

Keep 'em coming back for more

Dinnerhouse operators encourage customer allegiance with loyalty programs that fuse high-quality service with new technologies and creative marketing techniques

By Sarah E. Lockyer

A bird in the hand is worth two in the bush. The adage holds especially true for players in the competitive casual-dinnerhouse segment, in which operators say it is easier to keep existing customers than attract new ones.

Enter frequent-diner, preferred-guest or loyalty programs — initiatives designed to keep casual-dinnerhouse customers returning often and spending more money. Today's restaurant loyalty initiatives marry upgraded technologies, new forms of marketing and old-fashioned customer service to create programs that service frequent guests while speaking to potential customers.

"It is a fact that it is a lot less expensive to keep a customer than it is to gain a customer," says Robert Kukler, co-founder and partner of Atlanta's Fifth Group Restaurants, which owns four casual-

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dining restaurant concepts and one catering hall. "When you do that math, if I could get even 10 percent of my customers to come back, [multiplied by] times the check average, well, that's a lot of revenue."

And operators say such programs work. While it is not inexpensive to create and maintain loyalty programs, restaurateurs say they are worth the cost and effort. Hard figures supporting their effectiveness are hard to come by, but operators say they have anecdotal evidence. They note that such customers return more often and tend to spend more while dining, perhaps because the diners enjoy being part of a club and receiving the special recognition from the hostess or manager that goes with it.

"You need a small number of return visits to pay for this," Kukler says. "There is research that shows once someone signs up, the next time they dine, they spend 17 percent more than usual. I was very conservative in my estimates, and it became clear that it didn't take much for this to pay off."

Furthermore, with countless marketing and technology companies providing turnkey loyalty solutions that provide measurable results in monthly or even daily reports, restaurants can focus on food quality and operations while outsourcing their entire frequent-dining programs.

Fifth Group introduced in late June "Frequent



Robert Kukler, co-founder of Fifth Group Restaurants in Atlanta, initiated in late June a loyalty program for the company's four restaurant concepts, including its South City Kitchen, right. The plan is linked directly to a customer's credit card and boasts more than 13,000 members.



Guest Rewards," a loyalty program that stays close to the industry norm, awarding one point for every dollar spent — including tax and gratuity — at each of the company's concepts: South City Kitchen, The Food Studio, La Travola Trattoria and Sala. In just one month the company gathered 13,000 participants.

Fifth Group's program differs slightly from older industry initiatives in that a separate membership card is not used. The system is "seamless and convenient," Kukler says,

because it is linked to a customer's credit or debit card, negating the need for participants to carry an additional membership card or for servers to perform an added step at the point of sale.

There is a \$15 sign-up fee, which Kukler says deters those who would "just clog the database." But members receive a \$15 credit on their next visit, basically making membership in the program free, he adds.

After a credit card is linked to the loyalty program, the participant can go online to a secure site to register an unlimited number of additional credit cards that link to the frequent-guest account, Kukler explains. Program rewards range from \$25 dining cards for every 250 points to winery tours

during a four-day trip to Napa Valley for 40,000 points. Kukler says Fifth Group also uses the program to cross-sell its concepts, offering 100 bonus points for the first time a customer dines at all four restaurants, Kukler notes.

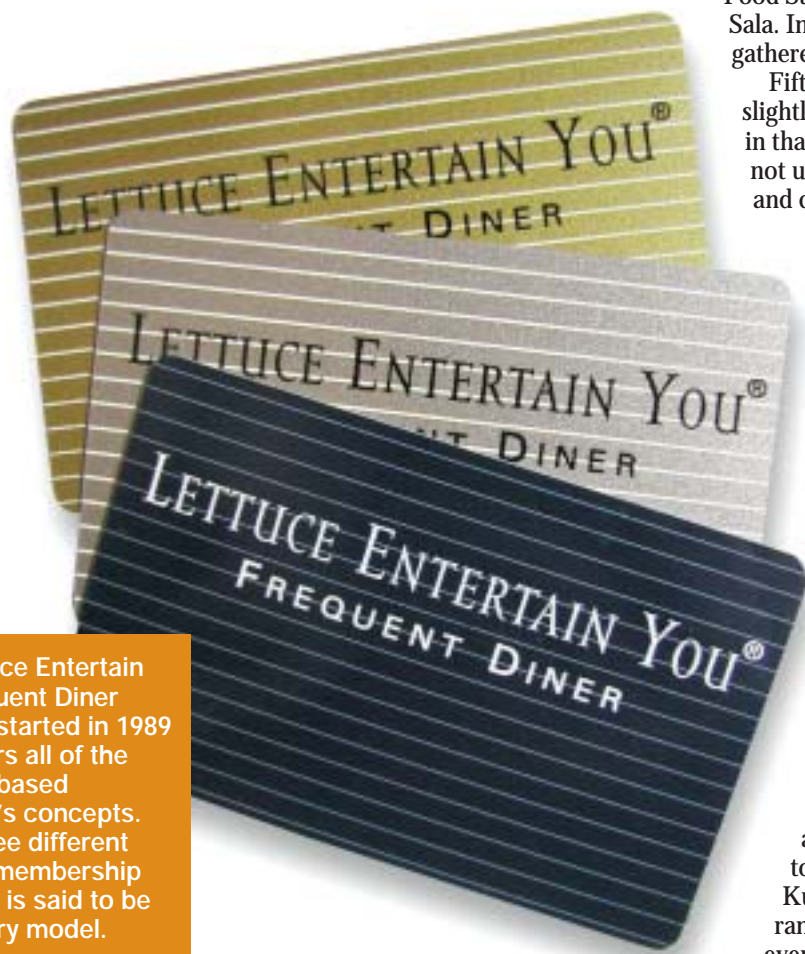
Like many companies today, Fifth Group outsourced the program's administration, from housing data and securing information to maintaining points and guest profiles. Chicago-based Clever Returns Inc., a recently spun off subsidiary of Clever Ideas Inc., runs the program, although Fifth Group owns its data and does not share them with third parties.

The safety of the program was paramount, Kukler says, not only because of credit card fraud and identity theft but also because consumers have come to expect a high level of service. Introducing a loyalty program that doesn't work negates the very idea of service and hospitality that the initiatives stand for, he says.

"I know of some single, independent restaurants that have tried [loyalty programs], and they shot themselves in the foot," Kukler says. "You can't say, 'Thank you; you're special,' to guests and then not have the program work. All of a sudden a positive feeling goes negative. It all needs to be under control and managed."

While Fifth Group is new to the loyalty game, some restaurant groups have rewarded their frequent guests for decades. Lettuce Entertain You Enterprises Inc., a Chicago-based restaurant group with more than 50 concepts, initiated its frequent-diner program in 1989. The initiative — considered by some to be the industry model — first was developed and managed in house. But it was moved to a vendor about eight years ago, when the database grew too large, says Brent Carter, LEYE's frequent-diner-program manager. There are currently 45,000

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The Lettuce Entertain You Frequent Diner program started in 1989 and covers all of the Chicago-based company's concepts. It has three different levels of membership and often is said to be an industry model.

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active members, Carter says, and about 15 percent of all restaurant transactions include an additional swipe of an LEYE frequent-diner card.

The frequent-diner program is the keystone of the company's marketing initiatives and has changed very little from its inception. Diners receive one point for every dollar spent — not including tax and gratuity — at any of the company's restaurants. There is a \$25 initiation fee, but after the member's third visit to any concept, that fee is returned as a "reward certificate," or a gift certificate for \$25.

The company recently upgraded the program with an online component allowing members to check points, change addresses, request a new card or contact customer service from the LEYE Web site. Rewards vary from \$25 gift certificates after every 350 points to a two-night weekend stay in a villa at Eagle Ridge Inn & Resort in Galena, Ill.

While Carter says customer service is the most important part of the program, the newfound uses of proprietary customer databases and the ability to communicate with frequent guests are not lost on the company.

"Our focus is on the customer, on building and maintaining a long-term relationship," he says. "But we definitely have tracking mechanisms to watch behavior. As technology evolves, it gives you the opportunity to look at different things. . . . We have the ability to become personal."

Carter was quick to say, however, that the system is "permission based," allowing customers to opt in or opt out of e-mail communications, newsletters and promotional advertising.

Another loyalty program veteran is Charles Sarkis, chairman and chief

executive of Boston-based Back Bay Restaurant Group Inc. The six-concept restaurant group initiated a preferred-guest program in 1991 that now boasts about 24,000 participants. Like LEYE, Back Bay also is beginning to understand the value of its membership lists for advertising, marketing and promoting. But for now the company is focused on the subtle ways the program makes customers of its 36 restaurants feel special.

"[Customers] are appreciative that they are recognized and rewarded," Sarkis says. "I'm talking about people that are very successful, and they argue over whose membership card will be used. It is amazing; I am always surprised it means that much."

After a \$20 initiation fee that is given back after the third visit, rewards at Back Bay include \$25 reward certificates for each 300 points.

Bucking the outsourcing trend, Back Bay brought

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its program in house and developed its own software last year. All data are housed on one server and collected companywide so that information could be mined on a per-unit basis, allowing Back Bay to find its most valued customers at each concept. Sarkis says the company hasn't gotten to that level yet but will eventually.

"That was the idea of going in house," he says. "We wanted complete control of member-

ship lists, and we don't want to pay for transactions."

Sarkis says managing the data warehouses can be expensive, but the investment of between \$35,000 and \$40,000 each year has paid off. "Anything like this is obviously not inexpensive," he says. "But it has built loyalty with us."

Rock Bottom Restaurants Inc., parent of the Rock Bottom Brewery and Old Chicago casual-dining chains, started to use data gathered from frequent guests to market almost at the individual level. At the company's 28-unit brewery chain, Rock Bottom offers the "Mug Club," a program that rewards diners — and drinkers — based on their number of visits. After 10 visits customers receive "club cash," which can be used during subsequent visits, in addition to regular rewards, like T-shirts,

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Boston-based Back Bay Restaurant Group Inc. runs an in-house loyalty program at all six of its concepts, three of which are shown here. "Anything like this is obviously not inexpensive," chairman Charles Sarkis says. "But it has built loyalty with us."



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coolers and barbecue grilling sets. Participants also are invited to special evenings with master brewers or members-only parties.

The Mug Club has almost 300,000 members, says Brian Lambert, director of the program. The company worked to develop an initiative that differed from the industry norm and fit with the concept's identity, he adds. As most states have liquor laws that prohibit restaurants from rewarding customers based on alcohol intake, Rock Bottom introduced a program based on restaurant visits, not on alcohol consumption. In addition, no customer can have his or her card swiped more than once a day, Lambert says.

Using a vendor to host the server and process the data, Lambert then manages the program in house. He runs reports on a daily and even up-to-the-minute basis.

"We can see the difference in activity for these people," he says. "We look at visits per month, their frequency schedules, and if we lose someone, we can target them. We can drill the data down to whatever we want."

Rock Bottom uses Merchant Link, a Silver Spring, Md.-based subsidiary of electronic payment processor Paymentech LP.

The Mug Club was based on the loyalty program at Rock Bottom's other concept, 55-unit Old Chicago. At that chain "The World Beer Tour" boasts 558,000 members, Lambert says. The program encourages members to try all 110 of the restaurant's brews. Upon completion the participant receives a plaque at his or her home restaurant. Again, to control alcohol consumption, only six beers per day are counted toward the program, Lambert adds.

"The cost [of the program] is minimal, compared with what our customers do [to get to 110 brews] and spend," he says. "They create our bar for us; it is really fun."

For customers who want more immediate rewards or for those not interested in counting to 110 brews, "minitours" were created that take place during different parts of the year. An October Fest minitour is held in October, and a holiday minitour is held at year-end, Lambert says.

"It creates activity," he says. "We have in the neighborhood of 40,000 more transactions during a minitour; some [restaurants] report 57-percent increases in activity."

Mirroring the evolution of loyalty programs throughout the restaurant industry, the World Beer Tour started with punch cards and only recently entered the electronic age. It now uses electronic swipe cards to tally beers consumed and other customer information. "We are just coming into this technologywise," Lambert says.

While advances in technology allow some restaurants to quantify the successes of such programs, many still rely on observed evidence from customers as they dine. But such vendors as

ROCK BOTTOM MUG CLUB



Clever Returns and OpenTable Inc., the owner of OpenTable.com, say they have various ways that prove frequent-diner programs pay off.

Clever Returns, which has been working in the restaurant marketing arena since 1977, claims that it can bring a four-to-one return on loyalty program investments. The company — which has about 187 restaurant clients, including the Clubhouse casual-dining chain with locations in Costa Mesa, Calif., Atlanta and Chicago and New York's Mickey

Rock Bottom Restaurants Inc., owner of the Old Chicago and Rock Bottom restaurant and brewery chains, along with one Walnut Brewery unit in Colorado, designed loyalty programs specific to their concepts. The World Beer Tour and Mug Clubs encourage guests to try various brews.

Mantle's — charges an installation fee of \$1,500 and monthly maintenance fees ranging from \$350 per month to \$900 per month, depending

on the volume of the loyalty program.

Based on status reports at Clever Returns from November 2002 to November 2003, loyalty program members at the Clubhouse restaurant in Chicago visited the restaurant three times more frequently and spent 28 percent more than nonmembers did. In addition, \$783,655 in incremental income was generated from the redemption of promotional e-mail messages, Clever Returns says. The Clubhouse is owned and operated by M3CVP Inc., another wholly owned subsidiary of Clever Ideas.

OpenTable, which began as an online reservation agent and has grown into a marketing, loyalty and customer relationship management, or CRM, vendor, says restaurants are seeing only the tip of the iceberg when it comes to their system.

"On the outside you see a reservation book," says Mike Dodson, vice president of sales at the San Francisco-based company. "But the heart of it is the customer database. If you think about why companies buy us, if it were just a matter of replacing pen and paper with electronics, they would say, 'No, thank you,' but what they are really signing up for is the CRM solution."

Dodson says OpenTable shares restaurant clients with companies like Clever Returns and uses the two systems to merge data about frequent guests. "At smaller restaurants they can, literally, from the database and POS system, sit there on a Monday evening, see it is snowing out and that the books are open and say, 'Let me send out an e-mail for a free appetizer to our regular guests,'" he says. "You can send out e-mails to thousands of customers and see your restaurant fill up." ■



OpenTable Inc. has migrated from an online reservation agent to a customer relationship partner at many of the company's 2,100-client restaurants, where operators can manage data from loyalty programs and reservation systems on their point-of-sale terminals.

