Keeping the Customers You Have — Get the Competitive Edge With Chain Loyalty

Quick service restaurant (QSR) operators are adjusting to what we’re calling “the new normal marketplace.” The weakened economy and a prolonged road to recovery have made consumers cautious, controlled spenders — at restaurants as well as in other aspects of their lives. Demand for restaurant-prepared meals and snacks declined in 2009 and 2010; it inched up slightly during 2011 and 2012, led by the QSR segment. Yet total traffic remains below the demand enjoyed in 2008. This means for a chain to meet growth plans, it must do a better job than the competition when it comes to holding on to customers, while making efforts to take visits from competitors.

Holding on to loyal customers has many benefits.

There are many benefits of having a core group of loyal chain buyers:

- Brand awareness levels are higher, making them easier and less costly to reach
- They provide a base level of business that can be counted on
- These buyers are advocates and can help bring in new customers
- They tend to be less price sensitive — they’re willing to spend more with retailers they like
- They have a higher tolerance for mistakes
- They are willing to provide feedback

Consumers benefit from being loyal to a chain only as long as their needs and expectations are satisfied by their experience. With so much uncertainty today, consumer trust has become strained. Meeting customers’ needs today includes making it as easy as possible for them to get through their day and get the products and services they want. It’s all part of building trust.

Foodservice has been working hard to find growth opportunities within the context of lackluster economic expansion. We have not yet identified an engine to drive growth today the way women entering the workforce drove growth through 2000. Our latest reports will help companies identify opportunities and overcome the obstacles they face. A Look Into The Future of Foodservice forecasts consumer demand through 2022, covering the restaurant concepts, situations, and foods and beverages projected to win or lose based on the changing age composition of the U.S. population. The New Normal is a strategic planner for operating in today’s economic climate. And we’re updating Defining Value Today, a report on how consumers define good value at restaurants. Make fact-based decisions with our information and analysis. See how your business can win the battle for market share.

Arnie Schwartz
How do we define chain loyalty?

Loyalty may be measured in a number of different ways. For our purposes, we define loyalty as the share of visits given to a chain by that chain’s customers. We’ll refer to this measure as the share of requirements. For example, if a chain’s buyers made 20 QSR visits in a month, and 10 of them were to the chain and the other 10 to competitors, the chain will have satisfied 50 percent of its customers’ QSR visit requirements. A high share of visits means high chain loyalty.

Multiple daypart use is a contributing factor to high customer loyalty. Breakfast is a habitual meal for Americans; they have high loyalty to a few chains at this daypart. McDonald’s and Starbucks have the highest overall chain loyalty, and both are key players in the growing morning meal market.

The average share of requirements met by QSRs (Top 11 Chains) is 12 percent; the range is from 23 percent to 8 percent. Chains in the group with the lowest loyalty are pizza chains. While this seems to suggest limited loyalty, when we consider daypart use and evaluate strengths and weakness among direct competitors for the type of meal, loyalty is substantially higher. For some chains, loyalty may be strong for a primary daypart like dinner, but will be diluted if viewed among total QSRs at all dayparts. An example of this is Starbucks’ impressive loyalty at breakfast. It is so high that it props up Starbucks’ total loyalty and propels the chain to the number-two spot in our overall loyalty ranking.

“Close-in” competitors compete for share at every meal occasion.
Chain loyalty varies across the day. Understanding these dynamics will support strategies for share growth. For example, while McDonald’s and Subway dominate lunch, Panera, with its lower share of lunch, might be a major competitive factor. We need to understand the customer composition and overlap of the Panera customer relative to McDonald’s and Subway to determine the appropriate competitive set. At supper, McDonald’s is the leader, but Pizza Hut and Domino’s are neck-and-neck, followed by Subway and Taco Bell. Although Starbucks and McDonald’s hold strong loyalty positions within the snack occasion, Taco Bell is a contender, with its loyalty level ranking third.

Reward customers for their loyalty.

Particularly at a time when demand has declined, loyal customers need to be acknowledged and rewarded for their support. Make them feel valued. Welcome them with accurate, quick, and friendly service – with a smile. Many operators use frequent visitor cards as a means to retain loyalty, sometimes structured against specific dayparts. Bounce-back coupons for a different daypart or weekpart are another way to stimulate loyalty at competitively vulnerable occasions. Take advantage of digital marketing to build and reinforce a reputation for consistent, good service. And don’t forget to evaluate customer feedback received through social media. Reaching out to customers supports positive interaction and builds loyalty. Customer trust transcends price-driven purchase decisions. At the end of the day, all parties involved are looking for something they want. Placing the customer first will feed the entire food chain.
To learn more about The NPD Group’s solutions for the foodservice market, complete the form above, call Charles Camaroto at 866-444-1411, or email contactnpd@npd.com.