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Throw Out Your Ad Budget

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Instead of allocating a certain percentage of revenues to advertising and marketing, some operators are letting the results drive their spending.

Conventional wisdom in the pizza industry calls for stores to earmark 2 to 5% of revenues for advertising and marketing, but for many pizza shops that rule is as passé as a pizza menu without a choice of toppings. Consider the case of Pizzi Café in Conneaut, Ohio, a 55-seat eatery in a town of just 13,000 that draws customers from an hour away.

When owner Pat Griswold bought the business 11 years ago, he started out with a fixed budget spent on radio, TV and newspaper ads. In 2001 he discarded that strategy in favor of a variable budget spent exclusively on direct response programs such as Repeat Rewards loyalty cards, Moving Targets new resident mailings, emails, voice blasts and newsletters. The switch has pushed his monthly marketing expenses to 6 to 10% of revenues. It has also tripled his sales over the last five years.

“If something works, we keep doing it. If it doesn’t work, we drop it and move on to something else,” Griswold says.

“The return on our monthly newsletters fluctuates from 600 to 1000% based on our costs, Repeat Rewards has brought in over \$500,000 on an investment of \$26,000 in the last three years, and Moving Targets returns are over 30%. They stay. Newspaper coupons and Valpak mailings return as little as 3%. They go. It’s that simple.”

Griswold is one of a growing number of pizzeria owners who follow the direct marketing gospel preached by restaurant consultants like Rory Fatt, Bill Marvin, Phyllis Ann Marshall and Bill Main.

While each guru has his or her own specific techniques, all share an aversion to image advertising, a preference for direct response, and a belief in flexible ad budgets dictated by the particular mix of tactics that make the cash registers ring. In this view, budgets should be set not by percentage of revenues but by return on investment.

“Three or four points might work in a small marketplace, but it won’t even put a ripple in the water in Houston or Chicago. You may have to spend more to cut through the advertising clutter,” says Joel Cohen, principal of the North Carolina-based Cohen Restaurant Marketing Group.

“The question should be what it’s going to take to move the sales needle,” Cohen maintains. “The only way to know if you’re succeeding is to measure the net results of everything you do” by subtracting the raw costs of each promotion including food expenses from the total dollars collected.

Andy Dell, owner of Rino D’s Pizza & Wings in suburban Phoenix, learned that lesson the hard way. Dell says he made “thousands and thousands of dollars of mistakes” before adopting a more scientific approach to tracking his marketing hits and misses, including keeping detailed weekly records and coding each campaign for identification purposes.

Once he started this meticulous analysis process, Dell realized that the \$3,000 he was spending on marketing every month was not sufficient. By trial and error, he determined that his “magic number” for making the phones in his takeout/delivery establishment ring was \$3,600— at the time representing 10% of his gross sales.

The investment has grown his business to the point where that same \$3,600 now takes only a 7% bite, validating his decision to adopt the do-what-works formula.

“I have major competition on all sides, and I discovered that if I didn’t do some kind of marketing in a given week, I lost momentum going into the next week or the week after that because my competition was always out there,” Dell says. “For me, staying in the public eye every week and measuring my returns without worrying about how much of my budget is going into advertising has made a major difference.”

The precise recipe for achieving results varies from store to store and market to market.

One of Dell’s most successful tools, for example, is an email loyalty marketing service called Loyal Rewards that sends email offers to his existing customer base. Personal letters, lazy postcards, new resident mailings, door hangers, and menus and magnets enclosed in his pizza boxes also work well. Newspaper coupons are typically a bust.

Other operators have almost the opposite experience.

“We were doing an in-house email campaign that didn’t get a good response so we dropped it, along with programs like Repeat Rewards that were too expensive for the returns,” said Ralph Del Priore, owner of The Dough Company in Wilkes Barre, Pennsylvania. “What works best for us are postcard offers and newsletters that we send to the 23,000 people in our direct mail database, so we use direct mail almost weekly.”

The key, operators say, is to experiment. Griswold, the Ohio pizza shop owner, was once advised to try two new tactics per month. One of the new tools he added to his marketing

mix by following that advice was Peel-A-Deal fundraiser cards with peel-off coupons on the back. One of those he tried and dismissed was inserting a flyer in his local Chamber of Commerce newsletter.

“Over the years, it’s become clear to me that you need a combination of tactics to win the local store marketing battle. If two things work, then do both. If four things work, use all four. Setting an arbitrary limit on your budget doesn’t make sense unless you’re a franchise or a large operation that has to operate under a standard system,” says Jay Siff, who conceived and runs both the Moving Targets and Loyal Rewards programs.

“If you can track it and it makes you money, you do it forever. Then you find something else to do in conjunction,” he adds. “It may not be important for a McDonald’s or a Pizza Hut, but it’s critical for a small independent pizza shop where every dollar counts.”

Experts, however, do issue one warning: even the best-performing marketing campaign will be for naught if the restaurant experience is poor.

“I advise some of my clients to put a portion of their ad budget into server training, because if people respond to an offer and they don’t get the service they expect, those advertising dollars are wasted,” says Joel Cohen. “At the end of the day, it’s the experience in the restaurant that counts.”

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