondents were quite diverse. Predictably, almost half of them came from a combination of sales and marketing (28%), revenue management (13%), and distribution (3%). A quarter of the respondents held general management (20%) or executive positions (6%), with the balance comprising professionals in almost all other areas of hotel management. This mix included responses from 50 corporate officers who managed an average of 26,704 rooms each, and 13 regional officers who managed an average of 6,189 rooms.

As one may guess from the position breakdown, the bulk of our respondents worked on-property, with far fewer corporate and regional office respondents. Of the 91 respondents who represented the individual properties, the distribution of hotel size, as measured by number of rooms, is presented in Exhibit 4. We expected that most of the vendors would be small hotels, but over half of our respondents represented properties with more than 150 rooms. Our sample was widely distributed in terms of both property location and star rating, with a majority of the hotels located in urban areas (60%), several in small metro areas (16%) and suburban areas (16%), and the rest near airports or highways. In terms of star ratings or price point, the sample was widely distributed among upper midscale (23%), luxury (19%), upper upscale (17%), upscale (16%), and midscale (16%), with the rest in the economy or bed-and-breakfast segments.

Flash-Sale and Private-Sale Sites Used

Asking our respondents to focus on property-level promotions, we requested them to report on their flash deals and promotions. Each of the 46 operators who had used flash deals mentioned at least one recently launched deal. This approach yielded a sample of 69 deals and promotions offered on 23 intermediaries globally.

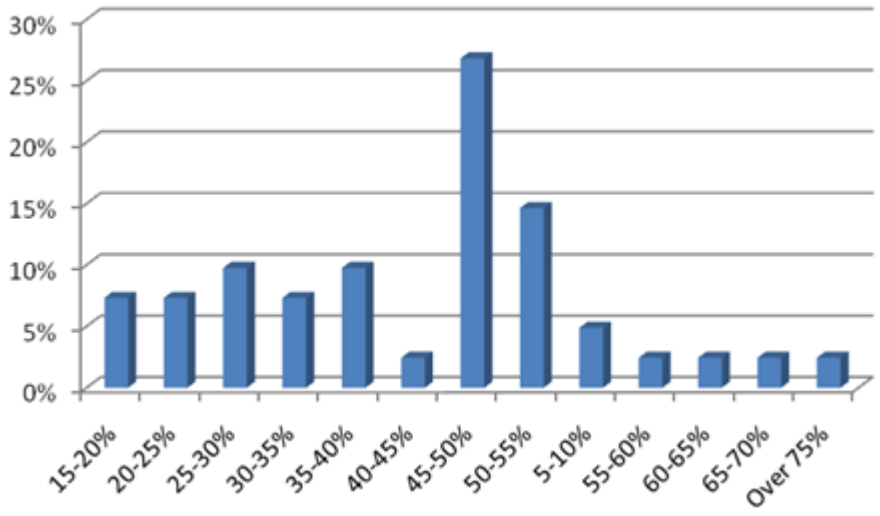
The most popular intermediaries in our sample are shown in Exhibit 5. The two largest sites, Groupon and LivingSocial, were the most popular sites in our sample. Unexpectedly, Jetsetter emerged as the most popular private sale site. While our small sample does not allow us to draw conclusive results, it would appear that Jetsetter's travel-focused strategy and recent marketing push are proving successful. Of the 19 respondents who were considering running a flash sale promotion, Groupon and LivingSocial again were mentioned most frequently, but nobody said they would use Jetsetter.

Usage Profile

Among our most interesting findings was that many respondents in our sample were heavy users of flash sales (if they used them at all), with an average of 14 promotions per property to date. Even after deleting the heavy users from the sample—those who had run more than 10 promotions—

Exhibit 7

Discount levels offered in respondents' flash and private deals



we found that the deals were fairly popular, as the remaining respondents had run an average of about three flash or private sales.

We were interested primarily in understanding the strategies that flash sale site users adopted. The promotions reported by our heavy users tended to be for short stays—an average of about two nights per promotion, with one-night stays comprising 35 percent, two-night stays 30 percent, and three-night stays about 21 percent. We were expecting hotels to use this channel to promote longer stays that would bring in additional room-nights to make up for steep room discounts.

Those deep discounts were confirmed by respondents who shared the specifics of their deals. The most common discount percentage for the package offered through the emerging intermediaries (42% of all deals) was between 45 and 55 percent. We found a remarkable range of discounts, however, as shown in Exhibit 6, with some as little as 15 percent and some over 75 percent.

In the responses to our question regarding commissions paid to intermediaries, more fell into the 15- to 20-percent range than any other, and 50 percent of commissions were lower than 20 percent. This result belies the widespread notion that all flash-sale intermediaries charge 50-percent commissions. Nevertheless, fully one-fifth of the deals in our sample ran with commissions over 40 percent. Because our data average private sales and daily sales, and private sales sites typically have a commission structure that is more akin to that of mainstream online travel agencies, high commissions are not surprising. Still, our data also suggest the possibility of negotiating a lower rate.

Comparing Users and Nonusers

In seeking to detect systematic differences between users and nonusers of flash sale sites, we saw little difference by size or by location. When filtering by property level, we found remarkable similarity between the average size of users (325 rooms) and nonusers (329 rooms). When we looked at users versus nonusers by region, the results were similar across the regions, with non-users outnumbering users 46 percent to 38 percent in the Asia-Pacific region, 45 percent to 37 percent in Europe, the Middle East, and Africa, and 45 percent to 42 percent in North America. Users outnumbered non-users only in Central and South America, 45 percent to 38 percent.

We did find some differences between users and nonusers with respect to property type and location (by percentage of respondents in a segment). About 53 percent of upscale properties had used flash deals, as had 45 percent of upper upscale hotels and 41 percent of luxury properties. The other property types were as follows: bed and breakfast, about 28 percent users versus 56 percent non-users; economy, 38 percent users versus 38 percent non-users; and midscale, 39 percent users versus 52 percent non-users. In terms of location, users outnumbered non-users only in suburban locations (48% to 28%), with 39 percent of urban properties, 32 percent of highway properties, 28 percent of small metro properties, and 27 percent of airport properties reporting having tested a flash deal.

Exhibit 9

Reasons given for offering flash and private deals

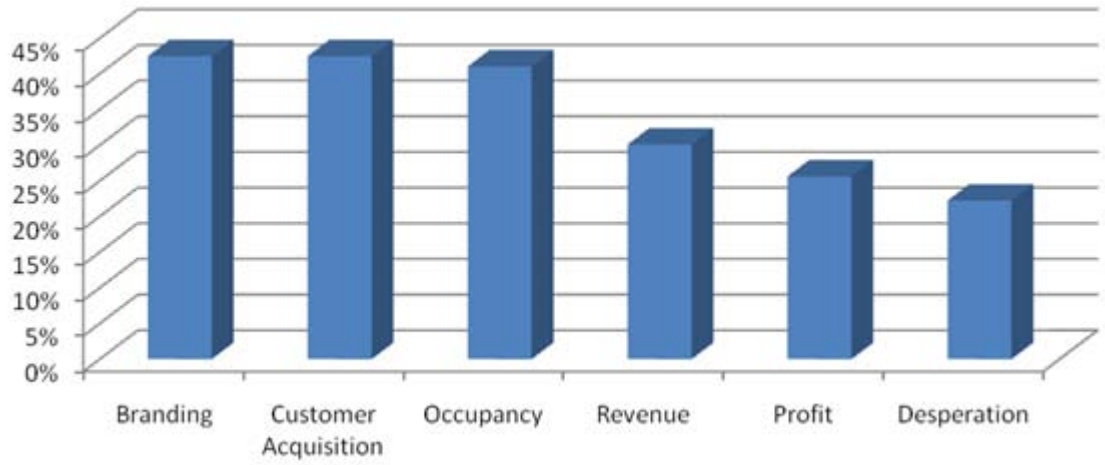
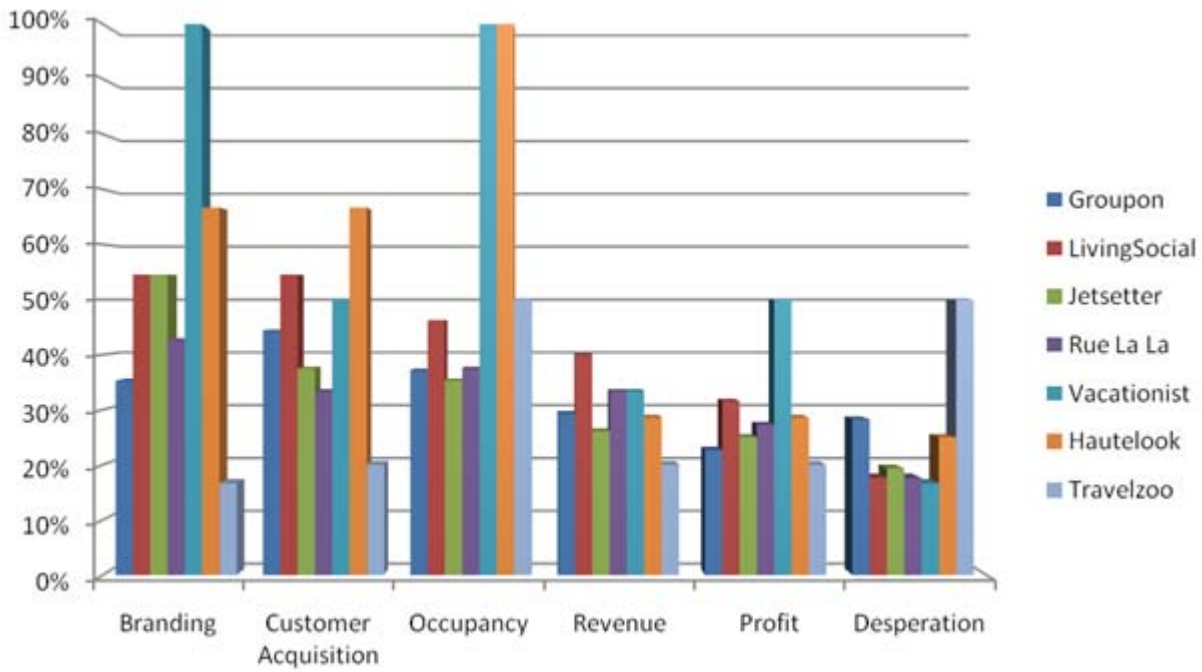


Exhibit 10

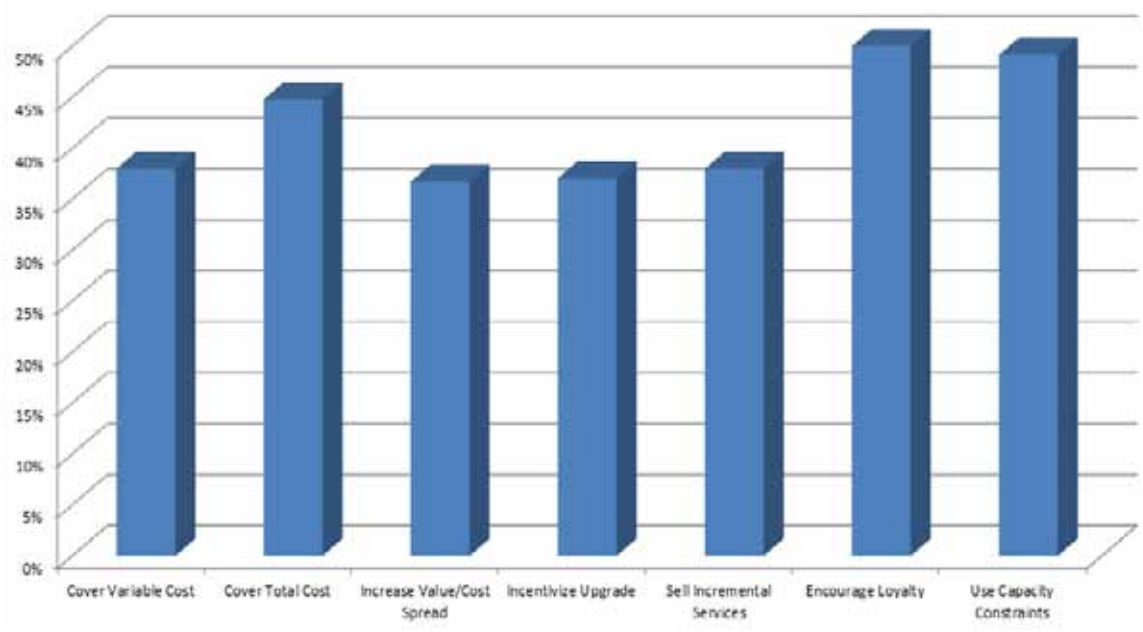
Reasons given for offering flash and private deals, by intermediary



These results need to be interpreted with caution, due to the low number of respondents in each subgroup. It makes sense, however, that the more complex operations (i.e., hotels with more services) would have greater potential to take advantage of flash sale sites because of their superior ability to bundle services and to make up for steep room discounts with ancillary revenue. They can also employ bundling to increase the perceived value of their packages and to make it difficult for consumers to compare the package price to published room rates. One way to look at the complexity of hotel operations is that hotels that used flash sale sites offered an average 2.57 services beyond just accommodation,

Exhibit 11

Strategies for success in offering flash and private deals



compared with 1.72 of non-users. Regarding each of six major services—restaurants, spas, casinos, convention facilities, excursions, and golf courses—deal users were more likely to offer each of those services than were non-users.

Another expectation we had was that those who were under performance pressure would use more of these sites, and indeed we found that about 23 percent of properties reporting that they felt such pressure were users versus 12 percent who were non-users.

Reasons for Offering Flash Deals

In the aggregate, our respondents tended to use flash and private sale sites for branding and marketing purposes, rather than simply as an adjunct to revenue management strategy. When picking from six possible reasons for running each of the promotions they offered, they identified branding and customer acquisition as the main reasons, while profits and revenue optimization were less frequently mentioned (see Exhibit 9). Perhaps this finding reflects our earlier finding that 28 percent of the respondents were sales and marketing executives, versus 13 percent who were involved in revenue management. The respondents indicated that they rarely engaged in flash and private sale deals as a desperation move. This is heartening, as it suggests that the majority of operators are choosing to use these intermediaries with some deliberation—unless, of course, they're simply unwilling to admit their desperation!

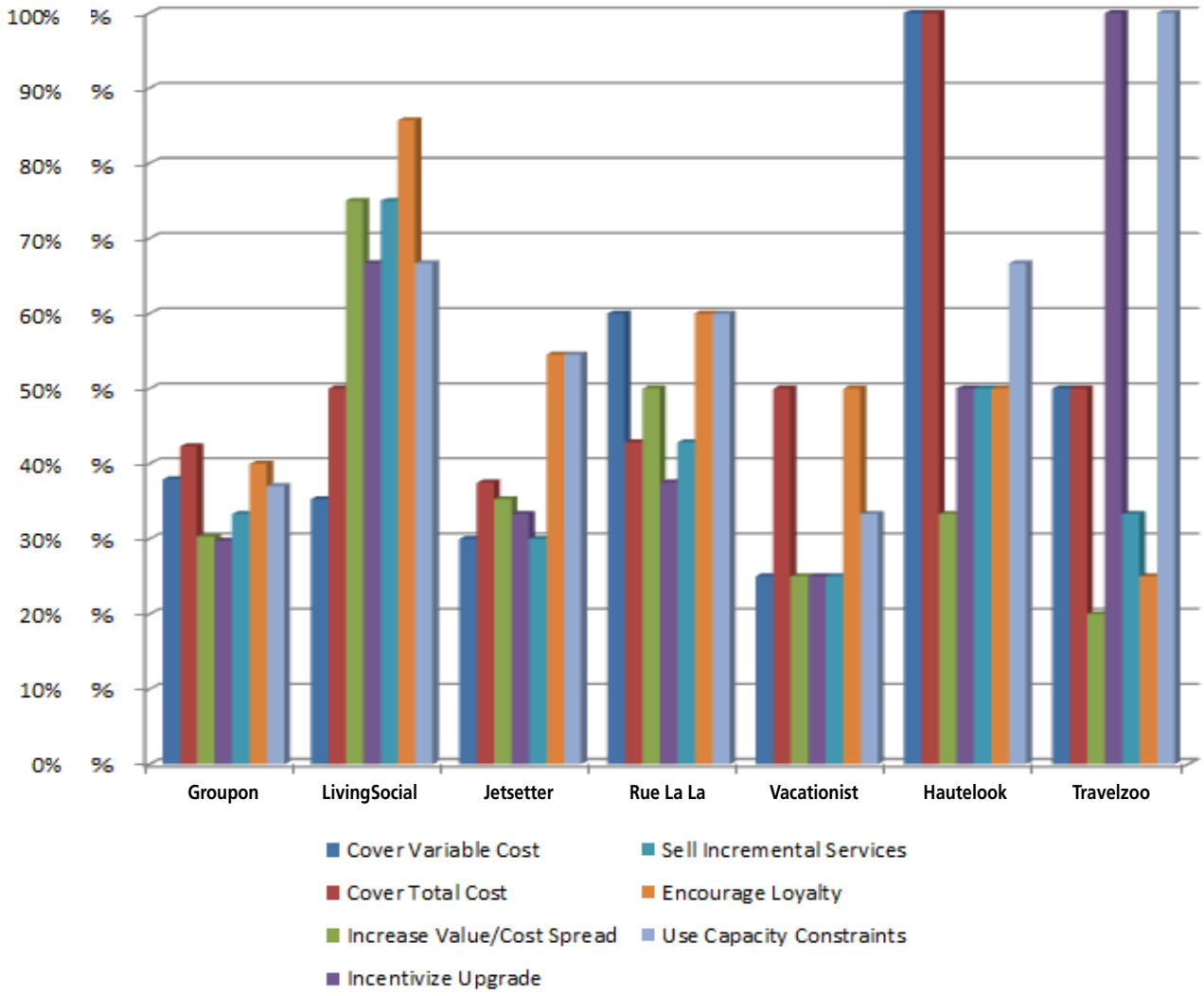
We cross-referenced the purpose of a deal with each of the seven most popular intermediaries, with the results shown in Exhibit 10. So, for instance, Travelzoo was used most often to boost occupancy, while Vacationist was the most popular choice for boosting profitability. Of the two flash sale powerhouses, Groupon and LivingSocial, the latter was clearly the more popular site, although we could not determine the reason.

Usage Strategies

When we asked how properties ensure maximum ROI from flash-sales sites, we found a wide variety of approaches (see Exhibit 11), starting with capacity constraints. Some properties established a minimum and maximum number of vouchers or reservations available through the flash sale channel. We found that 80 percent of deals had no minimum activation level, and 35 percent of the deals had no maximum. This result is due in part to regulations imposed by the various sites. Private sale sites generally do not have minimum activation levels, and neither does LivingSocial. However, many operators proactively managed the deal, as we describe below, demonstrating their sophisticated approach to these sites. We then asked our respondents to report on the usage strategies most strongly associated with each of the seven most popular flash and private sales sites, with the results shown in Exhibit 12.

Exhibit 12

Strategies for success in offering flash and private deals, by intermediary



Respondents said that they used LivingSocial for the widest array of strategies, especially to ensure separation of an offer's perceived value and its actual cost. This site also allowed hotels to encourage customers to upgrade and purchase incremental services as well as systematically encourage customer loyalty. On the other hand, capacity constraints were invoked most often with TravelZoo. A second set of insights were related to the degree of sophistication of the operators engaging in flash sale promotions from among the range of strategies they implemented. Our data suggest that Groupon users tend to limit revenue-maximizing strategies, perhaps relying on exposure and sheer numbers, whereas HauteLook and TravelZoo users aggressively employ a variety of strategies.

Satisfaction with Deal Promotions

Our respondents were relatively satisfied with their promotions, but not all were enthusiastic and we found a lurking resistance to repeating a particular deal. Asked to comment on their satisfaction with each promotion, respondents painted a picture of moderate success. Two out of three deals were rated as at least somewhat successful, and about a quarter of the deals were rated as clearly successful. Only 5 percent were rated very disappointing. Such generally favorable results tell us that this marketing channel is not going away anytime soon. Intentions to try another promotion were fairly high, and 65 percent of respondents were willing to recommend the intermediary they used. Even so, when asked whether they would run the same promotion, only

about half of our respondents said they strongly or mildly agree, and 29 percent were strongly negative about their experience with the particular deal they had in mind. Such mixed emotions signal to us that operators are still learning how best to navigate this channel and will experiment with different deal approaches. This concept of a learning curve for flash deals came out more clearly when we asked respondents whether they would try again if they had a chance to do things differently. Given the chance to change the offer, 68 percent were at least slightly likely to try again.

We did find that our respondents agreed with one of the most frequently touted benefits of flash sale promotions, namely, exposure to new customers. On average our respondents reported hosting 70 percent new customers through their flash and private sale promotions. At the same time, our findings did not support one of the great concerns with flash sale sites, which is that they attract bargain hunters who, as one respondent put it, "feel *entitled* to get something great for next to nothing." Based on respondents' estimates, we conclude that most of the new customers were not dramatically different from current guests.

Most hoteliers were able to recoup at least some of the revenue forgone in the deal by up-selling customers who bought a discounted package. On average these hoteliers reported slightly over 29 percent in added spending over the promotion unit price, although this percentage was not consistent from site to site. Groupon users reported about 33 percent additional spending, Hautelook users 24 percent, LivingSocial users 21 percent, Rue La La users 14 percent, Jetsetter users 10 percent, and Vacationist users 9 percent. When considering the average discount of 50 percent that customers expect from flash sales, the average of 30 percent in additional revenue narrows the deal's discount to 35 percent.[11]

One factor often cited to justify offering a flash sale promotion, repeat business, did not seem to operate for these respondents. Respondents reported that an average of only 11 percent of customers returned from each promotion. The highest percentage of repeat business came from Vacationist, at 16 percent. Repeat-business percentages from other sites were: 15 percent for Rue La La, 13 percent for Groupon, 5.5 percent for LivingSocial, and 5 percent for Jetsetter. Note that this measure does not capture "referral" business.

[11] Selling a $200 room at $100 (assuming a 50% discount), adding 30% ($30) in ancillary revenue, boosts hotel revenue by 30%, albeit with the added cost of the ancillary service.

We offer our respondents' calculation of profit margin, although we caution that we did not specify a computation method, and respondents may have their own particular approach. That said, the average reported profit was about 17 percent. Rue La La yielded about 24 percent, Groupon about 21 percent, LivingSocial about 20 percent, Vacationist and Hautelook about 14 percent, and Jetsetter 12 percent.

Correlations of Satisfaction, Repeat Use, and Referrals

Based on the respondents' estimates of successful deal-making strategies we found a statistically significant correlation between satisfaction with the promotion and the percentage of new customers the promotion attracted. We found a weaker correlation between satisfaction and the customers' excess spending. In other words, operators perceived initiatives to be successful when they broadened the customer base, even if the new customers failed to spend significantly more during their stay.

Those results were corroborated by whether the respondent would recommend the site to others. A significant correlation emerged in our data between the likelihood of recommending a site and the percentage of new customers the promotion attracted. No significant correlation of recommendations with on-property spending was detected.

With respect to the strategy implemented, we found a significant correlation only between management of the total cost of the promotion by operators and perceived satisfaction. In other words, those who reported paying more attention to managing the total cost of the promotion were significantly more satisfied than were those who did not do so. No other strategy correlated strongly with satisfaction.

This strategy of managing the total cost of the promotion also was correlated with a likelihood to recommend a site. Beyond that, however, we found that a positive view of the intermediary (as determined by the willingness to recommend) was also strongly correlated with proactive management of the loyalty of the newly attracted guests. Weaker, but positive, correlations were detected with proactive management of variable costs, the cross-selling of service to increase incremental sales, and the implementation of capacity constraints to avoid displacement of higher margin business.

These results to some extent support the idea that operators who better understood the characteristics of the channel and managed it more proactively had a more positive view of their experience.

Why Respondents Avoided Flash Deals

The reasons given by the sizable proportion of our respondents who would not consider flash sales coalesced around the following four main themes:

- **Expense**. The channels insist on too steep a discount and too high a commission;
- **Misalignment with target customer segment**. Luxury operators cited this most frequently, even though flash deal use by luxury operators exceeded 40 percent in our sample;
- **Negative branding effects**. Respondents thought that such sales could damage their properties' rate integrity and customers' future rate expectations; and
- **Ignorance**. A few respondents mentioned that they did not know enough about this option and did not clearly understand the benefits of participation.

Given the importance of rate integrity and brand expectations, we asked those who had used flash deals to comment on whether they thought the sales they had offered compromised rate integrity. The results were intriguing. Three out of four generally believed that rate integrity was not compromised, but only one of four stated that they were sure of this assessment.

Prospective Users

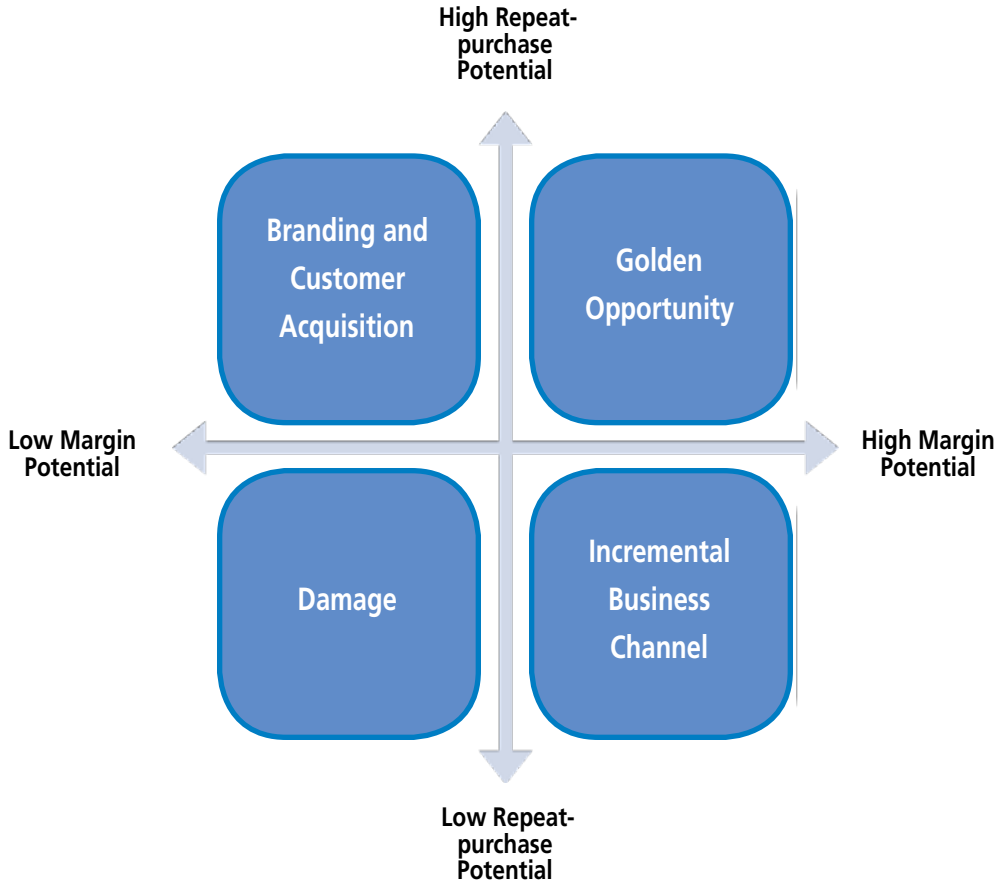
Finally, we asked the small group of respondents who were still considering the use of flash sales and private sales to state the factors that would push them to take this step (that is, the goals they would have for such a promotion). About 40 percent cited the hope of increasing occupancy rates, 38 percent cited customer acquisition, 37 percent cited brand management, 34 percent cited revenue enhancement, 33 percent cited boosting profit, and 26 percent said they would do it out of desperation.

Conclusions and Recommendations

On balance, our study found that the hotel operators that used flash sales did well with them. For operators who would like to improve their use of flash sales and for those still considering the possibility, we propose the following recommendations.

- Define your purpose carefully. Knowing why you want to do this will help you pick the right site, for the right reason, and increase the likelihood of achieving your objective.
- Study sites carefully: Each has its own business model.
- Be open to market insights offered by site representatives, especially those familiar with your kind of business and your market.
- Don't be afraid to negotiate the terms of the deal. These sites offer terms that vary widely, and some are more negotiable than others.
- Consider all implications for profit, volume, and ancillary revenue when firming up the terms. In particular, manage the deal's cost structure.
- Decide how many room-nights you need (or are willing to offer) and when your availabilities will occur.
- Offer unique, carefully constructed deal packages to avoid cannibalizing existing revenue, because you don't want existing customers migrating to your flash sale. Packaging also avoids allowing your best available rate to be compared with the deal, which might compromise your market position.
- Start small, learn, adjust, and then expand your offerings.
- Monitor user profile and usage results carefully and continually.
- Prepare to convert first timer users to repeaters and encourage referrals. ■

Optimal Flash-deal Strategies: An Integrative Framework



To summarize the accompanying article, we developed the two-by-two framework shown here for companies relative to flash sales sites. The matrix has two dimensions: repeat-purchase potential and margin potential. Evaluating your property on these two dimensions allows you to better frame the value proposition offered by flash deals. If you don't expect to be able to convert customers from flash sales deals into returning guests, you must carefully manage the margins of any deal you develop and creatively identify opportunities for cross-selling and upselling once guests are on property. When you expect high conversions from flash sales customers to returning guests, you could justify the deal as a marketing expense. You should carefully avoid structuring any flash sales that will land you in the lower left quadrant.

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