

OPERATIONS | BY DANIEL P. SMITH

## The Power of Free

Free offerings have the potential of introducing a brand to new customers—and the potential of degrading the value of your product.

On February 2, 2008, Auntie Anne's hosted Free Pretzel Day at all of its U.S. outlets. For a six-hour window, consumers could enter any Auntie Anne's location and receive a free pretzel. The promotion had some in the quick-service industry wondering what possible benefit could come from Auntie Anne's giving away the brand's signature item—one that many readily purchase—for free.

For those inquisitive souls, Auntie Anne's was armed with answers.

In 2008, just as financial fallout accelerated, Auntie Anne's witnessed same-store sales growth of 3.18 percent over 2007, a jump many in the company's Pennsylvania-based headquarters credited—in part, at least—to Free Pretzel Day and its lingering ripple effect.

“When you have the goal of introducing your product to people who have never experienced it before, it is ideal to provide them with a scenario where they literally have nothing to lose,” says Auntie Anne's director of marketing, April Hoelscher. “Hosting Free Pretzel Days provided an opportunity to change the pretzel perception of the many individuals who pass by our stores.”

Subsequent research by Auntie Anne's confirmed the company's bet on Free Pretzel Day. One quarter of the day's customers in 2008 were new or lapsed customers, while 74 percent pledged a return visit.

For quick serves in today's competitive, financially sensitive environment, offering something for free—as a means to attracting new customers, as well as rewarding loyal ones—can seem like a risky proposition. It's a plan that many quick serves activate, though, confident that the reward outweighs the risk.

On May 15, growing barbecue joint Shane's Rib Shack will host its third annual Rib Giveaway, with the first 100 customers at every store receiving a free half-rack of ribs, large Coke Zero, and Shaniac T-shirt. The Rib Giveaway's goals, Petrus Brands vice president Becky Shell says, are to drive traffic to Shane's locations, celebrate summer's start, and showcase the brand's core product.

The Rib Giveaway follows a four-month-long social-media campaign Shane's instituted during the final quarter of 2009. With no advertisements, public relations, or in-store marketing, Shane's nearly doubled its Facebook fans to 4,720, many drawn to the page by free food offerings.

“If we serve these customers great food with exceptional service, then we've won a new customer for life,” Shell says. “Although the excitement of free food encourages people to come out, once they try our dishes, they are more likely to keep coming back.”

Au Bon Pain held a free iced coffee giveaway the past two Junes, promoted through social media channels, e-club distribution, and in-store signage. The offer, senior vice president of marketing Ed Frechette says, introduces new customers to the product, reminds previous customers of the cold drink's seasonal appeal, and works to drive sales of the product during the summer months.

“We've seen a solid uptick in iced coffee sales following the giveaway with a substantial overall increase sustained throughout the summer,” Frechette says.

The free incentives extend beyond complimentary food. McDonald's has offered a free toy with its Happy Meals for more than a generation, an enticement that has compelled children to beg parents for a trip to the Golden Arches.

In a recent report titled “The New Value Paradigm,” The Hartman Group, a Bellevue, Washington-based consumer research firm, asked consumers which promotional offers provide the best feeling. Free product topped the list, outdistancing coupons, sale prices, and loyalty card rewards.

“Free items build a brand image and a relationship with customers as well as exciting them,” says Jarrett Paschel, vice president of strategy and innovation for The Hartman Group.

Paschel, a proponent of thoughtful and well-executed free promotions, adds that the wisest, most



beneficial free offerings are not institutionalized or planned, but rather invoke surprise. He cites Pagliacci Pizza, a popular Seattle-based eatery, as the best practitioners of the free surprise. The pizzeria periodically comps a home delivery order for regular customers—no formula or surprise, just a this-one’s-on-us attitude.

“This has become a hidden language that draws people to the brand and sparked a loyal following,” Paschel says, adding that concepts integrated into the community, another Pagliacci trait, are those best positioned to have success with free offerings.

Despite the mix of positive consumer research and quick serves’ anecdotal reports, there are still detractors from the practice of providing free goods and services. Many are convinced that free offerings are too often misguided.

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“Successful operators do not give away free anything as a core marketing strategy,” says consultant and RestaurantWorx president Jeffrey Summers.

KFC kindled debate last May when it offered a two-piece grilled chicken meal in conjunction with an episode of the Oprah Winfrey Show featuring the product. Patrons overwhelmed many KFC outlets with downloaded coupons and demanded their free chicken. The pandemonium forced the swift cancellation of the promotion and was followed by consumer backlash.

Moreover, free can be quite a jolt to the consumer mindset and a threat to a quick serve’s credibility with new customers. After all, the saying goes that you get what you pay for.

“By placing the value of the thing you’re giving away at zero, the guest believes it had no intrinsic value to begin with,” Summers says.

In addition to the significant expense of giveaways, such offers do nothing in the way of discovering the behaviors that motivate a guest to select a given restaurant, Summers says.

“The behaviors that motivate a guest to choose you for your free offer are much different than if they had to pay full price for it,” he says. “The objective of each operator should be to attract those guests who will become organically loyal without price enticements and pay full price in order to maximize profits.”

Summers, however, does allow some room for free offers, particularly those that support existing guest loyalty as a reward. Many industry insiders and marketers agree.

“The best free offerings are those that try to foster a long-term relationship,” Paschel says. “When quick serves can create a sense of community and a social relationship with customers, the customers often feel obliged to give back or at least be their friends. This reciprocity is when free really works.”