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# Beyond the punch card

**Loyalty and the restaurant industry**

If you don't have one in your wallet, you might have one in a dresser drawer: the ubiquitous restaurant punch card that promises one free item after 10 purchases. Technology has helped the industry replace those old paper cards, but has anything really changed?

Restaurants tend to define loyalty more narrowly than other consumer brands. Airlines, hotels, and retailers might want you to apply for credit cards or patronize their partners, to promote a brand's stickiness when purchases may be few and far between. Restaurants are generally more direct: People tend to patronize them more frequently, meaning their programs are aimed at metrics such as visit frequency, share of wallet, and check size.

Deloitte defines loyalty as an explicit or tacit agreement between a consumer and brand to enter into a mutually beneficial relationship. There's room in that definition to do more— to surprise and delight guests, to make a program simpler to understand, and to take the effort out of participating.

In one sense, restaurant brands are already on the right track. Their loyalty programs focus on earning and redeeming product rewards, a strategy that aligns with customer preferences. The overwhelming majority say that's their favorite program benefit.
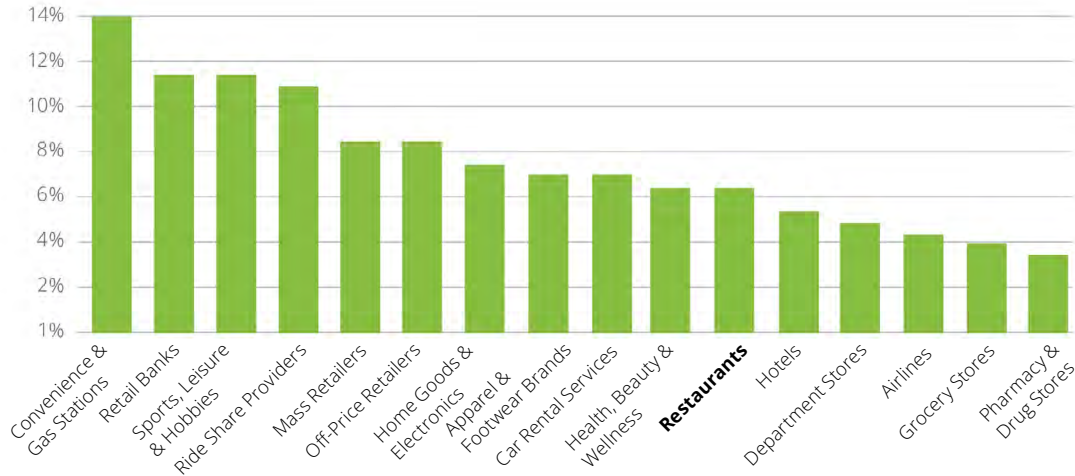
On the other hand, there are new opportunities to expand loyalty programs by combining long-standing consumer preferences with fast-growing technologies. The keys to these potential enhancements are exclusive access, recognition, and personalization. Those findings come from the 2022 annual Deloitte study, _**Evolving trends in brand loyalty and consumer behavior**_, which surveyed more than 3,000 consumers about their retail loyalty experience, with 200 respondents focused on restaurant loyalty programs consisting of full-service, fast-casual, QSR, and coffee shop programs.
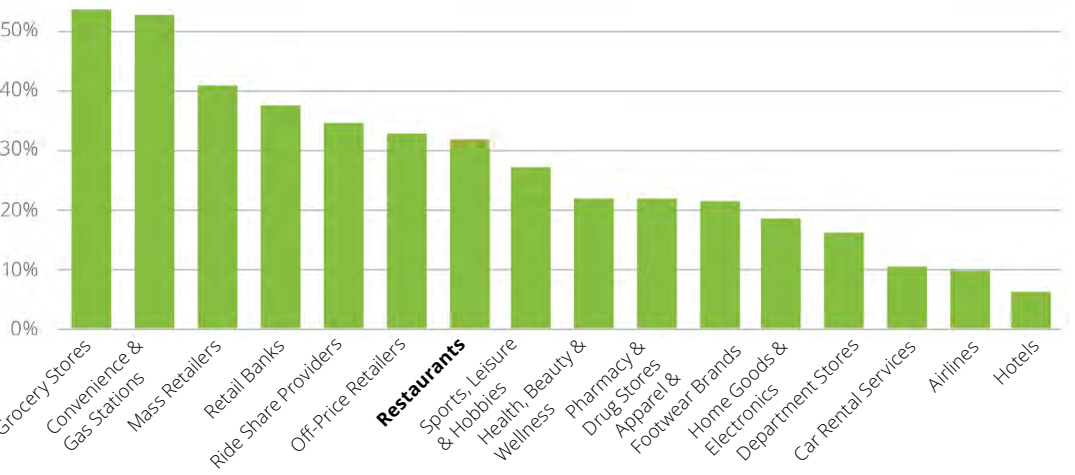
# What do members think?

Let's bring these customers into sharper focus. Our survey showed the typical loyalty member belongs to more than one program—29% have joined two, and 38% belong to three or more. That shows they're enthusiastic about having these relationships—but not committed to any one of them. Almost half (47%) use their loyalty memberships several times a month, and almost a third (32%) do so several times a week.

**Percentage of customers who report daily engagement with programs by industry**



**Percentage of customers who report weekly engagement with programs by industry**



It's one thing to keep people coming back—and another to keep them from going elsewhere. Programs that stimulate return visits may not also create non-transactional preference for the brand. Fewer than half of the restaurant loyalty members we surveyed (48%) said they're unlikely to switch to a competitor's program. Yet they appear to be more "sticky" than in other industries: Fewer than one in six restaurant loyalty members (16%) said they were likely to switch, while across all industries, almost a quarter (24%) said they would.

If just having a loyalty program isn't a guarantee you'll keep your members, what can you do to improve the odds? What opportunities exist to improve these programs and their results?

# The levers of loyalty

To address that challenge, consider the spectrum on which loyalty programs lie—not in terms of participation or revenue, but in the connections they forge. Deloitte charts the evolution of programs in three steps, from transactional to experiential and ultimately emotional (figure 1).

Many restaurant programs operate in the transactional space, and that makes sense. Most customers (86%) rate those outcomes as important.

With the exception of program simplicity (83%), other potential features ranked far behind. The transactional benefits that were likely the founding features of a loyalty program remain important table stakes in their value to customers. This is still what drives customer awareness of a program and ultimately entices them to join, so brands should make sure their programs are strong in this area before they consider adding other features.
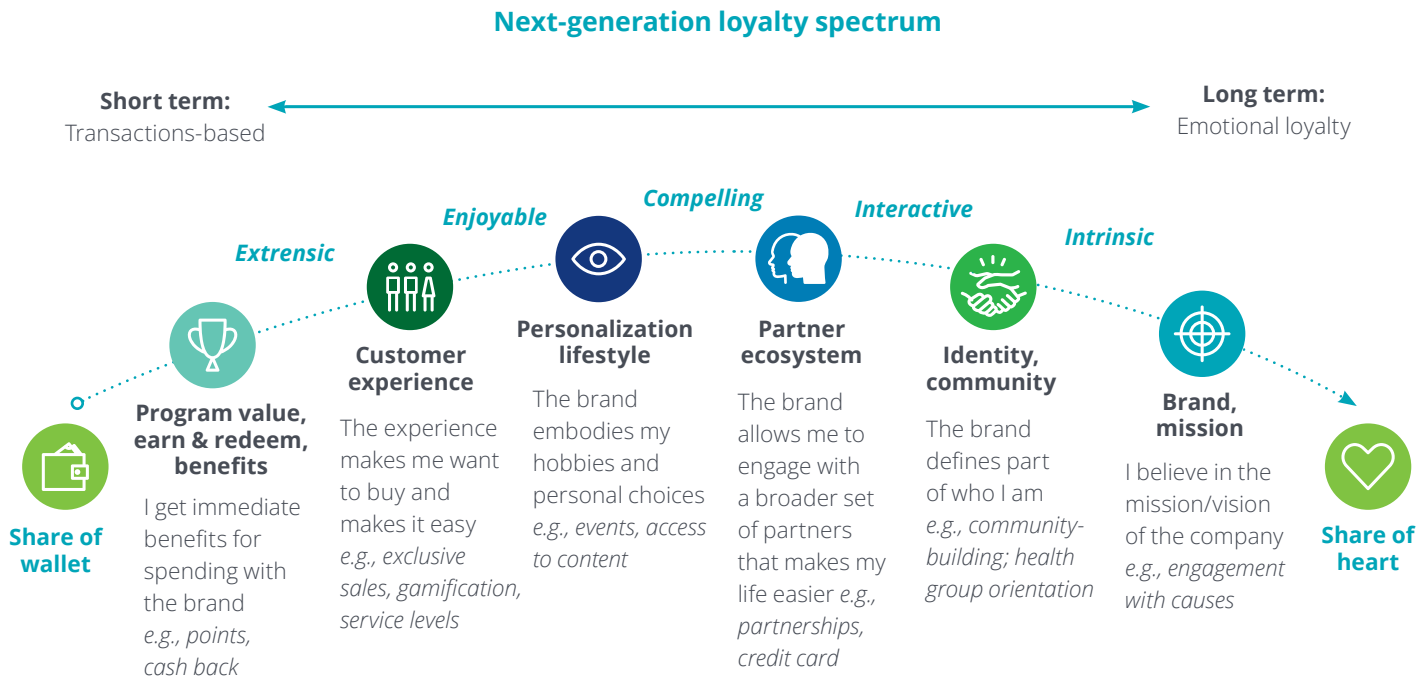
**Figure 1. A loyalty program designed to meet your customers' needs**

### Transactionally oriented

- Baseline financial benefits to drive acquisition and identification
- Supports the adoptions of specific transaction-based member behaviors
- Commonly focused on monetary savings (e.g., offers and coupons)

### Experientially oriented

- Robust set of experiential offerings layered on transactional benefits
- Deepens brand engagement and expands consumer touchpoints
- Typically anchored in greater access and more exclusive experiences for members

### Emotionally oriented

- Benefits are focused on connecting guests to a strong community with shared values
- Fosters more complex guest behaviors and builds habit
- Often includes community, mission, or values-based activations

**Share of wallet** ⟵——————————⟶ **Share of heart**

As they work to shift their programs from transactional toward experiential, brands should consider new levers. Like the evolution of the customer outcomes, the levers that can drive those outcomes are on a spectrum (figure 2). At the most functional level are offers of goods, services, or price advantages. The next step may involve rewards like exclusive access, priority service, or personalization to drive an experiential outcome. At the far end of the scale, a program might aspire to create emotional outcomes by promoting personal affinities or even shared participation in a cause or mission.

**Our takeaway?** At the time of this survey, restaurant loyalty members do not yet expect benefits that extend beyond earn and redeem; however, some brands are beginning to explore new facets of earn and redeem, such as companion offers and complimentary branded products. Brands may also choose to expand beyond earn and redeem to further differentiate themselves to consumers.

**Figure 2. A portfolio of benefits can differentiate the program by engaging across the spectrum of rational and emotional needs**

## Next-generation loyalty spectrum

**Short term:**
Transactions-based

**Long term:**
Emotional loyalty

*Extrensic*

*Enjoyable*

*Compelling*

*Interactive*

*Intrinsic*

**Share of wallet**

**Program value, earn & redeem, benefits**
I get immediate benefits for spending with the brand *e.g., points, cash back*

**Customer experience**
The experience makes me want to buy and makes it easy *e.g., exclusive sales, gamification, service levels*

**Personalization lifestyle**
The brand embodies my hobbies and personal choices *e.g., events, access to content*

**Partner ecosystem**
The brand allows me to engage with a broader set of partners that makes my life easier *e.g., partnerships, credit card*

**Identity, community**
The brand defines part of who I am *e.g., community-building; health group orientation*

**Brand, mission**
I believe in the mission/vision of the company *e.g., engagement with causes*

**Share of heart**

Engage members **across the spectrum** using a range of **rational and emotional benefits**, whether directly or through partner models.

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# Where the opportunities lie

Experiential and emotional connections are the results of a program's evolution, not the means. But achieving them is well within the capabilities of a restaurant setting. To foster the necessary alignment, ask yourself:

- **What will resonate?** Program features should match the business. Ones that work in other industries may not apply. For example, quick-service guests may not look for status tiers the way airline passengers do.

- **What's the right level of complexity?** Remember how much members value simplicity. It's just as important for the staff members who need to execute.

- **What's the franchise implication?** The burden of a program should balance between the franchisor and franchisee so both parties contribute and both benefit.

- **What's achievable?** Supply chain complexity and other factors can determine which promises come true and which ones leave guests disappointed.

- **How flexible is this?** Reward valuation may need to change over time to adapt to market conditions and guest preferences. Brands should take care to allow for flexibility in their feature design to accommodate easy changes in the future, should they be necessary.

To help most of today's restaurant loyalty programs move from where they are now to where they can go next, let's focus on the differentiation levers—the ones that can advance a program to and through the middle of that scale. These levers address customer experience and personalization.

**Hot topic: Leading-edge digital**

The Web3 landscape, including cryptocurrencies and non-fungible tokens (NFTs), is constantly evolving. What is their place in your restaurant loyalty strategy?

Start by knowing that restaurant loyalty members show comparatively lower interest in Web3 than other program features. A quarter say they'd be more likely to spend more with a brand that offered crypto or NFTs as rewards—and about half asserted they would not.

What about the metaverse? Most customers (55%) say they don't initially expect restaurants to be engaged.

Given the tepid consumer interest and the relatively recent emergence of these technologies, they are not likely to top the strategy list for most restaurant brands, as of 2022. For robust programs that want to explore this territory, know that some brands have had success, such as launching NFTs as a pathway to exclusive access. These investments should be balanced with another critical feature consumers do place a lot of value in: program simplicity.

# Exclusive access

Early or exclusive access to products and experiences was a popular prospect among our survey respondents. Sixty percent of respondents rated early access as "important" or "very important." Think of giving loyalty members the first chance to try new offerings—or exclusive access to cult-classic "secret menu" options. Letting people know they're part of an elite group, such as seeking feedback on new products from top users, can drive social engagement and word of mouth.

What lies beyond early? Exclusive. Members-only promotions could include celebrity-endorsed menus or collaboration with related brands. When a loyalty program "gates" access to desired rewards, it can push desired behaviors, such as more consistent use of the loyalty program itself. In turn, that can drive better data, or more use of the digital channel, with the corresponding potential to reduce labor.

# Priority service

If you've stood in the "regular" line at a major theme park or boarded an airplane, you know how much sweeter things can be for patrons inside the members' circle. The same satisfaction can benefit restaurant customers in the form of priority or expedited service—or special access to tables, cashiers, or carry-out queues.

In our survey, recognition in the form of upgraded or premium service was a popular idea. Almost two-thirds of respondents (63%) rated it as "important" or "very important." Program enhancements like these may also offer a heightened incentive to purchase directly from the location, which may help recoup share from third-party delivery services.

**Hot topic: Paid membership**

Across industries, almost one-third of loyalty members (32%) pay to play in rewards programs. Among restaurant members, fewer than a fifth (18%) do. But this model appears to have growth potential.

Are people willing to go there? The gap narrows: 38% of all loyalty members and 32% of restaurant loyalty members would consider it based on the cost and what kinds of program benefits they got in return.

A paid program is very much a case of KYC—know your customer. What do they want, what are they willing to pay, and what behaviors do you think you may inspire? Above all, how do they feel about the prospect in general?

# Personalization

Personalization continues to be a hot topic for many brands, and customers currently report satisfaction with the level of personalization they receive. That doesn't mean brands can't do even better: By refining the process, they have an opportunity to surprise and delight guests, particularly through micro-segmentation of customers to deliver targeted offers and content they desire.

One challenge restaurants face in personalization is data collection. Brands should consider how easy their programs are for customers to use. Do they have to complete extra steps, such as logging into an app, to log their purchase at the point of transaction? This could explain why customer data appears incomplete.

There are many ways to pursue and use personalization, but to execute well, it's important to begin with a few basic understandings:

- How do customers use their loyalty membership? Literally—do they log in, use the mobile app, show that they have the app, or give up their phone numbers?

- How can the loyalty program apply in a cash transaction or for customers who aren't mobile-engaged?

- How and where will the company use and digest the data it receives?

- What behaviors does the brand wish to stimulate through the deployment of targeted offers?

## Hot topic: Delivery services

Traditionally, you were just supposed to see food go out the door. The money wasn't supposed to leave with it. Third-party delivery services are cutting deep into that assumption. How can brands hold onto their customers' loyalty—and the revenue that comes with it?

The good news: 83% of guests prefer to order directly through the restaurant for pick-up orders. For delivery, however, almost a third (31%) have started using delivery services as their primary channel for ordering.

A loyalty program can be one level to slow this disintermediation. Tighter experiential and emotional bonds with consumers mean less attachment for someone else— and in addition to bolstering margin in the short term through more direct sales, the loyalty relationship can keep open the pipeline of consumer data that fuels a virtuous cycle of better customer knowledge, better engagement, and deeper satisfaction.

# Conclusion

Restaurant brands can take satisfaction from the knowledge, underscored by Deloitte's survey findings, that so many of their loyalty members already find worthwhile value in the core functions their programs are built to provide. As pressures mount from continuously changing consumer habits, delivery disintermediation, inflationary and economic pressures, and other directions, it is more important than ever to build flexibility into programs and recognize the full value of loyalty as a strategic lever. When deployed thoughtfully, loyalty can be a key strategy to retain connectivity and share of wallet, despite larger market and economic forces.

To maximize the value of loyalty programs in restaurants, brands can move their programs and participants along a journey that takes them from transactional to emotional engagement, but they don't have to stray from their core value propositions of food and service. Rather, they can explore new ways to compete that rise above the "earn and burn" model of loyalty rewards.

A hospitality brand that can surprise and delight its guests has a chance to carry their relationships from a transactional basis to an emotional one.

If brands do so, they can deepen their guests' propensity to do business with them while gathering data that enriches their offerings and strategies over the long term.

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