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7-1-2009

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Recommended Citation

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Abstract

This case provides an interesting example of the trade-offs between revenue management, brand image, loyalty programs, and employee satisfaction. The Dine In Grandeur Program (DIG) is financially successful (see the discussion below), but might be causing displacement of regular, full-paying customers and could have a negative effect on the Hong Kong Grand's image. Furthermore, many employees and managers are unhappy with the program and find it difficult to implement. This case has been successfully used in a revenue management class, but could also be used in any service operations or service management class that includes revenue management as a topic. In addition, it could be used in a marketing strategy or services marketing class to illustrate the tradeoffs between revenue and brand image.

Keywords

cases, developing analytical skills, interdisciplinary teaching, teaching revenue management, teaching service operations management

Disciplines

Food and Beverage Management | Hospitality Administration and Management

Comments

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July 1, 2009

Case Study prepared for INFORMS Transactions on Education

Introduction:

This case provides an interesting example of the trade-offs between revenue management, brand image, loyalty programs, and employee satisfaction. The Dine In Grandeur Program (DIG) is financially successful (see the discussion below), but might be causing displacement of regular, full-paying customers and could have a negative effect on the Hong Kong Grand's image. Furthermore, many employees and managers are unhappy with the program and find it difficult to implement. This case has been successfully used in a revenue management class, but could also be used in any service operations or service management class that includes revenue management as a topic. In addition, it could be used in a marketing strategy or services marketing class to illustrate the tradeoffs between revenue and brand image.

Case Background

This case focuses on the Dine in Grandeur (DIG) program at the Hong Kong Grand Hotel. The DIG program is a type of loyalty program in which customers (or the customers of a partner credit card company) pay an annual fee to the hotel in exchange for discounts at the hotel's restaurants. The Hong Kong Grand started the program in 2002 in an attempt to generate revenue for its restaurants, which were suffering from the poor economy affecting all of Asia. The case is based on a true situation, but the hotel management asked us to disguise their name and data. It is based on interviews with key hotel and restaurant executives. In addition, we worked with the IT staff to obtain the necessary data for doing the quantitative analysis. To simplify the problem, we reduced the number of restaurants, disguised the data to some extent, and consolidated the raw data.

Experience in Teaching the Case

Management course, which is jointly offered between the Cornell University School of Hotel Administration and the Nanyang School of Business at Nanyang Technological University in Singapore, and in executive education programs. Degree-program students are primarily in

MBA programs and have taken a previous course in revenue management. The course covers applications of revenue management in nontraditional settings such as restaurants, theaters, golf courses, and spas. The students typically are analytical in their approach, whereas the participants in executive education programs attack the case more from a strategic perspective. Both lead to lively discussions.

This case is used as part of the course segment on industries that cannot control the length of the customer experience and that normally do not offer multiple prices. Typical industries include restaurants and golf.

The case lends itself to either a quantitative or qualitative discussion, but in order to understand the nature and complexity of the problem, some degree of quantitative analysis is necessary. Our preference is to require a detailed analysis and case write-up from students, as well as a full discussion in class. In their write-ups, the students must analyze the case data in depth to answer the assigned questions. There are no particular techniques that students need to use to analyze the data, but solid analytical and Excel skills are necessary. Case discussions are primarily qualitative; students use the results of their analyses to bring up relevant discussion points.

To date, the case has worked very well. The quality of the case write-ups has been excellent and students have commented in their final evaluations on how much they enjoyed it. The case discussions have been quite lively and the students have been engaged. We should note that this engagement was achieved despite the university-based case being taught using video-conference technology with students located in both Singapore (where the instructor was) and Ithaca, New York.

Case:

Revenue Management at the Hong Kong Grand: The Dine in Grandeur Dilemma

Erica Liu, program manager for the Dine in Grandeur (DIG) program at the Hong Kong Grand Hotel, hung up the phone after a call from a disgruntled customer. Just then, Jerome Tan, VP of Hotel Operations, walked into her office. "I tell you Jerome," sighed Erica." I've been getting calls from customers complaining about all the rules we have for the DIG program. It's driving me nuts." "Tell me about it," Jerome replied. "These DIG members really annoy our staff. All they're looking for is free stuff. I heard the ultimate one yesterday. Some guy walked into the Cantonese Café with 10 little kids and wanted them all to eat for free! Yes, we have a rule that kids under five can eat for free, but not the whole city! It turned out it was his son's birthday party. Can you believe that?" Erica sighed again. "I guess that means we're going to have to create another rule for members to complain about. I mean, I think it's a great program and all and it definitely brings in a lot of money, but how are we going to deal with all these problems?"

The Dine in Grandeur Program

Dine in Grandeur (DIG) offered members the opportunity to receive discounted meals and rooms at the restaurants and bars located in The Hong Kong Grand.[1] The DIG program began in 2002 as a response to the then-slowing economy in Hong Kong. The restaurants were often empty, and the DIG program was designed to encourage Hong Kong residents to dine in the restaurants at a discounted rate. With a food cost as a percentage of sales that averaged 32% of gross revenue, even a 50% discount yielded a good profit margin. In addition, the DIG program required the purchase of annual memberships, which provided a substantial revenue stream with practically no variable cost.

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[1] The names of the hotel and restaurants have been disguised.

The program was an immediate hit. Within the first year, over 1,000 memberships were sold. Local residents welcomed the opportunity to dine at the four hotel restaurants at major discounts. The hotel's restaurant revenue increased sharply from the added sales.

The Hong Kong Grand

The Hong Kong Grand, a 140-room landmark hotel on Hong Kong Island, opened in the late 1800s and was considered a national monument. It was one of the world's well-known grand hotels and had received numerous awards, including Best Luxury Hotel and Best Hotel in Asia. Its guest list has included such luminaries as Queen Elizabeth II, Bill Gates, and James Michener, and it was one of the most photographed sites in Hong Kong. The hotel had four restaurants, ranging from the 56-seat Hollywood Road Deli to the fine-dining 112-seat Kabuki. All the restaurants took reservations and were open for lunch and dinner. The adjoining convention center, the second-largest meeting space in Hong Kong, provided an ideal setting for upscale conferences and the adjoining shopping mall offered a multitude of shopping and dining options (for more information on the Hong Kong Grand restaurants, see Exhibit 1).

The ownership of the Hong Kong Grand had changed recently. Previously, the company that owned the shopping center had also owned the hotel and had restricted the number of restaurants that operated in the mall. Once they sold the hotel, that restriction was lifted and the hotel restaurants had to contend with much more vigorous competition.

The DIG Program

The DIG membership card gave customers a 50% discount when two adults dined at one table and ordered at least one dish per person (starter, main course, or set menu). Typically, members dined for free; their dining companions paid for the meal. If members dined alone, they received only a 10% discount. (Exhibit 2 shows the discount schedule for different party sizes). The discount was calculated on the total food bill and did not include beverages, taxes,

or service charges. It also was not available for takeaway orders or private dining events. Children dining with members also received the discount. Children under five ate for free in the buffet restaurant. In addition, special children's menus were available in the à la carte restaurants (see Exhibit 3 for complete program rules).

The card came with other benefits, including discounted room rates at the Hong Kong Grand (subject to availability), birthday and wedding vouchers, and discounts at several stores. Members could not use the card on Valentine's Day, Mother's Day, Christmas Eve, Christmas Day, and the first few days of the Chinese New Year. Although DIG program rules stated that restaurants could restrict seating availability during busy periods, this was rarely done.

Types of Memberships

Two types of memberships were available: Dine in Grandeur Traditional (HK$1,588 per year) and Dine in Grandeur Epicure (HK$2,588 per year). The majority of members opted for the Epicure membership because it included a free room night at the hotel.

In addition, DIG cards were given for free to all premium members of a well-known credit card company. The credit card company paid the Hong Kong Grand a discounted rate (HK$275 per year) for each member in the Traditional program and HK$400 per year for Epicure memberships, which were given only to their most valued customers. Both The Hong Kong Grand and the credit card company saw a mutually beneficial partnership evolving from the alliance of the two highly regarded brands.

Currently, there were over 4,000 DIG members. The people who purchased their memberships opted primarily for the Epicure DIG program (78 Traditional members, 641 Epicure members). About 85% of all members were premium customers of the credit card company and thus did not pay for their DIG cards. Of the credit card members, 3,214 were Traditional members; 310 were Epicure members (see Exhibit 4).

Not surprisingly, the purchased DIG cards had a higher likelihood of being used—about 75%—and were used more frequently—about once every month and a half—than those given to credit card holders. The 25% of credit card members who used their memberships used it an average of once every four months. The average party size was comparable (about 2.5 customers), as was the average net revenue—(HK$225)—except for the credit card Epicure members, whose average revenue was HK$325. The average discount for all DIG transactions was 35% (see Exhibit 4).[2]

The percentage of restaurant revenue derived from the DIG program ranged from under 3% at the Hollywood Road Deli to over 60% at Kabuki (see Exhibit 5).

Competing Programs

Food and dining out were important parts of Hong Kong's national identity and served as a unifying cultural thread. Along with shopping, eating out was often seen as a national pastime. Indeed, Hong Kong was called a "gourmet paradise" and "the World's Fair of food."[3] In response to DIG, several other hotels had developed dining programs in an attempt to emulate The Hong Kong Grand and tie into the local passion for eating out.

DIG Issues

After finishing a meeting, Susan Li, Vice President of Finance, decided to stop by Erica Liu's office to say hello. Jerome Tan was there, and the two were in a heated conversation that abruptly stopped when she knocked. "Let me guess. The two of you are arguing about the DIG program again!" Their looks confirmed her suspicion. "I don't see why you have so many problems with it. It's produced a lot of incremental revenue that has boosted our bottom line." (See Exhibits 6–8.)

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[2] For a list of commonly used restaurant terminology, please see the appendix.
[3] 3 http://en.wikipedia.org/wiki/Hong_Kong_cuisine.

"But Susan," Jerome exclaimed, "the DIG members are displacing lots of our regular customers, especially during busy periods, and we're practically giving meals away. I feel that we should develop other programs to fill the restaurants and increase revenue—without all these cheapskates." Erica jumped in. "Jerome, I keep telling you this, but you're forgetting about all the money these people spend to become members. That is pure profit—hardly any cost involved. And the members deserve to get value for their money—or they won't renew their annual memberships. What do we give them, though? More rules that make them feel like anything but members. I tell you, I can understand why they complain."

"Erica, you just don't know what it's like to be working in the restaurants," Jerome replied. "These DIG members are so pushy and always ask for more, more, more—and they try to game the system. For example, remember that rule about how only one discount card per table can be presented, even if there are two parties and each of them is a member? Well, since we have so many members, it's pretty common for several people at the table to have membership cards. And, then they all want to use their cards so they can save more money. When we tell them that it's against the rules, they say it's unfair because it penalizes people for dining together, that if they had come as couples and sat at separate tables, each table would have received a 50% discount. To get around the rule, guess what they're doing?" Pausing for effect, he said, "I'll tell you what they do. They show up separately and then ask to be seated at adjacent tables. Once seated, they push the tables together and try to get double the discount! How do you handle that situation if you're the server? Doesn't exactly fit with the ambience we're trying so hard to create, does it? And it does a number on the servers' attitudes." (See Exhibit 9 for sample comments.)

Jerome was getting visibly upset. The more upset he got, the more flustered Erica became. Her program was adversely affecting people whose attitudes and behavior were vital to creating the dining experience. As Susan tried to calm him down, Carmen Teo, Vice President of Marketing walked in. "I heard you from my office around the corner! I thought I'd

better come down before someone had to call security!" she said with a laugh. Erica quickly said, "What do you think of the DIG program, Carmen?" Carmen though for a long moment and then said, "I certainly can see the point of the program, but I just don't know. We spend so much money trying to build and maintain our luxury image—and then we offer a discount program that is very much at odds with it. I know it generates profits that we otherwise would never see, but what are the costs? Our guests pay a lot to be here and expect a wonderful experience. I don't know if we can provide this experience when we have coupon-wavers in there with them."

Jerome chimed in. "Especially when our customers have become so much more creative in getting around the rules." Erica agreed, saying, "Yes, and that's why we have so many rules now—and that's why I get so many calls complaining about them! Again, these people are spending a lot of money for their memberships and we're making it very difficult for them! I can see why they're annoyed."

Carmen said: "The question we need to think about is how to provide good value to our DIG members that keeps the revenue flowing, while protecting the hotel from possible abuses of the program and negative impact on the guest experience. The answers are anything but obvious."

Susan jumped in: "Let me give you an alternate view. We have owners who are very much focused on the bottom line. Imagine their reaction if we suddenly dumped the program. I'm thinking that maybe we should extend the discount to beverages since our cost of sales is so much lower. Right now our food cost percentage is 32%, but the beverage cost percentage is only 24%. I think it would be a strong contributor to financial performance." Jerome groaned. "But Susan, one of the only things that I can possibly see as a good thing for this program is that while we're basically giving the food away, we at least get a decent profit from the beverages. That would cost us more money!"

Erica checked her watch and noticed that she and Jerome were due at another meeting. "Well, it's nice that we're all in agreement. Anyone want to take over my job?"

Erica shook her head as she walked out the door and thought about the meeting she had with the hotel executive committee in two days. Jerome, Carmen and Susan all were members, and high on the meeting's agenda was the future of the DIG program. She thought to herself, "I need to present a comprehensive analysis of the program's costs and benefits and recommendations about where to go from here." How will I resolve all the differing views?"

"Better get to work," Erica thought, as she reached for a bottle of aspirin.

Appendix. Restaurant Terminology

Average check: The average amount paid per customer

Party: The number of customers at a particular table

Total check: The total check amount from a party

Server: A waiter or waitress

Seat occupancy: The percentage of seats occupied during a given period.

Table occupancy: The percentage of tables occupied during a given period.

Revenue per available seat hour (RevPASH): Total revenue divided by the number of seat-hours available.

Meal duration: The length of a meal. Varies based on the type of restaurant and the meal period (e.g., lunch, dinner). Dinners average 150% the time spent at lunch.

Meal period: The length of time that the restaurant is open for a given meal. Depending upon the part of the world, most restaurants offer lunch from 11–2:30 or 3, whereas dinner is typically offered from 5:30 or 6 until 10 p.m.

Restaurant types (in the context of The Hong Kong Grand):

Fine dining: Full-service, sit-down restaurant with a comprehensive menu and served in a fairly luxurious setting.

High average check per person. The type of restaurant that most people visit a few times per year.

Upscale casual: Full-service, sit-down restaurant with a comprehensive menu and served in a casual setting.

High average check per person. The type of restaurant that people might visit once a month.

Casual: Full-service, sit-down restaurant with a somewhat limited menu and served in a casual setting.

Moderate average check per person. The sort of restaurants that people might visit once a month.

Fast casual: Limited-service restaurant with a fairly limited menu. Customers can either take their food with them or eat it in the restaurant. These restaurants are fairly casual with a low to moderate average check. The type of restaurant that most people might visit a few times per month.

Quick service (fast food): Limited-service restaurant with a limited menu. Customers can either take their food with them or eat it in the restaurant. These restaurants are very casual with a low average check. The type of restaurant that most people might visit on a weekly basis.

Exhibit 1   The Hong Kong Grand's Restaurants

Restaurant name	Cuisine	Restaurant type	Average check (HK$)	No. of seats	À la carte or buffet	Lunch duration (hours)	Dinner duration (hours)	Hours of operation for each meal
Cantonese Café	Local/buffet	Local/buffet	76	106	Both	1.0	1.0	5
Kabuki	Japanese	Fine dining	250	112	À la Carte	1.0	1.5	5
Hollywood Road Deli	American style	Casual	104	56	À la Carte	0.5	0.5	5
Dragon Boat	International	Smart casual	109	72	Both	1.0	1.0	5

Exhibit 2   Party Size and Discount Size

No. of guests	Discount (%)
0	10
1	50
2	33
3	25
4–10	20

Exhibit 3   DIG Membership Rules

For Dine in Grandeur Gourmet membership: HKS$1588

Price reduction schedule

Member plus 1 guest (2 adults) (%)	50*
Member plus 2 guests (3 adults) (%)	33
Member plus 3 guests (4 adults) (%)	25
Member plus 4 guests or more (up to a total of 10 adults) (%)	20
Member dining alone (%)	10

Other dining benefits

- A flat 20% discount will be given to members during Chinese New Year black-out dates when dining with a minimum of 5 or more people at one table at all restaurants except Kabuki.
- 1 Special Occasion voucher for 50% discount on total food bill in any one of the hotel's restaurants, when dining in a party of 6 to 12 people. Not available during Chinese New Year period—the eve to the 15th day of Chinese New Year.

Conditions

- The price-reduction structure is calculated on the total food bill only, excluding beverages, government taxes, and service charge. Reduction does not apply to private dining and take-away.
- One card per table, per party, per occasion. Not valid with any other discounts or promotions.
- A 10% reduction will also be applied to bar snacks, where applicable.

∗A 50% discount is applicable only when there are 2 adult dining parties at a table and when a minimum of 2 food items are ordered (e.g., one set menu and one starter, or one main course and one starter). Two dining parties may not necessarily order a main course but at least 2 starter orders are required. In the event that only 1 food item is ordered for sharing and there are 2 parties dining, a 10% discount is applicable instead of the 50% discount. Members and their guests have to order a dish per person in order to enjoy the varying discounts. Side dishes are excluded from this discount benefit.

Exhibit 4   DIG Membership

Membership type	No. of members	Active cards (%)	Average visits	Average party size	Average discount (%)
DIG-traditional	78	71	6.7	2.4	35
DIG-epicure	641	76	6.5	2.7	38
Credit card-traditional	3,214	28	3.5	2.5	35
Credit card-epicure	310	20	2.5	2.6	32
Totals	**4,243**	**49**	**4.8**	**2.5**	**35**

Exhibit 5   Restaurant Performance

Restaurant	2007 revenue (millions of HK$)	Percentage of revenue from:	
		DIG members (%)	Credit card members (%)
Hollywood Road Deli	23.3	3.4	2.4
Dragon Boat	20.1	4.0	5.9
Kabuki	53.5	42.8	19.6
Cantonese Café	15.4	1.3	1.4

Exhibit 6   Table Configuration of Hong Kong Grand Restaurants

Table size	Tables			
	Cantonese Café	Kabuki	Hollywood Road Deli	Dragon Boat
2	5	2	16	8
4	20	15	3	12
5	0	0	0	0
6	0	0	2	0
8	2	2	0	1
10	0	0	0	0
Bar		10		
Tempura		Table for 10		
Teppanyaki		Table for 12		

Exhibit 7   **Number of Customers for Hong Kong Grand Restaurants by Meal Period and Day of Week**

	Cantonese Café	Kabuki	Hollywood Road Deli	Dragon Boat
	Average number of lunch customers			
Monday	195	298	250	203
Tuesday	190	336	291	228
Wednesday	228	327	333	254
Thursday	228	344	333	269
Friday	244	370	375	277
Saturday	325	242	375	306
Sunday	244	225	354	337
	Average number of dinner customers			
Monday	325	190	260	170
Tuesday	358	249	286	198
Wednesday	293	257	286	161
Thursday	341	272	286	246
Friday	317	372	312	359
Saturday	317	327	312	320
Sunday	325	301	234	218

Exhibit 8   Average Revenue for Hong Kong Grand Restaurants by Meal Period and Day of Week

	Cantonese Café ($)	Kabuki ($)	Hollywood Road Deli ($)	Dragon Boat ($)
		Average lunch revenue		
Monday	17,937	39,107	26,692	25,563
Tuesday	17,199	42,576	27,485	30,170
Wednesday	16,166	38,231	30,791	29,003
Thursday	16,751	44,450	32,208	27,484
Friday	18,052	46,411	35,783	30,596
Saturday	15,404	40,234	38,381	28,890
Sunday	19,227	39,324	41,110	27,629
		Average dinner revenue		
Monday	20,754	100,088	21,437	21,581
Tuesday	25,671	81,638	25,738	22,238
Wednesday	24,438	96,045	20,451	29,778
Thursday	25,664	109,375	32,395	28,136
Friday	31,273	113,909	47,283	31,160
Saturday	28,678	126,059	40,559	29,790
Sunday	18,986	112,027	28,715	24,368

Exhibit 9   Sample Server Comments About the DIG Program

- "My DIG customers love the program. For many of them, this is the only reason they come out to The Dragon Boat."—*Dragon Boat*
- "I am sick of this program! I hate having to explain the rules to people trying to use multiple cards per table."—*Cantonese Café*
- "While it's sometimes tough to have to explain rules to customers, I have to admit that the program benefits the restaurant and helps make my job more secure."—*Kabuki*
- "I think it's embarrassing! I'm working at the Hong Kong Grand and I have to deal with tacky discounts?!"—*Kabuki*
- "I'm sure it makes sense to management but dealing with customers who don't understand how the program works is the worst. The rules should be more clear to the customers."—*Hollywood Road Deli*
- "The DIG discount ruins the tip. I work for half as much!'—*Dragon Boat*