

Developing practical strategies through analysis of a database of a new restaurant...



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There are many ways in which the information contained in the database can be utilised to the advantage of the business (Sargeant & West, 2001). In order to develop practical strategies it is necessary to analyse the information within the database, this will be the focus of the first part of the coursework. Having derived the most relevant information from the database, this will allow the owner of the restaurant to identify the most profitable target audience.

The next section will concentrate on the issues involving customer loyalty and the potential benefits of customer retention. The focus of discussion will centre on the implementation of the restaurants direct marketing campaign, the communicational process itself and evaluation, testing and control. The last section of the coursework will focus upon any potential shortcomings or obstacles. There are a number of points that can be drawn from the information provided.

Firstly, it appears that the opening of the restaurant initially encouraged a high number of customers who visited once and yet a relatively low number of customers who returned for two or more visits. What conclusions can the owner of the restaurant draw from such information? Perhaps the initial influx of customers can be accredited to promotional efforts or, an initial decrease in price in an attempt to draw in as many people as possible.

Overall, it may be appropriate to assume that the fluctuation in the number of customers is a direct result of seasonal demand. It appears that the number of customers making one visit alone increase in the summer months and decrease towards the winter; however, this will be discussed in more detail at a later stage. Those customers who visited the restaurant in the

months after it opened spent significantly less in an average spend than those customers who visited six months after. Prices may have been decreased at first in order to establish a large customer base and over a period of six months the restaurant may have gradually increased prices in the hope that demand would remain at a stable level.

By multiplying the average spend per visit with the total number of visits made it is possible to calculate the total spend for each period. As already mentioned, the first month's figures display an unusually high total (\$40, 000 between June and August). However, this fails to take into account promotional costs and the high costs involved in starting up a business. The total spend figures for the period between March and May (\$23, 528) are high in proportion to the small number of customers who visited the restaurant.

This is because the average spend is very high and may be a result of increased prices. A continuation of a stable demand and high average levels of spending per visit will allow the business to repay the bank loan faster and gradually increase prices to a desired level. These figures also suggest a lucrative market segment that is prepared to pay high prices for a quality product. Such customers are described by Evans et al.

(1995) as 'advocates' in terms of their level of loyalty, high spending patterns and willingness to recommend the organisation to other potential customers. It could be suggested that such customers are less likely to be deterred by increases in price and as a result they offer the potential for a highly profitable market segment. Therefore, these are the consumers that

should be targeted by the restaurant. Egan (2001, page 53) suggests two main benefits of customer retention.

Firstly: the fact that existing customers are cheaper to retain than the costs involved in acquiring new customers. Secondly: the fact that securing customers' loyalty over a length of time leads to superior profit levels in comparison to the costs incurred through customer acquisition techniques. Sargeant and West (2001, page 181) expand on this view further in suggesting that loyal customers are more likely to purchase other product lines and purchase items at greater expense. This provides a basis for market segmentation and the specific focus of the restaurant's direct marketing activities. There are three separate options that are available to the company in order to attempt to build a successful business (Sargeant and West, 2001, page 180).

The first of these options is one that may prove to be too costly for the owner of the restaurant and involves customer acquisition. The second option relates to improving business relations with the existing customer base, an objective that could increase the profitability of the restaurant. As mentioned previously, the restaurant's figures between March and May are promising and may offer a great deal of encouragement with regards to the long-term profitability of the organisation. Sargeant and West (2001, page 180) discuss a third alternative that they claim is often neglected by other businesses. This is to suggest that companies should strive to lose fewer customers and it is this assertion that should provide the basis of a long-term objective for the organisation.

Successful direct marketing can depend on the organisation's ability to focus promotional offers to those consumers who are most profitable to the organisation (Feinberg and Eastlick 1997). By addressing the need for such a specific focus the restaurant can reduce expenditure on unnecessary offers that are targeted at a segment of the market that may provide little profitability. This principle is analogous to rewarding the top 20 per cent who are supplying 80 per cent of the profits. The remaining 80 per cent will subsidise the last 20 per cent by paying full price" (Feinberg and Eastlick, 1997).

Another advantage of focusing on the most profitable segment of the market is to reduce what Evans et al. (2001) describe as 'poor targeting annoyance'. This could occur if personalised offers are sent to customers who have visited the restaurant once, not returned and have no intention of returning, proving it to be a waste of the restaurant's budget. Evans et al. (2001) expand on this point referring to the potential relevance of certain direct marketing campaigns and the fact that relevance can be achieved through successful targeting. Evans et al. (2001) describe the four dimensions relating to the relevance of offers as being: timeliness, interest, repetition and the manner in which the information is processed. There are a number of questions that an organisation can address in order to utilise a database to its full potential (Feinberg and Eastlick, 1997). Firstly, what is the profile of the organisations most profitable customers? This would involve the restaurant gathering data on information such as spending patterns and buying behaviour over a long-term period in order to increase customer loyalty by providing targeted offerings.

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Secondly, how can the use of such profiles be utilised in order to create specific product offers? Customer profiles could be used to address specific dishes that these customers enjoy and offer them discount coupons for these items through direct mail. Thirdly, Feinberg and Eastlick (1997) pose the question, " How can these profiles help create offerings to turn the next twenty per cent into the top twenty per cent? " This should also provide a focus for the long-term objectives of the organisation in what Egan (2001, page 59) describes as a relationship ladder. This relates to the idea of gradually moving customers up through a series of phases; in the restaurant's case, moving repeat customers and clients up the ladder to where they are termed as being ' advocates'. Rowe (1989) refers to the idea of moving customers up the ' ladder of loyalty' and indicates that organisations should attempt to clone the customers who are most valuable by matching other groups of customers who have similar psychographic and demographic characteristics.

Feinberg and Eastlick (1997) suggest a fourth question that is perhaps the most relevant to the restaurant's situation; after identification, what measures can be taken to increase the spending of customers in the top 20 per cent? Certainly, one of the measures that could be taken would be to increase prices. However, such tactics may only deter those customers who are less likely to remain loyal to the organisation. The only way to increase the profitability of these customers is to attempt to fully understand their buying habits and to reward them appropriately (Feinberg and Eastlick, 1997). The process of implementing direct marketing campaigns involves nine stages (Tapp, 2001, page 238, see appendix 1).

The first stage of this implementation process involves defining the objectives of the company. As discussed previously, the restaurant's main two objectives are to increase the profitability of the top twenty per cent of customers and to move the next twenty per cent up the relationship ladder where they become company advocates (Feinberg and Eastlick, 1997) (Egan, 2001, page 59). The second and third stages relate to issues of market analysis, including market segmentation and deciding upon final target markets (Tapp, 2001, page 238). The restaurant's market will be segmented according to spending patterns.

The target market will be comprised of the consumers who are in the top twenty per cent according to their levels of spending. The fourth and fifth stages of the implementation process involve defining a product/price proposition and defining an incentive approach (Tapp, 2001, page 238). In order to define the product proposition, the restaurant should provide an extensive range of Vietnamese foods of the highest quality. A suitable pricing strategy should attempt to provide long-term profitability for the organisation and reflect the exclusive and high-class nature of the product offering. Sargeant and West (2001, page 198) suggest a number of characteristics inherent of successful direct marketing incentive.

Firstly, the restaurant should offer intrinsic rewards whereby the reward is in some way associated to the product offering, this would include a free starter or dessert when a customer spends a certain amount of money.

Secondly, the incentive should be perceived to have taken time and effort by the consumer. This links directly to the next point that Sargeant and West

(2001) make, relating to the degree of personalisation involved in the <https://assignbuster.com/developing-practical-strategies-through-analysis-of-a-database-of-a-new-restaurant/>

incentive. Perhaps the information in the database could be used to send personalised invitations to special events at the restaurant (Christmas parties, national Vietnamese days etc.). This also relates to the idea of seasonal demand and the fact that the summer months appear to attract more customers.

During months when business is likely to be slow, the restaurant can increase direct marketing activity. Any incentives used by the restaurant should consider the potential impact on profit levels and timescale in which the bank loan can be repaid (Sargeant and West, 2001). Finally, the restaurant must develop a communication strategy that can be broken down into the final four phases as defined by Tapp (2001, page 238). The first stage of the communication process involves deciding media channels and subsequent contact over time. The restaurant will use a direct mail campaign to communicate with its target market and focus on the top twenty per cent of customers.

Direct mail can be utilised by the organisation to serve a number of purposes such as: building brand identity, increasing profits, cross- and up-selling and increasing the loyalty of consumers (Taylor, 1995, cited from O'Malley et al, page 304, 2001). The second stage of the communicational process involves deciding timing issues. The timeliness and subsequent repetition of a direct mail campaign could potentially increase the lifetime value of a customer. The restaurant could include in the database the reasons for visits to the restaurant such as birthdays, wedding anniversaries and staff parties.

The dates of such occasions can be stored and promotional offers can be sent in advance of these occasions to increase customer loyalty (Feinberg and Eastlick, 1997). The third stage of the communication process involves developing creative platforms. A successful direct mail campaign should incorporate the following elements of creativity: focus, sustainability, measurability and the ability to inspire the recipient (Sargeant and West, 2001, page 302). The mail-shot should be tasteful, vibrant and representative of the restaurant's quality without the use of offensively bright colours.

It should be personally addressed and the recipient would be asked to produce the letter upon visiting the restaurant to redeem their free starter or dessert. The restaurant will also be required to keep regular contact with the top twenty per cent most profitable customers. The final stage of the process for delivering direct marketing campaigns involves developing a test programme (Tapp, 2001, page 238). This stage of the communication process is perhaps the most important, as consumer responsiveness will potentially indicate the positive and negative aspects of the campaign. Also, evaluation could reduce the risk of failure in future efforts.

Tapp (1998, page 313) highlights the importance of controlling and testing direct marketing campaigns and suggests four variables essential to testing and control: target audience, timing, media used and the offer. The restaurant should use two separate campaigns; one should act as a control and keep the target audience, timing and media channel variables the same (this one could be sent to the top twenty per cent of the most profitable customers). The second campaign should act as the test and the offer would <https://assignbuster.com/developing-practical-strategies-through-analysis-of-a-database-of-a-new-restaurant/>

be different from the control (this could be sent to the next twenty per cent). This allows the organisation to determine that any variances in response levels can be attributed to the differentiation in the test campaign (Tapp, 1998). One of the potential shortcomings that may arise as a result of the campaign is the way in which the competition responds to the restaurant's activities. Competing restaurants may decide to create 'copy-cat' campaigns in order to attract the customers with increased levels of profitability.

Another potential shortcoming is the cost of the direct mail campaign and the cost of giving away free food. If response rates are poor, this will increase the length of time in which the bank loan is repaid. In conclusion, the restaurant's database suggests that there is a group of customers who have high average levels of spending. In addition, they are likely to remain loyal and recommend the restaurant to other potential customers (Evans et al. 1995). Spending patterns provide a basis for market segmentation and the target audience will be comprised of those consumers who are most profitable to the organisation.

One of the ways in which the bank loan will be repaid in a decreased time period is through gradual price increases. The top twenty per cent of the most profitable customers are less likely to be deterred by increases in price (Sargeant and West, 2001). The organisations objectives are to increase the loyalty, lifetime value and overall profitability of its advocates (the top twenty per cent most profitable customers) and to move the next twenty per cent up the ladder of loyalty. This will be achieved by targeting these

particular customers through a direct mail campaign. This is based upon the <https://assignbuster.com/developing-practical-strategies-through-analysis-of-a-database-of-a-new-restaurant/>

idea that the top twenty per cent of customers will provide eighty per cent of the profits and that the remaining eighty per cent will subsidise the rest by paying the full price (Feinberg and Eastlick, 1997).