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Reconsidering the value of promotions, deals

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When same-store sales at Applebee's turned negative in the third quarter after being positive for more than a year, officials at Glendale, Calif.-based parent DineEquity Inc. blamed a Stacked Stuffed & Topped limited-time offer that just didn't resonate with guests.

Earlier in the year, DineEquity also charged an all-you-can-eat pancake offer at sister brand IHOP with bringing down results. Elsewhere, officials at Orlando, Fla.-based Darden Restaurants Inc. vowed to improve their Olive Garden brand's promotional effectiveness after several 2011 offerings failed to move the sales needle satisfactorily.

The number of LTOs offered by restaurant companies has multiplied over the past few years, as operators work to add excitement to menus and attract price-sensitive consumers. Operators introduced 5,183 new and limited-time items between January and October of 2011, up 33 percent from the 3,891 items that debuted during the same period in 2008, according to Chicago-based market research firm Technomic Inc.

But the notable number of promotional disappointments underscores the increasing difficulty of driving traffic at a time when value-oriented guests are more discerning, leaving many to question whether LTOs do more harm than good — and emphasizing the importance of a brand's overall value equation, not just its battery of promotions.

"It takes so much money, time and energy to run these promotions, and the margins are so thin," said Tom Kelley, principal of Concept Branding Group in San Diego. "Some companies just need to go back to asking why their entire menu isn't working better."

Deal or no deal?

The disappointing performance of Applebee's Stacked Stuffed & Topped promotion highlighted the difficulty of trying to move customers from one promotion to another. It included value-positioned dishes starting at $9.99, such as Florentine-topped sirloin with roasted red peppers and sliced mushrooms.

The promotion was introduced as efforts to reinvigorate the brand after its 2007 acquisition by what is now DineEquity were gaining traction. Along with reworking the menu, officials added late-night hours, enhanced the bar, and remodeled units. Applebee's also first introduced in 2008 a successful two-for-$20 deal that made up about 20 percent of sales.

Eventually, though, officials made the decision to discontinue the offer in an effort to move beyond the margin-cutting promotions brought on by the recession.

That move might have had unforeseen consequences, however, with the termination of the two-for-$20 deal becoming more of a factor in the failure of the Stacked Stuffed & Topped promotion than guests' opinion of the Florentine-topped steak, said Randall Hiatt, president of consulting firm Fessel International in Costa Mesa, Calif.

Disappointing results led Applebee's to pull the Stacked Stuffed & Topped promotion early and bring back the two-for-$20 deal in August. Sales improved following the move.

Hiatt said that what happened at Applebee's proves that operators, especially in casual dining, may find it difficult to wean customers off low-cost deals.

"The question is, 'Have they damaged their brand?'" he said. "LTOs can add excitement and energy, but there are a lot of issues about whether LTOs are really going to drive [long-term] traffic."

Big-picture changes

That's a puzzle Olive Garden also has been grappling with. Earlier in 2011, the chain offered several pasta promotions, including pastachetti — Parmesan-crusted lasagna squares — starting at $9.95, and a pear and Gorgonzola ravioli with shrimp for $10.95.

Still, for the chain's Aug. 28-ended first quarter, same-store sales declined 2.9 percent.

Drew Madsen, Darden's president and chief operating officer, said Olive Garden needed instead to feature dishes that were "more broadly appealing, while also emphasizing brand-appropriate affordability more often."

And that doesn't mean promoting deep discounts that erode profit margins or brand equity, he said.

More recently, the chain saw improvement after introducing a carbonara ravioli with chicken for $10.95, or $12.95 with shrimp, followed by the reprise of the Never Ending Pasta Bowl promotion for $8.95 in August.

Madsen noted a sequential improvement in same-store sales during the quarter, from a negative 3.1 percent in June to a weather-adjusted negative 1.3 percent in August. Still, sales were below expectations, he said.

"We now recognize that to regain same-restaurant-sales growth, Olive Garden needs to go beyond improved promotional effectiveness and make more significant business-building changes to address both a challenging external environment and an improving competitive set led by Red Lobster and Longhorn," Madsen said.

In addition, Darden is planning a new ad campaign that "broadens the range of emotional attributes" associated with the brand, Madsen said.

A new core menu also will attempt more "everyday affordability," appealing to households earning less than $60,000 per year, he said.

Value is not a number

Fred LeFranc, chief executive and president of consulting group Results Thru Strategy in Charlotte, N.C., said investments in improving the customer's experience — or perception of it — are key in communicating value. But the temptation is to fall back on price.

"In my opinion the war needs to be fought on the battlefield of value, and a lot of people are still fighting on the battlefield of price," he said. "But value means you look at your entire menu."

He pointed to Chili's Grill & Bar's $6 lunch combos as a decision to play on a level where "a seat with a body is better than an empty seat."

On the other hand, brands like Boston Market, one of RTS's clients, have added value without lowering prices, he said.

Last year, the Golden, Colo.-based chain began rolling out an upgraded prototype and enhanced menu dubbed "America's Kitchen Table," which has turned around previously sinking sales.

Recently, Boston Market has been able to run TV promotions like the half-rotisserie chicken for $7.99, he said.

"It's working because they've done such a good job of enhancing the experience," LeFranc said.

Gary Stibel, founder and chief executive of New England Consulting Group, pointed to other strategic traffic-driving promotions, such as McDonald's now often-repeated Monopoly game that allows customers to win prizes as they purchase items. He also cited Starbucks' deal in which guests could buy a discounted second beverage later in the day if they brought in their receipt from a morning order.

Concept Branding's Kelley pointed to chains that never run promotions at all, like In-N-Out Burger, yet guests still line up around the block at all hours.

"The problem with promotions in general, good or bad, is they might drive sales a little, but when it's over, they come right back down," Kelley said. "You build a culture of people looking for the next promotion."

Stibel said promotions could drive sales; they just have to be done in a way that makes guests feel they are getting more for their money.

"My advice is to spend more time building value and less time reducing price," he said. "Too many people still equate value with price reduction. Value is not a number. It's an equation: what you get versus what you pay."