



Do Discounts Work?

By Laura Leszczynski
(la-shin-skee) I know. I know.

According to Gary Reinwald of the Reinwald Enterprises LLC restaurant franchise group,

“You can’t discount your way to profit.”

But, how can you use discounts to engage new and existing customers?

First, the trick is to figure out **how your customer thinks** and **what makes him tick.**

Then, make sure any efforts **fit in the overall marketing plan.**

Otherwise, you jeopardize brand consistency and loyalty.



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Important “stuff” first

BEWARE: if you give discounts to first time customers this will hurt the relationship with your loyal customers.

By taking a loss to obtain new customers, you are essentially forcing your loyal customer to make up for your losses. Your regulars should be the one rewarded with discounts and perks.

Discounts will attract new customers

According to a study from Whaleshark Media, 74% of active coupon users indicated they would be likely to try a new brand if they received a coupon or promotion code.

Might be just the thing **to draw them in**

New customers mean new opportunities for cross-sells and up-sells = more revenue long term

Trick part: Discounts may bring in the Coupon Clipper. Often these new people do not turn in to repeat customers.



Using Facebook to reach new customers

Einstein Bros. Bagels saw their Facebook fan list stagnate. To reach new fans they tried a restaurant promotion that offered a certificate for a free bagel and shmear to anyone who “liked” their page on Facebook.

Result:

1000% increase in fans in the first week

Gained 296,000 fans in one month

Became the 54th most popular business on Facebook

Target list grew and business increased



You **must** discount to Existing Customers or else

THANK
YOU!



Customers are smart.

Don't build resentment

Shows gratitude: ex, give free product, a discount code

Note: These discounts or gestures don't actually have to be that big to make someone appreciate the effort.

Beware: **Once customers receive a discount, it trains them to wait for later coupons and deteriorates the value of your product and services.** You get people used to not paying full price at your establishment!

Ideas



1. Give **merchandise** that features the restaurant's logo or advertising
2. Give an **unannounced gift** to delight a regular, loyal customer
3. Offer **sneak previews** of upcoming additions to the menu or new services or merchandise
4. **Deliver** an appetizer or dessert **on-the-house**
5. Give customers a **surprise prepackaged food item** at the end of the meal
6. Provide **meeting space** for business customers to use for routine employment screenings, client meetings and other social occasions
7. **Enlist to test new products** or foods free of charge in return for their opinions
8. **Take** your best customers to a local game, event or charitable auction
9. **Showcase** customer art, music, poetry or published works at the restaurant
10. **OTHERS?**

Use technology: Text message marketing

Come up with a carrot offer to get customers to subscribe.
Promote on table tents, menu, social media.

Get Free Dessert with today's meal.
Just text 'dessert' to 12345 and show server your coupon.
(Or 20% off today's meal, free appetizer, etc)

They sign up. Easy to redeem.

You send out weekly specials via text.
Customers can easily unsubscribe but more often than not
they look forward to it.

You easily grew your list of subscribers and they are happy



How do you get customers in the door?

FREE

**The most powerful
word in marketing.**

You can't build a business on giving things away but how can you use the psychology and data of neuroscience to help you out because some of these discounts actually do work better than others.

FREE incentives that work

The power to bring large parties to your restaurant

BIRTHDAY FREEBIES

Most people celebrate their birthdays with friends, family members and co-workers.

Offer a valuable free birthday incentive so she might bring enough guests to fill a large table or the entire restaurant. Your free birthday meal could easily generate hundreds of dollars in business.

USE INFLUENCERS

Offer a free catered meal to a decision-maker who's responsible for booking caterers for major events

Build customer loyalty while promoting your catering service



Pleasure vs Pain Principle



**According to science research,
people seek pleasure and avoid pain.**

The anticipation of missing out on a discount is definitely a pain people will want to avoid.

Wording has impact on perception

\$10 off
\$50 dinner

vs

SAVE
20%
\$50 dinner

Which is more effective?



"Get \$ off" emphasizes a gain

"Save \$" emphasizes avoiding a loss

FREE

A team of researchers, led by Akshay Rao of the University of Minnesota's Carlson School of Management, looked at consumers' attitudes to discounting.

Shoppers prefer getting something extra free to getting something cheaper.

The main reason is that most people are useless at fractions.



\$ OFF vs FREE



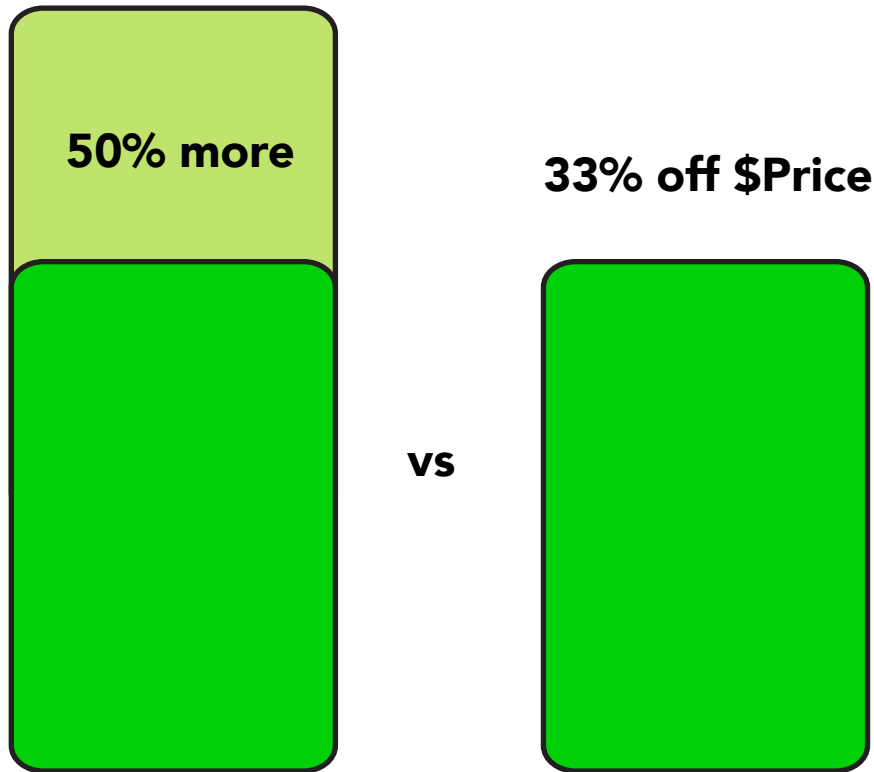
Offering \$1.50 OFF

the price of a burger makes the customer think your burger costs \$1.50 more than it should.

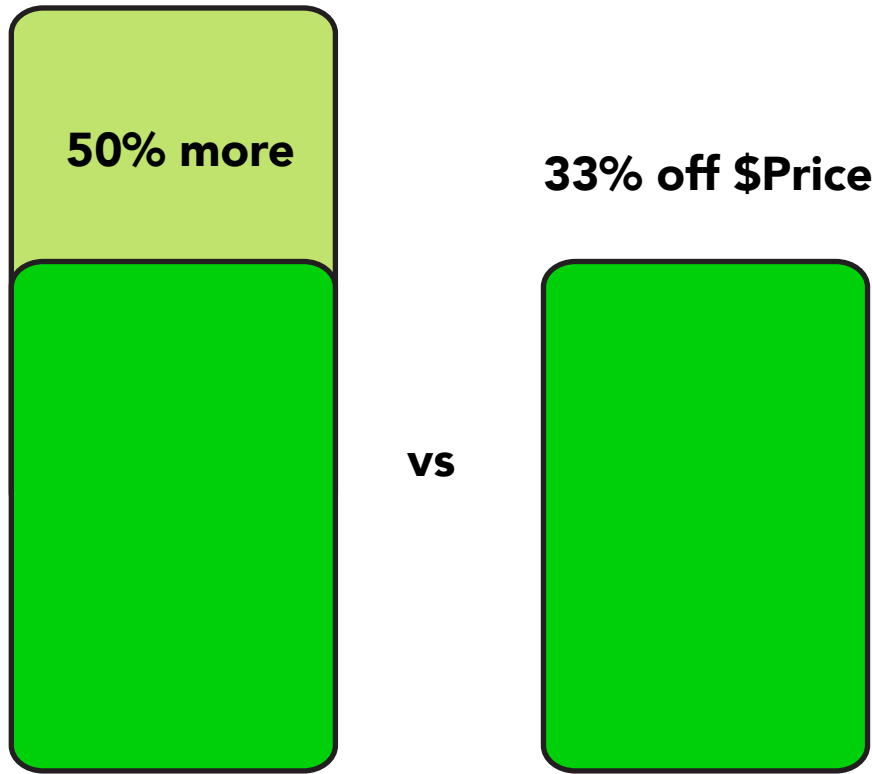
FREE order of fries

with a value of \$1.50 is like giving them a valuable prize that they would've probably ordered anyway = happy customer

Which is the better value?



They are the same.



Consumers struggle to realize —
They overwhelmingly assume the
50% “more” is better value.

In an experiment, the researchers sold
73% more hand lotion when it was
offered in a bonus pack than when it
carried an equivalent discount

33% off or FREE?



In another experiment, Mr Rao offered two deals on loose coffee beans:

33% extra free or 33% off the price.

The discount is by far the better proposition, but the supposedly clever students viewed them as **equivalent.**

Which is the better value?

20%
OFF

+

25%
OFF

OR

40%
OFF



They are the same **BUT**
customers like it better when
you **double discount**.

20%
OFF

+

25%
OFF

OR

40%
OFF



People are more likely to see a bargain in a product that has been reduced by 20%, and then by an additional 25%, than one, which has been subject to an equivalent, one-off, 40% reduction.

Eliminate the pain of paying

DROP THE DOLLAR SIGN!

Neuromarketing data shows the dollar sign actually reminds people of the PAIN of paying for something. Reducing the size of the sign, or simply removing it really seems to push sales.

Researchers at Cornell University – which sold more

With dollar sign: \$ 20.00

In words: twenty dollars

Without a dollar sign: 20

The result?

The price **WITHOUT** the dollar sign sold more.



Get them to focus on what they get

Eliminate as much as you can the "pain of paying" thinking. They focus less on what they spend, and more on what they get.

Conversely, this same technique works **when you give something away**.

USE A BIG DOLLAR SIGN.

Customers immediately know they will get something valuable.

Anchor effect

The first price you propose people, has an effect on the following prices they see.



Restaurant Decoys

Filet mignon and lobster combo at the top of the menu is more effective at making the other entrees seem reasonable.

Similarly, \$100 of cabernet makes a \$35 bottle an acceptable upgrade compared with the \$20 bottom priced wine



AND, you need to show reasonably priced items right away when they open the menu—gives impression they can afford to eat here

Price can change the customer's experience

Researchers discovered people's brains experience more pleasure when they think they are drinking a \$100 bottle of wine even though it was the \$35 bottle of wine

Test took a \$15 bottle of wine and told drinkers it was the \$100 compared to a \$45 bottle. They liked the \$15 bottle better.

When it was known they had the \$15 bottle vs the \$45 bottle, they picked the \$45 bottle.



Bundle

All-inclusive numbers sell better. Avoid multiple pain points so when you have your sides as ala Carte, the customer chews her baked potato asking herself if it was worth \$3.



Pricing with "9"

Just adding a 9 at the end of your (discount) price isn't always the best strategy **9.99 looks cheaper than 10.**

But that really goes for products that need to look cheaper, or simply are cheap.

For luxury goods, the 'cheap' psychology of that price might **backfire**, as one of the unique buying reasons for a luxury product is quality and people are willing to pay for quality.

A product that costs 399 looks 'inferior' to the similar product priced at 400.

How do you keep them coming back?



Give them what they want.

Branded items: shirts, hats, mugs with your logo on it

Ask them what they want.

Preferred seating, preferred server, know their name

Reward them.

Hand out plastic spoons at festivals and events. Anyone who brings one into the restaurant gets free dessert

Create a loyalty program.

For ex. Give a complementary dessert or after dinner drink for no reason other than to thank them for their business.

Are discounts and promotions the answer?

Not if it costs you too much!

Groupon: Expensive. 50% fee.

If a normal dinner ticket is \$100.

You give a Groupon for 50%.

You're left with \$50 BUT Groupon gets \$25 of that.

You end up with \$25 for a normal \$100 sale.

The Groupon logo is displayed in a green, rounded rectangular frame. The word "Groupon" is written in a bold, green, sans-serif font, with a registered trademark symbol (®) to the upper right of the letter "N".

GROUPON[®]

Gets new people in the door but ultimately you want to build on that repeat customer and get their loyalty.

Ways to build loyalty



Offer low risk ways for them to provide feedback

Ex: include on taste tests: You got a smoker and want to see if BBQ recipe works. Invite customers to try. Less risk to the customer. You capture focus group feedback. Builds loyalty.

Make sure your anchor price is reasonable and fair market. People love or hate Kohl's. The 30% discount is addictive but it only works if the original price is fair. If that price seems inflated, trust and loyalty is lost.

Be careful not to tarnish your brand.

If you use them, how do you know if they are working?

Tricky. Some mediums are hard to track. People forget.

Newspaper ads

Billboards

Flyers

Track activity on social media posts:

Likes on Facebook, Shares, Retweets.



Use geo targeted technology analytics

Track people understand habits and then plan for it. Ex. Dead in January

Track new customer info

Test which wording works best to motivate your customers.

Are you really growing your customer base or just giving customers who were coming in anyway?



Discounting your prices

GROSS MARGIN 20% 25% 30% 35% 40% 45% 50% 55% 60%

How much more business do you need to do to not only pay for the promo but also have a positive growth impact on your business?

DISCOUNT Your Price By	Your sales MUST INCREASE by the amt shown below to keep the SAME margin								
2%	11%	9%	7%	6%	5%	5%	4%	4%	3%
4%	25%	19%	15%	13%	11%	10%	9%	8%	7%
6%	43%	32%	25%	21%	18%	15%	14%	12%	11%
8%	67%	47%	36%	30%	25%	22%	19%	17%	15%
10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
12%	150%	92%	67%	52%	43%	36%	32%	28%	25%
14%	233%	127%	88%	67%	54%	45%	39%	34%	30%
16%	400%	178%	114%	84%	67%	55%	47%	41%	36%
18%	900%	257%	150%	106%	82%	67%	56%	49%	43%
20%	-	400%	200%	133%	100%	80%	67%	57%	50%
25%	-	-	500%	250%	167%	125%	100%	83%	71%
30%	-	-	-	600%	300%	200%	150%	120%	100%

For example, if your margin is 40% and you reduce your price by 10%, you would need your sales volume to increase by 33% to maintain profit!

Do you need to increase prices?

GROSS MARGIN 20% 25% 30% 35% 40% 45% 50% 55% 60%

Have your costs gone up?

Are your current prices in line?

Worried about losing customers if you increase prices?

Increase Your Price By	Your sales would have to DECLINE by the amount shown before your Profit is reduced								
	20%	25%	30%	35%	40%	45%	50%	55%	60%
2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
4%	17%	14%	12%	10%	9%	8%	7%	7%	6%
6%	23%	19%	17%	15%	13%	12%	11%	10%	9%
8%	29%	24%	21%	19%	17%	15%	14%	13%	12%
10%	33%	29%	25%	22%	20%	18%	17%	15%	14%
12%	38%	32%	29%	26%	23%	21%	19%	18%	17%
14%	41%	36%	32%	29%	26%	24%	22%	20%	19%
16%	44%	39%	35%	31%	29%	26%	24%	23%	21%
18%	47%	42%	38%	34%	31%	29%	26%	25%	23%
20%	50%	44%	40%	36%	33%	31%	29%	27%	25%
25%	56%	50%	45%	42%	38%	36%	33%	31%	29%
30%	60%	55%	50%	46%	43%	40%	38%	35%	33%

For example, at the same 25% margin, a 10% increase in price could sustain a 29% reduction in sales volume

Customer acquisition cost and lifetime value

Look at your data.

If tracking in POS or loyalty program,
look at repeat customer

Average person comes 1/month
Average check is \$50
You keep that customer for 5 years
That customer is worth \$3,000 to you.

Would you be willing to invest \$50 to “buy” that customer.
What’s it worth to acquire that new one? (Invest money to make money)



How to attract new customers and keep them coming back

LOYALTY

Introduce a new way of something.

Do you prepare differently?

Are you getting your fish, your beef, your potatoes from somewhere different?

Give them a reason to want to come back.

Marketing strategy

Focus on the long term.

Try to get your business to stand out

Neuromarketing Tips



Reciprocity – a powerful trigger

If someone does us a service, we want to be able to reciprocate. People hate having outstanding debts. So, if you give something first, you will get something back more often.



We are hard-wired to give back

Samples at Costco:

Boosted sales in some cases by as much as 2,000%

They can sway people to habitually buy things that they never used to purchase.

Great for making customers loyal to store and brands over a long period of time.

Ex. According to Giovanni DeMeo of the product demonstration company Interaction says frozen pizza increased sales by 600% giving out sample. This reciprocity operates on a more subconscious level. Creates a positive experience. Builds loyalty.

Over-deliver on expectations

Five Guys exploded as an east coast phenomenon.

They use a cool business trick.

They fill the fry cup then put in the bag and then add another scoop.

“I can’t believe how many extra fries we get...”

No extra. Being positioned as cool and generous. But they planned that. They budget for it. **People love getting a deal.**

We love saving money. **And we like to think we are that special customer worthy of extra fries.** We want to come back.



Anticipation



Mental trigger.

Use with promoting events, new menu items—
**makes customers feel as if they
are a part of something bigger.**

Gets customers in the know and helps them look forward to the band that is playing on Saturday or the summer salad that was voted freshest salad in town last year.

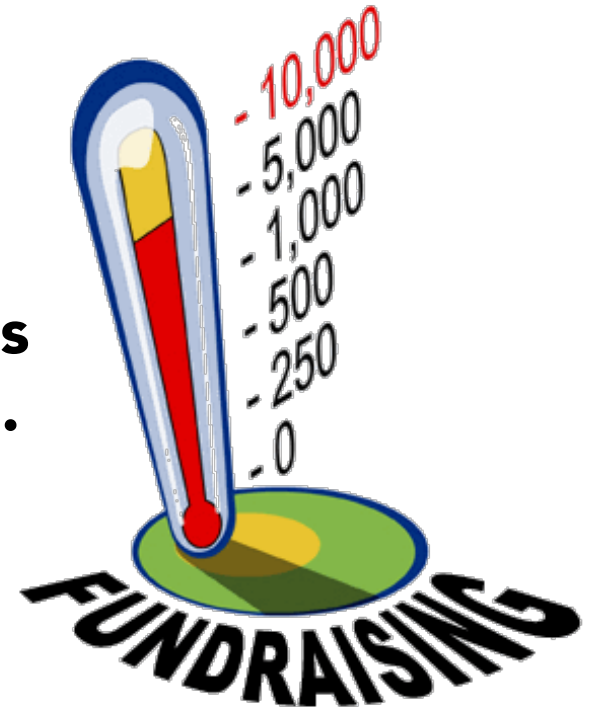
Likeability

Simple fact: we enjoy doing business with people we know, like and trust.

Get to know your customers.
Be sure to greet with a smile.
They want to be appreciated.

Partner with a charity or local school and host a special night where you donate a portion of the proceeds.

Great way to get more people to get to know you, start building trust and do something positive for the community



Scarcity

“Scarcity is one of the most powerful mental triggers in existence,”

says Jeff Walker, author of *Launch*.

When there is less of something, we want it more. It forces people to make a decision.

“We only have 2 tilapia special dinners left tonight.” “This is our last bottle of California Vineyard Cabernet”



Social Proof

If we see others taking action, we will be inclined to take action as well.

In a new town, which restaurant do you go to?
Full parking lot vs not full.

Mark items with Most Popular, Voted Best on the menu, etc.

Ask guests to be evangelists

Ask your followers and regulars to share their favorite meal, drink or details about their great service to their circle of friends both online and offline.



Unity



Cialdini author of *Influence*:

Unity means that we want to say “yes” to people with whom we share an identity more often than to people who are not part of this group.

There are numerous groups that appeal to a strong sense of identity. Ethnic background, religion, nationality or the political party you belong to: these are all groups that tie people together through common characteristics.

If you listen close enough, customers will tell you who they identify with or what “group” they are with: the wine drinker, the dessert lover, the one who doesn’t want to cook, the one who loves a great flavorful meal, etc.

Use opportunity to spotlight an employee.
Great way for customers to identify with them.

Do discounts work?

Discounts and special offers can work.

Know who you're talking to.

Understand the intention.

But, it's just a part of a bigger puzzle

Pay attention to how discounting will impact your business.

Hopefully you'll leave with a tip or two to earn you lots of



(Intentional use of big \$)

Thank you!

Laura Leszczynski