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MAIN EXAMINATION

JANUARY – APRIL 2019 TRIMESTER

FACULTY OF COMMERCE

MBA REGULAR / ODEL PROGRAMME

CIS 619: CASES IN E-COMMERCE

Date: APRIL 2019

Duration: 3 Hours

INSTRUCTIONS: Answer ALL Questions

Case Study 1: Open Table - Your Reservation Is Waiting

Open Table is the leading supplier of reservation, table management, and guest management software for restaurants. In addition, the company operates OpenTable.com, the world's most popular Web site for making restaurant reservations online. In just over 15 years, Open Table has gone from a start-up to a successful and growing public company that counts around two-thirds of the nation's reservation-taking restaurants as clients.

Today, more than 32,000 restaurants in the United States, Canada, Mexico, the United Kingdom, Germany, and Japan use the OpenTable hardware and software system. This system automates the reservation-taking and table management process, while allowing restaurants to build diner databases for improved guest recognition and targeted e-mail marketing. The OpenTable Web site, mobile site, and mobile app provide a fast, efficient way for diners to find available tables in real time. The Web sites and app connect directly to the thousands of computerized reservation systems at OpenTable restaurants, and reservations are immediately recorded in a restaurant's electronic reservation book.

Restaurants subscribe to the OpenTable Electronic Reservation Book (ERB), the company's proprietary software, which is installed on a touch-screen computer system and supported by asset-protection and security tools. The ERB software provides a real-time map of the restaurant floor and enables the restaurant to retain meal patterns of all parties, serving as a customer relationship management (CRM) system for restaurants. The software is upgraded periodically, and the latest version is designed to provide increased ease of use

and a more thorough view of table availability to help turn more tables, enhance guest service, personalize responses to diners, coordinate the seating process, and maximize guest seating. The ERBs at OpenTable's customer restaurants connect via the Internet to form an online network of restaurant reservation books.

OpenTable's revenue comes from two sources. Restaurants pay a one-time fee for on-site installation and training, a monthly subscription fee for software and hardware, and a transaction fee for each restaurant guest seated through online reservations. The online reservation service is free to diners. The business model encourages diners to assist in viral marketing. When an individual makes a reservation, the site "suggests" that they send invites to their dinner companions directly from OpenTable that include a link back to the OpenTable site.

OpenTable is a service-based (software as service, or SaaS) e-commerce company. In other words, customers don't buy software and install it on their computers, but instead go online and get the software functionality through subscriptions. OpenTable is also an online service that does not sell goods, but instead enables diners to make reservations, like social networking sites provide services.

The restaurant industry was slow to leverage the power of the Internet. This was in part because the industry was, and continues to be, highly fragmented and local—made up of more than 30,000 small, independent businesses or local restaurant-owning groups.

The founders of OpenTable knew that dealing with these restaurants as a single market would be difficult. They also realized that the Internet was changing things for diners by providing them with instant access to reviews, menus, and other information about dining options. And there was no method for making reservations online—we all know reserving by phone is time-consuming, inefficient, and prone to errors. In order to make the system work, reach and scale were very important. For diners to use an online reservation system, they would need real-time access to a number of local restaurants, and the ability to instantly book confirmed reservations around the clock. If customers were planning a trip to another city, OpenTable would need participating restaurants in those cities.

The company was originally incorporated in San Francisco in 1998 as Easy-eats.com, morphing into OpenTable.com, Inc. a year later. When the company was founded, most restaurants did not have computers, let alone systems that would allow online reservations made through a central Web site. OpenTable's initial strategy was to pay online restaurant reviewers for links to its Web site and target national chains in order to quickly expand its reach. This got the company into 50 cities, but it was spending \$1 million a month and bringing in only \$100,000 in revenue. Not exactly a formula for success. The original investors still felt there was a viable business to be built, and they made a number of management changes, including installing investor and board member Thomas Layton, founder of CitySearch.com, as OpenTable's CEO. Layton cut staff, shut

down marketing efforts, and got the company out of all but four cities: Chicago, New York, San Francisco, and Washington, D.C.

The company retooled its hardware and software to create the user-friendly ERB system and deployed a door-to-door sales force to solicit subscriptions from high-end restaurants. The combination of e-commerce, user-friendly technology, and the personal touch worked. The four markets OpenTable targeted initially developed into active, local networks of restaurants and diners that continue to grow. OpenTable has implemented the same strategy across the country, and now includes approximately 32,000 OpenTable restaurant customers. In 17 years, the company has seated approximately 885 million diners, including 245 million via its mobile solutions, and it is currently averaging 17 million diners per month. In the second quarter of 2015, half of its seating requests in North America originated from a mobile device.

As the company grew, investors began making plans for it to go public. Layton stepped down from his position as CEO in 2007, though he remained a board member. He was replaced by Jeffrey Jordan, former president of PayPal. Jordan had some experience with public companies from working with eBay on its acquisition of PayPal. In 2009, he chose an aggressive strategy—going ahead with an initial public offering (IPO) despite a terrible economy and worse financial markets. The gamble paid off. On its first day of trading, OpenTable's shares climbed 59% and the share price climbed to over \$100 in 2013, more than five times the \$20 IPO price.

Despite the challenging economy, OpenTable's numbers at the time of the IPO were strong, and since then, it has continued to grow. In 2014, Priceline announced that it would acquire OpenTable for \$2.6 billion. Priceline had long been rumored to be interested in OpenTable. OpenTable will benefit from Priceline's global reach as it continues to expand its business beyond the United States, which has thus far accounted for about 80% of its revenues. Priceline has a strong track record of successful acquisitions, including Booking.com, which propelled Priceline's revenue from the millions to the billions. Clearly, Priceline believes OpenTable can help it grow even further, this time into restaurant reservations. They might be right: OpenTable is well-positioned for future growth. Its size, track record of growth, and high customer satisfaction rates should continue to work in its favor. Priceline plans to allow OpenTable to operate autonomously.

The company has benefited from having e-commerce revenue streams from subscription fees and per-transaction charges, rather than depending on advertising. Further, more than 50% of OpenTable's revenue comes from B2B subscriptions, which are typically part of long-term contracts. Restaurants that have invested in OpenTable's software package are less likely to want to incur the switching costs associated with changing to a different reservation management package.

Another reason for its success is that OpenTable has a large number of satisfied customers. Restaurant owners report that they and their staff members find the software easy to use, and it helps them manage their business better.

Specifically, it streamlines operations, helps fill additional seats, and improves quality of service, providing a concrete return on investment. This has led to both high customer satisfaction and high retention rates.

OpenTable has also taken advantage of the interconnected needs of restaurants and diners. Restaurants want cost-effective ways to attract guests and manage their reservations, while diners want convenient ways to find available restaurants, choose among them, and make reservations. By creating an online network of restaurants and diners that transact with each other through real-time reservations, OpenTable has figured out how to successfully address the needs of both.

OpenTable's market exhibits network effects: the more people use it, the more utility the system delivers. More diners discover the benefits of using the online reservation system, which in turn delivers value to restaurant customers, and helps attract more restaurants to the network.

While OpenTable is the biggest, most successful online player in the restaurant reservations market, it does have competitors. MenuPages offers access to restaurant menus and reviews, but visitors to the site can't make reservations, and the site covers only eight U.S. cities. In 2012, OpenTable partnered with onetime competitor Urbanspoon, acquiring its reservation management system, Rezbook, and becoming Urbanspoon's reservation provider. Looming on the horizon is Google, which purchased online restaurant guide Zagat in September 2011, raising the specter that it might try to compete with OpenTable, although Zagat does not yet possess that functionality. Competitors in other countries where OpenTable does not yet operate, such as Restalo in Spain and Italy, and in markets like casual dining, such as NoWait, represent challenges to OpenTable. India-based startup Zomato acquired U.S.-based NexTable in 2015, adding another challenger to the mix.

The company is committed to shrewd technological investments to advance its position. It has a mobile Web site, mobile applications that work on just about every smartphone platform, and an iPad app that fully integrates with its ERB software. GPS enables mobile users to locate and make reservations at nearby venues. In 2015, OpenTable launched a version of its app for Apple Watch that reminds diners of their reservations, provides directions, and shows a countdown. It is also testing a premium service that involves paying for an additional fee for last-minute, prime-time reservations at popular restaurants, using a surge pricing algorithm similar to that used by Uber.

OpenTable is attempting to shift its relationship with both diners and restaurants from a "transactional" relationship to an "experiential" relationship, which focuses on the experience of dining. OpenTable launched a payments feature that allows users to pay for meals completely within the OpenTable app on the iPhone, and in 2015 made this feature available for Android phones as well. Although a small number of restaurants currently offer the service, OpenTable is partnering with other mobile payment systems like Aloha to widen their mobile payment availability. OpenTable also redesigned its flagship Web site in 2014 to improve visual appeal and speed, and continued to update its image in 2015 with a

complete rebranding, including a new logo and tagline and a marketing campaign, 100 Open Tables, featuring giveaways of iconic dining experiences around the world.

OpenTable's growth is projected to continue in the United States, Canada, and Mexico despite considerable market penetration. Selective international expansion is planned beyond its current operations in Germany, Japan, and the United Kingdom. OpenTable supports each of these locations with a direct sales force servicing approximately 1,000 restaurants.

The company's international strategy is to replicate the successful U.S. model by focusing initially on building a restaurant customer base. OpenTable believes the localized versions of its software will compare favorably against competitive software offerings, enabling them to expand across a broad selection of local restaurants.

Case Study 1 Questions

1. Why have OpenTable competitors had a difficult time competing against OpenTable? **[8 marks]**
2. What characteristics of the restaurant market make it difficult for a reservation system to work? **[8 marks]**
3. How did OpenTable change its marketing strategy to succeed? **[5 marks]**
4. Why would restaurants find the SaaS model very attractive? **[5 marks]**
5. How can you make OpenTable work in Kenya? **[4 marks]**

Case Study 2: To Pay or Not to Pay: Zagat's Dilemma

Founded by Tim and Nina Zagat, the Zagat Survey has collected and published ratings of restaurants by diners since 1979. Zagat publishes surveys for restaurants, hotels, and nightlife in 70 major cities. Zagat has come a long way from its roots in the early 1980s, when the food-loving Zagats started compiling lists of their favorite restaurants for personal use and to share with their closest friends. But with the rise of the Internet, e-commerce, and mobile technology, Zagat has struggled to find a business model that stayed true to the company's origins.

To generate their first survey, the Zagats polled 200 people, and increased that number over time. Executives, tourists, and New York foodies alike found the list to be indispensable. Spurred by this success, the Zagats decided to publish their survey themselves. The few booksellers that took a risk in stocking the book were rewarded with sales so robust that the Zagat Surveys became best sellers.

The pair also published similar lists for other major cities, including Chicago, San Francisco, and Washington, D.C. In addition to print books, Zagat opened a unit that creates custom guides for corporate clients, like the ones at Citibank. For a long time, this business model was sufficient to ensure that Zagat Survey was successful and profitable.

When the dot-com bubble came along, venture capitalists were attracted to Zagat for its brand recognition—the Zagat name is instantly recognizable to food-lovers, travelers, and restaurateurs alike. Zagat was one of the first companies to popularize user-generated content, collecting restaurant reviews from its readers, aggregating those reviews, and computing ratings. In addition to numeric rating scores, the survey also includes a short descriptive paragraph that incorporates selected quotations from several reviewers' comments about each restaurant or service. Venture capitalists saw that Zagat had a golden opportunity to migrate its content from offline to online, Web, and mobile.

Of the many decisions the Zagats faced in bringing their content to the Web, perhaps the most important was how much to charge for various types of content. They ultimately decided to place all of their content behind a pay wall (*), relying on the Zagat brand to entice customers to purchase full online access. One of the most prominent members of the Zagat investment group was Nathan Myhrvold, formerly the chief technology officer at Microsoft. Myhrvold supported the Zagats' decision to use a pay wall for their content and maintained that putting all of their content online for free would have undermined their book sales.

Although Myhrvold and the Zagats themselves favored the pay wall, other Zagat investors argued that placing content online for free allowed companies like Yelp to get its results on the first page of Google search results, which is critical for maintaining the strength of a brand in today's advertising environment. By not taking this approach, Zagat left itself open to be surpassed by Yelp, Groupon, Google Places, and other similar services offering free content supported by advertising from local businesses. Sure enough, these companies soon began attracting numbers of online visitors that dwarfed Zagat's.

In 2008, the Zagats tried to sell their company. They failed to do so, partially due to Yelp's growing popularity. Prospective buyers were more intrigued by Yelp's much larger online audience and growth potential. The Zagats' failure to sell the company in 2008 highlighted their failure to effectively go digital. Food blogs and similar sites abound on the Web nowadays, but Zagat was in a unique position to get there first and establish itself as a market leader, and it failed to do so.

For much of 2011, Zagat continued to lag behind Yelp and other free review sites in the battle for eyeballs. Yelp drew much greater traffic than Zagat.com. From January to April 2012, Zagat.com had only 310,000 visitors, while Yelp had 31 million. The Zagat Web site claimed it has more users, but the disparity was still significant.

Zagat saw its fortunes change in September 2011, when Google paid \$151 million to buy the company. Although the Zagats had sought \$200 million in 2008, the deal was considered by analysts to be generous. Google was seeking

to establish itself in the local search marketplace, and after failing to purchase Yelp for \$500 million in 2009, Zagat was next on their shopping list. In fact, after the Yelp deal fell through, Google and Yelp have become heated rivals, and Yelp has alleged that Google is rigging its search results to favor its own services over those of its competitors.

In the year following the acquisition, Google and Zagat worked together to allow Zagat reviews to appear alongside Google searches on various platforms. Google wanted to use Zagat's customer generated guide format and apply it to any place that can be searched for: restaurants, retail outlets, nightlife, hotels, resorts, spas, golf courses, and more. A growing percentage of Google searches are for information on nearby locations—20 percent of all searches, and 40 percent of that subset are made using mobile phones.

In May 2012, Google formally announced the inclusion of Zagat guides and online reviews in its new service, Google+ Local. With this service, Google hopes to more effectively compete with Yelp in local search. Because Google values eyeballs over all else, the company opted to remove the pay wall from Zagat content for the first time. Zagat had been charging \$25 per year or \$5 per month for access to its online reviews. Zagat will still charge \$10 a year to use its iPhone app, and after a free six-month trial, it will charge \$25 annually to see reviews on devices running Android. Still, normal Google searches on the Web will feature Zagat content for free, and Google is considering dropping the other subscription fees for mobile devices.

Google hopes to combine Zagat reviews with its mapping technology to better compete with Yelp. Trying out both services highlights some of the differences between them. Zagat.com's home page is streamlined, with a minimal number of search boxes and links immediately available. Restaurant reviews are organized by several major "hub" cities as well as popular lists of the top restaurants of a certain type. Clicking on a restaurant shows visitors a portion of the data Zagat maintains on that restaurant. For example, the site now shows the percentage of users that "like" the restaurant, and several featured reviews. Many more reviews of the restaurant are available if the user wants to keep scrolling.

Yelp's front page is much busier and less streamlined than Zagat's, but has a great deal more content available immediately. The front page has lists of the most popular restaurants, retail outlets, bars and clubs, and many other categories, all free to the user. Looking for a dentist in New York City? Yelp has reviews of doctors and dentists that include videos put together by the practices to give visitors more information. Like Zagat.com, Yelp's reviews are organized into a similar list of larger cities, but reviews exist for almost any location you can think of, including less prominent cities and towns. Google is also working towards the goal of ubiquity.

Yelp's strategy is to sell local advertisements wherever businesses exist and to provide free content funded by these sales. Yelp has also relied more on individual reviewers. Instead of distilling reviews into one coherent whole, as Zagat's does, Yelp allows its reviewers to post full, unaltered reviews, which allows top reviewers to gain followings and even receive invitations to special

events. The drawback of this approach is that many reviews are far longer than necessary and individual reviews may contain distortions or false claims designed to damage reputations. Zagat reviews give a clearer and more concise impression of a restaurant than most Yelp reviews, and they are aggregated and given a score.

Investors believe that Yelp is on “a different trajectory” because of its unique business model. Zagat sold content to consumers and corporations; Yelp sells advertising to local businesses. Many analysts believe there is much more potential for growth with Yelp’s business model than with Zagat’s old model because it is a useful advertising vehicle for small businesses everywhere, not just major cities. Zagat may also have hurt itself with its slow response to the emergence of the mobile digital platform.

Most analysts agree that Zagat could have avoided this state of affairs by making a more aggressive effort to go digital. The choice to use a pay wall may be the biggest culprit. But did it necessarily hurt Zagat’s bottom line? The company has always been profitable, according to Tim and Nina Zagat. Other successful Web sites have used a pay wall. Zagat book revenue is still strong—the New York survey is still on the New York nonfiction best-seller list, and its corporate custom guide unit is very profitable. Despite their acquisition by Google, the Zagats plan to continue to publish their physical books. Nevertheless, it’s also possible that going with a pay wall before establishing a loyal online audience may not be the right time to make the move towards a paid model.

So far, the pairing of Google and Zagat has been successful, and will allow the two companies to better compete with Yelp in local search. But Google also hopes that incorporating Zagat’s user-generated content model into Google+ will help its fledgling social network to better compete with Facebook by providing uniquely valuable services to its users. Google envisions Google+ users searching for “pizza”, and being given a map with the closest pizzerias marked with Zagat reviews, some of which may be written by their friends on the network. For Google, acquiring Zagat was just one of a myriad of acquisitions they made in 2011; but from Zagat’s perspective, its acquisition represents another phase in a long e-commerce journey, and illustrates the difficulty of developing just the right business model for your company.

(*) Note: A **paywall** is a method of restricting access to content via a paid subscription. Beginning in the mid-2010s, newspapers started implementing **paywalls** on their websites as a way to increase revenue after years of decline in paid print readership and advertising revenue.

Case Study 2 Questions

1. Evaluate Zagat using the competitive forces and value chain models.

[10 marks]

2. Compare Zagat's and Yelp's e-commerce business models. How have those models affected each company's Web strategy? **[5 marks]**
3. Why was Zagat's content well suited for the Web and for the mobile digital platform? **[5 marks]**
4. Do you think Zagat's decision to use a pay wall for its Web site was a mistake? Why or why not? **[5 marks]**
5. Will Zagat's acquisition by Google make it more competitive? Explain your answer. **[5 marks]**

END