

Choosing a Loyalty Program That's Right for You

*Loyalty programs can generate exceptional financial returns for your restaurants.
Yet choosing the loyalty program that will deliver these results isn't easy.
This guide provides a review of popular programs and helps you frame the key selection criteria.*

Loyalty Improvement Series

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Loyalty programs can bring great value to your restaurants. By enticing guests to visit more often and to spend more with each visit, a loyalty program can deliver outstanding financial returns.

Determining which loyalty program will produce optimal results for your restaurants can appear overwhelming. Given the vast array of loyalty programs, several factors should be considered:

- Which program will engage your guests?
- What type of loyalty program aligns with your brand?
- What kind of program can your staff effectively execute?
- Which one will advance your financial goals?

This decision guide helps you answer these questions and create a loyalty program best suited for your restaurants. It begins by defining the basic elements of a loyalty program, offers an assessment of popular programs, and provides evaluation criteria and a scorecard for selecting among the many alternatives. As you read, you'll develop a sense for the programs that will best fit your restaurants and be able to narrow your choices.

Defining a Loyalty Program

Simply described, a loyalty program gives you a way to engage your guests and encourage their spending at your restaurants. A few common elements make up every loyalty program: the core program, layered programs, and promotions.

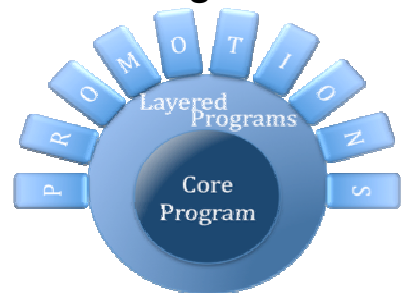
The **core program** represents the heart of your loyalty program. Its features will attract guests to join your program and, ultimately, to visit your restaurants. Successful core loyalty programs align with your brand and emphasize your restaurants' distinctive character in a way that appeals to guests and motivates them to visit more often and to spend more of their dining dollars with you.

Core programs hold broad appeal with guests and work across the spectrum of restaurant types. They encourage guests to present their card and identify themselves every time they visit.

Often added to an established core loyalty program, **layered programs** give your loyalty program depth and a distinctive flair that strengthens the guests' connection to your restaurants and drives sustained activity. For instance, adding an affinity program where you donate a portion of sales to a charity may inspire incremental guest visits.

Promotions enable you to influence your guests' buying behavior. The fun, creative element of a loyalty program, promotions provide a key lever to engage guests and prompt visits. Targeted promotions can help you generate traffic during slow periods, encourage the trial of new menu items, and keep your restaurants on the minds of your guests.

The Loyalty Program Building Blocks



Core Program: The heart of your loyalty program, this encourages guests to join and to identify themselves with each visit.

Layered Program: This is a way to add depth to your loyalty offerings.

Promotions: Short-term offers are used to engage guests and influence their purchase decisions.

Assessing Popular Loyalty Programs

As you learn about the various loyalty programs, you may recognize that several different loyalty programs would work well for your restaurants. There are no absolute rules for success, particularly when each program can be shaped to fit the character of your restaurants.

The loyalty programs outlined here represent the most popular programs – not an exhaustive list. Each of these solid, proven programs is described to give you a sense for how the program operates and to highlight the key advantages and limitations. Consider each program in the context of your restaurants and your loyalty goals in order to identify the four or five that are of the most interest.

The final section of this decision guide includes evaluation criteria and a scorecard to help you trim your list of options to the two or three programs that are best suited for your restaurants.

The core programs are presented first, followed by the layered programs.

Core Loyalty Programs:

- *Automatic Rewards*
- *Bankable Points*
- *Discounts*
- *Product Frequency*
- *Visit Frequency*

Layered Loyalty Programs:

- *Affinity*
- *Birthday*
- *Membership*
- *Special Menu Pricing*
- *Surprise and Delight*
- *Tiered Rewards*

Core Loyalty Programs

Automatic Rewards Programs

In an automatic rewards program, guests earn points for each dollar spent. When a defined threshold is met, the points are converted into a reward. After earning the reward, the point values are reset to zero and guests start to earn points again toward their next reward.

Common automatic rewards programs include product rewards (points-to-products) or reward dollars (points-to-dollars). For example, after guests accumulate, say, 100 points, they automatically receive a reward on their next visit. A product reward program might entitle the guest to a free dessert, while a reward dollars program might provide \$5 off their next purchase.

Either way, the simplicity of an automatic rewards program attracts guest participation. Plus, the automatic reward format ensures easy, low-cost administration. Restaurants with a menu item that holds universal appeal may favor a product rewards program; the reward is enticing and the cost is predictable. If you prefer to offer your guests the unrestricted freedom to spend reward dollars, allow for the redemption of low-margin items in your cost calculations. Choosing to issue either product or dollar rewards lets you tailor an automatic rewards program to the personality of your restaurants.

Bankable Points Programs

Bankable points programs allow guests to accumulate points and redeem them for rewards of their choosing. With every dollar spent, guests earn points that are tracked and stored in their personal account. As the point balance grows, guests can redeem their points for a reward they value (similar to airline miles programs).

Bankable points programs work best when the rewards include a mix of menu items (e.g., free dessert) and aspirational rewards (e.g., a cooking lesson with your executive chef or a vacation to an attractive destination). “Pricing” rewards at different levels will broaden the appeal of the program. Rewards attained in just a few visits will attract your less frequent guests, while the

high-priced rewards will motivate loyalty among other guests who will patronize your restaurant for months (and years) to earn points toward these distinctive rewards.

Bankable points programs are very popular with guests and can differentiate your restaurants. They engage a full range of guests and promote loyalty in both the short and long term. However, rewards fulfillment can get complicated and expensive if not properly priced. (Paytronix’s solutions include fulfillment support. See the Loyalty Improvement Series article “Reward Yourself.”) Also, the program may be more complex and prompt guest questions.

Discount Programs

Discount programs extend a price reduction to guests on their purchases. The discount (e.g., 10%) may apply to the guests’ entire purchase or to specific items.

Discount programs may provide useful competitive leverage for targeting price-sensitive guest populations, such as senior citizens and families. When applied selectively, discounts can provide an effective lever to boost traffic during slow times (e.g., Tuesday nights or weekday afternoons). However, discounts may pinch financial returns when applied broadly without regard for overall order size or the margin of the items purchased.

Product Frequency Programs

In a product frequency program, guests receive points for specific product purchases. Each time guests buy the item, they receive a point. When a designated threshold is met, guests automatically receive a reward. A “buy ten, get one free” is a common example. After the reward has been received, the product points are reset to zero and begin accruing again.

This simple, easy-to-understand program holds strong guest appeal and is great for restaurants with a popular menu item (or category of items) that can be regularly consumed by multiple guest segments. Focusing discounts on higher-margin products leads to solid financial returns.

Visit Frequency Programs

Visit frequency programs award points to guests each time they visit one of your locations. At a given threshold, the visit points automatically convert into a product reward, reward dollars, or a discount. For instance, after ten visits, guests may receive ten reward dollars to use toward a future purchase. Upon receipt of the reward, the visit points start accruing again.

A visit frequency program is readily understood by guests and can be quickly executed at the point of service. By defining a minimum order size for a “qualified visit,” you can encourage advantageous buying behaviors.

Sample Restaurant Loyalty Programs

Different brand characteristics will influence the creation of loyalty programs.

Brand Characteristics	Restaurant Group A	Restaurant Group B	Restaurant Group C
Concept	Quick Casual: Convenient quality	Casual Dining: Fun, relaxed, family-friendly	Casual-to-Fine Dining: Rich experience and atmosphere
Operations	Speed	Quick, efficient	Pamper guests
Menu	Morning coffee, sandwiches at lunch	Upscale pub food with seasonal variations	Full menu, multi-concept, emphasis on different cuisines
Loyalty Strategy	Drive visit frequency	Motivate frequent visits and build long-term relationships	Build relationships, encourage cross-concept visits, convert business diners to personal guests
Loyalty Program Building Blocks			
Core Program	Product Frequency	Automatic Rewards	Bankable Points
Layered Programs	Special Menu Pricing Birthday	Membership Tiered	Surprise and Delight Birthday
Promotions	Double Points Visit Challenge	Limited-Time Offers Instant Wins	Double Points Limited-Time Offers

Layered Loyalty Programs

Affinity Programs

With affinity programs, restaurants donate a percentage of guest spending to a selected charity. The program conveys a sense that you are a good neighbor who's active in the community. Affinity programs make guests feel good about making purchases at your restaurants.

The best affinity programs link the interests of a core guest segment with a particular charity, like an ice cream chain with a children's charity.

Birthday Programs

Birthday programs encourage guests to celebrate their birthday at your restaurants. Guests receive a well-timed, personal invitation to visit and enjoy an enticing indulgence. A birthday program can be set up with defined parameters (offer, expiration, etc.) and then set to run on an automated schedule without further intervention.

Becoming a part of your guests' birthday celebration can create an enduring association with your restaurants. Automatic administration makes execution seamless and cost-effective.

Membership Programs

In a membership program, guests typically purchase a membership card that entitles them to various benefits, such as bonus items, points, or discounts. These benefits may be available periodically (once a month) or earned when points are accrued.

Membership programs cultivate long-term loyalty and work well for restaurants aspiring to differentiate by providing special treatment for "premier" guests. The prepaid fee can generate a faster ROI, but the cost may be a barrier to broad participation. In addition, providing guests with special treatment (e.g., a "jump to the front of the line" perk) can be more complex, and your staff will need training to answer questions about this more intricate program.

Special Menu Pricing Programs

Special menu programs give restaurants a way to engage and entice guests to visit. For instance, restaurants might establish a "value menu" with low prices to reach price-sensitive guests. Higher-end restaurants may also offer a set menu for a fixed price as a way to build traffic during slow periods and to attract a wider range of guests.

Special menu programs offer restaurants a way to expand their guest base. However, success means balancing attractive pricing with profitable operating costs.

Surprise and Delight Programs

Surprise and delight programs offer a unique way to reward loyal guests: by providing guest rewards at "random." There are no published rewards. Instead, serendipitous, unexpected rewards drive guest excitement and loyalty.

This is a great way to add zest to a core loyalty program. Success depends on containing program costs, having a well-coordinated staff, and ensuring that guests appreciate the awards.

Tiered Programs

Tiered programs add multiple reward levels to loyalty programs. As guests spend more, they become eligible for a higher level of rewards or earn points at a faster rate. Inviting guests to a new reward level renews their excitement for your restaurants.

Tiered rewards are readily added to any core loyalty program. Introducing silver, gold, and platinum reward levels keeps guests engaged and active for an extended period of time. However, multiple reward levels make fulfillment and administration more complex.

Creating Your Loyalty Program: Evaluation Criteria

With many loyalty programs from which to choose, getting started can seem daunting. Don't get overwhelmed! Take a simple first step and consider your own personal observations. To what loyalty programs do you belong? Why did you join and what incentives encourage you to remain an active member? What aspects discourage your participation in a loyalty program?

Next, consider your competitors. What types of loyalty programs do they run? What can you learn from their programs? What might you emulate? What would you change?

Extending your perspective with a broad range of industry experience can be instructive too. Accordingly, we spoke with restaurateurs who run loyalty programs to find out what they valued most. Their responses shaped useful criteria for helping you build a successful loyalty program.

The Loyalty Program Evaluation Criteria

1. Consider how to best engage your guests.
2. Create the flexibility to run promotions that fit your brand.
3. Enable simple execution by your staff.
4. Design the program for solid financial returns.

These criteria will enable you to evaluate the various loyalty programs and guide your decisions about creating a program for your restaurants. The following descriptions will arm you with the knowledge to rate potential program alternatives in the scorecard on the last page.

1. Engage Your Guests

A loyalty program revolves around engaging your guests. You want to create a program that will capture your guests' attention and motivate incremental spending.

A brief survey can reveal valuable insights into what drives guests into your restaurants. By asking guests just a few questions during an in-person interview or via an online survey, you can uncover what they like about their experience – specific menu items, service, etc. Leverage this insight into creating a program that will cultivate their continued loyalty.

Consider your guests' preferences as you evaluate loyalty programs. Which programs will enable you to best fuel their enthusiasm for your restaurants? Remember, you may serve many different types of guests. Be sure to focus on the preferences of your target segments.

2. Create the Flexibility to Run Promotions That Fit Your Brand

Loyalty programs depend on targeted promotions to regularly engage guests. Your choice of a core loyalty program should enable promotions that accentuate your brand.

Examine the elements that distinguish your brand (menu, service, convenience, etc.) and envision how various promotions can build guest loyalty. Consider your menu, for example. If a signature item anchors your menu, your promotions might (a) strive to build appeal of that item across a wide range of consumers and/or (b) encourage complementary product purchases. In contrast, a diverse, dynamic menu may focus promotions on encouraging guests to try various products and to visit for lunch as well as for dinner. Depending on your objectives, different core programs will be better suited to advance your loyalty strategy.

When examining loyalty programs, consider the elements of your brand and how each will accommodate promotions that highlight your unique strengths.

3. Enable Execution by Your Staff

Operational requirements also dictate your selection of core and layered loyalty programs. For instance, if your restaurants emphasize speed, explore easy-to-communicate programs with fast

processing at the point of service. If you pamper your guests, consider more configurable, personalized programs.

Evaluate loyalty programs consistent with your operating model and the proficiency of your staff. Do they have the time and the skill to:

Explain the program and enroll guests?

Update guests on their status (e.g., the number of points accumulated)?

Readily handle questions about redemption options?

When building a loyalty program, the impact on your frontline operations deserves meaningful attention. Success depends on an appropriate alignment with the level of staff training and turnover, as well as your operational approach.

4. Earn a Financial Return

Profitability remains the ultimate goal, so ensure that your evaluation includes an assessment of the potential financial impacts. Successful loyalty programs cultivate spending behaviors that more than compensate for the cost of rewards.

Compare the potential revenue opportunities and costs of each loyalty program. Consider how the promotion-led incremental sales gains and companion purchases will balance the anticipated costs of discounts, fulfillment, and incremental labor. Also, be aware of potential accounting liabilities or legislation that could limit or complicate your rewards program (e.g., state laws restricting discounts on alcohol purchases).

Different loyalty programs assume different cost models. Be sure to narrow your choices to programs with a financial model that aligns with your business.

Capture Key Guest Information for Segmentation

Capturing guest information stands as the foundation for every loyalty program. Collecting data helps you get to know your guests, understand their preferences, and uncover their motivations.

Creating incentives to drive registration is a way to differentiate your brand, capture guest information, and begin engaging guests. You want to learn who they are (their age, birthday, etc.) and ascertain their buying habits (e.g., they buy 15 coffees every month, they visit twice a month for dinner etc.).

Every loyalty program should produce guest demographic and spending data. However, as you design your loyalty program, ensure that you can associate registered guests with their responses to promotional offers and with their ultimate spending decisions. This link will enable you to identify unique guest segments and present them with specific offers designed to motivate incremental visits to your restaurants.

Concluding Comments

Your guests have choices about where to dine. Make your restaurants their favorite destination with an enticing loyalty program that inspires regular visits and cultivates a long-term connection.

Use the program descriptions, the evaluation criteria, and the scorecard to start building your own loyalty program. Take the first steps toward engaging your guests and reaping the financial rewards.

Loyalty Program Scorecard

Your Personal Loyalty Programs

Program Names	Reasons to Join and Stay Active	Aspects That Discourage Participation
1.	•	•
2.	•	•
3.	•	•

Your Competitors' Loyalty Programs

Competitor & Program Type	Elements to Emulate	Aspects to Change
1.	•	•
2.	•	•
3.	•	•

Program Evaluation Scorecard

Use the table below to rate the loyalty programs for their fit with your restaurants. Score each element on the scale of 0 to 10, where zero represents no alignment with your restaurants and ten represents perfect alignment. When you have completed your evaluation, sum the scores for each program to see which ones offer the best potential for success.

	Guest Engagement	Fitting Promotions	Staff Execution	Financial Return	Total Score
Core Programs					
Automatic Rewards					_____
Bankable Points					_____
Discount					_____
Product Frequency					_____
Visit Frequency					_____
Layered Programs					
Affinity					_____
Birthday					_____
Membership					_____
Special Menu Pricing					_____
Surprise and Delight					_____
Tiered Programs					_____

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