A PAYTRONIX BRIEF: EXTRACTING CUSTOMER INSIGHTS FROM BIG DATA

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Target Low-Frequency Guests. Here’s Why.

Let’s start out by discussing the key goal for a loyalty program.

On many previous occasions, we have recommended that restaurants aim for a loyalty penetration rate (defined as the percentage of checks that are from program members) of at least 15 percent – and ideally, it would be much higher than that.

Once you reach 15 percent, you are at critical mass and good things start to happen:

- **All servers promote the program.** Likely to encounter at least one loyalty member per shift, each server needs to quickly learn about the program and its benefits.
- **Word of mouth takes root.** Customers overhear others talking about and using the program, which causes them to seek out information on how to join.
- **The financial results start to matter.** The program will boast a higher check average for members, and your targeted promotions will move the sales needle.

With this as the goal, there are two questions you should ask:

1. What do I need to do to get to 15 percent or above?
2. What sort of guests should I look to enroll in my loyalty program?

Let’s take the second question first.

What sort of guests should I look to enroll in my loyalty program?
The greatest revenue-generating potential a loyalty program can tap into is from a brand’s segment of guests who visit sometimes but not always. We have seen this proven time and again across more than 300 reward programs.

This brief is focused on the range of visit opportunities available among three distinct visit-frequency segments: medium-to-high, low, and infrequent. Each segment visits at a particular frequency. Guests with medium-to-high frequency are giving the brand nearly all of their possible visits. Since they are already your biggest fans, getting them to visit you more is going to be tricky. On the other hand, low-frequency guests are visiting you occasionally, but other brands are being visited by them more frequently. The potential for your team to move low-frequency guests into a higher-frequency segment is where the value of any successful loyalty program comes into play, as the goal is to steal visits from the competition.

The table below illustrates the potential of multiplying visit input for guests from the low and infrequent segments, in relation to those with medium-to-high visit frequency.

VISIT FREQUENCY GROUP	ACTUAL VISITS	OPPORTUNITY VISITS
MEDIUM-TO-HIGH	7	1
LOW	3	3
INFREQUENT	1	3

Does this mean that you shouldn't try to enroll higher-frequency guests?

Of course not. You obviously want your best guests in your loyalty program, but the data indicates that you don't need to try all that hard to get them to join. They will seek out inclusion.

High-frequency guests are always motivated to join loyalty programs. In fact, those who visit most frequently will join a loyalty program no matter what.

Percentage of Members Enrolled by Visit-Frequency Segment

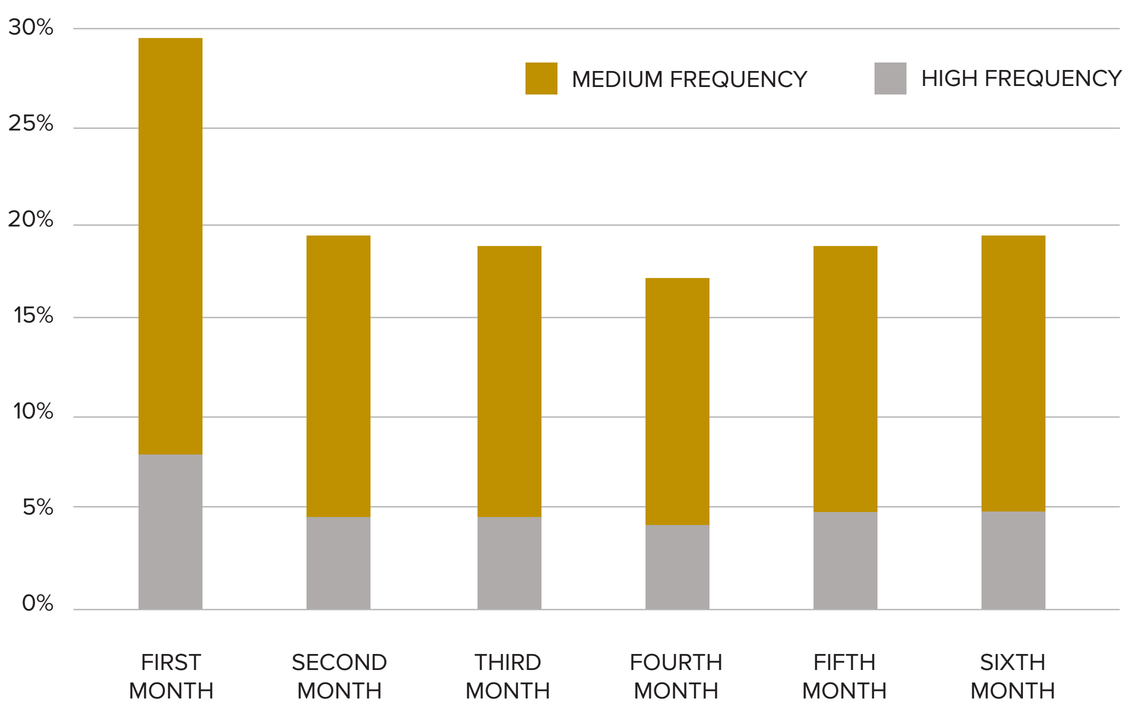

Figure 1: Percentage of members enrolled by tier

Guests with the highest visit frequency will be the first to join the program. They are in your restaurants all the time. If you launch your program on a Monday, they will have visited by Friday and will probably join the first time they learn a program is available. This trend is reflected on Figure 1. In the first month, nearly one-third of all new members are from the medium and high visit frequency segments.

By month four, the proportion of new members who have medium-to-high visit frequency drops to nearly one-sixth, with the majority of new members falling within the low and infrequent segments. As a good program progresses, the majority of new members are those guests who visit sometimes but not always. It is these low-frequency members who will drive incremental revenue for the brand.

Our experience and analytics have shown that a brand usually can't get to 15 percent penetration by enrolling only a its best guests. And to achieve higher levels of penetration, it is even more important to be skilled at enrolling lower-frequency members.

Figure 2 shows a typical participation curve for a program that successfully reached 15 percent penetration.

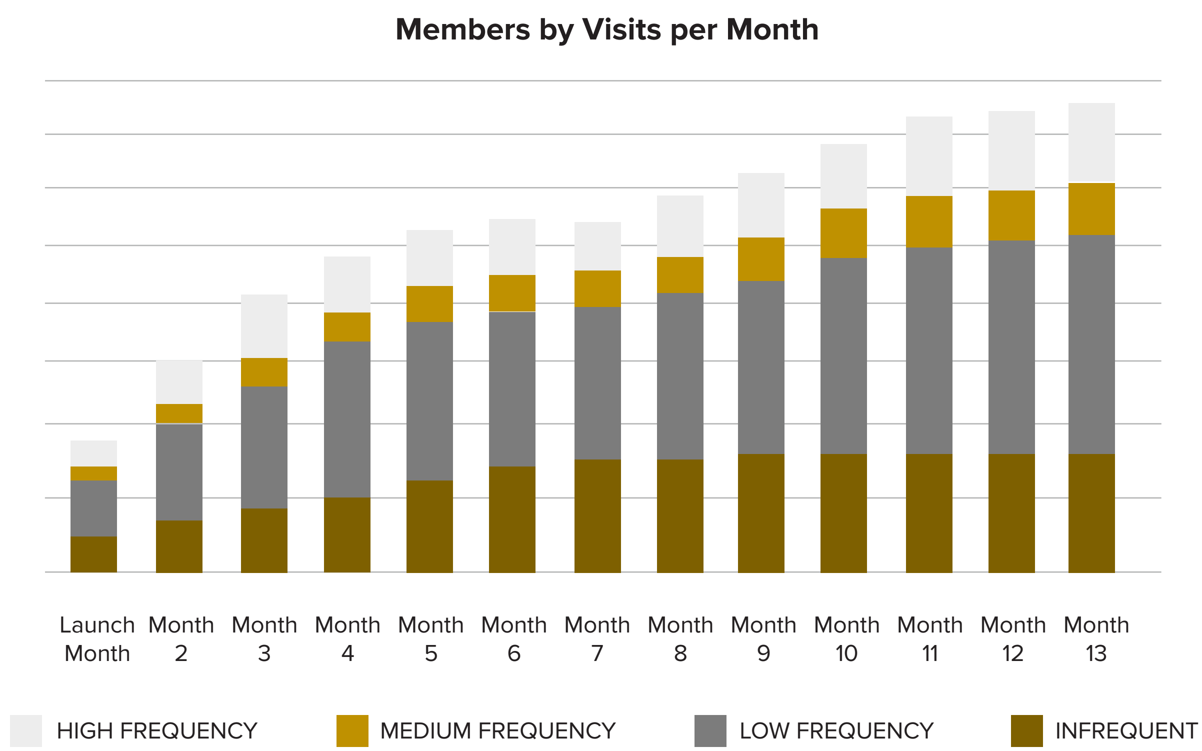

Figure 2: Member participation by visits per month

While customers with medium and high visit frequency drove some growth in the early months, over the long run, the majority of the growth comes from the low-frequency segment.

So, if the value of your loyalty program depends on your ability to attract lower-frequency members, how do you do it? There are three key factors:

1. Design your program to appeal to the low-frequency segment.
2. Make it easy for people to join and participate.
3. Never stop enrolling new members.

Design a Program for the Low-Frequency Segment

Focus the design on low-frequency guests. They will need to understand the value proposition quickly and be compelled to join on the spot.

A well-designed program motivates guests to change their behavior. It will motivate guests early in their membership lifetime by rewarding them for positive behavior. Until members have experienced their first earned reward, they will be skeptical of the program. Make sure your small frequency rewards are desirable to the target audience.

Make It Easy for People to Join and Participate

Your best guests will eagerly join your program. They will download a mobile app, connect their credit card, complete a long enrollment form, and possibly pay a fee. They know there will be a benefit in joining.

To compel low-frequency guests to enroll, the program needs to be easy to join. The more ways that guests can do so, the more likely the brand is to reach a critical mass of members. Offer multiple ways to join the program, such as through mobile apps, text-to-join, mobile-friendly registration web pages, kiosks, iPads in the store, and even paper registration forms. We have seen incremental increases in new members with each type of registration process added to a program.

Never Stop Enrolling New Members

As we have seen, growth beyond the first few months depends attracting low and infrequent segments. They may not visit you during the first two months of the program, so if you stop enrolling at that point, you'll miss them. Also, since new customers tend to visit with lower frequency in the beginning, you need to get them to join your program when they discover you.

Your servers are the programs' best ambassadors. They must understand how it benefits them, it must be simple for them to use, and it must be easy for them to explain the benefits to guests. Falling short in any of these three areas will likely discourage your servers from inviting guests to join the program.

Continue to promote the program's benefits inside the organization as well as outside. Provide operators, franchisees, and executive teams with information about how the program is impacting the brand's success.

Keep point-of-purchase materials in place throughout the life of the program. Consider implementing periodic server contests to stimulate enrollment of new members.

Bottom Line

When setting goals for the organization, be aggressive and aim for at least a 15 percent loyalty penetration rate. Look to the example of Panera Bread, which reported a 50 percent loyalty penetration rate in its recent 10-K investors report. Your brand can do it too.

Getting to this level means you will need some lower-frequency members, which is also the key to producing incremental revenue. Experienced partners know how to design the program to attract this group of clientele, employing ongoing enrollment campaigns that are designed to compel the infrequent group to join the ranks of the brand's most engaged customers.

About the Author

Lee Barnes leads the Data Insights team and is a self-confessed data geek who can often be found engaging with his team members and digging into all kinds of data. His undergraduate degree in mathematics and MBA from Harvard Business School give him the unusual ability to both execute complex analyses and translate the results into ideas that business leaders can use.

Lee came to Paytronix from CVS Caremark, where he uncovered millions of dollars in revenue-expansion and cost-saving opportunities through Big Data analytics. He did so by leveraging a combination of in-house transaction data, data from the CVS ExtraCare loyalty program, real estate data, retail industry data, and data provided by CPG brands. In addition to conducting deep-dive analytics on how to better engage guests and sell more product within the aisle, Lee studied which products to stock in which stores, how much inventory to carry, where to place products on shelves, and which promotional vehicles and offers were the most effective. His work resulted in a complete makeover of the aisle across 7,500 locations in order to lift sales and reduce costs. He also worked for L.E.K. Consulting's Retail & Consumer Products practice, where he advised clients on issues that included M&A activity, global expansion, and operational turnaround. Before L.E.K., Lee worked at Capital One, a well-known leader in leveraging large-scale data analytics to make business decisions.