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Denny's: Covering All Of The Bases

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Reflecting the growing diversity of U.S. consumers, Denny's -- "America's Diner" -- is pushing harder than ever to appeal to specific customer segments and preferences, while preserving its broad appeal.

These days, for instance, diners can build their own "Grand Slam" breakfasts choosing from an array of items that include heavy traditional fare (bacon, sausage, buttermilk pancakes and biscuits, eggs, hash browns, etc.), but also seasonal fruit, yogurt and "Fit Fare" selections such as chicken sausage, egg whites, wheat pancakes and turkey bacon.

While the chain had been offering "better-for-you" options for some time, this past June, it formally introduced its Fit Fare menu, featuring options that offer at least two of four qualifications per serving: fat content of 15 grams or under, under 550 calories, more than 20 grams of protein, or more than 8 grams of fiber.

In addition, Denny's just launched a "Meal Calculator" on its site that allows users to pick any meal option (not just Fit Fare) and instantly see its calories and levels of fat, calories from fat, trans fat, saturated fat, cholesterol, sodium, carbs, fiber, protein and sugar per serving.

But healthier options and nutrition transparency are just two among a raft of new initiatives and accompanying marketing programs, points out Denny's EVP, CMO Frances Allen, who held executive marketing positions at Dunkin' Brands, Pepsi-Cola and Frito-Lay before joining Denny's in July 2010.

Other, more mainstream menu developments include a "\$2-\$4-\$6-\$8 Value Menu" launched in April 2010 (which now accounts for about 20% of the sales mix, per a December Denny's executive presentation to a Bank of America Merrill Lynch conference); and new or expanded limited-time-only (LTO) promotion concepts.

Last year, the LTOs included "Baconalia!" and "Let's Get Cheesy!" (respectively offering a wide range of bacon- or cheese-oriented menu items, spanning even desserts, across dayparts); a "Tour of America" promo (a special, regional favorites' menu); and a "Taste of the Holidays" program. The holidays promotion (Q4 2011 through Q1 2012) features a selection of classic holiday dishes, plus special children's items tied in with Sony Pictures' animated holiday flick, "Arthur Christmas."

"Always Open" Repositioning

Not surprisingly, Millennials -- the next generation of diners -- are one key focus for Denny's. And a repositioning/new campaign launched in 2011, based on the tagline "America's Diner is Always Open," "resonates with all age groups, but in particular with Millennials," says Allen.

Denny's 24/7 operation is an important differentiator, enabling the chain to woo late-nighters and creating an extended fourth daypart beyond the usual breakfast, lunch and dinner occasions. The ramped-up marketing of Denny's as a comfortable, casual (and reasonably priced) place to hang after an evening out is -- also not surprisingly -- heavy on social media.

A series of "Always Open" Webisodes on CollegeHumor.com -- featuring host David Koechner ("Anchorman," "Saturday Night Live," "The Office") interviewing celebrities including Jason Bateman, Will Arnett, Amy Poehler, Sarah Silverman, Will Forte and Kristin Bell in a Denny's restaurant -- went viral thanks largely to Millennials and was one of the chain's most effective social media efforts last year, reports Allen.

Denny's outreach to Gen Y is also clear in expanded Facebook and Twitter efforts. One example: Marketing for the "Let's Get Cheesy!" promotion (with price points starting at \$4.99) included television ads, but also online spoof videos featuring "cheesy pickup lines"; Facebook activities including tools to generate "cheesy" motivational e-cards and photos; and a Twitter-based "cheesiest joke" competition.

But the younger crowd is one of multiple segments that Denny's is pushing to build. "Our appeal goes across demographics, so we're doing a number of things simultaneously," Allen says.

One major example: dedicated (not just adapted) Hispanic marketing campaigns. Another: Advertising/marketing support for Denny's discount program for AARP members (20% off total check between 4 and 10 p.m.) -- which was used by more than 2 million 50-plus consumers within the first nine months of its March 2010 launch.

Nor are social media efforts limited to drawing Millennials. To support the holidays promotion tie-in with "Arthur Christmas" -- Denny's first movie partnership in six years -- the chain featured a "Letters to Arthur" tool that let kids specify their gift wish lists and Denny's coupons on the movie's site. It also offered activities on its Facebook page such as user-created holiday e-cards, custom family portraits and a virtual/viral Yule log game (the more logs added to the fire, the better the prize). The chain also ran a 24-hour toy drive in support of Toys for Tots. Sales for the holiday menu offerings have been strong, according to Allen.

In engagement terms, the chain's social media efforts -- which focus on delivering value-added content, dialogue and offers -- certainly look to be paying off. As of April 2011, Expon data compiled for *Nation's Restaurant News* showed Denny's having the highest percentage (2%) of active Facebook fans among 312 major U.S. foodservice chains.

Business Model Shift, More Local Media

To improve its profitability and growth, Denny's implemented a major initiative to shift to a primarily franchise-owned business model. Between 2006 and 2011, this upped franchise-owned (versus company-owned) units from 66% to 87%, and the chain expects to increase that to 90% by year-end 2012.

One of many changes implemented to provide greater franchisee support is a more balanced media plan with heavier emphasis on local marketing. Local co-ops, established in 2009, now cover 90% of the Denny's system (total units of about 1,700, of which about 1,600 are in the U.S. and 58 in Canada), increasing media potential by 20% since 2008, according to Denny's Bank of America Merrill Lynch presentation. Media in its national advertising fund are also being given greater weight.

One example of local/targeted traditional-media marketing: Denny's just launched a new, humorous 30-second TV spot for Fit Fare in select, larger markets, with focus in the health-conscious Los Angeles market.

In late December, the company announced a new program that will provide up to \$100 million in loans to new and existing franchisees that open new restaurants in U.S. markets currently under-penetrated by Denny's.

The chain's expansion push also includes opening units in nontraditional locations. Denny's has opened 11 units on university campuses (in partnership with foodservice operators such as Sodexo and Compass) since early 2010. It also now has about 173 units in Pilot/Flying J Travel Centers serving commercial and non-commercial motorists on U.S. interstate highways.

In addition, Denny's is testing a fast-casual café concept in two domestic locations, and doing some international expansion. Non-North-American units total only about 33 (2% of the total system), but four of those were opened within the past 12 months. In total, the chain opened 106 units in 2011 (including 69 Flying J conversions).

At the same time, Denny's completed a remodeling "refresh" of company-owned stores in 2010, and franchised units completed theirs during 2011.

So how is all of this working? The chain's same-store sales growth began declining in 2007 and hit a low of -5.9% in Q2 2010, but made a sharp upward leap (into slightly positive territory) after the \$2-\$4-\$6-\$8 Value Menu was introduced in April 2010. Following a few quarters of slightly negative growth (-1% to -1.8%), same-store sales have been up for the two most recent quarters (2% and 0.9% in 2011's Q2 and Q3, respectively).

Traffic -- an even bigger challenge than sales growth for restaurants since the recession hit -- has also greatly improved. After hitting a low of -7.3% in Q3 2009, Denny's' same-store traffic reached +2.3% in Q3 2010, and has been flat to slightly up since. Guest-check average was up 0.8% in the first nine months of 2011, versus down 1.8% in the same period in 2010.

Total revenue (sales, franchise royalties) for 2011's first nine months was down 2.3%. Net income was basically flat (\$20 million, versus \$20.2 million in 2010's first three quarters). Net income per basic share was 21 cents, versus 20 cents in 2010's first nine months (net income per diluted share was unchanged, at 20 cents). Adjusted income before taxes and net income, which Denny's uses as a key metric, has risen from \$11 million in 2007 to \$33 million Q3 2011, and is projected to reach \$36 million to \$39 million for full-year 2011.

Like all restaurants, Denny's will of course have to continue to fight to grow share of a dining-out pie that has shrunk considerably since the recession, and balance driving traffic/volume via value pricing while trying to preserve margins as input costs continue to rise.

While it's far from alone in this, Denny's recently acknowledged that it is considering raising its menu prices "very modestly" this year. The chain raised prices across the board by less than 1% last year, when it introduced its Fit Fare menu.