



# Marketing in the Fast Casual Restaurant Segment: From Pancakes to Burgers, IHOP's Rebranding Strategy

## Case

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**Online Pub Date:** June 24, 2020 | **Original Pub. Date:** 2020

**Subject:** Marketing, Marketing Communications, Marketing Strategy

**Level:** | **Type:** Indirect case | **Length:** 2793

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2020

**Organization:** [IHOP](#) | **Organization size:** Large

**Region:** [Northern America](#) | **State:**

**Industry:** Food and beverage service activities

**Originally Published in:**

**Publisher:** SAGE Publications: SAGE Business Cases Originals

**DOI:** <http://dx.doi.org/10.4135/9781526496706> | **Online ISBN:** 9781526496706

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<http://dx.doi.org/10.4135/9781526496706>

## Abstract

During the month of June 2018, IHOP launched its IHOb campaign in order to promote the sales of its Steakburger. This campaign left many consumers in shock, but sparked conversations all over the country. Why would IHOP change its name? Did this marketing tactic actually work? Would it really boost sales? Was the marketing campaign worth the trouble?

## Case Learning Outcomes

After reading this case, students should be able to:

- Thoroughly explain why IHOP launched a new marketing campaign.
- Evaluate if this decision was wise, based on IHOP's financial position.
- Explain the pros and cons of the IHOb campaign.
- Evaluate the overall success of the IHOb campaign.

## Background Industry and Competitive Overview

In 2016, the restaurant industry hit an all-time high, with sales in excess of USD 766 billion, a number which continues to grow (National Restaurant Association, 2017). The fast casual restaurant segment, where IHOP is a competitor, accounts for only 7.7% of the overall industry ("Fast Casual Industry Analysis," n.d.). In addition to fast casual, full service restaurants maintain a 48.5% market share and fast food restaurants preserve a 43.8% market share ("Fast Casual Industry Analysis," n.d.). Fast casual restaurants hold a midpoint in the industry, with higher price points than fast food, and similar atmospheres and service to full service restaurants. In most fast casual establishments, customers are expected to tip, and generally the restaurants feature real cutlery and plates, as well as food that is made on site as opposed to mass-produced fast food restaurants such as McDonald's. As customers become more health-conscious, fast casual restaurants have had to find ways to "freshen up" their menus by improving the quality of food while still maintaining their core customers and profit margins.

Despite new promotions and marketing campaigns, IHOP continues to have strong competition in the sit-down casual dining category. Leveraging breakfast as its flagship menu items, IHOP's main competitors are Denny's, Bob Evans, and Waffle House. In terms of size, Waffle House boasts the most locations with 2,100 nationwide (Martin, 2018). However, this chain is more heavily located in the South, whereas IHOP is spread more evenly across the country. IHOP and Denny's are very similar in chain size with approximately 1,650 and 1,700 locations respectively ("IHOP History," n.d.; "Denny's About Us," n.d.). Bob Evans has only a little over 500 locations across 18 states ("Company History," n.d.).

## Data 1. Percent of U.S. Households That Have Bought Food at IHOP, Waffle House, Denny's, and Bob Evans in Last 6 Months

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## Data 2. Number of U.S. Households That Bought Food at IHOP by State in Last 6 Months

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### Data 3. Number of U.S. Households That Bought Food at Waffle House by State in Last 6 Months

[Click here](#) to view the online version of this case for optimal experience of interactive data embeds.

### Data 4. Number of U.S. Households That Bought Food at Denny's by State in Last 6 Months

[Click here](#) to view the online version of this case for optimal experience of interactive data embeds.

### Data 5. Number of U.S. Households That Bought Food at Bob Evans by State in Last 6 Months

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As well as chain size, IHOP's competitors vary in average meal cost. Whereas Waffle House and Bob Evans price their average entrées at USD 5.04 and USD 6.65, respectively, IHOP's is slightly higher at USD 7.86 (Leonhardt, 2018). Denny's holds the highest average entrée price point within the group at USD 9.74 (Leonhardt, 2018). As IHOP's executives have come to understand their relatively higher price point, they have launched promotions to compete on price. However, in pursuit of competing on price and offering appealing promotions, it's important that the quality of the product is not sacrificed. Customers typically associate lower prices with lower quality; however, customers also expect a higher quality of food from casual sit-down dining as opposed to fast dining.

### State of IHOP's Business Prior to IHOb Campaign

IHOP Restaurants, LLC, known as International House of Pancakes or IHOP, is a subsidiary of parent company Dine Brands Global, Inc. (DIN), which also owns Applebee's. IHOP restaurants, considered to be family casual, provide menu items for breakfast, lunch, and dinner across their chain of over 1,600 independently owned locations. IHOP has been established since 1958 and, as its name suggests, breakfast items are the most popular menu selections for customers, making up 65–70% of IHOP's total revenue (Taylor, 2018a). While this destination becomes a clear choice for breakfast foods for consumers, this association tends to hinder purchase of non-breakfast items, with only three in every ten customers choosing a non-breakfast item. As Dine Brands Global thinks of expansion, its five-year plan reflects acquisitions of smaller chains featuring healthy or ethnic food (Meyer, 2018). This inevitably places pressure on Applebee's and IHOP, as their parent company decided to close 99 Applebee's locations and 23 IHOP locations in 2017 (Taylor, 2018b). In 2018 the store closures continued, with expected losses of 60–80 Applebee's locations and 30–40 IHOP locations (Taylor, 2018b). However, store closures are offset by new store openings. In 2018, IHOP will be opening 85–100 new store locations across the United States, where new geographies and demographics offer higher earning potential for the chain (Taylor, 2018b). Additionally, in 2018, Applebee's will open 10–15 new stores, although most will be outside the U.S. market (Taylor, 2018b).

As the majority of IHOP customers choose breakfast menu items when dining, and decisions are being made to close underperforming stores, IHOP continues to face pressure to increase sales and profitability of its restaurants. In 2015, IHOP reached its highest annual sales in a decade with USD 3.23 billion. Contributing to IHOP's successful 2015 sales were a number of marketing decisions, such as: (1) decreasing menu items from 180 to 140 options; (2) designing a new logo; (3) a pancakes for pennies campaign celebrating IHOP's 57th anniversary; and (4) the "Breakfastarians" campaign, targeting customers who eat breakfast at any point in the day. These campaigns overall proved successful, but they only solidified IHOP's specialty as a breakfast destination, and lacked promotional initiatives for non-breakfast menu items. As 2015 IHOP revenue reflected high performance, Dine Brands Global's stock price reached an annual high of USD 110.75 per share (Yahoo Finance, n.d.). However, over the next two years, the company stock price plummeted to a low of USD 38.01 per share in 2017, marking a critical point for both Applebee's and IHOP restaurant brands (Yahoo Finance, n.d.).

## Data 6. Stock Daily Close for Dine Brands Global, 1998–Present

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In 2017, IHOP began to investigate what customers wanted outside their traditional breakfast menu. As explained by IHOP's president, Darren Rebelez, the restaurant chain needs to give "more people more reasons to come to IHOP more often." Using this direction to expand the menu, market-testing revealed burgers to be the most popular addition to the menu outside breakfast items. Although IHOP had been offering burgers since it opened in 1958, the market-testing urged the chain to revamp its existing burger, resulting in a new line of Ultimate Steakburgers with seven different options. The items were made available for a limited-time special price of USD 6.99, with unlimited fries and drink. However, the promotional deal alone wasn't going to move the needle in the way IHOP and Dine Brands Global required. IHOP needed a creative campaign to spotlight the new burgers away from the shadow of their most popular breakfast items, and thus add to the customer-perceived core competency of the brand name.

### IHOP's Marketing Campaign Overview

Over the last few years, many brands have developed marketing campaigns that have boosted sales. Some examples of these include Domino's "Paving for Pizzas," KFC's "Bucket Björn," and Doritos' "Jurassic Doritos." IHOP made extensive observations of these campaigns, and noted the success and failures. As a result, it took an interest in developing its own campaign, known as IHOb (International House of Burgers).

For over a year, IHOP worked on a new marketing campaign to increase sales and promote other items on its menu that let consumers know IHOP was open "morning, noon and night." When doing its research, IHOP began a study to determine what its consumers wanted to see served at the restaurant chain. Once results were in, almost all people interviewed said they wanted burgers. From there, IHOP began planning for a "rebranding" strategy to introduce seven different types of burgers to satisfy the demands of customers. Some of these options included a Big Brunch Burger, the Cowboy BBQ Burger, and the double-decker Mega Monster Burger. With the launch of its new strategy, IHOP began to run promotional offers in order to continue to increase sales. As its core competency in pancakes was well-known to consumers, IHOP knew it needed to make an impact in order to effectively promote the new burger line.

On June 4, 2018, IHOP introduced its new marketing campaign, changing the company name to IHOb in order to distinguish itself as a chain serving more than just pancakes. After tweeting the news, IHOP proceeded to change its name on over 30 restaurants throughout the United States. As a result, more than 20,000 stories were written about this change, and IHOP's revenue began to increase. Although the campaign only lasted a month, IHOP continued to receive the benefits of its strategy once it was all over. Once the IHOb stunt came to an end, IHOP tweeted, "If at first you don't pancake... pancake, pancake again." This served as notification to consumers that IHOP continues to sell pancakes; however, the campaign had created awareness around the non-breakfast menu items, specifically burgers.

### Campaign Results

After IHOP broke the news that it was changing its name to "IHOb," people were very confused and noticeably annoyed. Consumers also feared that IHOP would stop making pancakes and just create burgers instead. On Twitter's social media platform, thousands of reactions were captured mocking IHOP's change, or sharing confusion about the company's decision. In addition to consumers, industry-leading companies joined in to make fun of IHOP. Wendy's, whose social media content is known for targeting competitor restaurants, responded to the IHOb campaign by proclaiming, "Not really afraid of the burgers from a place that decided pancakes were too hard." Additionally, Netflix wrote: "brb changing my name to Netflix." Both Burger King and A&W Restaurants, which also sell burgers, joined in the fun (see Gatollari, 2018, in Further Reading). Despite the confusion, the deceit some consumers felt, the mocking photoshopped pictures posted online, and the humorous tweets from other leading brands, IHOP laughed all the way to the bank.

In considering the online communication activity which took place in reaction to IHOP's campaign, and understanding that traditional word-of-mouth is still considered more reliable, electronic word-of-mouth has become very close in reliability, which allowed the news of IHOP's rebranding to spread so fast, increasing social popularity by 11%. With this campaign and others, we continue to see a favorable shift in the reliability of electronic word-of-mouth because people tend to be more honest and forthcoming about their viewpoints than in face-to-face interactions. The impact of electronic word-of-mouth continues to multiply when news articles, blog posts, and social media posts written by trustworthy people (knowledgeable sources, authorities, or friends) help to influence consumers to try IHOP's burgers. In continuing to spread their experience of IHOP's newly marketed non-breakfast menu item, many consumers posted online content about how good IHOP's burgers tasted, which influenced many others to do the same.

Rebelez, the IHOP president, told CNN that the company received a lot of buzz triggered from the campaign announcement, "32.2 billion earned media impressions and 20,000 news articles. We were the number 2 topic globally for Twitter behind the North Korean summit" (CNN, 2018). The shock value from the name change, both on social media and on the front of IHOP restaurants, created a buzz so big that IHOP's burger sales quadrupled. People were not upset enough by IHOP to give too much backlash after learning it was only a marketing campaign, and actually most consumers were curious to find out what the burgers tasted like, which is why IHOP's sales increased so quickly. Overall, even with some negative feedback, the campaign was successful in creating awareness around IHOP's burger menu items, and now the entire world knows IHOP sells hamburgers.

## Discussion Questions

- 1. What are the benefits IHOP received from its rebranding marketing strategy? Was it worth it? Did it help sales?
- 2. Who are IHOP's main competitors and what differentiates IHOP from these competitors?
- 3. What negative outcomes, if any, came from this marketing campaign?
- 4. Could IHOP have lived up to the expectations of being a burger restaurant?
- 5. Was the IHOB name a ploy to get consumers talking, or was it an actual rebranding strategy that flopped?
- 6. What other strategies could IHOP have employed to achieve the same results?
- 7. As a manager of an IHOP restaurant, assess the successes and failures of the IHOB rebranding strategy.

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