

# Reimagining Retail: Why restaurants face another year of uncertainty and the loyalty programs keeping some ahead of the pack

Audio



On today's podcast episode, in our "Retail Me This, Retail Me That" segment, we discuss why the restaurant industry is facing another year of uncertainty and how restaurants are boosting loyalty. Then, for "Pop-Up Rankings," we rank the top restaurant loyalty programs. Join our analyst Sara Lebow as she hosts analyst Blake Droesch and senior director of media content Becky Schilling.

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## Episode Transcript:

Sara Lebow (00:00):

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information. Hello listeners. Today is Wednesday, May 8th. Welcome to Behind the Numbers Reimagine Retail, an e-marketer podcast made possible by a win. This is the show where we talk about how retail collides with every part of our lives. I am your host, Sarah Libo. Today's episode topic is what the rest of retail can learn from restaurants. Before we get into that, let's meet today's guests. Joining me for today's episode. We have senior analyst, Blake Roche. Hi

Blake Droesch (00:55):

Blake. Hey Sarah. Good to be back.

Sara Lebow (00:57):

Good to have you. And also here is director of Content for our media team, Becky Shilling. Hi

Becky Schilling (01:04):

Becky. Thank you for having us. But I can't believe we're recording this right before lunch and we have to talk about restaurants.

Sara Lebow (01:12):

We started recording and I was like, oh, I haven't eaten anything today, but here we go. Okay, let's get started with free sample Our did you know segment where I share a fun fact, a tidbit or a question? So I don't know if we've done a tidbit, but this one's a question. What is generally agreed to be the first fast food restaurant,

Becky Schilling (01:37):

But it wasn't called McDonald's.

Sara Lebow (01:39):

That is wrong

Blake Droesch (01:40):

Checkers.

Sara Lebow (01:41):

That is wrong. It is White Castle.

Blake Droesch (01:45):

Oh, that's right.

Sara Lebow (01:46):

White Castle started selling hamburgers for 5 cents in Kansas in 1921. There have been other food services akin to fast food. Street food has existed for as long as streets have, but fast food as we know it started in 1921. Have either of you had White Castle?

Becky Schilling (02:04):

No,

Blake Droesch (02:04):

Of course there's a White Castle on the cross Bronx Expressway and when you're driving down there's an exit for Whitestone, the Whitestone Bridge, and also Castle Hill in the Bronx. And when I was younger I always thought that White Castle originated in the Bronx because of that sign, because they were right on top of each other and it would say White Castle if you read at top to bottom instead of left to right.

Sara Lebow (02:32):

Wow. Alright, let's jump into our next segment. Retell me this, retell me that where we discuss an interesting retail topic. Today's topic is what the rest of retail can learn from restaurants. Today we'll be talking about quick service restaurants or QSRs, which are your typical fast food restaurants, but we'll also be venturing into the world of fast casual and chain restaurants. Overall lucky for us and for our e-marketer Pro subscribers. Blake just wrote a report on restaurant digitization in 2024. At the start of that report, Blake wrote, the restaurant industry is facing another year of uncertainty. Blake, can you explain this uncertainty to us?

Blake Droesch (03:16):

Yeah, I mean over the past couple of years it's been a very challenging environment for the restaurant space. The cost of operating has just gone up given inflation and the labor shortage. It's obviously also been a tough economic environment for consumers. As soon as consumers start to tighten their belts because their costs of groceries and other essentials are eating up a bigger share of their wallet, they cut back on basically the expenditures like dining

out and going to do things. So that's certainly impacted different types of restaurants to varying degrees, whether, I mean, we saw this week McDonald's earnings Starbucks earnings have not been great and it's directly attributed to lower income consumers and middle income consumers as well. In the case of Starbucks, sort of just cutting back on these types of dining experiences and then full service and fast casuals have also been impacted in different ways.

Sara Lebow (04:14):

Yeah, I mean on that note, there are also persistent labor shortages related to restaurants. They never fully recovered coming out of the pandemic, so we're still seeing issues there.

Becky Schilling (04:26):

I mean it's been a problem that they've had for ages and decades. Getting labor at qualified labor and workforce into restaurants has always been a challenge and certainly from the pandemic it didn't help. And you talk about pricing and food costs, the restaurant industry is still reeling from the impacts of what happened in the pandemic and then to be hit with inflation and consumer economic uncertainty has just been a double whammy in the last four years.

Blake Droesch (04:52):

Interesting stat. Obviously you never really know exactly how the year is going to pan out, but last year 82% of US operators said that they upped menu prices per at December, 2023 survey from Restaurant 365. They asked the same group if they were planning on raising prices again in 2024 and 61% of US restaurant operators said that they were probably going to be forced to raise menu prices again this year. So just definitely another year of the cost of dining out continuing to rise even as inflation for food at home has settled a little bit. The cost of food away from home continues to rise much faster.

Sara Lebow (05:37):

Yeah, definitely. Gone are the days of the 5 cent White Castle burger. When uncertainty happens in retail, we also get loyalty wavering as we've discussed. That's a pretty big issue when loyalty is what you need to keep those revenues up. Restaurants, this is a little unique for though, or a little different from apparel because people tend to be really loyal to their favorite restaurants. The Starbucks app for example, has around 40 million users according to

our forecast for context. That's about half as many users as Apple Wallet has, which is a big difference. But when you think of Starbucks as one single service and Apple as a collection of services, it's a really big user base. So how are these restaurants working to keep these customers loyal?

Blake Droesch (06:24):

Yeah, I think there's always been an emphasis on loyalty in the restaurant space. Rewards apps are nothing new. As you said, Starbucks is really a first mover, but every QSR and fast casual has some sort of mobile loyalty app at this point. But what we've seen over the last couple of years is it's difficult for restaurants to strike that balance between making a loyalty app, providing perks with the classic sort of earn and burn loyalty program where you basically get points back on a purchase that you could redeem at a later time for discounts or free items. It's been difficult to scale that with the operating costs going up at the same time. So what we're seeing now is restaurants are investing in technology in different ways, both on the backend as well as restructuring these types of digital experiences that they're offering in loyalty apps in different ways in order to try and find to give customers an experience that they still find valuable even if it's not sort of a direct earn and burn program. And at the same time they're able to scale a program without having to do things like change the point structure that we've seen upset consumers.

Becky Schilling (07:47):

Yeah, restaurants are having to rethink the way that they're building out their loyalty programs. So it's not just a spend a dollar get a point because patrons did a report and they found that it costs restaurants more to do the discount through a loyalty program than through a just straight discount program. But they also found on the flip side that loyalty members had a 5% higher check average. There is a balance that they're working on there. Patons also found that the high level of inflation last year saw the need for restaurants to be able to change the way that they're doing their rewards program so that it's not the fixed point for reward items, but trying to really rethink some of the strategies. And I think we're going to get into some of those in the back half of our conversation today.

Sara Lebow (08:35):

Spoiler alert. But yeah, I mean things like tease that a little things like gamification and stuff can be effective here. And they're a little more dynamic too because if you have 30 points and

it takes 40 points to redeem something you don't want to see that suddenly change to taking 50 points to redeem something. But if that changes with less clear, less obvious metrics, then customers will be less upset.

Becky Schilling (08:57):

And I think one of the other things to keep in mind is that dining is a very social event and we often think of a loyalty program as a one for one. So it's my loyalty to my restaurant, but if you can get someone hooked onto your loyalty program and they bring their family or their friends in, so if we're going out to grab lunch at the office and I say, I want to go to Chick-fil-A because I have their loyalty program, so you might come with me because I have that and that's where I'm going. So I think it's important to remember that having a loyalty one-to-one also can help bring in other people and get them into your ecosphere and then potentially into that loyalty program as well.

Sara Lebow (09:37):

And Blake, you mentioned the backend technology also. So the things that consumers might not see as obviously or maybe are more present in the restaurant. What are some examples of these that boost loyalty?

Blake Droesch (09:49):

Yeah, absolutely. And I'll preface it by saying that these types of gamified or non cut and dry points-based reward systems are really dependent on a restaurant's ability to personalize the offers efficiently. So if they are serving up the individual customers with a particular offer at the right time of day, at the right time and sort of the customer's cycle, then they're much more likely to make this an efficient system. But it requires a great deal of automation and efficient personalization. And what a lot of restaurants are doing are investing in ai. It's really big obviously in every space, but restaurants have been using ai. They continue to invest in AI in hopes of personalization, not just in rewards programs, but you also are seeing examples of a company like a restaurant like ihop, which is really leaning into AI in order to surface menu options during the digital ordering experience that really leans on a customer's past purchase and engagement behavior.

Blake Droesch (10:58):



And then the other aspect is unified commerce. So unified commerce is this sort of this idea that all of your touchpoints with the customer, whether it's through the app, through the mobile tablet in the store, when they're ordering in the store via person, whether it's through the website, all of these different touch points are linked together on the backend. And that just gives the restaurant a clearer idea of who this customer is and how they're engaging across their different touch points. And it gives them the ability to personalize offers and just personalize the overall experience. One example of this unified commerce is of course McDonald's, which built their entire system from scratch. So they have this sort of proprietary unified commerce platform that they just rolled out I think this year where you're having the same operating system and the same frontend experience across the different platforms, and it's just giving them better insights into their customer, making it easier for them to give them personalized rewards and a better experience.

Sara Lebow (12:01):

That is all we have time for in the first half. Let's keep moving to our second half. Now it's time for Pop-up Breakings where we take a look at specific examples and we rank them Today, Blake and Becky are each going to share two examples of loyalty programs from a restaurant and why they work. Becky, you go first.

Becky Schilling (12:22):

So I'm going to go with a chain that most people have probably not heard of, and it's a coffee chain that's based in Arkansas called Seven Brew. And the reason I picked it is because they say that 92% of their customers have signed up for its loyalty program. I'm going to say that again. 92% of its customers have signed up for its loyalty program, probably asking yourself how is that even possible? So what happens is they have an employee who greets every single person who comes onto their restaurant and they say, may I have your phone number please. The people give their phone number that gets them signed up into their loyalty program. It's how they also deliver the orders to the customers whenever they get them ready. But it's a way for them to be able to see what the past orders are for the customers to say, oh, you ordered A X, Y and Z last time, would you like that same order this time? Or could we suggest something that's in this vein that you might want to try? And it's been a way for them to customize. It's been a way for them to create personalization in their order process and it gives them those phone numbers and they can do text message marketing as well. So Seven Brew Arkansas based coffee chain.

Sara Lebow (13:36):

Yeah, I just want to emphasize also, I hadn't heard of Seven Brew That Seven Brew is not small either. I mean you say 92%. I say, okay, they have two locations, but no, they're all over Arkansas, Kentucky, Indiana, Texas. So yeah, I mean really effective. I wonder if we will see them make their way up north. Okay. Blake, give us your example of a restaurant with a loyalty program that works.

Blake Droesch (14:01):

So I like, and I think it's interesting, what Subway did late last year with their loyalty program. They introduced basically different tiers that it's not your standard, sort of your free program versus your paid monthly subscription program. Their tiered system is basically how much you spend annually at Subway. So there are three tiers. There's people who spend less than 200 a year, people who spend more than 200, and then people who spend more than 400. And once you're in these different tiers, it basically gives you a different, more enhanced way to earn more points, get more discounts. You get exclusive access to Subway swag if that's something that you're interested in. Maybe if you're spending more than 400 a year at Subway, that would be something that you're interested in. But you also get more practical things like the upper echelon. If you spend more than 400, you get 20% more points, you get free chips on Fridays.

Blake Droesch (15:01):

And I just think it's an interesting way of, okay, this isn't personalized, it's not necessarily a super sophisticated structure, but going back to what we were saying before, it's a way of rolling out a program that I'm sure Subway is doing the calculations to try and figure out how can we operate efficiently where we're incentivizing our customers, but we're also rewarding our customers who are spending the most on our platforms and we're keeping our very loyal customers coming back and we're also incentivizing our less loyal customers to become more loyal. So I thought it was an interesting concept for sure. And I just have to say though, I think if you reach a tier where you're spending more than a thousand dollars a year, there should be a new tier where you get a sandwich named after you. I think that would really be a great perk.

Sara Lebow (15:50):

This reminds me almost of a student discount kind of thing in that it's a bucket and it's a bucket that's specific to a kind of customer, but it's a really big bucket. So I think it is effective

in that way. And a lot of what Subways had to do from my perspective in the last many years is distance themselves from the \$5 foot long, which was a little bit shortsighted in that they couldn't stay \$5 forever or 15 years out from that now. So they're doing a good job of keeping discounts visible.

Blake Droesch (16:20):

They couldn't do it forever yet. They wrote a jingle that was a timeless classic. So they need a new J shoot themselves in the foot. Yeah,

Sara Lebow (16:28):

In the foot. Long in the foot. They really

Blake Droesch (16:31):

Shot themselves in the foot long.

Sara Lebow (16:33):

They shot themselves in the foot long. Okay. Becky, what is your next example of a restaurant with a good loyalty program?

Becky Schilling (16:44):

My next example is Panera, and you're going to have to hang in there with me while I explain this one because it's not Panera's, I'm

Sara Lebow (16:50):

Already there.

Becky Schilling (16:51):

It's not Panera's actual loyalty program, but it's a program that they have that feeds into the loyalty program. So it's called their SIP Club membership. And for either 1499 a month or 120 a year, you can get unlimited beverages. Most of their option beverage options are available through this program. You can get a drink every two hours as well as free refills. The reason why I like this is because this program has helped drive people into Panera's free rewards program. That free program gives them things like free delivery for the first 30 days, member only challenges birthday treats, the traditional things you get in a restaurant loyalty program.

But what is interesting is that Panera said that their SIP Club members accounted for about 25% of their transactions last year. That's wild. And the PERK helped build their loyalty program to more than 48 million members. And so that is why I have picked Panera.

Sara Lebow (17:48):

Yeah, that 20% stat is huge. Really impressive. I guess if you want a coffee, you're probably also getting the muffin or the sandwich. Blake, bring it home with our final example.

Blake Droesch (18:00):

So this is an example from KFC UK and Ireland. They introduced. Yeah, KFC UK and Ireland. Actually, I'm caught up KFCI believe. The first time I went to London, my first reaction was like, there's a lot of KFCs around here, like an oddly large presence of KFCs in this country. I found it very strange.

Sara Lebow (18:23):

We'll need Marcus to weigh in,

Blake Droesch (18:24):

But they've literally gamified their rewards program because they've introduced a mini arcade section to the app. And basically after you make a purchase via the app, you get an invitation to play a little game, which you can then use to win freebies. And look, this isn't a reinventing of the wheel by any means, but I think that there's something to be said, especially in the fast food space for having a little sort of something to play at the end of your meal. It reminds me of sort of the really successful programs that we've seen in the past, whether it's like the McDonald's monopoly or even just the genius who decided to put a little toy at the bottom of a cracker Jack, right? It's just having a little something at the end that is going to, after the customer finishes their meal, thinking about sort of what's the next interaction going to be? And it's very simple, but I think at the end of the day, that is the point of a loyalty program is to keep the customer engaged and thinking about when's the next time they're going to engage with your restaurant. So that's why I chose KFC. Very straightforward, but good idea.

Sara Lebow (19:38):

I like that. It's the Happy Meal toy.

Blake Droesch (19:40):

Exactly.

Sara Lebow (19:41):

Okay, that is all we have time for today, so thank you for being here, Becky, happy

Becky Schilling (19:45):

To be here. It's lunchtime now.

Sara Lebow (19:47):

Thank you for being here, Blake.

Blake Droesch (19:49):

Yeah, have a good lunch everyone.

Sara Lebow (19:51):

Have a good lunch everyone. Thank you. To our listeners and to Victoria who edits the podcast. When I asked Victoria what her favorite QSR is, she said, this is impossible for me. And then she gave me four different answers. We'll be back next Wednesday with another episode of re-Imagining Retail and e-Marketer Podcast. And tomorrow join Marcus for another episode of the Behind the Numbers Daily, an e-Marketer podcast made possible by a one.