



# The Raphael Report

**Observations on marketing,  
advertising, sales and  
promotions  
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## Why Isn't My Favorite Restaurant Loyal to Me?

Most of us eat at restaurants several times a month. And you probably have your favorite restaurant that you visit more often than others. But check your wallet. There are your supermarket loyalty cards, your airline frequent flyer cards and your hotel loyalty cards. Where's the card for the restaurant you eat at regularly? There probably isn't one.

We've been spending a lot of time lately working on loyalty programs for restaurants, and we know how effective loyalty programs are for many industries. So we were surprised to read how scarce the programs are in the restaurant business -- only five percent of restaurants offer them to their customers, according to a recent article by Randolph Hobler in Direct Magazine (June 15, 2006).

Compare that 5 percent rate of loyalty program penetration in the restaurant industry to other industries: 65% for supermarkets, 85% for hotels and 100% for major airlines. While it is true some major chains like Benihana, TGIFridays, and Hard Rock Cafe have started loyalty programs, the vast majority of restaurants (chain and single operators) do not currently keep track of their best customers.

The benefits of loyalty marketing have been the subject of many of our columns. To recount the reasons why we believe in loyalty programs so strongly:

1. Frequent customers spend more and have higher profit margins than other customers;
2. Once you have their name and contact information, it is much more cost-productive to market to existing customers than finding new ones;
3. Existing customers can be a great source of new business by encouraging their friends to try your business; and
4. Existing customers respond much better to incentives than people who don't know your business.

Let's compare the challenge of marketing a restaurant to other industries, and see how effective loyalty programs are for those industries.

Here's a quick quiz:

For marketing purposes, a restaurant is most like a:

- A. Convenience store
- B. Supermarket
- C. Casino-Hotel
- D. Airline

Let's look at each one:

A. Convenience stores: In a convenience store, the product line offer is limited, compared to a full-service market, but much wider than many other businesses. The typically small transaction size (a couple of dollars per visit) does not leave much room for marketing expense on an individual customer basis. Most convenience stores do not have loyalty programs. The kind of loyalty program that can work well for a convenience store is a simple punch card system where the 10th coffee, donut, or gallon of milk is free. This type of operation does not compare in products or transaction size with most sit-down restaurants, so for marketing purposes, it is not like a restaurant. If you answered A, you're wrong.

B. Supermarket: The products supermarkets sell (mostly food) have a lot of similarity to restaurants and some supermarkets even offer prepared food for eat-in and take out. The average transaction at a supermarket is often lower than many restaurants, but shoppers visit supermarkets more often than they do restaurants. A big difference between restaurant and supermarkets is that restaurants tend to be more specialized and offer a much more narrow product choice (think Thai or Mexican restaurants) than supermarkets. With some notable exceptions, supermarkets are very similar to each other in decor, product offerings and design. You get half credit if you picked supermarkets. The marketing challenge is similar to supermarkets, but since restaurants have a more specific niche, their marketing requires more personalization.

C. Casino-Hotels: Casino-Hotels are very similar to restaurants (and, of course, many casino-hotels operate restaurants). Casinos and restaurants both are part of the entertainment industry – a night out, for a restaurant, or a vacation, for a casino-hotel. Although the average per-visit expenditure at a casino is much greater than a restaurant, a loyal restaurant customer can be very profitable for the restaurant. Satisfied restaurant and casino customers will return to the same establishment with the proper incentives and the per-customer margin can be high. Although most casinos offer similar products as other casinos, their distinct marketing themes give them strong brand recognition. Like restaurants, they create a specific identity that helps a potential customer decide whether or not to visit. If you chose C, you receive full credit.

D. Airlines: Frequent flyer programs have become such an industry standard that all the major airlines now offer them. What began 20 years ago as a marketing program is now simply a requirement of the industry. Airlines must work hard to distinguish their programs from competitors' programs. Because many flights are currently full, it is becoming harder and harder to use rewards that have been earned. Most airlines now compete primarily on price and air routes, while restaurants compete primarily on service, selection and ambiance. If you chose D, you receive no credit.

So now that we've decided restaurants are somewhat like supermarkets and very much like casinos and hotels, why haven't loyalty programs taken off in the restaurant industry like they have in these other industries? Let's consider the objections to a loyalty program:

1. Cost of integration with an existing POS system: This can be a problem, especially with chain restaurants that are operated by franchisees. However, many restaurant POS systems support loyalty programs and there are add-on software alternatives. Loyalty programs can be within just the franchisee's group of restaurants, not across all whole nationwide chain. Also, loyalty programs can be very successful even without integration into the POS system.

2. Training employees: The key for a loyalty program in the restaurant industry is that the requirements to join should be minimal, the rewards should be clear, and the servers should be trained to give rewards graciously and to try to help sign up new customers. A simple loyalty program can be easily explained to serv-

ers and cashiers and need not demand much training time if designed correctly.

3. Competing programs: In some industries with a number of loyalty programs, other competing programs can be a deterrent to signing up customers to a new program. Those programs have already signed up many of your customers, and you have to do a good job of distinguishing your program in the marketplace. But a loyalty program in the restaurant industry will not have much competition at this point. And if your competitors try to copy you, you have all the advantages of being one of the first in the marketplace with an established loyalty program.

4. Time required to start a program. This can be the most difficult hurdle for a restaurant to overcome. Restaurants typically have a very small management staff and starting a loyalty program requires research, time and energy. Loyalty programs only work well when the CEO is committed to it and encourages program development. Unless the owner of a restaurant can devote the time needed to start a loyalty program, it probably won't happen. But a program can start small and grow over time.

The bottom line is that restaurant loyalty programs make sense. In chain restaurants, economies of scale help a successful loyalty program have a larger impact. Even for single, non-chain restaurants, where the profit margins on meals are large, loyalty programs can help retain customers and attract additional sales. Because each customer is valuable, restaurants should make a big effort to institute a loyalty program. The rewards are great, and there is nothing better than a loyal customer base to glide any business through difficult times.