

# Guest Column – Pricing



## Menu Pricing

By Bob Arnold  
*LionWise: point-of-sale solutions for the restaurant industry*

In my travels throughout New England calling on restaurateurs with the LionWise sales staff, I am always taken aback by the

haphazard manner that many operators use in the pricing of their menus. I asked one new operator how he determined the pricing of his hamburgers. He said that he canvassed a 20 mile radius and tracked what others were charging. I explained that this information is very hard to do anything with as you really don't know what the competition is selling. Are the burgers 80/20 or 70/30, 4 ounces or 8 ounces? Is a side included, or is the price just the burgers?

Everything that is sold on your menu should start with a recipe. For example:

Hamburger Special	Cost	Price	Contribution Margin	% Food Cost
5.3 oz Burger	\$0.85			
Bulkie Roll	\$0.21			
3 oz Lettuce	\$0.06			
2 Slices Tomatoes	\$0.11			
2 oz Mayo	\$0.12			
8 oz Frozen Fries	\$0.34			
Pickle Spear	\$0.10			
2 oz Ketchup	\$0.09			
	\$1.88	\$6.75	\$4.87	27.8%

This is very easy to keep up if put into some kind of spreadsheet, like Excel. This document can serve the restaurateur in two ways. One way would be to print the recipes without the costs as the training manual for the line cooks. Nothing will destroy your profitability quicker than everyone following their own recipes for your menu items.

Second, you now have an easily updatable template to determine both your food cost percentage and, more importantly, your contribution margin. Contribution margin is the difference between your food cost and your selling price. I was brought up in the restaurant business by my dad, Bob Arnold. I was told many times throughout the years that you put dollars in the bank not percentages.

A good example would be the hamburger recipe above. It has a food cost of 27.8% of the price and puts \$4.87 in the bank every time you sell one.

Now, since we are New Englanders, let's compare it with a boiled lobster dinner. I like this example for two reasons. One is that prep time is very short and just about anyone can prepare them regardless of kitchen experience. Second, it's one menu price that the public expects to be high.

Lobster Dinner	Cost	Price	Contribution Margin	% Food Cost
1.25lb Lobster	\$8.00			
3 oz Butter	\$0.17			
8 oz French Fries	\$0.34			
Oyster Crackers	\$0.07			
Wet Nap	\$0.02			
	\$8.60	\$19.95	\$11.35	43.1%

You can see that with the boiled lobster dinner recipe, we are running a 43.1% food cost, but we put \$11.35 in the bank every time we sell one. That is the perfect example of why every menu item should be looked at both in terms of food cost percentage and contribution margin.

There is a third factor that should come into play when determining the pricing of your menu. This is referred to as menu engineering, which takes into account every menu item's contribution margin and how many were sold within a given period of time. If you were to put this information into a graph, you would find that each item falls into one of four quadrants. These four quadrants are as follows:

**STAR** – You sell a lot of these items and make a good contribution margin on the items. The ideal menu item.

**PUZZLE** – You make a good contribution margin on the items but don't sell very many of them.

**PLOWHORSE** – You sell a lot of these items but don't make a very good contribution margin on them.

**DOG** – You don't sell very many, and you don't make much margin on them.



## Pricing (continued)

One of your goals from this exercise is to try to look logically at the items on your menu and have a strategy as to why you have them at certain price. Let's look at an item that falls into the PUZZLE area of our graph. You make a good contribution margin with the item, but you don't sell very many. What would happen if you went down a little bit on the price or perhaps gave the menu item better positioning on their menu? Would you sell more of them, moving them closer to the STAR quadrant of the graph?

The same analysis can be made with the PLOWHORSE. You sell a lot of them, but they don't make much of a contribution margin. What would happen if you went up on the selling price? You might sell fewer, but you would make that up with a better contribution margin.

The last is the DOG. You don't sell very many, and you don't make much of a contribution margin selling them. Should this item be taken off their menu and the products removed from your inventory?

Now, I don't want to make this sound too easy. You still need to take a hard look at the item. For example, you don't necessarily want to sell more of a PUZZLE, an item that makes a great margin but doesn't sell well. That item might be difficult to prepare, and the kitchen doesn't want to sell a lot of them as it creates havoc on the line during busy periods. A PLOWHORSE could be a very salty bar menu item that you want to sell a lot of as it encourages customers to order a few more beverages.

I once had a customer remove a DOG from his menu. When he put his new menu out with the DOG no longer on it, he was informed by his head waitress that this item was ordered every week by one of his best customers, who typically came in with three to four guests. Needless to say, the customer was pretty upset to see "his" dish no longer being sold at "his" restaurant.

The last point that I would like to make is something I read a long time ago. Do you know who the most price-sensitive person at the restaurant is? No, it's not the customers of the restaurant...it's the restaurateur. How many times have you raised prices and put out a new menu, cringing at the negative feedback you expected to receive and not hearing one complaint? If you put out a quality product, accompanied by a clean restaurant and good waitstaff, you should not be embarrassed about charging a fair price and making a profit for your efforts.

*Bob Arnold is the sales manager for LionWise, based in Hampton, New Hampshire. LionWise provides high-quality, leading-edge point-of-sale (POS) solutions for the table-service and quick-service restaurant industry. Its philosophy is to provide highly flexible and scaleable POS and back-office reporting solutions that can meet the needs of single, multi-site, and multi-purpose restaurant establishments. Visit [www.lionwise.com](http://www.lionwise.com) for more information.*

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