

# Choosing a Loyalty Program That Is Right for You

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## Loyalty Improvement Series

**Loyalty programs deliver outstanding financial returns** by motivating guests to visit more often and spend more with each visit. However, one loyalty program style does not necessarily work for all restaurant brands and service types. Given the vast array of program options, several factors should be considered when selecting the program that's right for your concept:

- Which program will best engage and compel your guests?
- What type of loyalty program aligns with your concept type and brand?
- What kind of program can your staff effectively execute?
- Which one will help you achieve your restaurant's financial goals?

Using this guide, you will find answers to these questions, which is the first step in creating a loyalty program that is best suited for your restaurants. The guide begins by defining the basic elements of a loyalty program, offers an assessment of popular programs, and provides evaluation criteria and a scorecard for weighing the compatibility of the many options. When you complete the scorecard, you will see which programs best fit your unique concept.

## Defining a Loyalty Program

Simply described, a loyalty program gives you a way to engage your guests and encourage their spending at your restaurants. Three common elements make up every loyalty program: 1) the core program, 2) layered programs, and 3) 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. They 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.

The core program is the underlying structure of a loyalty program. It defines the program's rewards and how they are earned, redeemed, and expired.

Often added to an established core loyalty program, **layered programs** give your loyalty program depth and a distinctive flair that strengthens your 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 would be considered a layered program.

**Promotions** enable you to influence your guests' buying behavior. The fun, creative elements 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 or specific day parts, encourage the trial of new menu items, and keep your restaurants on the minds of



### Core Program:

The underlying structure of a loyalty program, this defines the program's rewards and how they are earned, redeemed, and expired.

### Layered Programs:

These are additional member benefits and program behaviors that run contiguously with the core program.

### Promotions:

These are limited-time offers that target specific member segments to motivate incremental visit and purchase behavior.

your guests. Promotions are covered in great detail in the LIS article titled “Loyalty Promotions.”

## Assessing Popular Loyalty Programs

As you learn about the various loyalty programs, you may discover that several 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. This is not an exhaustive list. Within each program description, three topics are discussed: 1) how the program operates, 2) the program’s key advantages, and 3) the program’s limitations.

Consider each program in the context of your restaurants and your loyalty goals in order to identify the four or five that suit your needs.

## Core Loyalty Programs

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

### 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 begin to earn points 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 100 points, they automatically receive a reward on their next visit. A product reward program might entitle guests 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 concept.

### 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 selection includes a mix of menu items and aspirational rewards. An example of the latter might be a cooking lesson with

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

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your executive chef. By pricing rewards at different levels, you will broaden the appeal of the program. Rewards attained in just a few visits will attract your less frequent guests, while the higher-level rewards will motivate loyalty among guests who will patronize your restaurant for months (and years) to earn points toward these aspirational rewards.

Bankable points programs engage a broad range of guests and promote loyalty in both the short and long term. However, rewards fulfillment can be expensive. Bankable points programs are somewhat complex and lead to a higher volume of guest questions. For more information about Bankable Points Programs, see the Loyalty Improvement Series article “Reward Yourself.”

### Discount Programs

Discount programs extend a price reduction to guests on their purchases. A 10 percent discount, for example, may apply to an entire purchase or to specific items.

Discount programs provide a useful competitive advantage 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 predictably slow days or day parts. However, discounts may pinch financial returns when applied broadly without regard for overall order size or the margin of the items purchased.

## 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
<b>Concept</b>	Quick Casual: Convenient quality	Casual Dining: Fun, relaxed, family-friendly	Casual-to-Fine Dining: Rich experience and atmosphere
<b>Operations</b>	Speed	Quickness, efficiency	Pampering of guests
<b>Menu</b>	Morning coffee, sandwiches at lunch	Upscale pub food with seasonal variations	Full menu, multi-concept, emphasis on different cuisines
<b>Loyalty Strategy</b>	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

<b>Core Program</b>	Product Frequency	Automatic Rewards	Bankable Points
<b>Layered Programs</b>	Special Menu Pricing Birthday	Membership Tiered	Surprise and Delight Birthday
<b>Promotions</b>	Double Points Visit Challenge	Limited-Time Offers Instant Wins	Double Points Limited-Time Offers

### Product Frequency Programs

In a product frequency program, guests receive points for specific product purchases. Each time guests buy the specified item, they receive a point. When a designated threshold is met, guests automatically receive a reward. A “buy ten, get one free” program is a common product frequency 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 issuance 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.

## Layered Loyalty Programs

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

### Affinity Programs

With affinity programs, restaurants donate a percentage of guest spending to a selected charity. Affinity programs make guests feel good about making purchases at your restaurants while aligning your brand with an altruistic purpose.

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, for instance.

### Birthday Programs

Birthday programs encourage guests to celebrate 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 campaign deployment 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, for instance) or earned when points are accrued.

Membership programs 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, such as a “jump to the front of the line” perk, can be more complex. Your staff will need to be prepared to answer questions concerning the details of the program.

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### Special Menu Pricing Programs

Special menu programs give restaurants a way to engage and entice guests to visit. For example, 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 more guests.

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

### **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 offering rewards your guests value.

### **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 so many exciting options, where should you start your evaluation process? Take a simple first step and consider your own personal observations. Make a list of the program aspects you would emulate and those you would change. Think about why you joined and what incentives encourage you to continue to be an active member. Then, examine the aspects of loyalty programs that have discouraged your participation.

Next, consider your competitors. Based on what you have learned in this guide, define their program. Make a list of the program aspects you would emulate those layers you would you change.

Think about why you joined and what incentives encourage you to continue to be an active member. Then, list the aspects of the loyalty programs that have discouraged your participation.

## **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.**

Extending your perspective with a broad range of industry experience will help guide you toward the right program for your restaurants. Our clients shared their insight into the criteria they used to build their loyalty programs.

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**

The success of your program depends on your ability to engage your guests on a regular basis. The goal is to create a program that will capture your guests’ attention and motivate incremental spending over a long period of time.

Find out what motivates your guests. Deploy a brief survey to 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. When creating your program, focus specifically on what you have learned about your target segment's preferences. Leverage this insight and you will create a program that will cultivate their continued loyalty.

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

Loyalty programs deliver the marketer a unique opportunity to engage guests with targeted promotions that further boost visits and spending. The core loyalty program you select should enable promotions that accentuate your brand.

Examine the elements of your brand that make your concept unique 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.

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 account balance?**
- **Field 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 – table service, quick service, drive-thru.

## 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-fueled 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. For example, one of our clients had to be creative when designing its program to account for inconsistencies in state laws pertaining to discounting alcohol purchases.

Each loyalty program assumes a unique cost model. Narrow your options to include only programs with a financial model that aligns with your business.

Consider the elements of your brand and how each will accommodate promotions that highlight your unique strengths.

Success depends on an appropriate alignment with the level of staff training and turnover, as well as your operational approach.

## Capture Key Guest Information for Segmentation

The availability of guest information after launching a loyalty program is one of the primary benefits provided to the restaurant management team. The data collected helps marketers understand guest preferences and uncover their motivations.

Every loyalty program should produce guest demographic and spending data. When launching the program, creating incentives to drive registration is a way to compel enrollment. As guests identify themselves with every purchase, you will discover who they are and ascertain their buying habits. This information will enable you to identify unique guest segments to create relevant, compelling promotions designed to drive 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.

### **Loyalty Program Scorecard**

On the following page, 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.

### **Program Evaluation Scorecard**

Use the table on the next page to rate the loyalty programs for their fit with your restaurants. Score each element on a 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.

Use the scorecards on the following page to help you determine the best loyalty program for your restaurants. See which programs offer the best potential for success.

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phone: (617) 649-3300

email: [solutions@paytronix.com](mailto:solutions@paytronix.com)

[www.paytronix.com](http://www.paytronix.com)



# Loyalty Program Scorecard

## Your Personal Loyalty Programs

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

## Your Competitors' Loyalty Programs

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

## Program Evaluation Scorecard

Score each element on a 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
<b>Core Programs</b>					
Automatic Rewards					
Bankable Points					
Discount					
Product Frequency					
Visit Frequency					

<b>Layered Programs</b>					
Affinity					
Birthday					
Membership					
Special Menu Pricing					
Surprise and Delight					
Tiered Programs					

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Loyalty Promotions  
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Choosing the Right Loyalty Program  
Enrollment and Registration  
Free or Fee-Based Membership  
Building Your Loyalty Program ROI

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phone: (617) 649-3300  
email: [solutions@paytronix.com](mailto:solutions@paytronix.com)  
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