

# CASE 17 The Royal Dining Membership Program Dilemma

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Length: 7 pages

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## Study Questions

1. In Erica Liu's shoes, what would you present to the executive committee?
2. As Erica Liu, what analyses would you run to assess the financial performance of the Royal Dining (RD) membership program?
3. What effect does the RD membership program have on the brand and value perception of its local customers in Hong Kong and its full-paying hotel guests and diners? How could the hotel address these issues?
4. Review the rules set for the RD program. How would you go about setting rules for the program that protect the hotel against abuse, but does not make RD members feel that the program is unnecessarily restrictive and difficult to use?
5. How could negative server attitudes toward RD customers be handled?

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# CASE 17 The Royal Dining Membership Program Dilemma

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Erica Liu, program manager for the Royal Dining (RD) Membership Program at the Hong Kong Grand Hotel, hung up the phone after a call from a disgruntled customer. Just then, Jerome Tan, vice president of Hotel Operations, walked into her office. “I tell you, Jerome,” sighed Erica, “I’ve been getting calls from customers complaining about all the rules we have for the RD program. It’s driving me nuts.” “Tell me about it,” Jerome replied. “These RD members really annoy our staff. All they’re looking for is free stuff I heard the ultimate one yesterday. Some guy walked into the Cantonese Café with 10 little kids and wanted them all to eat for free! Yes, we have a rule that kids under five can eat for free, but not the whole city! It turned out it was his son’s birthday party. Can you believe that?” Erica sighed again. “I guess that means we’re going to have to create another rule for members to complain about. I mean, I think it’s a great program and all, and it definitely brings in a lot of business, but how are we going to deal with all these problems?”

## THE HONG KONG GRAND LAUNCHES A DINING MEMBERSHIP PROGRAM

The Hong Kong Grand, a 140-room landmark hotel on Hong Kong Island, opened in the late 1800s and was considered a national monument. It was one of the world’s well-known grand hotels and had received numerous awards, including Best Luxury Hotel and Best Hotel in Asia. Its guest list has included luminaries such as Queen Elizabeth II, Bill Gates, and James Michener, and it was one of the most photographed sites in Hong Kong. The hotel had four restaurants, ranging from the 56-seat Hollywood Road Deli to the fine-dining 112-seat Kabuki. All the restaurants took reservations and were open for lunch and dinner. The adjoining convention center, the second largest meeting space in Hong Kong, provided an ideal setting for upscale conferences, and the adjoining shopping mall offered a multitude of shopping and dining options. For more information on the Hong Kong Grand restaurants, see *Exhibit 1*.

**Exhibit 1** The Hong Kong Grand’s restaurants

Restaurant Name	Cuisine	Restaurant Type	Average Check (HK\$)	Number of Seats	à la Carte or Buffet	Average Lunch Duration (hours)	Average Dinner Duration (hours)	Hours of Operation for Each Meal
Cantonese Café	Local/Bufferet	Local/Bufferet	\$76	106	Both	1.0	1.0	5
Kabuki	Japanese	Fine Dining	\$250	112	à la Carte	1.0	1.5	5
Hollywood Road Deli	American Style	Casual	\$104	56	à la Carte	0.5	0.5	5
Dragon Boat	International	Smart Casual	\$109	72	Both	1.0	1.0	5

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The names of the hotel, restaurants, and membership program have been disguised.

The ownership of the Hong Kong Grand had changed recently. Previously, the company that owned the shopping center also owned the hotel and had restricted the number of restaurants that operated in the mall. Once they sold the hotel, that restriction was lifted and the hotel restaurants had to contend with much more vigorous competition, and as a result, its restaurants were often empty. As a response, the Hong Kong Grand launched the Royal Dining (RD) membership program.

The RD program was designed to encourage Hong Kong residents to dine in the restaurants at a discounted rate. With a food cost as a percentage of sales that averaged 32% of gross revenue, even a 50% discount yielded a reasonable gross margin. In addition, the RD program required the purchase of annual memberships, which provided a substantial revenue stream with practically no variable cost.

## THE ROYAL DINING MEMBERSHIP PROGRAM

The Royal Dining (RD) membership program offered members the opportunity to receive discounted meals and rooms at the restaurants and bars located in the Hong Kong Grand. The program was an immediate hit. Within the first year, more than 1,000 memberships were sold. Local residents welcomed the opportunity to dine at the four hotel restaurants at major discounts. The hotel's restaurant revenue increased sharply from the added sales. By 2015, the program had a total of 4,200 members.

The RD membership card gave customers a 50% discount when two adults dined at one table and ordered at least one dish per person (starter, main course, or set menu). Typically, members dined for free; their dining companions paid for the meal. If members dined alone, they received only a 10% discount. The discount was calculated on the total food bill and did not include beverages, taxes, or service charges. It also was not available for takeaway orders or private dining events. Children dining with members also received the discount. Children under five ate for free in the buffet restaurant. In addition, special children's menus were available in the à la carte restaurants (see *Exhibit 2* for the complete program rules).

The card came with other benefits, including discounted room rates at the Hong Kong Grand (subject to availability), birthday and wedding vouchers, and

**Exhibit 2** Royal Dining membership rules

Royal Dining Annual Membership Fee: HK\$1,588 (ca. US\$205)	
<b>PRICE REDUCTION SCHEDULE:</b>	
Member plus 1 guest (2 adults)	50%*
Member plus 2 guests (3 adults)	33%
Member plus 3 guests (4 adults)	25%
Member plus 4 guests or more (up to a total of 10 adults)	20%
Member dining alone	10%
<p>* 50% discount is applicable only when there are two adult dining parties at a table and when a minimum of two food items are ordered (e.g., one set menu and one starter, or one main course and one starter). Two dining parties may not necessarily order a main course but at least two starter orders are required. In the event that only one food item is ordered for sharing and there are two parties dining, a 10% discount is applicable instead of the 50% discount. Members and their guests have to order a dish per person in order to enjoy the varying discounts. Side dishes are excluded from this discount benefit.</p>	
<p><b>Conditions:</b></p> <ul style="list-style-type: none"> <li>The price-reduction structure is calculated on the total food bill only, excluding beverages, government taxes, and service charge. Reduction does not apply to private dining and take-away.</li> <li>One card per table, per party, per occasion. Not valid with any other discounts or promotions.</li> <li>A 10% reduction will also be applied to bar snacks, where applicable.</li> </ul>	
<p><b>OTHER BENEFITS</b></p> <ul style="list-style-type: none"> <li>A flat 20% discount will be given to members during Chinese New Year blackout dates when dining with a minimum of five or more people at one table at all restaurants except Kabuki.</li> <li>One Special Occasion voucher for 50% discount on total food bill in any one of the hotel's restaurants when dining in a party of six to 12 people. Not available during Chinese New Year period, from the eve to the 15<sup>th</sup> day of Chinese New Year.</li> <li>Discounted room rates at the Hong Kong Grand (subject to availability).</li> <li>Birthday and wedding vouchers, and discounts at several stores in the hotel.</li> </ul>	

discounts at several stores. Members could not use the card on Valentine's Day, Mother's Day, Christmas Eve, Christmas Day, and the first few days of the Chinese New Year. Although RD program rules stated that restaurants could restrict seating availability during busy periods, this was rarely done.

## Types of Memberships

Two types of memberships were available: Royal Dining Traditional (HK\$1,588 per year) and Royal Dining Epicure (HK\$2,588 per year). The majority of members

**Exhibit 3** Royal Dining membership

Membership Type	Number of Members	% Active Cards	Average Visits p.a.	Average Party Size	Average % Discount
RD–Traditional	78	71%	6.7	2.4	35%
RD–Epicure	641	76%	6.5	2.7	38%
Credit Card–Traditional	3,214	28%	3.5	2.5	35%
Credit Card–Epicure	310	20%	2.5	2.6	32%
Totals	4,243	49%	4.8	2.5	35%

opted for the Epicure membership as it included a free night at the hotel.

In addition, RD cards were given for free to all premium members of a well-known credit card company. The credit card company paid the Hong Kong Grand a discounted rate (HK\$275 per year) for each member in the Traditional program and HK\$400 per year for Epicure memberships, which were given only to their most valued customers. Both the Hong Kong Grand and the credit card company saw a mutually beneficial partnership evolving from the alliance of the two highly regarded brands. About 85% of all members were premium customers of the credit card company and thus did not pay for their RD cards. Of the credit card members, 3,214 were Traditional members and 310 were Epicure members (*Exhibit 3*).

Not surprisingly, the purchased RD cards had a higher likelihood of being used — about 75% — and were used more frequently — about once every month-and-a-half — than those given to credit card holders. The 25% of credit card members who used their memberships used it at an average of once every four months. The average party size was comparable (about 2.5 customers); as was the average net revenue — HK\$225 — except for the credit card Epicure members, whose average revenue was HK\$325. The average discount for all RD transactions was 35% (*Exhibit 3*).<sup>1</sup>

The percentage of restaurant revenue derived from the RD program ranged from under 3% at the Hollywood Road Deli to over 60% at Kabuki (*Exhibit 4*).

## Competing Programs

Food and dining out were important parts of Hong Kong's national identity. Along with shopping, eating out was often seen as a national pastime. Indeed, Hong Kong has frequently been referred to as a “gourmet paradise” and “the World's Fair of Food”.<sup>2</sup> In response to Royal Dining (RD), several other hotels had developed dining programs in an attempt to emulate the Hong Kong Grand and tie into the local passion for eating out.

**Exhibit 4** Royal Dining program share of restaurant revenue

Restaurant	Last Financial Year Revenue (Millions of HK\$)	% of Revenue from:	
		RD Members	Credit Card Members
Hollywood Road Deli	\$23.3	3.4%	2.4%
Dragon Boat	\$20.1	4.0%	5.9%
Kabuki	\$53.5	42.8%	19.6%
Cantonese Café	\$15.4	1.3%	1.4%

## THE PROGRAM DILEMMA

After finishing a meeting, Susan Li, vice president of finance, decided to stop by Erica Liu's office to say hello. Jerome Tan was there and the two were in a heated conversation that abruptly stopped when she knocked. “Let me guess. The two of you are arguing about the RD program again!” Their looks confirmed her suspicion. “I don't see why you have so many problems with it. It's

<sup>1</sup> For a list of commonly used restaurant terminology, see Appendix A.

<sup>2</sup> [https://en.wikipedia.org/wiki/Hong\\_Kong\\_cuisine](https://en.wikipedia.org/wiki/Hong_Kong_cuisine)



produced a lot of incremental revenue that has boosted our bottom line.” (See *Exhibits 5 to 7*.)

“But Susan,” Jerome exclaimed, “the RD members are displacing lots of our regular customers, especially during busy periods, and we’re practically giving away free meals. I feel that we should develop other programs to fill the restaurants and increase revenue — without all these cheapskates.” Erica jumped in. “Jerome, I keep telling you this, but you’re forgetting about all the money these people spend to become members. That is pure profit — hardly any cost involved. And the members deserve to get value for their money — or they won’t renew their annual memberships. What do we give them, though? More rules that make them feel like anything *but* members. I’m telling you, I can understand why they complain.”

“Erica, you just don’t know what it’s like to be working in the restaurants,” Jerome replied. “These RD members are so pushy and always ask for more, more, more — and they try to game the system. For example, remember that rule about how only one discount card per table can be presented, even if there are two parties and each of them is a member? Well, since we have so many members, it’s pretty common for several people at the table to have membership cards. And then, they all want to use their cards so they can save more money. When we tell them that it’s against the rules, they say it’s unfair because it penalizes people for dining together, that if they had come as couples and sat at separate tables, each table would have received a 50% discount. To get around the rule, guess what they’re doing?” Pausing for effect, he said, “I’ll tell you what they do. They show up separately and then ask to be seated at adjacent tables. Once seated, they push the tables together and try to get double the discount! How do you handle that situation if you’re the server? Doesn’t exactly fit with the ambience we’re trying so hard to create, does it? And it does a number on the servers’ attitudes.” (See *Exhibit 8* for sample comments.)

Jerome was getting visibly upset. The more upset he got, the more flustered Erica became. Her program was adversely affecting people whose attitudes and behavior were vital to creating the dining experience. As Susan tried to calm him down, Carmen Teo, vice president of marketing walked in. “I heard you from my office around the corner! I thought I’d better come down before someone had to call security!” she said with a laugh. Erica quickly said, “What do you think of the RD program,

**Exhibit 5** Table configuration of Hong Kong Grand restaurants

Table Size	Cantonese Café	Kabuki	Hollywood Road Deli	Dragon Boat
	Tables			
2	5	2	16	8
4	20	15	3	12
5	0	0	0	0
6	0	0	2	0
8	2	2	0	1
10	0	0	0	0
Bar		10		
Tempura		Table for 10		
Teppanyaki		Table for 12		

**Exhibit 6** Number of customers for each restaurant by meal period and day of week

	Cantonese Café	Kabuki	Hollywood Road Deli	Dragon Boat
<b>Average Number of Lunch Customers</b>				
Monday	195	298	250	203
Tuesday	190	336	291	228
Wednesday	228	327	333	254
Thursday	228	344	333	269
Friday	244	370	375	277
Saturday	325	242	375	306
Sunday	244	225	354	337
<b>Average Number of Dinner Customers</b>				
Monday	325	190	260	170
Tuesday	358	249	286	198
Wednesday	293	257	286	161
Thursday	341	272	286	246
Friday	317	372	312	359
Saturday	317	327	312	320
Sunday	325	301	234	218

**Exhibit 7** Average revenue for each restaurant by meal period and day of week

	Cantonese Café	Kabuki	Hollywood Road Deli	Dragon Boat
<b>Average Lunch Revenue</b>				
Monday	\$17,937	\$39,107	\$26,692	\$25,563
Tuesday	\$17,199	\$42,576	\$27,485	\$30,170
Wednesday	\$16,166	\$38,231	\$30,791	\$29,003
Thursday	\$16,751	\$44,450	\$32,208	\$27,484
Friday	\$18,052	\$46,411	\$35,783	\$30,596
Saturday	\$15,404	\$40,234	\$38,381	\$28,890
Sunday	\$19,227	\$39,324	\$41,110	\$27,629
<b>Average Dinner Revenue</b>				
Monday	\$20,754	\$100,088	\$21,437	\$21,581
Tuesday	\$25,671	\$81,638	\$25,738	\$22,238
Wednesday	\$24,438	\$96,045	\$20,451	\$29,778
Thursday	\$25,664	\$109,375	\$32,395	\$28,136
Friday	\$31,273	\$113,909	\$47,283	\$31,160
Saturday	\$28,678	\$126,059	\$40,559	\$29,790
Sunday	\$18,986	\$112,027	\$28,715	\$24,368

**Exhibit 8** Sample server comments about the Royal Dining program

<ul style="list-style-type: none"> <li>“My RD customers love the program. For many of them, this is the only reason they come out to The Dragon Boat.” — <i>Dragon Boat</i></li> </ul>
<ul style="list-style-type: none"> <li>“I am sick of this program! I hate having to explain the rules to people trying to use multiple cards per table.” — <i>Cantonese Café</i></li> </ul>
<ul style="list-style-type: none"> <li>“While it’s sometimes tough to have to explain rules to customers, I have to admit that the program benefits the restaurant and helps make my job more secure and earn more service fees and tips.” — <i>Kabuki</i></li> </ul>
<ul style="list-style-type: none"> <li>“I think it’s embarrassing! I’m working at the Hong Kong Grand and I have to deal with tacky discounts?!” — <i>Kabuki</i></li> </ul>
<ul style="list-style-type: none"> <li>“I’m sure it makes sense to management but dealing with customers who don’t understand how the program works is the worst. The rules should be more clear to the customers.” — <i>Hollywood Road Deli</i></li> </ul>
<ul style="list-style-type: none"> <li>“The RD discount ruins the tip. I work for half as much!” — <i>Dragon Boat</i></li> </ul>

Carmen?” Carmen thought for a long moment and then said, “I certainly can see the point of the program, but I just don’t know. We spend so much money trying to build and maintain our luxury image — and then we offer a discount program that is very much at odds with it. I know it generates profits that we otherwise would never see, but what are the costs? Our guests pay a lot to be here and expect a wonderful experience. I don’t know if we can provide this experience when we have coupon-wavers in there with them.”

Jerome chimed in. “Especially when our customers have become so much more creative in getting around the rules.” Erica agreed, saying, “Yes, and that’s why we have so many rules now — and that’s why I get so many calls complaining about them! Again, these people are spending a lot of money for their memberships and we’re making it very difficult for them! I can see why they’re annoyed.”

Carmen said, “The question we need to think about is how to provide good value to our RD members that keeps the revenue flowing while protecting the hotel from possible abuses of the program and negative impact on the guest experience. The answers are anything but obvious.”

Susan jumped in, “Let me give you an alternative view. We have owners who are very much focused on the bottom line. Imagine their reaction if we suddenly dumped the program. I’m thinking that maybe we should extend the discount to beverages since our cost of sales is so much lower. Right now, our food cost percentage is 32%, but the beverage cost percentage is only 24%.<sup>3</sup> I think it would be a strong contributor to financial performance.” Jerome groaned. “But Susan, one of the only things that I can possibly see as a good thing for this program is that while we’re basically giving the food away, we at least get a decent profit from the beverages. That would cost us more money!”

Erica checked her watch and noticed that she and Jerome were due at another meeting. “Well, it’s nice that we’re all in agreement. Anyone want to take over my job?”

<sup>3</sup> Please note that the 32% cost is on all food items and the 24% cost is just for beverage items. For example, consider a total bill of \$60 of which \$50 is for food and \$10 is for beverages. The food cost would be \$16 (32% of \$50) and the beverage cost would be \$2.40 (24% of \$10). The total cost would then be \$18.40.

Erica shook her head as she walked out the door and thought about the meeting she would have with the hotel executive committee in 2 days. Jerome, Carmen, and Susan all were members, and high on the meeting's agenda was the future of the RD program. She thought to herself, "I need to present a comprehensive analysis of

the program's costs and benefits and recommendations about where to go from here. How will I resolve all the differing views?"

"Better get to work," Erica thought, as she reached for a bottle of aspirin.

### Study Questions

1. In Erica Liu's shoes, what would you present to the executive committee?
2. As Erica Liu, what analyses would you run to assess the financial performance of the Royal Dining (RD) membership program?
3. What effect does the RD membership program have on the brand and value perception of its local customers in Hong Kong and its full-paying hotel guests and diners? How could the hotel address these issues?
4. Review the rules set for the RD program. How would you go about setting rules for the program that protect the hotel against abuse, but does not make RD members feel that the program is unnecessarily restrictive and difficult to use?
5. How could negative server attitudes toward RD customers be handled?



## APPENDIX A

### RESTAURANT TERMINOLOGY

- Cover: A customer.
- Average check: The average amount paid per customer.
- Party: The number of customers at a particular table.
- Total check: The total check amount from a party.
- Server: A waiter or waitress.
- Seat occupancy: The percentage of seats occupied during a given period.
- Table occupancy: The percentage of tables occupied during a given period.
- Revenue per available seat-hour (RevPASH): Total revenue divided by the number of seat-hours available.
- Meal duration: The length of a meal. Varies based on the type of restaurant and the meal period (e.g., lunch, dinner). Dinners average 150% the time spent at lunch.
- Meal period: The length of time that the restaurant is open for a given meal. Depending upon the part of the world, most restaurants offer lunch from 11.00 a.m. to 2.30 p.m. or 3.00 p.m., while dinner is typically offered from 5.30 p.m. or 6.00 p.m. until 10.00 p.m.
- Restaurant types (in the context of the Hong Kong Grand):
  - Fine dining: Full service, sit-down restaurant with a comprehensive menu and served in a fairly luxurious setting. High average check per person. The type of restaurant that most people visit a few times per year.
  - Upscale casual: Full service, sit-down restaurant with a comprehensive menu and served in a casual setting. High average check per person. The type of restaurant that people might visit once a month.
  - Casual: Full service, sit-down restaurant with a somewhat limited menu and served in a casual setting. Moderate average check per person. The sort of restaurants that people might visit once a month.
  - Fast casual: Limited service restaurant with a fairly limited menu. Customers can either take their food with them or eat it in the restaurant. These restaurants are fairly casual with a low to moderate average check. The type of restaurant that most people might visit a few times per month.
  - Quick service (fast food): Limited service restaurant with a limited menu. Customers can either take their food with them or eat it in the restaurant. These restaurants are very casual with a low average check. The type of restaurant that most people might visit on a weekly basis.

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