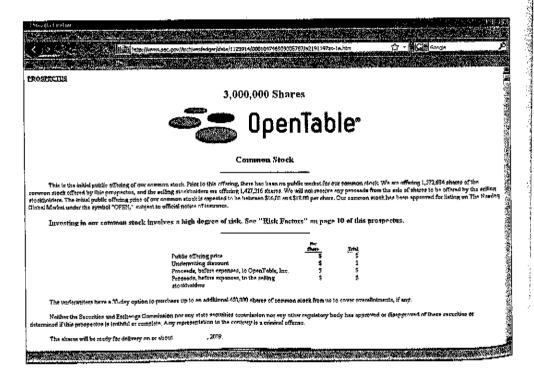**630** | CHAPTER 9   Online Retail and Services

CASE STUDY

OpenTable:
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 13 years, OpenTable 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. And, in the second quarter of 2011, an average of 8 million diners per month made reservations using OpenTable.

Today, more than 20,000 restaurants in the United States, Canada, Mexico, the United Kingdom, Germany, and Japan use the OpenTable hardware and software system. OpenTable also owns and operates Toptable.com, a leading restaurant site in the United Kingdom, which it acquired in 2010. 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, OpenTable for Mobile Web (its mobile Web site), and OpenTable Mobile (its 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

PROSPECTUS

3,000,000 Shares

OpenTable®

Common Stock

This is the initial public offering of our common stock. Prior to this offering, there has been no public market for our common stock. We are offering 1,572,684 shares of the common stock offered by this prospectus, and the selling stockholders are offering 1,427,316 shares. We will not receive any proceeds from the sale of shares to be offered by the selling stockholders. The initial public offering price of our common stock is expected to be between $16.00 and $18.00 per share. Our common stock has been approved for listing on The Nasdaq Global Market under the symbol "OPEN," subject to official notice of issuance.

Investing in our common stock involves a high degree of risk. See "Risk Factors" on page 10 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to OpenTable, Inc.	$	$
Proceeds, before expenses, to the selling stockholders	$	$

The underwriters have a 30-day option to purchase up to an additional 450,000 shares of common stock from us to cover overallotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about   , 2009.

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, introduced in August 2010, was 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. For restaurants that rely less heavily on reservations, OpenTable offers Connect, a web-based service that lets restaurants accept online reservations.

OpenTable's revenue comes from two sources. Restaurants pay a one-time fee for on-site installation and training, a monthly subscription fee of $199 for software and hardware, and a $1 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 e-vites to their dinner companions directly from OpenTable.com. The e-vites 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 Easyeats.com. In 1999, its name was changed to OpenTable.com, Inc. 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 of

paying online restaurant reviewers for links to its Web site and targeting national chains for fast expansions 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, useful, 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 20,000 OpenTable restaurant customers. In 13 years, the company has seated approximately 200 million diners through OpenTable.com.

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 remains 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. So far, the gamble has paid off. On its first day of trading, OpenTable's shares climbed 59%. The share price at the end of September 2011 was in the mid-$40 range, more than double 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. Revenues for 2010 increased by 44% compared to 2009, from $68.6 million to $99 million, and net income almost tripled, from $5 million to $14 million. Results for the first six months of 2011 continue that trend, with revenue increasing from $43.7 million to $68 million, and net income almost doubling, from $5 million to $10.5 million.

The company has benefited from having e-commerce revenue streams from subscription fees and per-transaction charges, instead of from 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 is susceptible to network effects: the more people use it, the more utility the system delivers. OpenTable's growth continually provides diners with expanded choices. 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. Diners serve as a source of viral marketing, as the OpenTable Web site encourages them to e-vite their dinner companions to the meal. When they do so, the e-mail provides links back to the OpenTable Web site. And the OpenTable link appears on the restaurant's Web site, linking directly to the reservation page. OpenTable has been able to improve its efficiency even as diners are staying home more often.

While OpenTable is the biggest, most successful online player in the restaurant reservations market, it does have competitors. MenuPages.com 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. Urbanspoon.com offers a reservation service, but its technology is not compatible with OpenTable, so those reservations must be entered manually into the OpenTable system. Like OpenTable, Urbanspoon charges $1 for each diner. Foodline.com and SavvyDiner.com offer similar services; however, only OpenTable and Foodline provide the option for restaurants to track customer behavior. Looming on the horizon is Google, which recently purchased online restaurant guide Zagat, raising the specter that it might try to compete with OpenTable, although Zagat does not yet possess that functionality.

While some may argue that there are better ways to make reservations that don't take visitors away from restaurant's Web sites (once someone clicks on the OpenTable link, they navigate away), restaurant owners like the OpenTable software, and diners have an enormous range of dining choices. Those two factors make this argument a relatively weak one.

The company is committed to innovation when it makes sense. For example, it has both a mobile Web site and mobile applications that work on just about every smartphone platform. These applications help users find restaurants with the use of GPS and make reservations. OpenTable also launched Facebook Connect, allowing users to share their reservations on Facebook, as well as a Facebook application called Reservations, which allows partner restaurants to offer reservations directly on Facebook.

Along with innovation, OpenTable continues to use its tried-and-true business model that combines technology with old-fashioned door-to-door sales. Using this model, OpenTable's North American markets have grown over time, and this growth is projected to continue. OpenTable plans a selective international expansion into countries where there are large numbers of online consumer transactions and reservation-taking restaurants. The company currently has operations in Germany, Japan, and the United Kingdom, each supported with a direct sales force, and has signed on approximately 1,000 restaurant customers in these markets.

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SOURCES: "Google Buys Zagat to View the OpenTable, Yelp," by Alexei Oreskovic, Reuters, September 8, 2011; Form 10-Q for the quarterly period ended June 30, 2011, Sec.gov, August 4, 2011; Form 10-K for the year ended December 31, 2010, Sec.gov, March 9, 2011; "Behind Open-Table's Success," Kevin Kelleher, CNNMoney.com, September 23, 2010; "OpenTable Introduces the Next Generation of Its Electronic Reservation Book Software," RestaurantNews.com, August 17, 2010; "OpenTable: the Hottest Spot in Town," by Maha Atal, CNNMoney.con, August 14, 2009; "OpenTable Unveils Version 2.0 of its iPhone App," AppScout.com, August 14, 2009; "Gadgetell: Fight for Your Dinner: Urbanspoon vs. Open Table," NewsFactor.com, August 8, 2009; "Urbanspoon is Now Taking Online Reservations: Takes on OpenTable," by Frederic Lardinois, ReadWriteWeb.com, August 7, 2009; "Yelp vs. OpenT-able—Where Should Restaurants Spend Their Marketing Dollars," Dinner Rush Blog, reservationdc. wordpress.com, July 19, 2009; May 22, 2009; "What Media Companies Could Learn from OpenTable," The Media Wonk, May 20, 2009; Open Table S-1/A Amendment #6, filed with the Securities and Exchange Commission, May 19, 2009.

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.

The company is well-positioned for future growth. Its size, track record of growth, and high customer satisfaction rates should continue to work in its favor.

Case Study Questions

1. Why will OpenTable competitors have a difficult time competing against Open-Table?

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?

9.9 REVIEW

KEY CONCEPTS

■ **Understand the environment in which the online retail sector operates today.**

Personal consumption of retail goods and services comprise about 70% and account for about $10.7 trillion of total GDP. The retail sector can be broken down into three main categories:

* Services, which account for 65% of total retail sales
* Durable goods, which account for 10% of total retail sales
* Nondurable goods, which account for 25% of total retail sales

Although the distinction between a good and a service is not always clear, and "product-based services" are becoming the norm, we use the term retail goods to refer to physical products and retailers to refer to firms that sell physical goods to consumers. The retail industry can be further divided into seven major firm types:

* General merchandise
* Durable goods
* Specialty stores
* Food and beverage
* Gasoline and fuel
* MOTO
* Online retail firms