

# 2008 QSR marketing report: beyond the four walls





This report catalogues some of the tools that industry analysts have selected as the key to saving money while building brand loyalty, better understanding customer purchase behavior, promoting customer retention, and increasing customer frequency and spending.



# an introduction

In January of 2008, when QSR Magazine asked thirteen high-ranking industry executives which issues weighed most heavily on their minds for the upcoming year, marketing strategy was one of the top three concerns.<sup>1</sup> And that was before reports began to surface that customers feeling the pinch of a tighter economy are cutting back on spending, including eating out and delivery.<sup>2</sup>

In some respects, the challenge facing marketers in 2008 is not a new one. For nearly a decade, experts have pointed to the limits of traditional marketing in an increasingly fractionated and media saturated market. Seth Godin, the bestselling author, noted back in 1999 that marketers who continue to rely on traditional so-called “interruption marketing” – radio spots, magazine ads, billboards, television ads – are spending more and more money on campaigns that are less and less effective.<sup>3</sup> Consumers, hit with more than 3,000 media messages a day, simply aren’t getting the message.

<sup>4</sup>

The familiar difficulties of reaching out to quick-serve customers in an age of clutter are likely to be compounded in the coming years, especially if forecasts predicting recession are realized. Diminished marketing budgets, reduced customer spending, and higher commodity prices will make a cost-effective marketing campaign all the more critical for quick-service restaurants.<sup>5</sup>

The good news is that 2008 promises to be a year in which merchants can make the most out of every marketing dollar by first tailoring advertisements to individual customer preferences, and then only paying for the advertisements that actually lead to an order (pay-per-action). And with new technology, 2008 will see an upgrading of tried and true marketing strategies: coupons, loyalty programs, and word of mouth recommendations.

With a tighter than normal 2008 marketing budget, any marketing campaign should be built around a few core concepts:

permission & interaction, customer relationship management & rewards, and pay-per-action. These features provide restaurants with the ability to efficiently build a meaningful relationship with customers beyond the four walls.

# the core features of the new marketing

## [ getting their permission & interacting ]

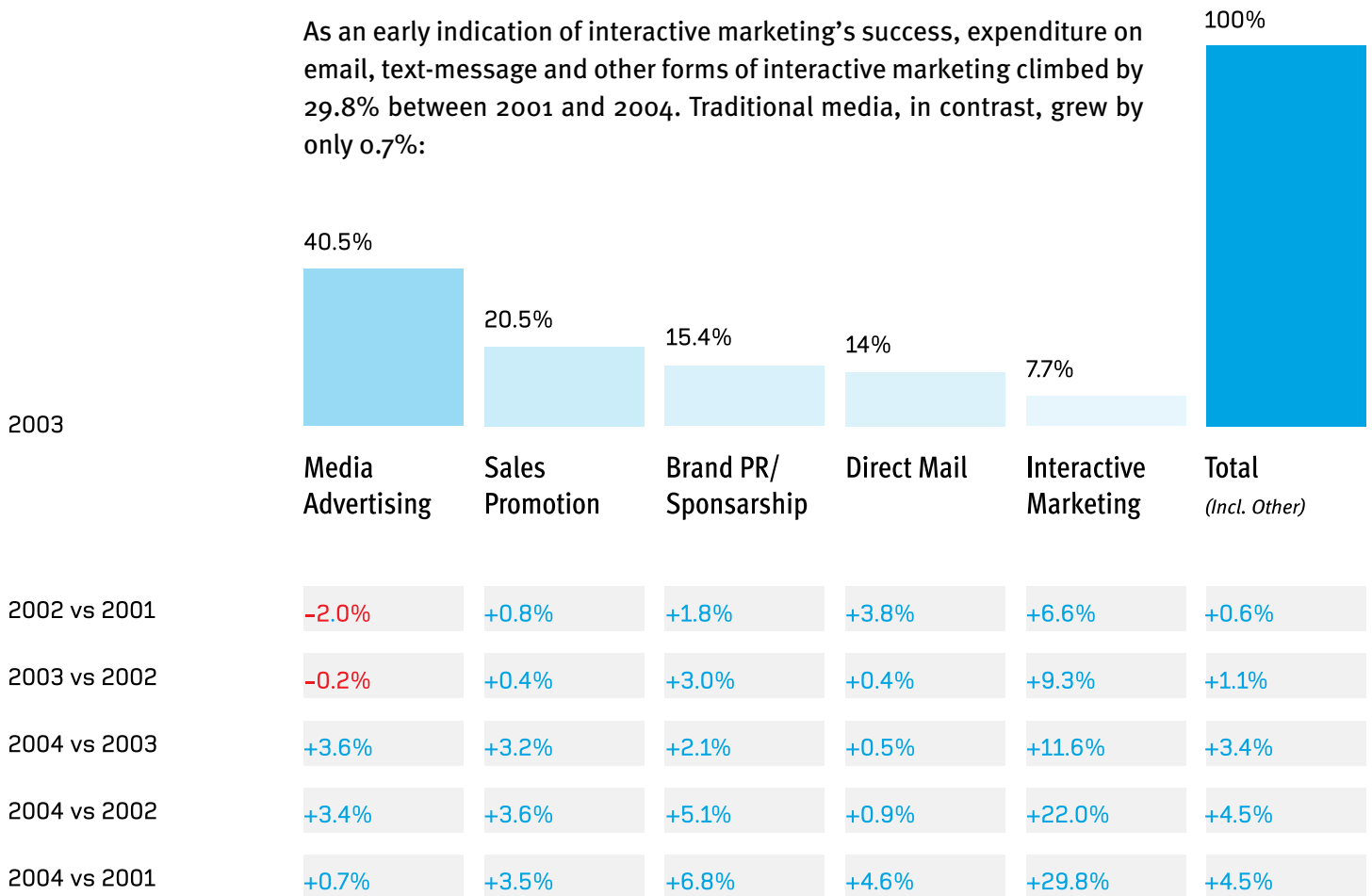
Rather than bombarding QSR customers with unwanted – and quickly forgotten or ignored – messages, permission marketing begins by offering customers an opportunity to opt into receiving emails or text messages about new deals and specials.

As Seth Godin explains, “Permission marketing encourages consumers to participate in a long-term, interactive marketing campaign in which they are rewarded in some way for paying attention to increasingly relevant messages.”<sup>6</sup>

Inviting the customer to participate is only the first step in an interactive campaign. First coined by professors at the Harvard Business School in 1996, the term interactive marketing refers to the ability to address an individual, gather and remember the response of that individual, and take into account his or her unique response.<sup>7</sup>

“The promise of the interactive paradigm,” Professor John Deighton at Harvard explains, “lies in its ability to put a more human face on marketplace exchanges without losing the scale economies of mass marketing.”<sup>8</sup>

As an early indication of interactive marketing's success, expenditure on email, text-message and other forms of interactive marketing climbed by 29.8% between 2001 and 2004. Traditional media, in contrast, grew by only 0.7%:



Source: Patrick Barwise & John U. Farley, *Journal of Interactive Marketing* (2007).

## [ managing customer relationships and giving the right rewards ]

After the interaction begins, the next critical step is to maintain the relationship. Customer relationship management (CRM) refers to the behind the scenes work of collecting and using historical information to personalize a guest's visit.

When a customer places an order – inside or outside of the four walls – this information can be stored and analyzed to learn more about his/her preferences. With a robust CRM system in place, QSRs can properly tailor future messages.

Today, the latest CRM solutions allow QSRs to develop comprehensive guest profiles, drive guest-centric data down to the transaction level, and generate an accurate profile of customer purchasing patterns.

## [ pay-per-action ]

Marketers need to know that their marketing dollars are leading to purchases. A few years ago, Google launched an online advertising program designed to meet this need: a program called “cost-per-action.”<sup>9</sup> With a cost-per-action pricing model (also known as “pay-per-action”), advertisers only pay for an ad when a customer takes a specified action, such as placing an order.

Now, pay-per-action has come to the restaurant industry, allowing retailers to pay only when impressions convert into orders.<sup>10</sup>

“Many advertisers find [this model] appealing,” the New York Times reported soon after Google announced it was expanding its pilot program, “as it greatly reduces their risk, since they are not charged for ads that are ineffective.”<sup>11</sup>



Building an effective interactive marketing campaign requires the right set of tools.

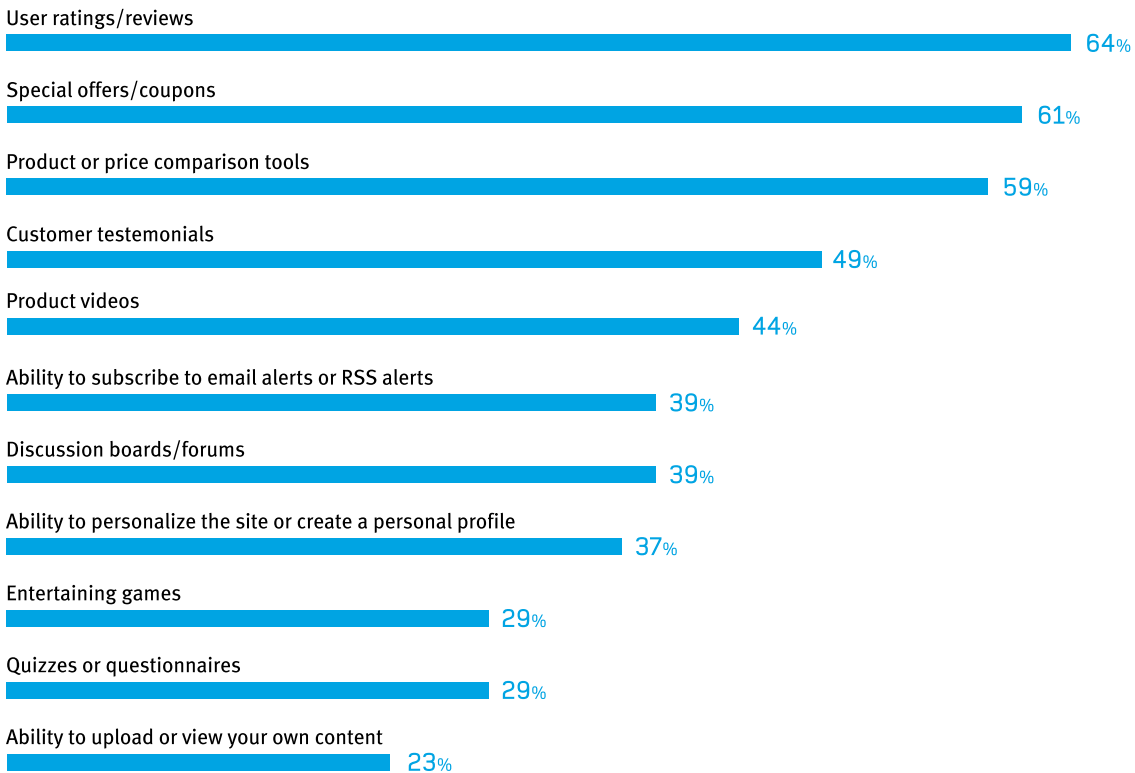
In 2008, many of the tried and true strategies of the past will receive a much needed upgrade:

from coupons to mobile coupons, basic loyalty programs to digital loyalty programs, and word of mouth recommendations to “tell a friend” database marketing.

# the tools of the new marketing

## [ mobile couponing ]

Coupons have been a part of the marketer's tool box for over a century.<sup>12</sup> Coupons can be used to induce trial, drive repeat rate, or encourage group purchasing. Recently, coupons have taken off online: according to Forrester Research, 61% of online consumers want to see special offers or coupons when they visit online websites.<sup>13</sup>



Source: Forrester's North American Technographics Customer Experience, Marketing, And Consumer Technology Online Survey. Q3 2007

The next stage of evolution for coupons promises to be mobile couponing. The Nielsen Company reported in February of 2008 that in the last 30 days, about 23% of U.S. mobile phone users had seen advertising on their phones and about half had responded to them.<sup>14</sup>

With mobile couponing, restaurants can send text-messages to customers letting them know about special deals. A typical coupon might, for example, advertise a free small drink with a twelve-inch sub, or a special \$.99 cup of coffee. In the next two years, as mobile technology improves even further, location based advertising will take off. Stores will be able to automatically send a mobile coupon to a customer's cell phone every time he/she walks by.

One of the advantages of mobile coupons is the intimate access they provide. Mobile coupons allow marketers to reach potential customers just when they are deciding where to have lunch: a customer receives a text-message and can immediately place an order from his or her phone by responding with a simple text-message. Unlike paper coupons, mobile coupons are easy to forward along to individuals and group distribution lists, extending the viral reach of the promotion.

The initial results of mobile couponing programs are promising. In August of 2006, Subway launched a mobile couponing program in 400 restaurants. As of November 2007, Subway reported a response rate of 8.7% - as compared to a response rate of 1-2% for free-standing ads.<sup>15</sup>

“Think about [mobile coupons] as an extension of direct mail, but you have a much lower chance of leaving your coupon at home,” Pam Zuercher, Visa's vice president for innovation explained, adding that the technology “provides the ability to influence experiences within a retail location.”<sup>16</sup>

## [ digital loyalty programs ]

Like coupons, loyalty programs have also been around for decades and for good reason: according to one industry report, more than 60% of consumers will choose to go to a restaurant with a loyalty program over a restaurant that doesn't have a program.<sup>17</sup> Not surprisingly, merchants employing loyalty programs have seen between 4% and 14% increase in annual same store sales.<sup>18</sup>

But while rewarding customers for their business is by no means new, the arrival of digital loyalty programs means that retailers will be able to learn more about customer preferences and provide the right rewards.

In the old days, a loyalty program consisted of a haggard barista punching a customer's dog-eared paper card and, when the row was filled, handing over a free item. Retailers had no way of keeping track of these purchases or rewards, while programs were easy to abuse and generally amounted to cannibalization: discounting an existing transaction. In an industry where margins continue to shrink, frivolous discounting does more harm than good.

Today, interactive restaurant marketing firms are taking loyalty programs digital and linking them to CRM. This solution enables retailers to store information and gain better insights about customer buying patterns. Equipped with a more nuanced understanding of individual preferences, the retailer can provide targeted ads with higher take-rates.

## [ database marketing, a.k.a. email campaigns ]

In 1999, Seth Godin popularized the use of opt-in email marketing. Godin pointed out that by obtaining consumer permission to receive customized advertising material via email improved segmentation, targeted precision, and cut through advertising clutter.

Email is considered a better vehicle than banner ads, mass advertising, and direct mail, as it helps drive traffic to websites, is interactive, fast, highly measurable, and relatively easy to deploy.

This year, QSRs can expect to see new opportunities in traditional database marketing with digital "tell a friend" campaigns. According to a recent study by McKinsey & Co., 67% of customers trust word of mouth (WOM) recommendations over all other marketing media. A "tell a friend" campaign makes it more likely that QSR customers will get out the word: a QSR can email an ad to a customer and give point rewards every time the customer forwards the email.

## [ remote ordering ]

With a remote ordering system, marketers enjoy the unique advantage of being able to deliver targeted ads directly to a customer's laptop or cell-phone and offer customers an opportunity to respond by immediately ordering the featured item. In effect, a remote ordering system removes the traditional time-lag between impression and purchase.

Moreover, with a pay-per-action pricing model, restaurants only have to pay for those text-messages or emails that actually result in orders, making it an efficient and low-spend way to reach customers outside the four walls: by bringing the four walls to them.



# The Line



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- 4 Godin.
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