Tips Predict Restaurant Sales

Michael Lynn Ph.D.
Cornell University, wml3@cornell.edu

Andrey D. Ukhov
Cornell University, au53@cornell.edu

Recommended Citation

Follow this and additional works at: http://scholarship.sha.cornell.edu/chrpubs
Part of the Food and Beverage Management Commons
Tips Predict Restaurant Sales

Abstract
An analysis of seven years of monthly charge-card sales and tip data from a multi-regional restaurant chain in the United States found that tip percentages predicted food sales in the following month. Thus, restaurant executives, managers, and owners are encouraged to add tip percentages to their sales forecasting models.

Keywords
sales forecasting, tipping, tip percentage

Disciplines
Business | Food and Beverage Management | Hospitality Administration and Management

Comments
Required Publisher Statement
© Cornell University. This report may not be reproduced or distributed without the express permission of the publisher

This article is available at The Scholarly Commons: http://scholarship.sha.cornell.edu/chrpubs/93
Tips Predict Restaurant Sales
by Michael Lynn, Ph.D. and Andrey Ukhov, Ph.D.
Thank you to our generous Corporate Members

Senior Partners
Accenture
ASAE Foundation
Carlson Rezidor Hotel Group
Hilton Worldwide
National Restaurant Association
SAS
STR
Taj Hotels Resorts and Palaces

Partners
Davis & Gilbert LLP
Deloitte & Touche USA LLP
Denihan Hospitality Group
Expedia, Inc.
Forbes Travel Guide
Four Seasons Hotels and Resorts
Fox Rothschild LLP
Hyatt Hotels Corporation
InterContinental Hotels Group
Jumeirah Group
LRP Publications
Maritz
Marriott International, Inc.
Marsh’s Hospitality Practice
McDonald’s USA
priceline.com
PricewaterhouseCoopers
Proskauer
ReviewPro
Revinate
Sabre Hospitality Solutions
Sathguru Management Consultants (P) Ltd.
Schneider Electric
Travelport
TripAdvisor
Wyndham Hotel Group

Friends
4Hotels.com • Berkshire Healthcare • Center for Advanced Retail Technology • Cleverdis • Complete Seating • Cruise Industry News • DK Shifflet & Associates • eCornell & Executive Education • ehotelier.com • EyeforTravel
• The Federation of Hotel & Restaurant Associations of India (FHRAI) • Gerencia de Hoteles & Restaurantes • Global Hospitality Resources • Hospitality Financial and Technological Professionals • hospitalityInside.com • hospitalitynet.org • Hospitality Technology Magazine • HotelExecutive.com • HRH Group of Hotels Pvt. Ltd. • International CHRIE • International Society of Hospitality Consultants • iPerceptions • J.D. Power and Associates • The Leading Hotels of the World, Ltd. • The Lemon Tree Hotel Company • Lodging Hospitality • Lodging Magazine • LRA Worldwide, Inc. • Milestone Internet Marketing • MindFolio • Mindshare Technologies • The Park Hotels • PhoCusWright Inc. • PKF Hospitality Research • Questex Hospitality Group • The Resort Trades • RestaurantEdge.com • Shibata Publishing Co. • Sustainable Travel International • UniFocus • WWW.COM
Tips Predict Restaurant Sales

by Michael Lynn and Andrey D. Ukhov

EXECUTIVE SUMMARY

An analysis of seven years of monthly charge-card sales and tip data from a multi-regional restaurant chain in the United States found that tip percentages predicted food sales in the following month. Thus, restaurant executives, managers, and owners are encouraged to add tip percentages to their sales forecasting models.
ABOUT THE AUTHORS

Michael Lynn, Ph.D., the Burton M. Sack ‘61 Professor in Food and Beverage Management, is a professor of consumer behavior and marketing at the Cornell University School of Hotel Administration. He received his Ph.D. in Social Psychology from the Ohio State University in 1987, and has taught in the marketing departments of business and hospitality schools since 1988. His experience of paying his way through school by waiting tables and bartending sparked his interest in service gratuities (tipping), a topic on which he has over 50 published academic papers. His other research focuses on consumer status and brand differentiation. A former editor of the Cornell Hospitality Quarterly, Lynn is an associate editor of the Journal of Socio-Economics and an editorial board member for the Journal of Hospitality and Tourism Research and the International Journal of Hospitality Management.

Andrey Ukhov, Ph.D., is an assistant professor of finance at the Cornell University School of Hotel Administration. His chief research interests are theoretical and empirical asset pricing and risk preferences. Formerly with the Kelley School of Business at Indiana University, his publications include papers in Journal of Financial and Qualitative Analysis, Economic History Review, Review of Finance, and Journal of Financial Research. He has presented at such conferences as the Western Finance Association, ASSA/American Finance Association, and the Econometric Society. He is a referee for the Journal of Finance, Review of Finance, and Journal of Empirical Finance, among others.
Tips Predict Restaurant Sales

by Michael Lynn and Andrey D. Ukhov

Sales forecasts are a critical tool at all levels of the restaurant industry. Restaurant managers use sales forecasts to better estimate the amounts of food, beverages, and other supplies they must order and to more efficiently schedule employees to cover labor needs. Restaurant owners and restaurant chain executives use sales forecasts to secure loans, to woo potential investors, to inform their own reinvestment decisions, and to set benchmarks against which their unit managers’ performances are measured and rewarded. Given the considerable applied interest in restaurant sales forecasts at both the unit and corporate level, many restaurant firms employ sophisticated statistical techniques to generate such forecasts.¹

¹ For example, see: Y.N. Green and P.A. Weaver, Approaches, techniques and information technology systems in the restaurants and food-service industry: A qualitative study in sales forecasting. International Journal of Hospitality and Tourism Administration, 9, No. 2 (2008), 164-191
A modest body of research has addressed restaurant industry sales forecasting. Several studies have shown that restaurant sales can be predicted from sales in prior periods or trends over time. Furthermore, researchers have found that restaurant sales prediction can be improved by adding such factors as day of week, month of year, holidays, weather, and (for casino restaurants) showroom headcounts to models that include previous period sales or temporal trends.

This paper contributes to the restaurant sales forecasting literature by examining the predictive utility of another variable readily available to restaurant managers and executives—namely, charge-card tip percentages. Tips might predict future sales for at least two reasons. First, current service levels affect current tips and intentions to return. To the extent that repeat patronage intentions affect future sales, then current tips may predict future sales because they serve as a proxy for current service quality, which drives future sales. Second, as voluntary payments whose amounts are determined by consumers after services have been received, tips are arguably the most discretionary of consumer expenditures. As such, it is plausible that changes in economic conditions and the resulting consumer sentiment affect tips before they affect other less discretionary expenditures. If so, then tips may be a leading indicator of consumer sentiment. Since consumer sentiment affects future retail sales or sales growth, tip information that reflects consumer sentiment should predict future restaurant sales. These ideas that tip amounts may reflect two drivers of future sales—current service levels and consumer sentiment about the economy—suggest that adding tips to forecasting models may improve the prediction of restaurant sales. We test this possibility in a novel data set as described next.

Method

A large, multi-regional restaurant chain provided daily sales and tip information for ten restaurants, which are scattered across the United States. The data are from February 2005 through January 2012, a time period which includes both periods of economic expansion and contraction. This chain has substantial non-food revenues that are not customarily accompanied by tipping, so data were provided about the charge-card tips and sales coming from revenue centers that are typically tipped, as well as gross and net revenues across all revenue centers. Our data comprised the following:

1. **Tips**—charge-card tips from those revenue centers where tips are common (hereafter referred to as “selected revenue centers”),
2. **Total sales A**—charge sales from selected revenue centers (excluding split checks with more than one payment method and charges with no charge tip),
3. **Total sales B**—charge sales from selected revenue centers (excluding any charges from split checks with more than one payment method),
4. **Gross revenue**—total sales from all revenue centers and all payment methods minus inclusive taxes, and
5. **Net revenue**—total sales from all revenue centers and all payment methods minus discounts and inclusive taxes.

We aggregated the data across units and days to get aggregate monthly charge sales and tips from those charge receipts that included a tip. Then we divided aggregate tips by aggregate sales to calculate monthly tip percentages (percent tip). We used only charge receipts with a non-zero tip to generate percent tip because many people leave cash tips even when paying for their meal with a credit card and including their charge sales in the denominator of percent tip would have biased that measure.

Results and Discussion

Exhibit 1 lists summary statistics for the data series. We aggregated all data for the ten units to obtain aggregate monthly data. The minimum percentage tip in our data is 16.65 percent, and the maximum is 18.62 percent. We would like to point out that this range in monthly tip percentages of about 2 percent of sales provides enough variability to justify looking at the predictive power of percent tip. Exhibit 2 displays a plot of total sales (total sales A), total tips (left vertical axis) and percent tip (right vertical axis) and illustrates variation in the data.
We assessed the predictive utility of *percent tip* using regression analyses. However, time series data like those we are using typically violates assumptions about the independence of error terms that underlie statistical tests, and this can make the *p*-values from those tests invalid. This problem, known as serial correlation in the data, can be addressed by controlling for values of the dependent and independent variables from previous time periods. Therefore, we included lagged values of the dependent and independent variables in our regression models in order to control for serial correlation in our data. Our regression models also controlled for linear and curvilinear (quadratic) trends in sales over time as well as for monthly differences in sales. We ran four regression models—one for each of the dependent variables: total sales A, total sales B, gross revenue, and net revenue (see Exhibits 3 and 4).

In regressions predicting total sales A and total sales B, the coefficients for *percent tip* lagged by one month (that is, *percent tip* from the previous month) were positive and statistically significant. This means, for instance, that when tip percentage in the prior month is higher than...
tip percentage two months previous, then total sales from the current month tend to be higher than total sales from the prior month. In this case, a one-point increase in percent tip (e.g., from 14 to 15 percent) predicted a $366,835.49 increase in total sales A the following month and a $476,866.63 increase in total sales B in that following month across all ten units studied. Thus, it appears that tips do predict sales from the revenue centers that generated the tips.

We also estimate a regression model that includes all the other explanatory variables (lagged sales, linear and quadratic time trends, and monthly dummy variables), but omits lagged tips. The model without tips explains 81% of the variation in total sales A, leaving 19% of the variation unexplained, and it explains 79.7% of the variation in total sales B, leaving 20.3% of the variation unexplained. When tips are added to the model, the information contained in the tips helps explain 15% of the unexplained variation in the case of total sales A, and 15.3% of the unexplained variation in the case of total sales B.

In additional tests, we also examine whether the coefficient on percent tip is the same for a tip increase as for a tip decrease. To do this, we define a dummy variable that takes the value of 1 in a month when percent tip is higher relative to the prior month, and takes the value of 0 otherwise. The variable is tips increase. We estimate additional regressions, where we include tips increase to account for potentially different intercepts between tips increase and tips decrease; we also include the interaction variables, (Tips Increase)*(Percent Tip(-1)), and (Tips Increase)*(Percent Tip(-2)), to account for potentially different effect of Percent Tip on sales for tip increase and tip decrease. First, our main results continue to hold: An increase in Percent Tip (-1), our main variable of interest, remains statistically significant, so an increase in total sales A and total sales B forecasts an increase in sales. Second, the coefficient for the interaction term, (Tips Increase)*(Percent Tip(-1)), is positive and marginally statistically significant for both the total sales A and the total sales B regressions. This indicates that increasing tips may have a stronger effect on sales than do decreasing tips.

### Exhibit 3

Regression results of tip percentages as a predictor for monthly food sales

<table>
<thead>
<tr>
<th></th>
<th>Total Sales A</th>
<th>Total Sales B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-195,048</td>
<td>-468,833</td>
</tr>
<tr>
<td></td>
<td>(-0.07)</td>
<td>(-0.13)</td>
</tr>
<tr>
<td>Trend</td>
<td>6,884.90</td>
<td>7806</td>
</tr>
<tr>
<td></td>
<td>(1.44)</td>
<td>(1.23)</td>
</tr>
<tr>
<td>Trend Squared</td>
<td>-73.99</td>
<td>-70.42</td>
</tr>
<tr>
<td></td>
<td>(-2.29)**</td>
<td>(-1.71)*</td>
</tr>
<tr>
<td>Total Sales A (-1)</td>
<td>0.47</td>
<td>0.4662</td>
</tr>
<tr>
<td></td>
<td>(4.55)****</td>
<td>(4.57)****</td>
</tr>
<tr>
<td>Total Sales B (-1)</td>
<td></td>
<td>0.4662</td>
</tr>
<tr>
<td>Percent Tip (-1)</td>
<td>366,835.49</td>
<td>476,866.63</td>
</tr>
<tr>
<td></td>
<td>(2.58)*****</td>
<td>(2.47)****</td>
</tr>
<tr>
<td>Percent Tip (-2)</td>
<td>-284,023.20</td>
<td>-353,36.95</td>
</tr>
<tr>
<td></td>
<td>(-1.93)*</td>
<td>(-1.78)*</td>
</tr>
<tr>
<td>Monthly Dummies</td>
<td>Included</td>
<td>Included</td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>2.22</td>
<td>2.25</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.84</td>
<td>0.83</td>
</tr>
</tbody>
</table>

Note: Significance levels as follows: * p < .10, ** p < .05, *** p < .01

---

6 We also estimate a regression model that includes all the other explanatory variables (lagged sales, linear and quadratic time trends, and monthly dummy variables), but omits lagged tips. The model without tips explains 81% of the variation in total sales A, leaving 19% of the variation unexplained, and it explains 79.7% of the variation in total sales B, leaving 20.3% of the variation unexplained. When tips are added to the model, the information contained in the tips helps explain 15% of the unexplained variation in the case of total sales A, and 15.3% of the unexplained variation in the case of total sales B.
NET SALES the following month across all ten units studied. These effects did not reach the conventional level of statistical significance, but neither one would occur by chance more than eight times out of 100. Thus, we feel comfortable concluding that tips also predict sales from all revenue centers, but that conclusion should be regarded as tentative pending future replications.

---

**Conclusions**

An analysis of seven years of monthly sales and tip data from a multi-regional restaurant chain in the United States found that tip percentage reliably predicted related sales in the following month. The precise relationship between charge tips and future sales will vary across restaurant chains and even across specific restaurants, so our findings cannot be directly used to forecast your sales. Our results are useful, however, in providing evidence that charge tips can predict sales. Thus, we encourage other restaurants and restaurant chains to add charge tips to their forecasting models.

---

7 We also estimate a regression model that includes all the other explanatory variables (lagged revenues, linear and quadratic time trends, and monthly dummy variables), but does not include lagged tips. The model without tips explains 84.8% of the variation in gross revenue, leaving 15.2% of the variation unexplained, and it explains 85.7% of the variation in net revenue, leaving 14.3% of the variation unexplained. When tips are added to the model, the information contained in the tips helps explain 7.9% of the unexplained variation in the case of gross revenue, and 7.7% of the unexplained variation in the case of net revenue.

8 In additional tests, we also examine whether the coefficient on percent tip the same for a tip increase as for a tip decrease. Using the same methodology as in footnote 6, we again find our main results continue to hold: An increase in percent tip (-1) is marginally statistically significant, so an increase in percent tip forecasts an increase in revenue, but the coefficient for the interaction term was not statistically significant. Thus, we are unable to conclude that increasing tips and decreasing tips have different effects on sales from all revenue centers.
Cornell Center for Hospitality Research
Publication Index
www.chr.cornell.edu

2013 Reports
Vol. 13 No. 7 Social Media Use in the Restaurant Industry: A Work in Progress, by Abigail Needles and Gary M. Thompson, Ph.D.

2013 Industry Perspectives
Vol. 3 No. 1 Using Research to Determine the ROI of Product Enhancements: A Best Western Case Study, by Rick Garlick, Ph.D., and Joyce Schlentner

2013 Proceedings
Vol. 5 No. 6 Challenges in Contemporary Hospitality Branding, by Chekitan S. Dev

2012 Reports
Vol. 12 No. 16 Restaurant Daily Deals: The Operator Experience, by Joyce Wu, Sheryl E. Kimes, Ph.D., and Utpal Dholakia, Ph.D.

2013 Hospitality Tools
Vol. 4 No. 2 Does Your Website Meet Potential Customers’ Needs? How to Conduct Usability Tests to Discover the Answer, by Daphne A. Jameson, Ph.D.

2013 Hospitality Tools
Vol. 4 No. 1 The Options Matrix Tool (OMT): A Strategic Decision-making Tool to Evaluate Decision Alternatives, by Cathy A. Enz, Ph.D., and Gary M. Thompson, Ph.D.

2013 Industry Perspectives
Vol. 3 No. 1 Using Research to Determine the ROI of Product Enhancements: A Best Western Case Study, by Rick Garlick, Ph.D., and Joyce Schlentner

2013 Proceedings
Vol. 5 No. 6 Challenges in Contemporary Hospitality Branding, by Chekitan S. Dev

2012 Reports
Vol. 12 No. 16 Restaurant Daily Deals: The Operator Experience, by Joyce Wu, Sheryl E. Kimes, Ph.D., and Utpal Dholakia, Ph.D.

2013 Hospitality Tools
Vol. 4 No. 2 Does Your Website Meet Potential Customers’ Needs? How to Conduct Usability Tests to Discover the Answer, by Daphne A. Jameson, Ph.D.

2013 Industry Perspectives
Vol. 3 No. 1 Using Research to Determine the ROI of Product Enhancements: A Best Western Case Study, by Rick Garlick, Ph.D., and Joyce Schlentner

2013 Proceedings
Vol. 5 No. 6 Challenges in Contemporary Hospitality Branding, by Chekitan S. Dev

2012 Reports
Vol. 12 No. 16 Restaurant Daily Deals: The Operator Experience, by Joyce Wu, Sheryl E. Kimes, Ph.D., and Utpal Dholakia, Ph.D.

2013 Industry Perspectives
Vol. 3 No. 1 Using Research to Determine the ROI of Product Enhancements: A Best Western Case Study, by Rick Garlick, Ph.D., and Joyce Schlentner

2013 Proceedings
Vol. 5 No. 6 Challenges in Contemporary Hospitality Branding, by Chekitan S. Dev

2012 Reports
Vol. 12 No. 16 Restaurant Daily Deals: The Operator Experience, by Joyce Wu, Sheryl E. Kimes, Ph.D., and Utpal Dholakia, Ph.D.

2013 Industry Perspectives
Vol. 3 No. 1 Using Research to Determine the ROI of Product Enhancements: A Best Western Case Study, by Rick Garlick, Ph.D., and Joyce Schlentner

2013 Proceedings
Vol. 5 No. 6 Challenges in Contemporary Hospitality Branding, by Chekitan S. Dev

2012 Reports
Vol. 12 No. 16 Restaurant Daily Deals: The Operator Experience, by Joyce Wu, Sheryl E. Kimes, Ph.D., and Utpal Dholakia, Ph.D.

2013 Industry Perspectives
Vol. 3 No. 1 Using Research to Determine the ROI of Product Enhancements: A Best Western Case Study, by Rick Garlick, Ph.D., and Joyce Schlentner

2013 Proceedings
Vol. 5 No. 6 Challenges in Contemporary Hospitality Branding, by Chekitan S. Dev

2012 Reports
Vol. 12 No. 16 Restaurant Daily Deals: The Operator Experience, by Joyce Wu, Sheryl E. Kimes, Ph.D., and Utpal Dholakia, Ph.D.

2013 Industry Perspectives
Vol. 3 No. 1 Using Research to Determine the ROI of Product Enhancements: A Best Western Case Study, by Rick Garlick, Ph.D., and Joyce Schlentner

2013 Proceedings
Vol. 5 No. 6 Challenges in Contemporary Hospitality Branding, by Chekitan S. Dev

2012 Reports
Vol. 12 No. 16 Restaurant Daily Deals: The Operator Experience, by Joyce Wu, Sheryl E. Kimes, Ph.D., and Utpal Dholakia, Ph.D.