

Pricing

The principles of pricing for a restaurant are considered the backbone of the business. Proper and thoughtful item pricing is the key to the success or failure of any business, but particularly in the food industry. Many factors enter into pricing of meals; even the most experienced restaurant owners will need to make pricing adjustments over time.

Pricing

Value, or what you provide in trade for your client's money, is a combination of your food, menu selection, service, and ambiance. This is often called price-value, since the value is reflective of the price and the overall quality of the product and the service. This is your brand identity as a business. It thus becomes your value in the marketplace. Your guests want the best possible value for their hard-earned money, so you must give it to them on a consistent basis.



Pricing can make or break a restaurant.

Price accordingly. Generally, you want to have a fair market price for menu items. However, you must have a **markup**, or a price greater than what you paid in order to make a profit. Normally in the restaurant business there is about a 300% markup. Don't forget, the value to your guest includes service, ambiance, quality and quantity. So don't price gouge or seriously overcharge your guest. You want to create value and encourage your

After completing this lesson, you'll be able to:

- Price your menu items correctly.
- Determine how to properly list the priced items.
- Determine how to establish the base markup for your products.
- Prevent overpricing products.
- Determine pricing for extras a customer may want.
- Determine the value of the products you serve your customers.

guests to come back for more. If you charge \$5.00 for a side dish of mayonnaise (an extreme example) you would be **price gouging**, and it is extremely unlikely that your customer will return.

Value has to be reflected in portions as well. Try to serve just the right amount on each plate. Provide a good value by creating a nice plate arrangement that is satisfying to the eye and the palate. Again, this is the basis of price value. You should not attempt to compensate for overpricing by increasing portion size. Always remember that the foundation of a good price value is quality and not quantity. Frequent requests for “to go” boxes are a sign that you are serving too much food on a plate.

Pricing Correctly

When **pricing**, ensure that you are covering all the value points including service, ambiance, quality, and quantity. Based on this, you need to know your individual plate costs. Calculating the cost of all ingredients used in each dish, equipment used in the preparation, and other costs and then marking up the price is known as **cost-based pricing**. This process is important as you will need to break down all of your costs per menu item. You need to include portion sizes and measurements. Each plate has to be consistent.

Create a book for the kitchen with recipes, portions, procedures to ensure consistency, and training opportunities, similar to a training manual. Have photographs of each menu item as it should appear on the plate and include the recipe and ingredients broken down to portions and use. This will help you create your pricing guide and ensure you are consistent with menu preparations, particularly when changes occur in personnel and there is a risk of inconsistency.

Part of pricing correctly is ensuring you are charging correctly. In other words, if you are using a point-of-sale system (POS), you need to ensure you are charging correctly for each item. This also means that your service team must know what they are charging for each item to ensure accuracy at all times.

How to Use List Pricing

When using **list pricing** on a menu, don't list the priciest items first. If you look carefully at menus, you'll notice that sometimes the pricy items are tucked in the middle. This is part of the visual “tour” for the customer. Some people believe the only value on the menu is the cheapest item, but you want to guide them through the menu to what's exciting to eat, not what they think they can afford. You can actually control what your customers order without them realizing it, so mix it up.

When you are creating your pricing list on the menu, be sure to round it down from the whole dollar. People perceive value when the price is less than a whole number. Instead of \$15.00, charge



List or menu pricing should flow easily.

\$14.95. The perception is that the customer is getting greater value because the item is less than \$15.00. Sometimes in marketing and sales, you need to use psychological tactics to be successful. This is a tried and true practice in all businesses, not in just the food industry. Alternatively, some restaurants simply drop the dollar sign and cents and list a whole dollar price for simplicity and design appeal.

Beverage menus may have different pricing lists. Oftentimes, depending on the concept for the restaurant, you can list wines by the price, from lowest to highest. Start with wine ordered by the glass and work your way up. However,

with cocktails, you will want to categorize more and create a menu that is similar to the tour you created with your food menu. You want to invoke a sense of desire for the specialty drinks as much as you do for the food.

How to Price Based on Mark-Up and Food Cost

Markup is an amount added to the **food cost** to get the selling price. It is normally expressed as a percentage of the food cost. Restaurants often use a markup of around 300%. For example, if the food cost of an item is \$5, the markup of 300% is \$15. This is added to the food cost for a final price of \$20.

Restaurants often monitor food cost percentage very carefully. Food cost percentage is expressed as food cost/selling price x 100. In the example above, the food cost percentage is $\$5 / \$20 \times 100 = 25\%$.

To make matters more confusing, restaurants also talk about **margin**, the selling price minus the food cost. In the example above, the margin is $\$20 - \$5 = \$15$. When expressed as a percentage, the margin is always a percentage of the selling price. In our example, $\$15/\$20 \times 100 = 75\%$.

As you can see, we have a 300% markup, a 25% food cost, and a 75% margin—all on the same item!

Avoiding Overpricing

Overpricing of menu items means people have to pay more than the meal is actually worth. You cannot build up your business on a reputation that you overcharge your guests. There is no news that

travels faster than news about a price that is too high in an eating establishment. Overpricing will not only drive customers away, but it will make you incur additional costs as you will have to buy enough fresh ingredients each day to sell the overpriced item. Therefore you will be wasting a lot of food when you don't sell the volume necessary.

It's up to you to create good publicity because you are competitively priced and offer something of greater value than your competition. You want to create something that your guests will want time and time again.

This holds true for all items on your menu—food, drinks (alcoholic and nonalcoholic), and any specialty clothing and retail items.



Avoid overpricing and making customers feel like they are paying too much for a meal.

Charging for Extras

As a business owner, you pay for everything you serve your guests. Everything! In order for things to balance out, you must charge your guests for anything you pay for. If it is not included in the price of the dish, you should be charging something for the additional item. However, you have to be reasonable and smart about this. If you serve a burger and the customer asks for a side of BBQ sauce, give it to him or her. However, have a set standard of how many sides of BBQ sauce you will provide before you begin to charge—after 2 ounces, after 4 ounces, etc. It's up to you how much you will charge or not charge. The BBQ sauce may be the same price as ketchup, mayonnaise, or mustard condiments that are already built into your menu price.

There are particular items that cost more to provide, such as sour cream, guacamole, extra cheese, and mushrooms. You should

charge a reasonable side price or extra charge for these. Be fair in this process and be sure to list items where and when applicable. It's also important to educate your team as it's up to them to inform guests about their request. No one likes the surprise of being charged an additional \$5.00 for a bunch of side items they did not know they had to pay for. This can completely ruin the experience for the guest and they won't return.

Create a separate menu for sides and extras so the kitchen knows how much to provide upon request. This should also be set up in the POS so that the correct charge is made. Again, be reasonable and don't gouge your guests for little items.

Summary

Proper and thoughtful pricing is the key to success or failure in the restaurant business. You should charge a fair market price for your menu items. However, you must have enough markup built into your pricing in order to make a profit. Your service, ambiance, quality and quantity should be reflected in your prices, but be careful not to price gouge or seriously overcharge your guests. Remember that many factors enter into pricing of meals and even the most experienced restaurant owners will need to make pricing adjustments over time.

KEY MATH CONCEPTS

1. Cost-based pricing involves calculating the purchase cost of each dish you sell. This means you must establish your plate costs by breaking down all costs on your menu, including the cost of ingredients used in each dish and the equipment used in preparation.
2. Markup is generally 300%. Do not overdo the size of your portions, but don't underdo it either. It's a balance—not too much, just enough.

KEY TERMS

Markup

An amount added to food cost to get selling price. It is normally expressed as a percentage of the food cost.

Price Gouging

The practice of extremely overcharging for menu items that are obviously worth much less than the list price.

Pricing

The process of assigning prices to menu items.

Cost-based Pricing

Pricing using the cost of food, beverages, and ingredients in a dish as a base for markup.

List Pricing

The price displayed on a menu.

Food Cost

The actual wholesale cost of food, beverages, and ingredients.

Margin

Selling price minus food cost. When expressed as a percentage, it is always a percentage of the selling price.

Overpricing

Charging more for a menu item than it is actually worth.