

Online Restaurant Promotions

Question 1: Restaurants have high fixed costs and low marginal costs. What does the theory of peak-load pricing have to say about the optimal restaurant pricing in an ideal world? Do restaurants use this type of pricing? Why, or why not? [Note: we have not yet covered peak-load pricing in class – you will have to do a little research, e.g. http://econ106t.files.wordpress.com/2010/12/slides9_dynamic_pricing.pdf, or McAfee’s “Competitive Solutions”, p.278-281]

Question 2: In principle, why would a restaurant want to give away coupons? Why not just reduce the price? How should a firm design the coupon? For example, is a coupon stating “\$10 off a dinner entrée any weekend” a good idea?

Question 3: What attracts restaurants to these online promotion schemes?

Question 4: You own a new restaurant. You are considering whether you should promote yourself (a) through a TV ad, (b) through flyers delivered to local houses, or (c) through an online network such as Restaurant.com. What are the pros and cons of each?

Question 5: Which restaurants are *not* suitable for online promotion? Which restaurant would best fit Restaurant.com and which best fit Rewards Network? For example, consider a successful Indian restaurant, a new branch of the olive garden, a cheap falafel store, a high-end sushi restaurant, a struggling Italian restaurant, and anything else you may care to invent.

Question 6: Restaurant.com and Rewards Network are network goods. First, define a network good. Network goods often have trouble getting off the ground (“mobilizing”) because no-one wants to be the first to join (e.g. no-one wants to buy an electric car if there are no charging points, no-one wants to buy the first fax machine). How did these companies overcome this mobilization hurdle?