

Free or Fee: Should You Charge for Your Loyalty Program?

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Loyalty Improvement Series

Whether or not to charge for membership to your loyalty program is a key decision. Free membership will engage a larger guest base, possibly motivating broad sales gains. Charging a fee will attract committed guests and speed time to profitability.

Successful organizations create loyalty programs with the structure that best fits the character of the brand and the preferences of their target guests. They aim to construct a unique, exciting program that will profitably motivate frequent guest visits and increased spending. Some restaurants flourish with a free membership program, while others find success with a fee-based program.

This article describes the advantages of each approach, highlights restaurant success stories, and recommends metrics to use for measuring program success. It also answers the question “can I switch from fee to free or vice versa?” and presents thoughts on when it makes sense to charge a one-time fee or an annual membership fee. Consider each of these elements as you decide how to shape your loyalty program.

Comparing Free Versus Fee-Based Programs

A fee-based program requires payment for joining, while a free program admits any participating guest. Fee-based programs appeal to a committed, relatively narrow segment of guests. Free programs, on the other hand, will attract a wider spectrum of members, including devoted guests and occasional diners.

One of the most pronounced differences between a free and a fee-based program is the time-to-profitability trajectory illustrated in Figure 1. Early revenues from a fee-based program will speed the time to payback and balance initial marketing and startup costs (solid line). The relatively modest long-term growth path reflects a comparatively smaller membership size.

In contrast, the financial benefits of free membership programs start slower but can accelerate with enrollment growth, delivering exceptional results (dashed line). The potential to attract a large number of members and influence their purchasing habits can lead to strong financial returns.

If attracting and communicating with a broad pool of guests fits your concept and your marketing strategy, then a free membership program is a good choice. However, if you aspire to identify your restaurants’ most valuable guests and market to them in a high-end, unique way to compel continued loyalty, a fee-based loyalty program is the better choice. Before you determine the best course for your restaurants, take a closer look at the advantages and disadvantages of each option in Figure 2.

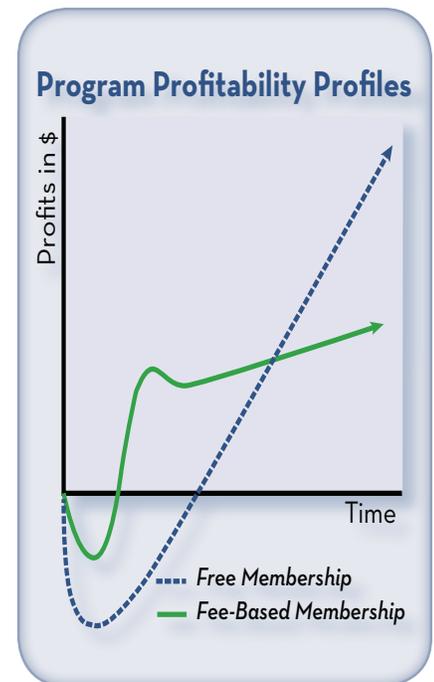


Figure 1:
Fee-Based Programs
Versus Free Membership

Advantages and Disadvantages of Free and Fee-Based Memberships

Free Membership

- + **Maximizing Membership Reach**
Free programs attract 3x the number of members that fee-based programs do.
- + **Motivating Broad-Based Sales Gains**
Getting 20% of your guests to visit 20% more often will increase sales by 4%.
- + **Ease of Promotion**
Guests don't need to be "sold" membership; joining is low-risk and provides tangible benefits.
- + **Flexibility for Change**
The program can evolve as appropriate, which is good for getting started.
- + **Fewer Accounting Requirements**
Free membership reduces the need for special financial accounting measures.
- **Higher Propensity for Fraud**
The low threshold for membership opens the program to potential misuse and fraud.
- **Longer Time to Profitability**
Gains result from incremental visits; profitability depends on attaining a critical mass of members.

Fee-Based Membership

- + **Earning a Faster ROI**
Cash is received up front, and losses from fraud are reduced.
- + **Attracting Committed Guests**
Paying for membership, even a minimal amount, will influence a guest's choice of where to dine.
- + **Winning Management Support**
A focus on top guest segments appeases those who dislike giveaways to marginal guests.
- + **Qualifying Members and Obtaining Quality Data**
Registration rates should be steady, guest information can be used for loyalty communications.
- + **Offering Attractive Rewards**
Fees help offset costs and allow for more generous rewards that engender loyalty.
- **Greater Need to "Sell" Membership**
Good sales skills are required to promote the program and recruit new, qualified members.
- **Lower Enrollment Levels**
Membership fees will limit broad adoption.

Figure 2:
Advantages and Disadvantages of Free and Fee-Based Membership

Free and Fee-Based Membership Success Stories

Our clients have experienced success running both free and fee-based programs. In some cases, they run a blended program that offers free membership for a fee-based program during certain promotions. Here are three unique cases where the merchants reached their distinct goals.

Free Membership Drives Growth

A regional, fast-casual restaurant chain went from zero to more than 4,000 members per store within one year of launching its free loyalty program.

With a 25% registration rate, membership doubled in each of the two subsequent years. The restaurant's marketing team was able to tap an ever-growing active-member database to fuel ongoing expansion.

A Mix of Free and Fee Can Work Too

A casual-dining restaurant chain collected more than a quarter of a million dollars in membership fees during the program's first year. Guests readily paid the modest \$10 fee, giving the restaurants a unique opportunity to connect with thousands of committed guests.

Sixty percent of the chain's new members join during a free-membership promotion that runs for one month each year.

Fees Generate a Quick Return

A regional restaurant group introduced its loyalty program and raised more than \$100,000 in membership fees during the first month.

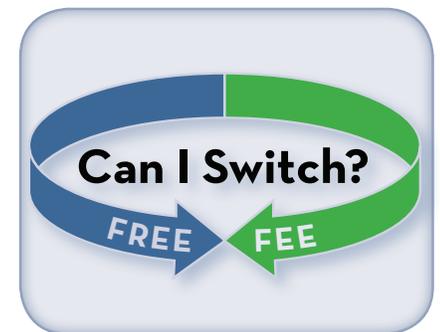
In this discount/affinity program, members receive a discount on all purchases, and the restaurant donates a percentage of every dollar spent to charity. Affinity programs are effective at enticing membership.

When designing your program, keep your organization's objective top of mind. Whether you opt for a free or a fee-based program, setting specific program goals and then monitoring Eat-ThruSM Statistics, including visit rates, spending, and unique visitors, will help you gauge your program's performance. In addition, registration and enrollment rates are key indicators of future performance. While each restaurant will set different target levels, these crucial measures are the metrics that matter.

Switching from a Fee-Based Program to a Free Program or Vice Versa

As long as there is a fair transition with clear member communication regarding the change, restaurants can successfully convert their membership structure.

A regional restaurant group recently faced the challenge of shifting from a fee-based program to free membership. To accommodate members who had paid to join the program, a \$25 dining reward was credited to each member account. The equitable transition minimized defections. Since the conversion, the restaurant group has experienced rising enrollment and usage levels.



Annual Versus One-Time Membership Fees

While one-time fees are simpler to explain and easier to sell, sometimes it makes sense to establish an annual membership fee. For example, it may be shrewd to expire the benefits of a kids-eat-free program or a generous 10% off program each year. However, programs that expire on an annual basis require more work to maintain membership. The marketer has to communicate the expiration of the membership to guests and then compel them to renew, essentially reselling the program, year after year.

Getting the Most from Your Loyalty Program

Consider attributes of your brand, your marketing strategy, and your financial goals when deciding whether to charge for loyalty program membership.

To learn more about free and fee-based loyalty programs, contact us.

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