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Beverage operations pricing strategies

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BEVERAGE OPERATIONS PRICING STRATEGIES

by

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ABSTRACT

Beverage Operations Pricing Strategies

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A study of pricing strategies implemented in food and beverage operations that are focused on beverage operations. This is conducted through literature review and then a real time study of operations for the Luxor Casino and Hotel. Data over a period of three months is then analyzed to ascertain practical and realistic pricing strategies facing Las Vegas in the current economy.

TABLE OF CONTENTS

LIST OF TABLES

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Professional papers are geared to assist the workplace, and in order to get the best results, proprietary financial data was utilized in order to make sounds business decisions that will truly assist the operation in the future. In the competitive nature of business, the information contained in this correspondence is confidential and intended for the use of fulfilling the proffesional paper requirements of the MHA program. Unauthorized distribution is prohibited.

PART 1

Introduction

Whether we are in a recession, oil prices are too high, or financial markets are struggling, recent economic conditions are affecting consumer spending. Discretionary spending in many cases has been reduced or cut out all together. In order to entice consumer spending during this economic hardship, companies are offering promotions, discounts, and price reductions. To be competitive in the current economy businesses need to reevaluate profitability margins.

From a microeconomic perspective, in Las Vegas recent gaming statistics indicate that gambling month over month have decreased (Stutz 2008). Rooms continue to sell out, but hotel rooms now sell at a lower average daily rate. Hotel Occupancy in May of 2008 was down 2.7% and gaming revenue for the Las Vegas was down 18% (LVCVA, 2008). The bad news in a negative economic climate is that methods such as cost cutting and increased marketing are needed to make up for the loss of business. A critical marketing strategy is effective pricing strategies, which is central to the customer experience and the bottom line of the operation.

The purpose of this study is to determine best practices in beverage pricing strategies to improve beverage profitability. This empirical research will study the range of pricing strategies and the impact of those pricing strategies on a real time operation. Some pricing strategies are pricing discounts, price increases during peak periods, product incentives, and product specials. Within pricing strategies, establishing pricing through a focus on menu engineering is important to take into account cost factors and guest preferences in order to maximize revenues.

Pricing strategies have been researched in the past, but they have never been focused on bars and lounges. This study will analyze bars and lounges to establish best practices in pricing for beverage venues. Traditional price markups and menu engineering will be analyzed with to identify concrete pricing strategies in order to maximize performance in a bar and beverage operation. Beverages contain the largest margins within food and beverage, making this study important to the industry as a whole.

Research on pricing strategies will be used to implement menu changes in a bar operation over the course of several months, producing relevant data on how effective pricing strategies are. Through this analysis, best practices in beverage pricing will be created. Pricing strategies will be analyzed in order to ascertain effectiveness by analyzing real time data from Luxor Hotel and Casino's bars and lounges. Through the analysis of current business trends, the theories outlined in literary review will be able to be put into practice to rank the effectiveness of pricing strategies.

Methodology

In order to ascertain effective pricing strategies, beverage menus in the lounges at Luxor; Liquidity, Flight, and Aurora, will be compiled from April 2008 – July 2008. During this four month period, a variety of pricing programs will be put into place. A monthly analysis will be completed to determine the effects of different pricing strategies. The pricing strategy will include several tests such as the effects of a pricing strategy on Tuesdays from the implementation of a happy hour program. Another pricing strategy will be an up-sell program conducted during May and June on Right Gin. In addition, a price increase during holiday periods and high volume periods will; be looked at to determine pricing elasticity and other business drivers by capitalizing on peal guest periods. A discount program will be looked at for European Bottle Service and a free giveaway program will be offered to entice casino customers to drink as part of an alliance program.

Constraints

The research conducted for this analysis will occur over a relatively short period of time and as such, may indicate trends that over the long run may not be true. In addition, Luxor has a particular guest profile that may not be indicative of the guest profile when compared in a macroeconomic sense. This analysis assumes that the data which is gathered can be used to make assumptions over the effectiveness of pricing strategies in all types of beverage venues. However, the pricing strategies will be most effective for operators that reside in Las Vegas, and will be less affective for other regions looking to gain knowledge from this study.

Glossary

- Alliance Program – linking beverage specials to other resort offerings to offer a complete package to customers. For example, offering a buffet meal plan with the purchase of a show ticket.
- Complimentary Items – offering customers free product for their patronage by satisfying certain requirements such as dining at a certain time of day or ordering a certain item.

- Cost Opportunity – The margins associated with pricing that are profit to a firm.
- Discount – A reduce pricing platform offered to guests.
- Early Bird Special – Special pricing or offerings for dining during early afternoon, pre-dinner rush hours.
- European Bottle Service – Beverage service by selling a complete liquor bottle with accompanied service to a guest.
- Elasticity – Mathematical formula for determining the maximum price point guests are willing to pay that will maximize profits.
- Happy Hour – Low volume time slot where bar operators offer discounts.
- High Volume Increase – Peak period of business volume where pricing is raised to match supply with demand.
- Holiday Increase – Peak period of business volume caused by a holiday where pricing is raised to match supply with demand.
- Ladies Night – A certain day and time where discounts or free products are offered to ladies in order to increase business volumes.
- Live Entertainment – A band or DJ accompanied by lyrics to cause a live environment for customers as opposed to piping in music on a track or offering televisions.
- Margins – The difference between profitability and cost of an item. This number fluctuates based on the price charged to a guest.
- Menu Engineering – The study of volumes and sales of a menu by item. The analysis will indicate high and low volume items and high and low

cost items. This study can indicate necessary menu adjustments to increase profitability.

- Pour Cost – The beverage cost associated with selling a particular beverage.
- Pre Fixe Menu - A preset menu that comes with a set price. A Pre Fixe menu is typical in a dining setting where a three or four course meal comes at a set rate. This is also known as a tasting menu.
- Pricing Markups – The pricing platform used by a firm to establish the price of an item.
- Reverse Happy Hour – Discounts offered during an early in the morning time of day that follows a peak business period. For example, discounted beverages offered from three to six in the morning.
- Two for One – Otherwise known as buy one get one free, where a guest purchases a particular item and gets the same item or lesser item in value complimentary.
- Up-Sell – The concept of taking the guests order and then offering a complimentary item to accompany the order or a higher price item as an upgrade to increase revenue.

PART 2

Introduction

Pricing strategies are critical to a restaurant and bar operation. Pricing strategies lure guests in or turn guests away. When an establishment charges too high a price guests do not return. When an establishment charges too low a price the firm is not profitable. Finding the right mix is more an art then a science, but the information from past studies will help to paint the picture.

The history of what a firm pays for products is important to understanding prices firm charges. In addition, the budgets that the firm creates play a critical role in establishing what price points and pour costs that a firm operates within. Pricing strategies also incorporate psychological elements such which amount to round prices to. Financial theories such as markups, margins and revenue management are critical themes to pricing platforms.

Once prices are established, a firm then needs to look at the top sellers and bottom sellers to identify areas of needed adjustment. Through the use of menu engineering and offerings of other amenities a firm can adjust product mixes to increase sales through pricing adjustments and business drivers.

Our marketing textbook discusses several stratagems for pricing, all of which is based on the intent to maximize profits through cash flows and return on investment. Businesses that enter the market will rely on lower pricing even at expense of short term profits to gain market share, where as existing operations largest gain is through the use of cross selling and up selling. In the case of Las Vegas operations, typically pricing is performed through going rate pricing where price levels are established in large part based on competition with minimal attention to cost or customer demands (Philip Kotler; John T. Bowen; James C. Makens 2006).

Literature Review

Current Business Trends

Quick Service Restaurants are mired in a competitive war to gain market share. In efforts to increase market share and gain on the competition QSR are using pricing strategies. The main pricing strategy of a QSR operation is the implementation of a dollar menu or more importantly, the featuring of lower price items in order to increase sales. Year over year analysis shows a two percent increase in customer counts but a three percent increase in purchases from a value menu (Brandau, 2008). As restaurants strayed from a value oriented focus they found a decline in sales such as Wendys which tried to match competition by raising pricing of their products and then realized a decline in sales (Pricing strategy dampens wendy's 2nd-Q sales.2007). Thus, although guest counts are increasing, more customers are focused on value menus to make their purchases saving on expenditures.

New menu trends are important to pay attention to. An operation that is able to keep up with trends is an industry leader that is able to stay competitive in the market. New food trends include ethnic foods, expanded day parts, snack offerings, and a commitment to freshness (Lockyer, 2007). Another way to offer snack portions would be to allow a child type menu for adults to order and price accordingly (Dumas, 2006). Portion control both from a dietetic stance and a product margin stance will be a trend to keep an eye on in the short term. In a beverage operation this competitiveness means that an operation needs to focus on fresh ingredients such as muddled fruits and fresh squeezed juices. Snack offerings would mean tasting portions such as flights, and ethnic items would be items that would contain ingredients native to elsewhere such as using jalapeno peppers in a martini featuring tequila. Another potential focus area is on the fresh ingredients themselves from a health sense. One of the biggest trends today is health foods (Duff, 2006), and when looked at from a beverage perspective means the incorporation of healthy ingredients such as the antioxidants in pomegranate and acai berry.

As the economy continues to struggle, operator margins become more and more important. The ability to expand margins by one or two points can make a large difference come the end of the month. Studying various operators in New York, strategies to keep costs in line range from substituting lower cost alternatives, reducing menu portion size, or increasing prices (Prewitt 2008).

Commodities/Portions

One way to maintain profitability is to increase prices in order to improve product margins. However, another option is to reduce portion size, which would then lower the portion cost thereby increasing the product margin as well. As commodity pricing is increasing, reducing portion size is a viable option to maintain product margins and profitability (Prewitt, 2008). Food prices are rising and fuel costs are causing operators to impose fuel surcharges on top of the invoices. For example, with the large demand of ethanol as an alternative fuel, 30% of corn crops are now being diverted from foodservice fields of wheat, corn, or soy into corn for ethanol purposes thus increasing the cost of foodservice grade corn. Corn planting will increase 25% this year and has already increased from a high of 2.00 per bushel in 2006 to 3.50 in 2007 (Cobb, 2007). Portion control from a cost perspective is also very critical. If a margin on an item is only .25, and the cook puts extra product on the item then the added cost cuts into an already small margin. Some operators, such as Salad Works rely on fresh made salads that are not weighed, and as such, proper training is a vital component in insuring portions and margins are protected (Shea, 2006). Pricing fluctuations are affecting all industries however as the markets respond to outside conditions such as weather and oil prices. Seafood is also being hit especially hard due to over harvesting and transportation costs caused by increases in oil pricing (Cobe, 2004).

Price Value Threshold

One pricing strategy seems to be foreign to pricing strategies as a whole. A new movement across the country is to operate eateries that do not have pricing. The expectation is that guests will pay what they feel is the fair market value for what they are ordering.

Elizabeth Hughes in her article for Adweek describes a retail pricing model that allows the consumer to pay the price that they want. This pricing platform is as if an individual supply and demand exists based on specific needs and wants. For the pricing structure the music industry is used as an example (Hughes 2007). The system so to speak will not work as intended in the restaurant industry. But, imagine a hybrid version where guests that can not spend 52 dollars a filet would be willing to dine for 36 dollars.

In doing so, some of the peripheral items would become a la carte instead of inclusive but it would allow the guest to get the value they are looking for out of a meal.

A quasi charitable mode that allows people who cannot afford to pay a free meal which is then offset by people that feel they are being generous because of the charitable implications (Berta, 2004)(Flandez, 2007). To date these operations are breaking even or doing better with 5 to 10 percent margins. A price value threshold exists where customers are willing to pay a set amount for a given item. This threshold when in its proper alignment is the concept of elasticity. The maximum price a customer is willing to pay to maximize sales and then revenue. The price value threshold is also the proper place to charge for an item where a firm can get the best sales (Hume, 2006).

Price is a component of value that a customer needs to perceive as a positive thing. When the customer perceives a negative value in the pricing platform the customer will cease to patronize an establishment. Understanding the markets is also important as price dispersion can change amongst markets (Stewart & Davis, 2005). This creates an environment for consumers to drive further to have more access to firms. The more pricing dispersion variability found in a market the greater likelihood that more venues will exist to offer competition, and thus affect pricing.

Price Sensitivity

Sensitivity to product differences or value of products decreases as pricing declines. Price sensitivity correlates with the current price and changes in pricing will lead to volatility in product pricing (Bass, Haruvy, & Prasad, 2006). The implications of this are clear. As guests are subjected to constant pricing changes, the sensitivity to prices declines and distinguishing characteristics of the menu become uneventful. In regular terms, this means that guest turn numb to a menu after constant changes and a firm loses its competitive pricing edge. One option to allow guest an experience without the costs is to offer competitive menus at lunch with smaller portions that would maintain the markup while keeping costs in line (Walkup, 2005). Cheesecake Factory is one example of successful eateries that allows the dinner menu for lunch at reduced portion sizes and corresponding prices.

Kocas and Bohlmann studied internet spending habits, classifying shoppers that go to one site as loyal and consumers that go to multiple sites as switchers who show no loyalty to one site over another (Kocas, Bohlmann 2008). In consumer situations where the consumer is made up of value customers, price is going to be a chief contributor to the decision making process. Customers who can appeal to an experience versus a price are going to look for qualitative reasons to do business with someone.

An illustration in the importance of proper pricing strategies and the minimization of the human factor is the impact a small decrease or increase can result in the margins of an operation. A decrease in price of 1% may result in business profit reductions of up to 11% (Miller 2007). A gut decision that someone makes at a rate setting meeting can skew the results both in a positive and negative manner. The study shows what just a 1% decrease will result in. If demand is not taken into account properly and rates are undersold or demand is looked at as weak, the firm can realize minimized revenue capture. In the short run there are certain scenarios where it is best to reduce pricing structures to utilize inventories, especially in the current economy. But, in the long run, firms need to stay cyclical in rate setting and adjust rates to the current business environment.

Pricing Markups

A firm establishes pricing in order to achieve profitability goals. Firms take into account supply and demand, consumer preferences, product cost, and competition (Draganska & Klapper, 2007). In addition, product placement is important to buying decisions. The location of an item can influence up to 55% of the buying decisions (Martín-Herrán, Taboubi, & Zaccour, 2006) . In the beverage environment, the back bar is the main advertising place. 55% of purchasing decisions in a beverage environment come into play based upon which spirits are at eye level and stand out.

Being able to tailor pricing to the current business climate is an important competitive edge. The ultimate pricing strategy is to be able to tailor pricing to each individual guest (Liu & Zhang, 2006). This strategy may not be the most realistic for an operation. But tailoring pricing to peak periods and low demand periods is a compromise that can drive volume and revenue.

Product Costs

A beverage operator needs to take into account the costs of doing business in setting up a pricing strategy. For example, when creating a wine program for a restaurant a lot of money is tied up into inventory. An operator can price items based on a preferred pour cost, or can take advantage of the business environment to seal supplier deals to bring in wine by the glass items at a reduced price (O'Brien, 2004). By taking advantage of supplier pricing, an operation can maximize revenue through preferred retail pricing.

Menu Engineering

According to Phillips, Davies and Moutinho, middle managers play a large role in making business decisions forming an effective neural network. In making decisions, middle managers in charge of a small business unit have made effective market share by utilizing pricing and cost as a competitive advantage (Phillips, Davies, Moutinho 2002). Although no executive ever wants to hear the term judgment call, the reality is that those judgment calls are made based on experience. The best way to get away from the old school methodology is to put the processes in writing, create standard operating procedures, and then reference them in the future. This also builds a legacy for a successor one day. The middle manager is responsible for truly understanding and mastering the concepts of menu engineering to run the best possible menu.

Once prices are established a successful operators needs to be constantly reviewing sells in order to see how successful a menu truly is. The best menu will drive sales through high margin items. In order to determine the success, menu engineering needs to be taken into account to evaluate the data (Eyes on the price.2007). Menu engineering in itself is designed to evaluate the velocity of each individual menu item. However, when the entire menu is taken into account by activity based costing, menu engineering illuminates an even better picture on the success of the menu (Raab & Mayer, 2007). Utilizing a spreadsheet to tally sales, statistical analysis will identify which items sell in high volume or low volume, and which items have high margins or low margins (Waller, 2006). The best items have high margins and high volumes and the worst items have low volumes and low margins.

Pre Fixe

A Pre Fixe menu is a menu that offers sets course or set items at a set price (Lohmeyer, 2003). This is typically implemented for large parties to insure service is proper as opposed to getting in the weeds. A Pre Fixe menu is also typically implemented on high volume or holiday periods. A kitchen and front of house service never wants to get behind in service and offering a limited menu allows for additional preparation to insure service stays to standard. Most of the time a Pre Fixe menu or a tasting menu as it is commonly called is an excellent way to showcase signature dishes. However, pricing is very critical to this menu. As cited by Erica Duecy, being forced into a holiday menu can leave the consumer feeling duped (Duecy, 2005). This perception in value will leave a customer with a negative perception of the experience and will cause them to not want to stay. In the beverage sphere, this is the equivalent of offering a higher end product as part of an up-sell program and then leaving the check for the guest where they find out the vodka offered was an additional 10 dollars.

Pricing Strategy

A price is the key factor in signaling quality to a customer. The higher the price of the item, the higher the quality is perceived form a guest. One strategy to influence customers is the endings of pricing. Typically firms have used price endings such as .95, .99 or .00 as pricing strategies to sway the emotions of a customer (Liang & Kanetkar, 2006). Higher end firms have typically employed the .00 strategy while lower end firms have used the .99 style (Naipaul & Parsa, 2001). These studies reported that to an extent, the consumer will round prices in their head negating value. Europe is no different than the united States market and offers similar findings indicating that this is a global phenomenon (Hu, Parsa, & Zhao, 2006).

In efforts to understand how firms establish pricing studies have been made to see what factors play a role in determining pricing in service industries (Avlonitis & Indounas, 2006). In the studies, cost and profit were the least considered items when establishing pricing. The primary focuses of pricing strategies were the fit inside the bigger market to stay competitive and the perception of the guest. Thus, from this study we can determine that greater efforts need to focus on actually costs and profits to maximize the bottom line of an organization.

Understandings ones competitive set is one of the better means of being able to market to gain market share. Although cost advantages and pricing discounts can gain short term market gain, in the long run it takes more to make a dent into market share. Creative marketing, advertising to a lucrative niche or an unfound niche by the rest of the competition is a great means of gaining market share. Intangible elements such as service levels are also an excellent means of differentiation is the service standard can be maintained and continue to differentiate from the competition (Yang, Fu 20007). By increasing market share by truly understanding a competitive set and then offering goods and services at a price that allows for product differentiation from the pack will only strengthen a given firm from the rest of the group. Without differentiation, the consumer will resort to electronic sites to do price comparisons and the rest of the differentiation and product offerings will cease to matter.

Revenue Enhancement

The ability to take a guest order and increase the sell by offering additional items or upgrades is central to a firm's profitability. Part math and part psychology, the ability to read a customer and increase sales by offering more then what was originally requested is paramount to increasing revenues. Key phrases to lead a customer such as premium offerings or for a little more go a long way towards guests making up their mind (Sheridan, 2005). Indicators such as a customer who is intently reading a menu indicates a customer open to suggestion.

Restaurant Hospitality performed a review of gimmicks employed by restaurant firms to capture creativity and the customers minds (Rowe, 2006). If you fast forward the gimmick concept to Las Vegas you see the implementation of souvenir mugs all over town. The most famous of which is the skull mug at Treasure Island. Gimmicks can also be described as wow products, such as oversized glassware, giant punch bowls, drinks that smoke, and signature items that captivate the customer. One thing is for certain, these gimmicks captivate the customers mind.

Menu Development

Although not specific to pricing strategies it is important to not touch on development. Pricing is based on cost and strategy of the items that are served. But in order to establish a pricing scheme, the development of the menu must take place. As the evolution to fresh goods continues to expand, new ideas are brought forth to the table.

Pricing strategies take into account what is being served, but how are those items thought up in the first place. In a study of Michelin chefs, the guide to ranking restaurants in Europe, the concept of development was studied, and it was determined that development came from the following areas ranked highest to lowest; visiting other restaurants, literature, new technology, visiting markets, television shows, traveling abroad, and experience from previous employers (Ottenbacher & Harrington, 2007).

When designing menus that appeal to the customer, the newest trends such as what was discussed earlier and customer centric products need to be created in order to appeal to the most guests. In order to stay competitive in the market, a menu must contain products that will reach out to diverse groups.

Guest Perception

Another key contributor to a guest's experience is the feeling that they have of their visit. This leads to word of mouth, the most effective and cheapest form of marketing. During the visit ambience is a key contributor to how a guest feels, if the value of the experience suggests a longer stay then the guest will spend more money, consequently, if the value of the stay is poor the duration and spending will be quite short. Live entertainment is one way to increase guest perception of value. Another value however is the timing of the experience. In efforts to increase table turns staff often try to time the experience. A guest staying too long will cost the operation money in the long run while a guest who is rushed will often times spend less (Noone, Kimes, Mattila, & Wirtz, 2007).

The restaurant environment is critical in offering guest perceptions. A late night menu or takeout for example diminishes the reputation of a restaurant because it adjusts the quality of the operation to a lesser quality service (Susskind & Chan, 2000). Consequently, designating smoking sections and a dress code help to improve the quality of an operation without ever cooking the food or serving a beverage.

Revenue Management

Revenue management is the mathematical way to maximize capacity and revenue of an operation. When it comes to a bar or lounge, revenue management is the ability to tailor prices in real time to demand. These studies first emanated from deregulation of the airline industry and have quickly evolved into implementation in hotel room sales and now food and beverage operations (Harris & Emrich, 2007). Table maintenance is especially tricky in food and beverage operations as conditions that affect business are in constant flux (Kimes & Wirtz, 2003 and; Kimes & Thompson, 2004 and; Susskind, Reynolds, & Tsuchiya, 2004). The goal of the program is to find ways to entice customers to drink during non-peak times to maximize space during peak times (Fry, 2006). One common way this is done is through the use of happy hours or discounts offering financial incentives for guests to dine or drink during non-peak times.

Another common revenue management theme is the offering of an early bird discount. Operators need to be careful not to offend either age group, those who qualify and those who do not qualify through the implementation of a happy hour program

(Knutson, Elsworth, & Beck, 2006). However, by offering special portions or add on items at a value for the elderly consumer will entice them to dine at earlier hours and then allow an operator to shift the focus to a different demographic at a later day part. Discounting during off peak seasons is also a common task such as during summer months in ski mountains (Perdue, 2002). For guests that want the scenery without the snow or crowds, they can receive a larger value for the same type of menu items.

Conclusions

Once a budget is identified a firm can take into account product costs and markups to create a proper cost and pricing platform. Menu engineering or the analysis of historical sales data will indicate the best and worst sellers which will then help an operator determine areas of improvements. From a revenue management perspective, typical food and beverage operators will offer incentives such as price breaks or free offerings to entice customers to patron a firm during non peak times in order to maximize revenues during peak business periods.

Once regular pricing is created, operators have the choice of performing pricing adjustments or business drivers to increase customer counts. Pricing adjustments include price increases during peak periods (holidays, special events), and discounts during slow periods (early bird specials, happy hours, discounts, reverse happy hours). Business drivers include up-selling, offering free items with the purchase or attendance, marketing occasions, providing live entertainment, special events, or special menu offerings.The best operations are able to do a combination of pricing adjustments and business drivers to maximize all day parts. However, this process is constantly evolving and requires continued efforts to tweak and perfect in order to stay competitive.

PART 3

Introduction

Pricing strategies are a central theme in increasing profits. Effective pricing policies will increase margins and sales volume to bring in additional revenue for a firm. Consequently, poor pricing practices will lower margins and sales volumes bringing in less profit and or a loss for the business. Pricing strategies have typically been evaluated based on menu engineering for their effectiveness. Menu engineering is used to track sales volumes on menu mixes taking into account the margins of the menu items.

For the purposes of this study, different pricing strategies have been put into practice to ascertain their impact on a beverage operation. The Luxor Hotel was used for a case study for a three month period of May 2008 through July 2008. Studies have typically relied on theory or other industries to evaluate raw data. This study showcases the direct impact of pricing strategies on an actual beverage operation to see variances in trends based on the pricing initiative.

This case study focused on four pricing strategies. A specialty beverage menu was implemented in the buffet to evaluate guest reactions to a new menu (Table 1 and 2). The bar pricing platform was modified to create a nightlife pricing platform during peak periods (Table 3 and 4). A weekly happy hour was created on Tuesdays from 6pm to 9pm, a regular time period that was low in volume (Table 5). In addition, a monthly product special was conducted through a staff incentive program to measure the difference in sales through staff input (Table 6).

Methodology

For the study on pricing strategies, all data was collected from internal data sources using software called Avero. Avero, is a foodservice software program that creates customizable reports such as product mixes and revenue reports. Once the desired reports were created, data analysis and Microsoft Excel is required to formulate specific reporting needs. For example, to get the top selling beers a product mix report would be created where beer from imports, domestic and microbrew are all compiled to figure out which beer sells the most. Thus, although the software pulls data for reporting purposes, the end user needs to modify the findings to get the end result.

Results

Specialty Lounge Menu

Specialty beverage menus are no different then a dinner menu for a restaurant. With the exception being that a beverage menu focuses on beverages and a specialty menu contains specials. Middle managers are the most effective management layer to impact pricing decisions (Phillips, Davies, Moutinho 2002). Based on this information and effectiveness, the buffet managers were asked to take into account their customer and create the specials that will be used to gauge the effectiveness. In the case of this analysis, a menu was implemented that contained a beer special and a wine special. Anheiser Busch Beer such as Budweiser and Bud Light were placed on sale for four dollar versus the regular price of five dollars and fifty cents. The wine special featured Clos Du Bois Merlot and Simi Sauvignon Blanc for four dollars a glass or fifteen dollars a bottle of wine. These specials were implemented in the buffet to evaluate guest reactions to a new menu (Table 1 and 2).

Table 1 Buffet Special – Monthly Data

		May-08			
	Count	Revenue	Average		
Cocktails	402	$2,200.43	$5.47		Total Beer
Domestic Beer	1217	$5,647.24	$4.64		1877
Imported Beer	660	$3,680.50	$5.58		
Red Wine	399	$4,216.37	$10.57		
White Wine	445	$3,371.14	$7.58	Equivalent Bottles	Total Wine Bottles
Glass Red	105	$682.50	$6.50	26	425
Glass White	83	$458.80	$5.53	21	466
Totals	3311	$20,256.98	$6.12		
		Jun-08			
	Count	Revenue	Average		
Cocktails	323	$2,091.28	$6.47		Total Beer
Domestic Beer	1281	$5,761.51	$4.50		1831
Imported Beer	550	$3,082.79	$5.61		
Red Wine	335	$3,031.35	$9.05		
White Wine	423	$3,424.46	$8.10	Equivalent Bottles	Total Wine Bottles
Glass Red	121	$675.90	$5.59	30	365
Glass White	105	$556.68	$5.30	26	449
Totals	3138	$18,623.97	$5.93		
		Jul-08			
	Count	Revenue	Average		
Cocktails	116	$812.43	$7.00		Total Beer
Domestic Beer	1574	$5,957.46	$3.78		1973
Imported Beer	399	$2,405.97	$6.03		
Red Wine	258	$3,501.25	$13.57		
White Wine	224	$2,494.62	$11.14	Equivalent Bottles	Total Wine Bottles
Glass Red	434	$1,673.88	$3.86	109	367
Glass White	308	$1,237.51	$4.02	77	301
Totals	3313	$18,083.12	$5.46		

Mogavero, Damien (2008). Avero Slingshot [Computer Software]. New York City :Avero Inc

For this pricing strategy menu engineering is the best means of determining product effectiveness. Within menu engineering, taking into account activity based costing to truly understand the effectiveness of the menu promotion (Raab & Mayer, 2007). Based on the current economic fundamentals, the menu decided on involved price reductions for a value sensitive customer. In doing so, margins on the specialty menu that typically run at a twenty percent pour cost increased to a thirty five percent pour cost. Thus, in order to increase revenue, sales would have to increase by two hundred percent to counteract the difference in sales prices.

May was the control month for the purposes of the buffet with the specialty menu implemented June first through the end of July. In May, 3311 items were sold with an average check of $6.12. June resulted in 3138 items sold with an average check of $5.93, and 3318 items were sold in July at $5.46 a check (Table 1). When analyzing month over month, a clear trend emerged where specialty cocktails, imported beer and wine by the bottle declined in sales. At the same time, domestic beer and wine by the glass increased in sales (Table 2).

Table 2: Buffet Special – Product Analysis

	Variance May-June 08		Variance June-July 08	
Cocktails	-79	-$109.15	-207	-$1,278.85
Domestic Beer	64	$114.27	293	$195.95
Imported Beer	-110	-$597.71	-151	-$676.82
Red Wine	-64	-$1,185.02	-77	$469.90
White Wine	-22	$53.32	-199	-$929.84
Glass Red	16	-$6.60	313	$997.98
Glass White	22	$97.88	203	$680.83

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At the end of the day, sales of the target items increased but not at a rate accelerated enough to offset the reduction in sales from other items. In fact, the reduction in average check cost the operation a potential opportunity cost of $2100 and a margin decrease of $2700. Thus, by driving customers towards lower margin items to increase sales wind up costing the operation a potential $4800 a month.

Demand Based Pricing Variability

For the three lounges, the pricing platform was modified to take advantage of peak periods. This was done by creating a nightlife price that goes into effect from 9pm until 3am that increases prices by one additional dollar (Table 3 and 4). The ability to tailor prices to specific situation gives an operation the greatest flexibility in meeting supply and demand (Liu & Zhang, 2006). In this case, the late evening and early morning hours are peak periods for the property, which has recently opened up several nightlife venues.

The effectiveness of this strategy is two-fold, first is their increase in customer complaints associated to the price increase, and second, what affect does the nightlife price have on sales volumes. This study was conducted in the three lounges for the month of June. Table three illustrates the sales and checks for each of the three venues. Table four shows summary data for the month through an average week. No guest complaints to the staff or managers occurred to indicate price resistance. Variability existed between the three lounges, primarily due to the proximity to the nightclub and ultra lounge. On a week to week basis, checks were relatively constant. Over the course of the month of June an additional $17431 was brought to the bottom line by raising additional revenues during peak periods of volume.

Table 3: Nightlife Lounge Statistics

Business	Metric	Total	Average
LUX-Aurora Lounge			
4-Jun	Gross Sales	$21,843.10	$3,640.52
11-Jun	Gross Sales	$18,123.91	$3,020.65
18-Jun	Gross Sales	$23,240.89	$3,873.48
25-Jun	Gross Sales	$20,939.86	$3,489.98
4-Jun	Check Count	1,351	225
11-Jun	Check Count	1,144	191
18-Jun	Check Count	1,475	246
25-Jun	Check Count	1,336	223
LUX-Flight			
4-Jun	Gross Sales	$20,022.36	$3,337.06
11-Jun	Gross Sales	$20,447.00	$3,407.83
18-Jun	Gross Sales	$21,226.86	$3,537.81
25-Jun	Gross Sales	$18,307.33	$3,051.22
4-Jun	Check Count	1,294	216
11-Jun	Check Count	1,325	221
18-Jun	Check Count	1,221	204
25-Jun	Check Count	1,138	190
LUX-Liquidity			
4-Jun	Gross Sales	$30,682.61	$5,113.77
11-Jun	Gross Sales	$30,850.93	$5,141.82
18-Jun	Gross Sales	$36,397.48	$6,066.25
25-Jun	Gross Sales	$33,033.35	$5,505.56
4-Jun	Check Count	1,609	268
11-Jun	Check Count	1,729	288
18-Jun	Check Count	1,927	321
25-Jun	Check	1,882	314

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Table 4: Nightlife Averages June 2008

Business		Weekly Total	Daily Total
LUX-Aurora Lounge	Gross Sales	$21,036.94	$3,506.16
	Check Count	1327	221
LUX-Flight	Gross Sales	$20,000.89	$3,333.48
	Check Count	1245	207
LUX-Liquidity	Gross Sales	$32,741.09	$5,456.85
	Check Count	1787	298

*** Note Nightlife Data is Wednesday through Saturday 9pm-3am

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Happy Hour

A weekly happy hour was created on Tuesdays from 6pm to 9pm in the Liquidity Lounge. This is a regular time period that is low in volume due to customers leaving for the night for dinner reservations and entertainment options. Table 5 shows the results of the happy hour which began on 6/17/08. A happy hour is one of several means to drive business during off peak times (Fry, 2006). In a restaurant setting, discounts are often given to entice guests to dine during earlier periods. One example is an early bird special. The beverage equivalent of an early bird special is a happy hour.

Happy hours can be conducted in a variety of manners ranging from percentage discounts to free drinks. Our happy hour involved a partnership with Ketel One, Anheiser Busch, and Rock and Roll Wines. Ketel One and Anheiser Busch donated product to offset the promotion cost of Ketel One, Ketel One Citroen, and Bud Light Lime. We offered these products as a buy one get one free offer. In exchange for purchasing their red and white wine, Rock and Roll wines market the weekly event to their database of customers. Their wines were offered at five dollars a glass compared to the regular nine dollars a glass for the menu based wines.

The happy hour is conducted from 6pm to 8pm each Tuesday. The results of the happy hour are very clear, illustrated on Table 5. Sales for the hour prior to the event average $460. During the event, revenue increases to an average of $860 and $690 an hour. Following the event, revenue stays in the $600 range but begins to taper off. In short, the happy hour is considered a success because revenue is almost double from a non event hour to the event time period.

Table 5: Happy Hour Statistics

	5:00 - 6:00 pm	6:00 - 7:00 pm	7:00 - 8:00 pm	8:00 - 9:00 pm	9:00 - 10:00 pm	Total	Average
6/3/2008	$234.79	$118.97	$287.11	$286.90	$778.50	$1,706.27	$341.25
6/10/2008	$286.59	$596.86	$453.53	$375.22	$365.89	$2,078.09	$415.62
6/17/2008	$634.74	$359.96	$504.17	$541.45	$642.65	$2,682.97	$536.59
6/24/2008	$300.00	$839.63	$584.19	$613.77	$571.51	$2,909.10	$581.82
7/1/2008	$507.49	$1,591.09	$907.03	$779.11	$505.92	$4,290.64	$858.13
7/8/2008	$300.56	$1,061.12	$639.53	$645.56	$556.66	$3,203.43	$640.69
7/15/2008	$800.50	$1,092.76	$1,177.25	$890.23	$679.68	$4,640.42	$928.08
7/22/2008	$596.67	$1,240.02	$971.96	$711.54	$931.84	$4,452.03	$890.41
Total Revenue	$3,661.34	$6,900.41	$5,524.77	$4,843.78	$5,032.65		
Average Revenue	$457.67	$862.55	$690.60	$605.47	$629.08		

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Sales Incentive

A staff incentive program is when a product that is considered a dog from a menu engineering standard is used as a feature for a given period of time. The vendor in turn donates a gift in order to encourage behavior to up-sell the featured item. Table 6 shows the results of the up-sell program. Typically, an incentive program requires the management team to conduct a training prior to the event to increase product knowledge and staff buy-in. Special drinks are created as well as price discounts on bottle sales.

The goal for the operation is to increase sales of an item that is sitting in inventory and would otherwise tie up funds (Susskind & Chan, 2000). From a guest perspective, the incentive program allows the customer to try something at a favorable price. The staff incentive item selected was Right Gin which ran May through July. The April data is included in Table 6 to illustrate the effectiveness of an incentive program.

Table 6: Right Gin Incentive Program

			Flight	Aurora	Liquidity	Total	Average
April	1500446	Right Gin	3	0	0	3	1
May	1500446	Right Gin	1	13	13	27	9
June	1500446	Right Gin	4	6	19	29	10
July	1500446	Right Gin	3	4	27	34	11
April	1600881	Consigliore	0	0	0	0	0
May	1600881	Consigliore	11	0	6	17	6
June	1600881	Consigliore	40	1	0	41	14
July	1600881	Consigliore	6	1	0	7	2
April	1600882	Right Connection	0	0	0	0	0
May	1600882	Right Connection	1	0	17	18	6
June	1600882	Right Connection	0	8	0	8	3
July	1600882	Right Connection	0	0	0	0	0
April	1600883	Right Gin Btl	0	0	0	0	0
May	1600883	Right Gin Btl	0	0	25	25	8
June	1600883	Right Gin Btl	0	0	0	0	0
July	1600883	Right Gin Btl	0	0	25	25	8
	Total Pours	234			April Sales	3	
	Bottles	9			May Sales	87	
					June Sales	78	
					July Sales	66	

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For the month preceding the incentive a total of three shots were sold of Right Gin. During the contest the sales amount increased to eighty seven and then began to taper off to sixty six. 234 pours during the incentive period resulted in nine bottles being poured. These numbers are not extravagant by any standard, but the incentive program resulted in the sale of one and a half cases of product that would otherwise be sitting in a warehouse.

Limitations

The conclusions and follow up are based on the assumption that the pricing strategies were the drivers in making the volume changes. In reality, there are several variables in play that could have affected volume; however, it is expected that price plays a large role. Primarily, economic conditions play the largest role change. A convention or holiday weekend can have a large impact on the numbers presented. During this study there was one week period in July with a large convention and the Independence Day holiday weekend.

July 4th weekend drives beverage revenues lower as family holidays are not good for gaming and drinking. Conventions, such as the events that occur in close proximity at Mandalay Bay increase revenues as Luxor in part is an overflow property for the Mandalay Bay Convention Center.

ADR plays a large impact in the results of this study as well. A higher ADR brings in a better quality customer who has more money to spend. On the other hand, a customer taking advantage of specials on Expedia and Travelocity tend to be value oriented. For the buffet study value oriented guests make a big impact. For the revenue studies, a higher quality customer can impact average check and items sold.

Conclusions

The four pricing studies that were conducted brought about different realizations. In the buffet, the typical customer is value oriented. When conducting a sale that offers additional value to the typical buffet customer, higher margin items decreased in sale as the value items increased in sales. In the lounges the casino customer is much more diverse. Some customers are value oriented, but the lounges also receive an influx in convention visitors and customers looking to participate in the various property nightlife venues. The business customer is often times on an expense account and the resulting receipts have a higher check average.

The nightlife customer comes from all walks of life, but typically has an expendable income. Grey goose vodka bottles that cost thirty dollars are often times sold for four hundred dollars in a night club. Realizing the expendable income exists and the need for the nightlife customer to have a good time, we have strategically raised prices one dollar. The end result is additional income that did not cost any additional expense to realize. The general consensus is that during nightlife periods the customer will purchase something either way, thus by raising prices the firm gets to take advantage of the peak period and the pent up demand.

Understanding the economic climate that we are in, it is no surprise that our customers are taking advantage of a happy hour period to enjoy the venues while receiving items at a discounted rate. In exchange for the experience, the lounges receive additional revenue that would otherwise be vacant real estate.

The results are important to understand. The fundamental piece to all of this data is the operation truly understanding the customer. Offering a specialty cocktail that costs the guest twenty dollars would not work in a buffet setting. Consequently, performing a happy hour in the lounges during nightlife periods would be counter productive. The customer would appreciate the value and enjoy the experience, but it would occur at a great loss for the operation by lowering profit margins and increasing costs.

The application of this information is vital to the success of an organization. Once the firm understands the type of customer that frequents the establishment, pricing can be established to increase business. A value operation such as a casual dining room can focus on offering additional value items to increase check averages. One example would be a smoothie or a dessert offering. An operation that sees peak periods and slow periods will be able to determine what kind of offering can be made to the customer base in order to entice guests to participate during off peak times. This rewards both the operation and the customer by maximizing all day parts. In addition, during extreme peak periods, pricing can also be taken into account to match supply and demand. Similar to a New Years Eve package that charges a premium because of the holiday. These pricing studies can be taken and utilized throughout the industry to make an operation more efficient and profitable.

Recommendations

An operation that focuses on value customers can create a value menu to encourage increased sales of the operation. Operation that have significant variability from peak and off peak periods can rely on incentives such as happy hours during off peak times to drive covers and rely on price increases and limited menus during peak periods. A happy hour can be implemented in any bar that is suffering from early morning or afternoon business declines. A happy hour will offer discounts that entice guests to start their night with a drink and then move on to a meal. Typically, a happy hour combined with a value package will drive revenue compared to that of a regular menu.

Understanding this data will allow any operator to apply the knowledge in order to better fine tune an operation. By being able to perform menu analysis and sales efficiency, an operation can put in place the proper menu changes and pricing strategies to maximize business. Although this process has been completed for the purposes of this paper, a proper operation will not be able to stop. To full understand the effects of this study the happy hour is going to look at being expanded to multiple nights of the week and the introduction of a reverse happy hour at three in the morning. For the buffet, a new value offering will be created that features a mid level margin item that is not so high in cost, yet still pushes volume with the same effects of the wine and beer program. The nightlife pricing will be expanded to include holiday weekends such as the upcoming Labor Day Weekend to see if there are other time periods where peak pricing can be taken into account.

In short, this research laid the foundation for a comprehensive pricing strategy throughout the resort. Like other operations, starting a pricing strategy by evaluating current volumes and sales data will help to locate variables that are worth attacking one item at a time to see the changes in growth.

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