Article Title

Understanding Discount Program Risk in Hospitality: A Monte Carlo Approach

Citation

Abstract

This study exhibits the usefulness of simulation analysis in understanding discount program risk from hospitality consumer behavior. A comprehensive review of hospitality discount programs, discussion of the methodological approach, and potential extensions of the technique is provided, along with applications to hypothetical restaurant and casino discount programs. We show changes from complex consumer behavior that are difficult to directly measure or forecast with traditional methods.

Methods

One simulation outlines a scenario in which the profitability of restaurant discount programs can easily be misinterpreted leading to poor management decisions, while the other simulation reveals a scenario where casino house advantages could vary substantially from those typically used in profitability calculations.

Results

The casino simulation revealed a potentially significant source of casino marketers' and operators' overestimation of theoretical win. The study clearly demonstrated that current gaming industry tools for measuring discount program returns are flawed, which can lead to lower levels of profitability (or operational losses) if an approach does not account for consumers' decision to end play at nonrandom intervals.

Conclusion

Future research could empirically examine how MC approaches to decision-making perform versus other decision-making tools and heuristics. Additionally, this method could be applied to other industries, such as lodging or travel, to reveal idiosyncratic patterns of behavior that may be unknown risks in those industries.