# Restaurant Winners Eat from the Big Data Menu

## **Company Participants**

- · Michael Halen, Consumer Analyst
- Mike Lukianoff, Chief Analytics Officer
- Unidentified Speaker

## Presentation

## Michael Halen (BIO 18797919 <GO>)

Good morning, and welcome to BI's Analyst Briefing, Restaurant Winners Eat from the Big Data Menu. I'm Michael Halen, a Consumer Analyst at Bloomberg Intelligence, and happy to say that we'll be joined by Mike Lukianoff, Chief Analytics Officer of Fishbowl.

So just a few housekeeping notes before we get going here. First of all, the presentation will be recorded and available for playback. At the bottom of the slide window, you're going to notice that you can adjust the volume and maximize your screen, we recommend that you maximize the screen for the best quality. Feel free to ask questions using the Q&A panel to the right of the slides. We'll set aside some time for Q&A at the end of the presentation. Copy of the slides will be distributed via email following the presentation. Any additional questions can be sent to bievents@bloomberg.net.

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Restaurant research can be found on BI EATS, E-A-T-S Go [ph]. Terminal users can explore our analysis for the pressing issues. We have key short and long-term themes, key indicators, earnings interpretations and industry primers. We have a dedicated data library from third-party data sources as well as publicly available data, you can monitor tools for news and data on companies within the industry. My colleague Jen Bartashus and I cover 25 publicly traded restaurant companies.

And so with that, I'd like to give the formal introduction to Mike Lukianoff, the Chief Analytics Officer of Fishbowl. Mike and I met earlier this year and his two restaurant

nerds we hit it off immediately. You might be familiar with some of his work, he was the brains behind the Shake Shack site selection research that Bloomberg Intelligence and Fishbowl did a couple of months back. Mike?

#### Mike Lukianoff

Thanks for having me. You know, excited to be with you today and talk in a little bit about, you know, what's going on in restaurant technology and data. Little bit of background. So (Technical Difficulty)

## **Unidentified Speaker**

We do apologize, ladies and gentlemen. Our speakers will be returning momentarily. Please do not hang up, they are on their way back. Once again, ladies and gentlemen, please do not disconnect, our speakers are on their way back.

#### Mike Lukianoff

(Technical Difficulty) provider -- currently Fishbowl is the largest provider of -- of really marketing automation and -- and digital marketing to the restaurant industry. You know, I -- I joined -- I joined the company a year ago when -- when my company was purchased. And really for -- for this big vision of understanding, you know, there is huge sea [ph] change in restaurants right now in terms of how marketing is done, and how data is becoming a more important part of all the decisions that are being made. And really Fishbowl was the only company out there in the industry that I saw had the potential to really lead the charge. So, it's been an exciting year and I think there's going to be lot more exciting times to come as well.

So -- so what exactly is going on in restaurants? Well, there's major disruption that we -- that we've been talking about, and it's really led by -- by -- by three -- by three changes in technology, really mobile, social, and sensors is really changing everything about how the restaurant industry operates and -- and communicates with customers. If you think about mobile, really we're only a couple years into this tipping point where mobile has become really prevalent way the people are -- are using the -- the Internet, communicating and so on and so forth, really in all -- in all parts of the economic spectrum.

So, if you think about it in terms of the -- the Internet adoption, really we're in the very early ages of a revolution that most industries experienced almost 20 years ago. We're a couple of years into adoption, you know, by an industry that hasn't traditionally been very technologically savvy. Really you -- you take the mobile because you know, this is an industry that have -- you have to be present in a certain location in order to have the experience the social aspect, and then of course sensors that are going to start making the hyper-local technologies become a lot more meaningful.

Now, what what's important I think about this is that really the -- the data that it creates when you -- when you think of the intersection of these new technologies,

that's really the big and the sustainable potential advantage. How are you using that data to -- to make the messaging more relevant, more timely, more topical and actually converted into -- into insights that will drive a competitive advantage.

And I'll talk a little bit about what I mean by this. So, one thing that's important to understand I think about restaurants in general is the buzzwords and the -- you know the idea of the day, you know, can catch on like wildfires as one successful implementation and something than everybody is talking about the app or the loyalty program, or the mobile payment solution or what have you.

So, now there are certainly some -- some innovators in the industry latch on to these things early and know why they're integrating it. But really, if you think about what all these things having in common is that we're -- we're -- we are now at a point where we can understand and act on consumer behavior better and that's the true evolution. It's -- the app is just a means for -- for delivering -- for delivering that message. So what do I mean by that? So there are a couple of things that are -- that are really changing -- changing rapidly. One is, how people consume media. And so, if you think of, you know, just in -- in recent times, you know, what the, you know, what the big changes are from, you know, from a really the shift from TV to -- to digital and now -- and now to mobile.

And that's really changing -- changing how we're able to communicate with customers both in -- in time and a place. So if we think about what that means in terms of -- of mobile, things are changing very, very quickly. So that blue line is -- is the amount of time people are spending per day on mobile devices. So if you see the green line which is TV, it's still the most -- it's still the most, but it's dropping pretty quickly. And if you compare that against print and radio and -- and -- and desktop devices, all of them are declining and -- and mobile is continuing to -- continuing to increase.

I expect that we'll see that increasing even faster. So what that really mean -- what that really is telling us is that the way that we're able to communicate with people and the effectiveness of -- of messaging is getting much more local. That's really a important concept, because if you think of how many of the very large brands have established these brands, it's really driven by TV advertising, mass media, that's very much a -- a top-down approach to marketing and messaging. But as mobile takes hold, we're starting to see more smaller and -- and regional change and even independents starting to really take share away from some of the large change, because it's easier for them to -- to deploy their message locally.

So as -- so as large TV budgets become less relevant and you know, they certainly still are relevant, but some of these localized forces are starting to -- are starting to decrease that. So -- so what else is changing? The way -- the way that people are making their dining decisions, so -- so when we think about things being contextual, you know, we think about, say for instance Amazon and what Amazon has done online. They've got a -- they -- if you go and -- and look at something, they see what your -- what your search history was, they think about, you know, what other people have purchased. So, when you buy a pair of hiking boots, and they've suggested,

you buy a pair of socks with that, it doesn't feel like spam, it feels very contextually relevant to you. What's happening in restaurants is that, we're trying to figure out how to actually take that context and deliver it in the time and the place with the correct message to the right audience.

So if we think about all the different ways that, that can be disseminated, you know, then you start to get into something this context rich. That's going to be extremely important as these hyper-local technologies start to take hold when -- when you're able to message people at a very local level specific in time and message because when your mobile phone starts to buzz to say there is a message for you, it better be contextually relevant or you're going to be turned -- or you're going to be turned off. Those who can -- who can crack -- crack this code, are going to be very successful at the -- from the bottom up and that's going to start to trump I think the -- the top-down approach of the -- of mass media.

So -- so let's think a little bit about, you know, how this fits into, how consumers are making decisions. I think this is a really important concept, it was really introduced by McKinsey & Company, I think it was 2008 or 2009. Harvard Business Review did another -- another iteration of it around 2000 -- just a few months after McKinsey came and hold it. But basically they did a study exploring how people are -- are making decisions. It used to be that the theory was that there was a decision spiral where you basically just go through all the different potential options and then you settle on one once you've done this objective criteria.

What this study said was that, everybody starts with an initial consideration set, but now the information is more available, consumers are doing this active evaluation stage. In, you know, decades ago, you might have just done this kind of research on a car, but now that it's present and it's available in a timely -- timely way, take like a Yelp for instance in restaurants or any -- any number of -- of -- of mobile apps that will tell you, you know, what the potential experience rating is. So, this is becoming a more important part of how people are deciding what their -- what their purchase decision is going to be.

What's important about this is that, if you understand that people are going to go through this stage and you target the right types of messaging into -- into the -- into a purchase catalyst, so for instance when you know people are going to social media or they're doing some online research, how do you make sure that you're -- you're catalyzing that purchase in a way that's -- that's relevant.

The point of purchase is becoming more important as well in restaurants, really point of purchase and that enjoy bond and advocate stage really happen simultaneously. So in -- right after or during a dining experience, you are most likely to -- to advocate -- advocate for that -- for that brand. And if -- if it's a positive experience, and -- and really at the end of the -- at the end of the experience is going to determine whether you go into this loyalty move or whether you go back into the consideration set.

What's happening right now in the industry is that a lot of -- a lot of the targeted, say the things that people are calling targeted and localized marketing is really just a different iteration of what their TV and radio and mass media strategy would be just being pushed out not necessarily being customized at that local level.

Currently about 70% of the marketing spend is going into this initial consideration set. So when people are talking about, you know, yes we're doing an app, and yes, we're doing loyalty, and yes, we're doing email and SMS and -- and -- and all of these new technologies, it's not just whether they've got it, it's whether they're deploying it correctly.

And in order to deploy it correctly, there needs to be a solid data analysis behind -- behind what's going on. You can't just come out with a shell of an app and just start disseminating single messaging, the way that you would with mass media. So -- so if we think about how you put a strategy together behind -- behind a program like this. So going beyond, say, apps and the technology themselves, but what do you think -- when we think about a total program?

So, yes, our minimum requirements, you know, if you think of -- of -- of an app, really again going back in time to maybe 1998, when the Internet started to really take hold, really every business out there started to have to build a -- a webpage of some sort, right. It was really just the way of getting -- getting in the game and making your presence known online.

Right now there is a similar thing with apps, right. So -- so you -- you need to -- you need to be able to have an app, but really it's -- the engine that's behind it, that's going to decide whether it's sustainable or whether it's just going to have to be replaced by another app down the road. The minimum requirements really I think for a successful, say, app, I mean first of all, it has to be, you know, the user experience has to be easy.

There needs to be an ordering component, a payment component, it needs to enable loyalty, it doesn't necessarily have to have structured loyalty. Loyalty is a huge buzzword right now. But loyalty in terms of how we thought about it in airlines and structured programs and so on and so forth, that's traditionally been more a means of -- of making sure that we get -- we can get information about customers and act on it. So -- so loyalty, we need to be very careful about how we're using it because it can -- it can -- it can be a double-edged sword. Also a -- a -- a robust customer table, right. So once you put all this together, you know, the engine behind it at a minimum has to be some good solid information about who that customer is.

Now, if you start thinking about really a complete solution, it really gets into -- into depths of data, being able to not just collect the sign up information the -- the customers -- that customers had, but actually being able to collect more meaningful user data, right. Who -- who are those, who are those people who -- who are -- who are coming in to dine.

Multiple means of future contact, right. So, you know, in a loyalty app for instance if -- if it's just a single purpose, and the only way that you've got to communicate with people is through that loyalty app, you know, really -- you know, really limiting the -- the -- the potential for -- for how you can target people in -- in different stages of the decision -- of the decision journey.

The data needs to be used to provide insights, this seems obvious, I think for anybody who does -- who makes database decisions, but an industry that's not necessarily used to this kind of an approach. A lot of the apps that you'll see there, out there as you look under the hood, they're not really necessarily using the data in a meaningful way to help provide more insights and -- and -- and a -- and a better -- and better messaging, many of them are still just single -- are single message across multiple segments.

Another important part I think is that the consumer data needs to be restaurant-owned and portable. When you -- when -- when they are building a program, it's an important question to -- to ask them because there are some solutions out there that will give you an expensive say, loyalty program or what have you. But if you try and get out of that long-term contract, you're going to lose that information about your -- about your customers. So that's a really important part in -- in understanding what a -- what a program should be.

Because a lot of the solutions, if you think back in the -- the migration and the evolution of, say, really the -- the Internet and online retail and so on and so forth. The -- the same players and the same solutions that are exist right now are not necessarily going to be the same ones in five years. So -- so in order to make this a dynamic evolving program, it's really important that the restaurant -- the restaurant company be able to own that -- own that data.

Beacon and WiFi integration, this is really important. This is a little bit -- a little bit of a fast-forward. Beacon Technology hasn't really taken hold yet in a -- in a meaningful way, but it's going to become a very important part of the -- of the in-store and surrounding store experience for restaurants. So -- so solutions that are not able to integrate Beacon and WiFi are not set up for -- for -- for what -- what the future is going to -- going to bring.

Time and proximity triggers are beyond important. So if you think of really the -- the biggest predictors in terms of being able to catalyze a purchase from -- from a customer, it's -- it's making sure that you are -- that you are -- you're getting them at the right time, and in the right place.

In restaurants, if the customer is not in a proximity, where they can actually get to your restaurant at the meal-time, then they're not a viable -- they're not a viable target. Time is also extremely important, right. You need to understand if your concept and if your target is making a planned decision a couple of days ahead for date night or what have you or if it's a spontaneous purchase, they're just going to purchase a lunch when and where it's available.

Purchase history tracking by customer, also extremely important. There are a lot of chain restaurants out there, they still don't have uniform point-of-sale systems. They don't have a uniform PLUs. So it's -- so in order for them to be able to really track what people have purchased, there are still a long way from being able to -- to harness that data. This is an extremely important part of making sure that it's -- its part of the -- its part of the plan.

Behavioral segmenting is a lot different from say psychographic segmenting. And most of the industry will talk about segmenting, they'll talk about how they use different psychographic buckets and so forth, which is really a mass media tool. Behavioral segmenting is much more specific to understanding how people have purchased, when they're making decisions, what they like and what's actually and how they actually use -- use brands.

Very similar in terms of how -- how it can be collected and -- and used, but a very important distinction. Context relevance is hugely important, as I was talking about with the -- with the Amazon example. If you're sending people messages that are not relevant for the time and the place, you're going to be shutdown and you're not going to have another opportunity to interact with those people.

Message automation is also a really important part of it, not all messages necessarily need to be automated, but some of -- but if you're able to set a message, so that is launching to the right group of customers at the right time, then -- then -- then you're going to have an edge on it, I think most of the -- most of the programs that are out there. Also in-store ready, we've seen very little so far about how technology is -- is -- is being deployed inside restaurants, but this is going to become a more important part, I think as we go forward in terms of making that experience more -- more meaningful and tailored to the customer. So any program that's being launched needs to make sure that -- that part of the vision and part of the -- the -- the capabilities to be able to plug in some of the in-store solutions.

So when we just think about a simple app, really that the simpler it is the better. You know, the -- the -- the crucial components and right now, there's a little bit of a mash-up that needs to go through, because there are very few companies that are able to deliver order payment rewards, multiple channels, communication fees and behavioral analytics. And again, the most important part is in the context marketing component, it all needs to be able to feed into this data so that you can -- you can deploy context relevant marketing.

So -- so if we think about a couple of -- of examples in industry, really you can't talk about technology and particularly loyalty and apps without talking about -- without talking about Starbucks. Really, you know, they were the first successful restaurant loyalty app. It includes really payment structured rewards, there's surprise and delight sort of component, as well as -- as well as stored value. What's -- what's important to -- to know about Starbucks, it's not just what they are doing, but also how other concepts you'd really use them is the gold standard, just sort of follow what they're doing.

But they need to be extremely cautious on this, because Starbucks is a little bit different, it's a extremely high frequency business. So -- so some of the loyalty -- loyalty components make a lot of -- a lot of sense.

There's also I think a misconception that -- that -- that people are signing up just for the loyalty program in those structured rewards. If you think about how the -- the Starbucks app has actually played into making that experience more -- more palatable for -- for most customers, that's really the big advantage that we see with -- with what Starbucks have.

So -- so I think that -- so -- so when we think about also, you know, in the past few months when -- when Starbucks said okay, well, we sort of have to walk back that structured rewards component, right. That speaks volumes about, you know, how they originally started up say this loyalty program, put into structured rewards, because if this -- because -- and I think for future adopters, it really -- it really tells us about what those future -- if it's -- to take another -- another look at whether the structured rewards and the loyalty type of program is first of all necessary, but also what the potential economic consequences are of say, making a reward that's too rich, because then you may be just giving stuff away for free the people who are going to come in anyway. Along those lines, you know, Chili's and you know, they -- they say that -- that the -- you know, their app and their -- I guess their loyalty program is actually, they've got lots of sign-ups and they are very happy with what the progress is.

But recall back in August 15, they attributed almost a point in -- in sales drop to their loyalty rollout. They gave a number of different reasons, some of it was that it took attention away from -- from upselling inside the restaurant, some of it had to do with roll -- pulling back on some other types of -- of rewards and discounting that they were doing simultaneously. But it all speaks to making sure that when a company is announcing that they're going to be doing a new app or rolling out a new technology that they've done the math to understand what the potential consequences are.

What I've seen in a lot of loyalty rollouts is that there is this assumption that loyalty, that they do a loyalty that means they can stop doing other channels. But the truth is, that there's only a certain fraction of your customers who are going to opt into a loyalty program. There are some people who want to be communicated through text messaging and some who would hate that. There are some who want to be contacted through email. So -- so it's really important to understand that when you -- when you start looking at these new paradigm -- this new paradigm, that you're thinking about it in terms of multiple channel and not making the assumption that one of these channels can replace the others.

I think you know, yet -- yet to be seen is -- is what -- what KFC is going to be coming up with, but from -- from what they've been saying about what their approach is, I think it's -- I think it's encouraging. When Chris Caldwell in -- in a -- in an article recently was -- was -- was stating that, you know, what I see with a lot of QSRs is this me too, meaning that, you know, they see -- they see an app that works or a program

that works for somebody else and then they just adopt it and assume that is right for their customers. And designing the technology that the customer experience and not the other way around is an extremely important part of -- of making sure that this is -- that any program is -- is successful and future-proof.

I'll be interested to see what their program is as -- as they -- as they start to get more specific about it, but I think as they talk about, you know, identifying what those specific pain points are for their customers and not just say as -- as you said a flash, I think that's going to be a really important part in -- in defining what a successful program is. So -- so really just to -- to -- to summarize what -- what we've been talking about is that companies that are going to leverage the data, right, not just implement a new technology, but companies that implement the data and leverage that to understand their customers are going to be the ones that -- that are really adapting to a changing customer experience.

I would also say that a longer view on how to continually improve and act on the data is going to be really the difference between what sustainable and what's short-term. If you're just implementing an app and it's not tied into the data, then -- then you're missing -- you're missing a ton of opportunity to really learn more about your customer and how to better compete against -- against an industry that's pretty saturated right now.

I would also say be weary of -- of homegrown solutions, that's not to say that, you know, that they can't be successful. Certainly, you know, Starbucks homegrown solution, you know, proved to be one of -- one of the best that are out there. But when you think about smaller chains, you don't have the kind of funding that the Starbucks does to be able to grow and support and really create something from scratch, that's not something the most of the industry can actually do on their own. So, be cautious about which -- which of these companies that say that they're going to grow their own solution and then support it, once they invest in that, let's not forget about how they're going to need to fast-forward and -- and -- and -- and adapt to evolving -- evolving programs.

And speaking of evolving, I love this quote from -- from Darwin, and I think it's extremely relevant in where we are with restaurants right now. "It's not the strongest of species that survives, not the most intelligent that survives, it's the -- it's the one that is the most adaptable to change". What we are seeing in restaurant and restaurant technology and restaurant marketing is really a sea change in how people use restaurants, and how restaurants are able to -- are -- are able to compete.

The whole -- the whole practice of -- of marketing and in a lot of ways operations is -- is -- is changing -- is changing very, very rapidly. So this is not a question right now of, you know, if you will adopt a new approach, it's really a question of when they will adopt, because if they don't -- if they don't do it themselves, they'll eventually be forced.

## **Questions And Answers**

## A - Michael Halen (BIO 18797919 <GO>)

Thanks, Mike. That was great. Now we're going to move on to the Q&A portion. Please ask questions using the Q&A panel to the right of the slides. And we'll just jump right in while -- while we're waiting for some questions to come in. I'll start with a couple of my own. So first, Mike, how -- how many restaurant -- restaurant apps will the average person download? And can casual chain, dining chains like Chili's overcome the inherent advantage that high frequency chains likes Starbucks and Dunkin' Donuts have?

#### A - Mike Lukianoff

Yes. So, I think there's been a lot of different research studies on how many apps, and I think the -- the -- the range that we're seeing is somewhere between three and five are actually going to get used after the -- after they're downloaded. So -- so I think that -- that -- that speaks, you know, volumes about how -- how all of this is going to -- is going to evolve, because if -- if everybody is fighting for those three to five apps, then there might be -- there must -- there needs to be something very special in that to -- to make sure that it's -- that it's worthy of downloading a music.

I think it also tells us that what's going to happen is that all of these programs are going to eventually have to have the ability to work interchangeably with -- with other mobile channels. So whether there is integratability with more used apps, you know, like Facebook, you know, and some of the other most used apps that are on people's mobile devices in order to be able to communicate with them better.

I would say that, you know, casual dining I think is in a little bit of a -- of a conundrum. One of the reasons is that there's been so much focus on -- there's been so much focus on discounting. And if you're just using your app and you're just using this technology to push out more discounts, then you're really missing this contextual point of -- of being able to get to a broader audience who is actually looking for something to enhance their experience and looking for a message that's actually something that's targeted towards the app.

On -- on average, you know, we see that, you know, maybe 10% of -- of customers are really in that high responsiveness to -- to discount in -- in -- in the restaurant industry. So I think that, you know, casual diners really need to think more about what are those other attributes that people are thinking about their brand and choosing on to be able to message them in the right -- in the right time, in the right place.

## **A - Michael Halen** {BIO 18797919 <GO>}

Great. Thanks. Also it seems to be pretty important for restaurants to know their customers and to use that knowledge for targeted marketing and menu construction. So what -- what change can you point to that seem to be doing this well right now?

#### A - Mike Lukianoff

I think that there are, you know, certainly, you know, certainly Starbucks, I think is, you know, is one of those that, you know, as -- as we talked about a little bit that, you know, has gotten the best app. What I don't know and I don't have a visibility into is how well they are using the data, you know, I don't -- as somebody who has the app, I don't necessarily see that the offers that I'm getting are -- are particularly relevant, right. I'd say the same with Panera, great app and I think a great -- great idea around how it enhances the -- the experience, but in terms of what those offers are that actually end up, you know, being put into, say the loyalty program, it tells me that maybe the data is not being used as well as it should.

I think what's -- what's interesting about, you know, and this is I think a really important point in how people use -- use the technology that's relevant for who they are. If you take a Panera and you say, okay, I can skip the cashier and I can skip that cattle -- cattle call and go sit down at my table and place an order and it will come to me, I've just enhanced my customer experience and I potentially even increased my -- my pricing power by having a better experience.

You take the exact same thing and you put it into casual dining, Bar and Grill, and you haven't actually enhanced the experience necessarily, you know, you've got a different experience and you've been paying a little bit more to walk in and to be waited on.

So when you start to think about how the technology is working if you're just using it to decrease the number of waiters you've got on -- on the floor, then you may have actually severeded [ph] yourself and just commoditized yourself down to, you know, really the level of -- of a -- of a fast casual.

## **A - Michael Halen** {BIO 18797919 <GO>}

Yes, great. So what have been the most effective uses of technology and social media that have basically generated restaurant traffic or created, you know, a large response by consumers?

#### A - Mike Lukianoff

That's a good question. I think that -- and maybe I'll answer it a little bit differently. I mean, we see how important social media is becoming. And -- and -- and the reason is being -- is being -- becoming important is that, you used to be able to just put a brand name on a business. If you go back to the early days of say branding in -- in -- in restaurants, only the first real successful brand with Howard Johnson's, and you know, coast-to-coast what they were known for was a clean bathroom, right. And that was sufficient, you know, in the 1970s to be able to get people to come in and say I'm driving a cross country and I know that there is going to be a clean bathroom, right, and that was meaningful enough.

And you could put all of your brand power, you know, brand might behind that, you know, that it's going to -- that that's going to catalyze the behavior. You know, McDonald's then started getting, you know, really more sophisticated thing. We got the exact same product, you know, and it's not going to -- it's not -- you're not going to get food poisoning, it's not going to make you ill, it's going to be the same

standard, you know, from coast-to-coast as well, right. The -- that was really meaningful in being able to make brands worth their salt. What we're seeing now is that people aren't looking to the advertisement to say, this is a brand that has meaning, they're looking to social -- social and reviews and all these other inputs to help them make a decision on what local -- what local chain or what the -- what the local options are that are actually going to be the -- the best for you.

Not a lot of people stand outside of the Chili's, open up their -- the Yelp app and try - to see what the -- what the rating of that Chili's are. They are more apt to be looking and saying well what's the local joint that's actually going to give me a better experience that might -- that I might enjoy more for the same price or even more.

## **A - Michael Halen** {BIO 18797919 <GO>}

Great. You've [ph] to see if the restaurants full without actually drive and a walk-in buyer, right?

#### A - Mike Lukianoff

Absolutely, absolutely.

## **A - Michael Halen** {BIO 18797919 <GO>}

So what kind of ROI is typical of these technology product -- projects which companies -- and which companies have the biggest head-start and which are maybe the biggest laggers right now?

#### A - Mike Lukianoff

I would say that, you know, certainly the ones that have the head-start, right, you look at the Panera's, and you look at the Starbucks, and -- but I -- I would not -- I would not discount the ones that have nothing out there yet, because I think that the -- the pioneers in this area created a good user experience, but aren't necessarily creating something that's going to be easily adaptable to new technologies.

So I think that some of the -- some of the players out there who actually have not rolled out anything yet have the opportunity to leapfrog into a new generation. Beacon is going to be an extremely important, Beacon and WiFi to get this hyperlocal component. It is going to be extremely important and we're going to see that the next generation of, say, you know, apps and programs and technology is -- that's going to be an embedded -- an embedded component.

## A - Michael Halen {BIO 18797919 <GO>}

Yes. And the ROI piece, you're speaking before, I mean, how much of it is to actually generate an ROI versus, you know, we need to do this to -- to survive?

#### A - Mike Lukianoff

Yes. That's a great question. I think that the mentality of restaurants has always been the technology is something to reduce cost. And that's a really dangerous place to come from right now, because really these new technologies are about driving demand, right, expanding who your audiences and who your potential audience can be.

It's -- it's kind of funny because the same people who are talking about, you know, tell me what your ROI on your mobile app program or what your loyalty or what have you. They never really ask what's your ROI on your -- on your TV set, right. And a lot of them don't have any idea of what that ROI is. I know, because we do a lot of -- lot of that work for a lot of chains. But -- but I think that -- and that's not to say that you don't need to have a long-term ROI, but the truth is, if you don't have a workable program, you're going to be a relevant in -- in -- in a matter -- in a matter of -- of years. Your -- you know the way that you do things now is going to steadily [ph] become less effective. So you either need to figure out what your strategy is to get into the fold or you're going to be dragged there, kicking and screaming and you're going to find yourself at a -- at a real severe disadvantage.

## A - Michael Halen (BIO 18797919 <GO>)

Yes. So like a restaurant remodel, you know, it's nice to have an ROI, but its cost of doing business at this point?

#### A - Mike Lukianoff

Absolutely.

## **A - Michael Halen** {BIO 18797919 <GO>}

Can you speak to the strengths and weaknesses of behavioral targeting versus psychographic targeting, any best practices in behavioral targeting you like to speak up?

## A - Mike Lukianoff

Yes, absolutely. I think, you know, psychographic targeting if you really think of the basis for it, right. If you go back to -- it's -- it's -- it's really formulated in -- in the idea of, I've got TV or radio, so and making a single message is extremely expensive. So I'd better make sure that whenever message that goes on air can target my top call it, you know, one, two, five buckets of people, right, and that's how I'm going to create my creative, that's how I'm going to make sure that I'm on the right shows and so on and so forth.

Now -- and it's -- it's extremely valuable in -- in that context of being able to really roll-up and target a few number of -- of -- of types of customers. Where it starts to fall apart is when you say, okay, well, what if I don't, what if tailored messaging is not really the big expense, right. What if I can develop 20 different messages or 40 different messages for different -- different types of buckets, then how the psychographic messaging actually help me do that?

And the answer is it becomes a lot less meaningful. When we talk about behavioral targeting, this requires purchase data, right. So you're actually looking at how people

have purchased things, you're -- you're using multiple means to collect information about who they are, you know, where they live, what are the types of brands they're -- they're frequenting, and what sorts of products they like, right, both from their actual purchase behavior, also from any kinds of surveys that they would fill out, through integration with social media as well, by you know, tracking -- you know, tracking their likes and dislikes on Yelp and -- and so forth.

So these -- these ways of actually knowing what your customer is actually likes and has purchased, that's going to be a much more meaningful than just knowing that, you know, they are in a bucket of, you know, grandma's with shock guns and pick-up trucks.

## **A - Michael Halen** {BIO 18797919 <GO>}

All right, Great. Can you comment on the strategy Chipotle is using presently? And do you have a point of view on their loyalty their apps strategies and -- and likely successes?

#### A - Mike Lukianoff

Yes, I don't really have any -- any insight into -- into Chipotle.

## A - Michael Halen {BIO 18797919 <GO>}

Okay. So next one, why would a consumer need an app for a lower frequency purchase restaurant not Starbucks? So, don't you think an aggregator app like Yelp or GrubHub will win the whole market all the time?

#### A - Mike Lukianoff

You know, I think that -- this is a really good question, because I think that it's -- it's pretty loaded. I think it comes back to understanding what the experience is, right. So for a lower frequency depending on -- on how low frequency, you need to make sure that state that whether we call it an app or the technology and to me this gets into less about the actual app, right, and more into the technology and the -- and -- and the means for collecting customer information.

We work with some fine dining restaurants and the way that -- that -- that they are using this is not say structured loyalty, but to actually know that this type of customer or this specific customer when they come and they love this bottle of wine, they always buy this bottle of wine, right, or they come in for the chef's tasting meal. When you then message them and say well we've got a special event with the celebrity chef, we'd love for you to come, right, or even a celebrity chef inspired, we're doing a, you know, this is the first time, we're going to roll-out our potential, you know, new menu roll-out for the spring, you know, we're saving you a spot at the chef's table, right.

That's the -- the -- the other spectrum, but it speaks to -- to a different type of a customer. You know, the -- the problem with adopting a Starbucks like app if it's not appropriate for your -- for your situation is that I think exactly to the point now you've

got something that's not going to -- not going to make sense. In aggregator app, I think is a -- I think that I agree with the premise, I'm not necessarily sure that an aggregator app, because this needs to be in two directions.

Right now restaurants want their own app, they don't like being bucketed with a bunch of -- with a bunch of others. You know, if we think of a GrubHub the dollars and cents that the restaurants have to pay to GrubHub, is a detractor for a lot of the larger chains to be able to get on-board. So I think that we're going to see this in some of the business models are either going to change or there's going to be some new players start to emerge that will allow the restaurant to both have their own proprietary app for a small percentage of their customers who will actually use it, but it's integratable, we will say a -- a broader, you know, call it aggregator app that, you know, that -- that actually has more potential breadth.

## **A - Michael Halen** {BIO 18797919 <GO>}

Great. And any recommendations on how to stay on top of the most powerful trends and evolutions in the industry, so Darwin will be proud?

#### A - Mike Lukianoff

Yes. Data, data, and data. You know, it's, you know, great that, you know, that people can roll-out, you know, it's actually full-featured apps and you know, in-store, you know, table-side technology and that kind of stuff. But I want to know what they are doing with the data because at the end of the day as the actual front-end technology well either integrates into an aggregator or merges into some other apps where the next customer facing technology takes -- takes hold.

The one thing that's sustainable is the knowledge of who your customer is and if the whole program is built around with understanding of who that customer is, how to target them and making that richer over time, then you've got something that's -- something that's sustainable.

## **A - Michael Halen** {BIO 18797919 <GO>}

Great. Well that -- it looks like that's the last question, so I want to thank you, Mike. That was great. I really appreciate you coming in. Any questions for any of the audience, members, feel free to reach me at 609-279-3143 or mhalen1@bloomberg.net. Thanks for joining us.

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