

Advantages and Disadvantages of Using Flash Sales in the Lodging Industry

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Abstract

Flash sales websites (e.g., Groupon, LivingSocial) are shopping intermediaries that provide a promotional means to market and distribute goods and services at deeply discounted prices. The purpose of this study is to provide a preliminary assessment of the advantages and disadvantages of hotel room inventory distribution by way of flash sales websites. Forty-six industry professionals were interviewed regarding their experience with flash sales promotions. The results of the study revealed that plausible advantages of using flash sales included filling immediate occupancy needs, increasing exposure, reaching new customer market segments, and inducing first time customer trials. Potential disadvantages of using flash sales for hotel room inventory distribution may fall in the categories of facing high distribution costs, violating rate parity, and experiencing negative impacts on hotel brand and revenue generation. Overall, hotel managers reported that hotel flash sales may serve as an effective distribution and marketing channel when clearly aligned with hotel's goals and needs.

Keywords: Hotel; Flash sales; Groupon; Advantages; Disadvantages; Distribution channel

Introduction

Flash sales websites started targeting the hospitality industry since the recession in 2008 when the lodging industry's room demand ebbed below normal sustainability levels [1]. As the lodging industry is given to rises and falls by nature of distributing a perishable hotel room product under the conditions of variable demand, the added consumer spending constraints posed by the recession markedly increased any existing managerial difficulties involved in room sales. In short, managers were charged with accessing a means to secure room sales in spite of the deleterious demand. Thus, the necessity to increase heads on beds propelled managerial use of the flash sales distribution channel to arrest an already fallen demand [1,2].

However, while flash sales spawned demand relief, the deep discount rates they instigated could impact the overall performance of a hotel. From a managerial perspective, then, the efficacy of flash sales became a debatable proposition [2]. That is, whether the advantages balanced or outweighed the disadvantages became a research issue to address [3-5]. Moreover, did the use of hotel flash sales websites, such as Groupon Getaways, LivingSocial Escapes, Jetsetter, sap unused hotel room inventory at rates detrimental to the bottom line profit of the hotel, strategic pricing, acquisition of target customers, and branding of the hotel property or hotel chain?

The Study

Flash sales websites are shopping intermediaries that provide a promotional means to market and distribute goods and services, such as hotel room inventory [1,2,6]. The sales are offered at time-limited deep discounts in the advance purchase stage of products and services, and occur on average at 50% less than the standard cost of the product (i.e. rooms) [1,2,7]. The influence of such deep discounts particularly during the recession buoyed prospects for room sales. For example, LivingSocial Escapes achieved a milestone of selling one million room nights after just 16 months of operation [8]. This number corresponds to selling an average of 62.5 thousand room nights per month, or providing a bed for more than 2000 travelers per day. Yet, such statistics, while impressive, may be suspect in the calculation of a hotel's overall performance if hotels are selling inordinate amounts of

inventory at deeply discounted rates. Thus, the use of flash sales does expose some ongoing controversy regarding the plausibility of flash sales as a pricing strategy in the hotel industry.

Forty-six industry professionals were interviewed regarding their experience with flash sales promotions. The professionals included general managers and other top hotel executives, including directors of marketing, sales and e-commerce, and revenue management. Study participants represented different segments of the lodging industry, such as hotel property level, hotel corporate level, and hotel management companies (the respondent profile composition is presented in Tables 1 and 2. Interviewees were recruited nationwide, and worked in first and second tier destinations across the United States. The results of the interview analysis revealed several advantages and disadvantages of using flash sales for hotel room inventory distribution.

Results

Advantages

Overall, plausible advantages of using flash sales included filling immediate occupancy needs, increasing exposure, reaching new customer market segments, and inducing first time customer trials.

Area of Responsibility	%
Sales/e-commerce	30%
Marketing	26%
Revenue management	20%
General manager	17%
Other	7%

Table 1: Respondent profile: management position.

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Company Type	%
Hotel property	35%
Hotel management company	35%
Hotel brand corporate office	28%
Hotel e-marketing company	2%

Table 2: Respondent profile: company type.

Satisfying immediate occupancy needs is always of concern to hotel managers during anticipated low demand periods (seasonality, economics, new market entry, etc.) [9]. During low demand periods, flash sales may become a powerful tool to put heads on beds. A general manager of an independent property explained that, “Flash sales help to fill the rooms that otherwise would stay empty”. This opinion was supported by a hotel corporate office revenue manager who stated that, “Flash sales solve the problem of the low demand”. All interview participants agreed that flash sales may present a useful channel to address the problem of unsold inventory during the periods of low demand. As flash sales is an online distribution channel relying on massive subscriber databases, access to prospective hotel consumers is extensive, making the probability of promoting and realizing sales more conceivable – particularly during low demand periods. The result appears to be greater potential to sell room inventory, and less potential for lost revenue.

The use of flash sales websites to access subscribers effectively may increase a hotel’s ability to sell room inventory as well as propagate its market exposure. Hotel information, features, pricing, etc. may be delivered efficiently and effectively via e-mail blasts, thus introducing thousands of potential consumers to hotel availability, as well as amenities. Interviewees indicated that flash sales promotions help to, “increase exposure and put your name out there”. A general manager of an independent all-suite hotel mentioned: “It is essentially a cost-free way for us to drive traffic to our own website, because when these e-blasts go out, the consumers will migrate to our website for more information; and, Google Analytics substantiates that benefit. So [flash sales generate] market exposure at almost no cost...” Furthermore, the seemingly latent value of the ongoing attraction of consumers to monitor flash sales events may serve to annex new and committed consumers as consistent visitors to hotel websites.

Thus, another benefit that flash sales may bring to the hotel industry is to stimulate new trial and customer acquisition. Attracting new customers becomes a less challenging endeavor for hotel managers due to the nature of the flash sales process. This is because flash sales companies own large customer databases thereby providing a more efficient means of contacting prospective consumers with hotel promotions and information. And, as the promotions are generally time sensitive, pressure is brought to bear upon the consumer to act quickly and meaningfully. The result may then likely be secured room sales and services, as well as the possibility of return customers who may again access flash sales events particularly during low demand periods. In this regard, flash sales could be regarded as advantageous in securing first time customers, as well as generating advertising less arduously to secure repeat customers.

Disadvantages

In contrast to the advantages, interviewees identified several disadvantages of distributing hotel inventory via flash sales websites. Potential disadvantages of using flash sales for hotel room inventory distribution may fall in the categories of facing high distribution costs,

violating rate parity, and experiencing negative impacts on hotel brand and revenue generation.

The use of flash sales websites carries a pricey marker, particularly as the flash sales companies’ customer database is costly. That is, listing on a flash sales websites requires a high discount to qualify for the promotions to begin with. In addition, a commission is required to the web site, and that commission is nearly cost prohibitive for many hotel properties. One of the general managers participating in the interviews stated, “Well, obviously, the disadvantage is that you’re paying a commission to somebody, which is a fairly high commission. You’re paying 40 percent to 50 percent commission...” Combined with a room cost that is less than the standard charge, the overall financial commitment to flash sales use in terms of high distribution costs, then, is significant.

An additional identified disadvantage was indicated in terms of violations of rate parity and best rate guarantees. This was a major concern for those properties whose brand is distinguished or easily recognizable. As such hotels undertake to publish best rates on their websites, third party websites using flash sales could denigrate and thus compromise the initiative. The result may then weaken branded hotel attempts to sell rooms. To counteract the affront, managers have used their websites to strengthen their flank by incorporating flash sales deals into availability packages for their loyal customers. However, in spite of the creative strategy, the violation of rate parity is evident. Further, when combining the issue of rate parity, the creative stratagems, and the extreme deep discounts of the flash sales, managers raised concerns about the impact of the entire process on the hotel’s brand.

Consider the following scenario. If rooms were sold at remarkable discounts, and if packages that included not only a discounted room but discounted amenities as well, and if the same accommodations were sold at bargain-basement rates on other sites, then how good could the hotel really be? The answer involves a customer’s perspective of the “hotel’s brand.” Managers were concerned that deep discounts and associated discounts could “cheapen” the hotel’s brand from the customer’s standpoint. In addition, managers of luxury hotels shared a concern that flash sales could dilute their target demographic giving credence instead to customers who would buy a room because of the discount with no intention to buy a room at the regular price in the future.

Finally, most of the interviewed managers revealed concern about the impact of flash sales on hotel revenue. A general manager of an independent luxury hotel mentioned, “The main drawback is that the actual amount ultimately remitted to the hotel is far lower than what our normal rates would yield.” As a result, lower room rate offers for the purpose of heads on beds may lead to lower ADR and a lower position on the STAR reports. Therefore, hotel managers should make a decision regarding the revenue management strategies their hotel follows to reach financial goals. In other words, managers must determine whether they would like to drive revenue generation by means of increasing ADR and thus avoid the use of hotel flash sales, or drive revenue by means of stimulating hotel’s occupancy through deeply discounted flash sales promotions. The latter implies that managers would expect that an increase in the number of guests in house would also increase the amount of revenue generated via guest expenditures in non-room operating departments of the hotel. A summary of hotel flash sales advantages and disadvantages is provided in Table 3.

Advantages	Disadvantages
1. Increased occupancy Filling immediate occupancy needs during the need periods	1. High distribution costs Discounting hotel room rates to qualify for flash sales promotions in combination with high commissions to place the deal online
2. Increased exposure Promoting the hotel property or hotel brand to a vast database of flash sales subscribers	2. Rate parity violation Compromising rate parity when making a deeply discounted rate available on a third party website (e.g., flash sales website)
3. Customer acquisition Stimulating new product trial at a deeply discounted price, and attracting new customers.	3. Brand damage "Cheapening" the brand and attracting not a target customer by providing deep discounts
	4. Revenue impact Undercutting potential revenues by selling rooms at deeply discounted rates

Table 3: Summary of flash sales advantages and disadvantages.

Conclusion

The research endeavored to determine whether flash sales were an advantage or disadvantage for lodging industry managers to use in order to sell room inventory. To establish the pros and cons of flash sales as a distribution method, 46 lodging industry professionals with flash sales knowledge were interviewed. The majority of managers reported that flash sales as a distribution and marketing channel, particularly during periods of low demand, could be an effective instrument. However, managers cautioned the importance of considering the individual hotel's needs, goals, and the advantages and disadvantages of flash sales implementation in light of those needs and goals. Moreover, hotel managers would need to consider the types and extents of flash sales promotion packages that would be the most beneficial for the property.

This qualitative study provides a deeper insight into the benefits and drawbacks that may be associated with using flash sales as a hotel inventory distribution channel. The current research contributes to the limited literature available on hotel flash sales. The findings of this study support some of the results reported by Piccoli and Dev [1], and substantiate the categories of branding, customer acquisition and increased occupancy that were suggested by Piccoli and Dev [1] as some of potential reasons for flash sales adoption by hotel managers.

Overall, the majority of hotel managers shared awareness that the potential that flash sales provide has become a tool for the lodging industry to access and manipulate. Because of this, it may be in the best interest of hotel managers to remain abreast of flash sales design and development as a feasible marketing and distribution channel for the lodging industry. The results of this study are built based on the opinions of representatives from the US lodging industry. However, with flash sales making their way around the globe, future research may be needed to explore the benefits and drawbacks of using flash sales in other countries, and flash sales' potential for attracting international travelers.

Clearly, there are advantages and disadvantages of flash sales use. Whether a hotel manager identifies flash sales as an advantage or disadvantage is dependent upon the pricing and marketing strategies that the hotel manager already has in place, as well as how the flash sales antagonize and diminish, or reinforce and complement those existing strategies. Thus, while it is not possible here to state explicitly that the use of flash sales are or are not of benefit to the lodging industry, it appears certain that as a distribution and marketing channel, flash sales promotion may continue to emerge as technology continues to position itself as a tool in the managerial decision making process of the industry.

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