

## CASE STUDY

# OpenTable:

## Your Reservation Is Waiting

**O**penTable 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 website for making restaurant reservations online. In just over 15 years, OpenTable has gone from a startup to a successful and growing public company that counts around two-thirds of the nation's reservation-taking restaurants as clients.

Today, more than 38,000 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 website, mobile site, and mobile app provide a fast, efficient way for diners to find available tables in real time. The websites 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.

When OpenTable was founded, most restaurants did not have computers, let alone systems that would allow online reservations made through a central website. OpenTable's initial strategy was to pay online restaurant reviewers for links to its website 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. OpenTable halted its marketing efforts and narrowed its focus to 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 38,000 OpenTable restaurant customers. In 18 years, the company has seated approximately 1 billion diners, including 370 million via its mobile solutions, and it is currently averaging 20 million diners per month. In the second quarter of 2016, 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. In 2009, the company proceeded 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.

In 2014, Priceline announced that it would acquire OpenTable for \$2.6 billion. OpenTable plans to leverage 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. 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, and the company hopes to branch out from its main focus of fine dining into other areas like casual dining.

OpenTable 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. 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 restaurants and diners.

OpenTable's market also 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. 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, and Reserve and Yelp's SeatMe service also represent potentially formidable competitors for OpenTable. Reserve has undercut OpenTable on price, with a \$99 monthly subscription fee for restaurant owners compared to \$249 for OpenTable, and has strong venture capital backing, but has less than two percent of the clients that OpenTable has amassed. Yelp may be a more significant immediate threat. OpenTable ended its partnership with Yelp in late 2015; Yelp users had been allowed to book reservations through OpenTable, but OpenTable hopes to improve its reviewing capability and Yelp's launch of SeatMe shows a desire to enter the reservation business.

The company is committed to bolstering its presence on multiple platforms. It has a mobile website, mobile applications that work on all major smartphone platforms, 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 its first payments feature that allows users to pay for meals completely within the OpenTable app on the iPhone and Android in 2015. In 2016, the company released an improved payment option called Tab, which automatically bills diners without even having to open the app. Though the feature is available in less than 100 restaurants nationwide, the company hopes that Tab's ease of use will make it a popular option for diners in the future. OpenTable is trying to simplify other areas of the dining experience, including picking a venue. In 2016, the company rolled out a feature in its iOS app that allows groups of diners to vote on restaurants in a group text format and then quickly confirm the selected reservation within iMessage. OpenTable also created a Discover option that allows users to pick from restaurants using different criteria: popularity, location, new arrivals, and more. Other improvements to its app included better integration with Apple Maps and Apple Pay. Currently, the app doesn't have a robust personalization engine to generate its recommendations, but OpenTable leadership plans to remedy that in the future.

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

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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 Questions

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