

The Impact of Online Reservation Systems:

For Chain Restaurants

Ryan Smith
Conrad N. Hilton College
University of Houston

ABSTRACT

Restaurants have used various methods for making reservations in order to maximize the cover count for their particular restaurant. Online reservations systems have made it easy for restaurants to create a table layout specific to their restaurant and to manage their reservations, as well as the table seating during service. A reservation is the end result of the decision process, but to better understand the value of an online reservation system, getting to that end result, this study investigates the pre-purchase decision thinking of guests. It evaluates the effectiveness of the system to all guests looking at how purchase decisions were made within other industries relating it back to the restaurant industry.

Keywords: Restaurants, Online Reservation Systems, Pre-Purchase Decisions

INTRODUCTION

Statement of Problem

When starting new restaurant, owners need to build their business (Vassos 1996). As a potential customer, there are hundreds of restaurants to choose from, just miles from your doorstep. More and more restaurants have turned to online reservation systems as a way of getting their name out into the market faster (Schumann & Thorson 2007). Online reservation systems have become popular to independent restaurants and upscale chains. For both categories of restaurants, you get access to a way of getting your name out there, as well as table management software to run your business successfully. However, chain restaurants have an advantage over an independent restaurant, in that chain restaurants have an established brand name and brand image attached to their location (Huang 2006). Guests have an idea what to expect before walking in the door or doing an information search on the particular company.

New chain restaurants enter the market with brand recognition (Huang 2006). Most potential customers in their target audience know what to expect from the restaurant already. Chain restaurants already have allocated money to marketing, public relations, advertising; all ways of reaching potential customers. Pre-decisions are based on better information, customer preference, and consumer's control. Consumers rarely rely on one source as a means for making decisions anymore (Nykiel 2001, Engel & Blackwell 1982). This raises the question, with all ways of reaching potential customers, are online reservation systems profitable for chain restaurants?

This study will investigate customer's pre-purchase decision in choosing a restaurant and then booking a reservation. Studies have been conducted on customer's pre-purchase decision making; however, few studies have looked at what factors go into a guest's decision in booking a reservation at a specific restaurant.

Justification

Restaurants spend thousands, possible millions of dollars a year trying to reach potential guests, depending on the restaurant or restaurant chain. With all of this money that goes into reaching potential new guests, or bringing back old guests, what really works? Online reservation systems have combined two issues that restaurants face into one. Online reservation system companies configure the information technology aspect of managing reservations and a way to market your restaurant out to the public. Online reservation systems are not just a place to book a reservation, but a search database for potential guests to find the right restaurant for the occasion, in the right location, and at the right time (Lee 2006).

Through the internet, there are so many ways of getting your name out potential guests. While these online reservation systems do create ease in the IT area of the restaurant, does it make sense for chain restaurants to use them? This study will look into why guests choose to make reservations through whichever method they choose and what factors go into that final decision.

Purpose and Objectives

The purposes of this study are to propose and test a theoretical model to find out if chain restaurants should utilize online reservation systems to attract new customers and regain the old

customers. This study is conducted looking through the customer's pre-purchase decision making process; the specific objectives of this study are to:

1. To investigate how guests make a decision in making a reservation for a restaurant,
2. To examine the impact of online reservation systems in the customer's decision process,
3. And to determine why guests choose a particular reservation method.

Hypotheses

To achieve the objectives of this study, the following hypotheses were investigated:

- H1. The purpose of your dining experience is most important when considering options where to dine.
- H2. Word of Mouth is the strongest variable in making your final decision for a reservation.
- H3. Online reservation systems have no significance on repeat diners decisions.
- H4. Online reservation systems are not creating incremental revenue; in other words the customer would have gone to the restaurant anyway. They are only using the online reservation system to make the reservation.

LITERATURE REVIEW

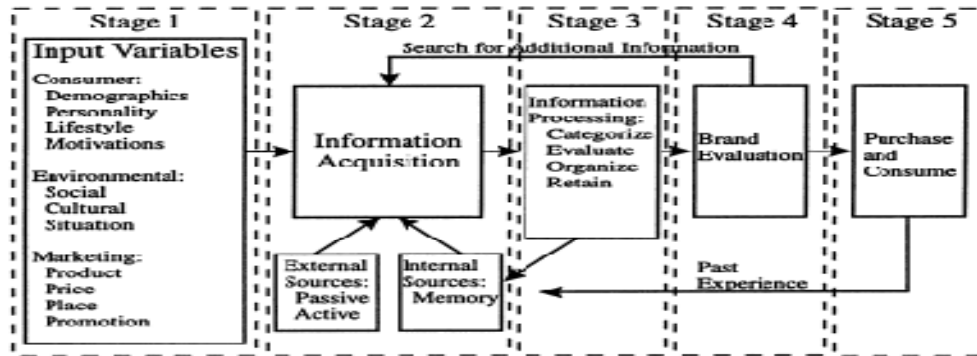
Information Search and Acquisition

Every person performs some information search prior to a purchase. Even impulse buys require the consumer to internally recall something about the past experience or beliefs of a product that assist them in making the purchase. Consumers acquire information as a way of reducing the risk in the event of uncertainty regarding the outcome of an action. A complete information search will greatly lessen the consumer's difference between external and internal information (Locander & Herrmann 1979). By reducing the risk, the consumer will generally increase their satisfaction, which is the primary goal of every consumer.

Prior to the purchase point, the consumers proceed with a consumer information search. Engel, Blackwell, and Miniard (1995) defined this search as: "the motivated activation of knowledge stored in memory or acquisition of information from the environment." More easily understood, a consumer information search is the certain steps in finding the information needed to make an educated choice prior to the final purchase point. Prior to the information search, an individual must acquire this information. Information acquisition can be done internally within the individual or require external sources of information. However, there are important variables that will factor into an individual's purchase processing steps (Assael, 1984).

Vogt and Fesenmaier (1998) took Assael's (1984) model and adapted it into figure 1. This model represents the steps that the consumer takes in making every purchase decision

Figure 1
The Consumer Decision Making Model



This paper will look into the environmental and marketing input variables in stage one to explain the factors on why guests choose the specific restaurant they choose. However, the majority of this paper will focus on stage two, the information acquisition. I have chosen Bloch, Sherrell and Ridgway's (1986) model to better explain the information acquisition stage. They have broken the information acquisition further down into three theoretical approaches: the information processing, psychological/motivational, and economic approaches. The information processing approach is done within the self that gathers all prior knowledge on a purchase the self has stored in their memory. If the individual thinks that they require more information they will look externally from themselves based upon the psychological/motivational or economic approach. The psychological/motivational approach looks at the reasons why the individual is searching for more information. What outside factors are motivating this individual to search? The economic approach investigates the cost/benefit of searching for information outside of the individual.

When making a decision regarding a purchase, much effort on the consumers' behalf is required. The consumer must internally think of past experiences and exhaust internally what he or she knows about the decision. Then must consult outside knowledge to obtain what the consumer thinks is necessary to the purchase. The primary question is how much outside information is needed to make the purchase? It depends on the consumer. Individuals are likely to search for more information as long as they feel the information will outweigh the costs of obtaining it (Stigler 1961). The cost of acquiring information must include the financial cost, time spent, and the effort required (Vogt & Fesenmeier 1998). The financial cost and time spent are external to the individual and the effort required is internal to the individual.

For companies that wish to get their name out into the market, time spent is particularly important to understand. How long will a consumer take to better understand competitors and what are the switching costs associated with the decision? When a company chooses to market themselves, where do they want to be for the consumer to see? Time is valued differently for every person. The internet has done a great in reducing costs for the consumer because it takes less time to find out information on purchases. For companies, the internet has increased the competition, allowing smaller competitors to reach new consumers at much less cost (Ratchford 2001). Online reservation systems have provided the consumer with a way of searching for restaurants anyway you can think of doing. In addition, professional reviews, personal reviews, and ratings are all provided at one source. Online reservation systems give more power to the consumer in less time.

Online vs. Offline Communication in Service Consumption

Dijk, Minocha, and Laing (2006) investigated why consumers choose to use multi channels while purchasing products or services. In addition, the study also shows the patterns with consumers in this process. Finding out what leads a consumer to use one channel over another is growing more and more important (Black, Lockett, Ennew, Winklhofer, & McKechnie, 2002). Dijk et al. (2006) study looked at consumers from start to finish in the consumption process: information search, deliberation, decision, purchase, and sometimes dissonance (Assael, 1995). The participants perceived influencing factors consisted of: convenience, perceived risk, prior conditions, special needs, and transaction costs (Dijk et al., 2006). Many participants agreed that they did prefer to use the internet as a channel of obtaining information, but many offline communications were used. Interestingly enough, out of the 143 travel stories recorded, 90 used multi channels for their travel preparations.

Only 4 of the travel stories did not include the internet as a channel. However, many participants discussed how they used the internet as a broad search and for less expensive deals, but when it came down to the actual purchase the consumers chose to buy the service through a different channel. The internet has become an increasingly important way to reach customers and for those customers who wish to obtain information regarding leisure traveling; however, companies must have alternate means of being available for the buyers. The restaurant industry can be discussed the same way. Online communication is a great way to get a restaurant's name out into the market; however, there needs to be other methods of contact to be in the potential guests consideration set.

Six Factors Affecting Internet Reservations

Kim and Kim (2004) conducted a study to find if online reservations for a hotel were affected by purchaser's demographics. Their study concluded that no demographic information was significant with online purchasers and off line purchasers. However those that chose to use the internet for reservations concluded that six factors affect why they choose to continue to use the internet for booking reservations: 1. Convenience, 2. Ease of information search, 3. Transaction (ease of understanding policies and placing orders), 4. Information credibility 5. Price and 6. Safety (ease of canceling and security of sensitive information (Kim & Kim 2004). Those that booked reservations offline concluded that convenience, price and safety were the significant factors affecting their decision to book a reservation via another offline method.

Going Forward

Marketers want to figure out how to get into the purchaser's consideration set; therefore, they must be visible in the purchaser's initial information search and get him or her thinking about the product, in this case the restaurant (Solomon 2009). There has been minimal research done on the decision making model for choosing a restaurant and how the person makes a reservation. In addition, a reservation for a restaurant differs because in most cases no money or credit card information is ever exchanged prior to the guest showing up at the front door. Also, hotels and other purchases have a set rate that one can expect to pay when the reservation is made, but at the restaurant every patron makes different decisions about what he or she is willing to spend. As the restaurant owner, without information from a guest's previous visit, one will never know what the guest is willing to spend prior to walking in the door.

METHODOLOGY

The investigation for a company to test the hypotheses is in the process. However, this study will use a quantitative study utilizing a survey given to a random sample of restaurant customers. The sample will be taken from diners of a chain restaurant that operates with an online reservation system. The survey will use direct questions to investigate what factors go into making a reservation, when do they require external approaches to gathering information, and why do they book the reservation with whichever method they have chosen.

REFERENCES

- Assael, H. (1984). *Consumer Behavior and Marketing Action*. Boston: Kent.
- Black, N.J., Lockett, A., Ennew, C., Winklhofer, H., McKechnie, S., 2002. Modeling consumer choice of distribution channel: an illustration from financial services. *International Journal of Bank Marketing* 20 (4), 161–173.
- Bloch, P., D. Sherrell, and N. Ridgway (1986). Consumer Search: An Extended Framework. *Journal of Consumer Research*, 13. 119–126.
- Dijk, G.V., Minocha, S., and Laing, A. *Interacting with Computers* 19 (2007) 7–19. doi:10.1016
- Engel, J.F. & Blackwell, R.D. (1982). *Consumer Behavior*. Chicago, IL: Dryden Press.
- Engel, J. F., R. D. Blackwell, and P. W. Miniard (1995). *Consumer Behavior*. 8th ed. Fort Worth, TX: Dryden.
- Huang, W. Y. (2006). *Measuring Customer Pre-Purchase Satisfaction* (Doctoral dissertation). Available from ProQuest Dissertations & Theses database. (UMI No. 3251631)
- Kim, W. G. & Kim, D. J. (2004). Factors affecting online hotel reservation intention between online and non-online customers. *International Journal of Hospitality Management*, 23, 381-395.
- Lee, Y. (2006). *The Determinants of Consumers' Information Search Patterns in Online Marketing Communication* (Doctoral dissertation). Available from ProQuest Dissertations & Theses database. (UMI No. 3216509)
- Nykiel, R. A. (2001). Technology, Convenience, and Consumption. *Journal of Hospitality & Leisure Marketing*, 7 (4), 79-84.
- Schumann, D.W. & Thorson, E. (Eds.). (2007). *Internet Advertising: Theory and Research*. Mahwah, NJ: Lawrence Erlbaum Associates.
- Solomon M. R. (2009). *Consumer Behavior: Buying, Having, Being*. Upper Saddle River, NJ: Pearson Prentice Hall.
- Vassos, T. (1996). *Strategic Internet Marketing*. U.S.A.: Tom Vassos.