



“Get More Customers,
Make More Money”

The Menu Engineering Approach

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July, 2008

Using Data You Already Have

- Learn how to maximize menu profitability
- Identify your best sellers and profit contributors
- Weed out low volume low profit menu items
- Ensure that your profit and menu strategy in in sync

Topics

1. Explain basic theory
2. Demonstrate process of menu analysis
3. Evaluate the results
4. Develop menu and pricing strategy

Background

- 1982 Michigan State University
- Authors Michael L Kasavana, PH.D and Donald Smith
- Leaders in hospitality information systems, restaurant management, and education
- Don Smith Ivy Award and Silver Plate recipient and educator in Washington State University
- Menu engineering is the pricing strategy NOW and of the future

MICHIGAN STATE
UNIVERSITY

Menu Engineering Is:

- Marketing approach to evaluate menu pricing, design and content decisions
- Classifies menu on base selling price and margin dollars, not just percentages
- A cost multiplier pricing formula inadvertently restrictive to profitability
- Reliable model does not replace sound profession judgment



Three Elements Pricing Decision

- Customer demand: number of patrons over certain period of time
- Menu mix analysis: relative proportion of menu items sold (customer preference by menu item) and in what relative proportions
- Item contribution margin: number of \$\$ remaining after food cost; each item's profitability

Why Use Menu Engineering?

- Operators have certain degree of control over labor and food cost but now there is an advanced tool to control contribution margin
- Changing economic, social and competitive climate
- Growth of price/value driver of spending behavior
- Rising food and paper costs
- Need for pricing strategy models to support profitability
- Real time approach to decision-making



Toolbox Part I: You Will Need

- List all menu items sold
- Number sold for period of time
- Menu Mix Percent of total menu items sold
- Food cost per item
- Price per item
- Contribution margin per item
- Total costs all items
- Total revenue all items
- Total contribution margin all items
- Contribution category placement-High-medium-Low
- MM%-High-Medium-Low
- Classification-star-workhorse-cash cow-dog



Margin versus Cost of Goods

- No direct relationship between food cost % and its contribution margin
- Contribution margin=good
- COGS=who cares if CM good
- menu engineering uses average contribution margin as benchmark for evaluating competing menu items

Example Contribution Margin vs. Percentage COGS

Menu Item	Item Food cost	Menu selling price	Food cost %	Contribution margin
Chicken sandwich	\$1.50	\$4.00	38%	\$2.50
Gourmet angus burger	\$2.00	\$5.00	40%	\$3.00
Salmon steak sandwich	\$2.50	\$6.00	42%	\$3.50

Tool Box Part II: What You Need to Do



- Produce a menu item analysis
- Generate a menu mix analysis
- Develop menu item classifications
- Identify appropriate menu item decision alternatives
- Resources
 - Menu management system=basis for collecting data
 - POS system=basis for collecting data

Menu Engineering Process

Each menu item is analyzed by gross margin and sales volume to arrive at its place in one of four profit categories. These categories are:

CASH COWS Lower than average in popularity, and higher than average in gross profit contribution. Merchandise these items to help influence mix. However, Cash Cows should be limited to just a few items.	STARS Menu items that are higher than average in gross profit, and higher than average in popularity. They are generally less sensitive to price increases, and are usually merchandised on the menu to influence mix.
DOGS Lower than average in popularity, and lower than average gross profit contribution. Usually, Dogs should be eliminated from the menu except as a loss leader. If Dogs must remain on the menu, design the menu to “demerchandise” them by burying them in the less desirable real estate on the menu.	WORKHORSES Higher than average in popularity, and lower than average in gross profit contribution. They tend to be very price sensitive and work to bring people in the door.

High

Menu Item Gross Margin

Low

Low

Menu Item Unit Sales

High

STARS!

Most popular and profitable

Locate in highly visible position on menu

Maintain rigid quality, portion and presentation

Test for price elasticity



WORKHORSES!

Higher than average in popularity and lower than average in gross profit

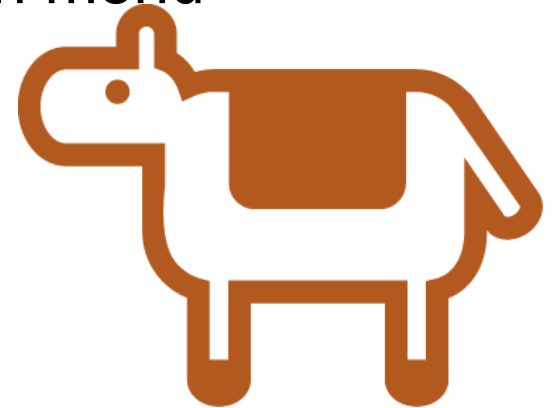
Leader menu items, bring people in the door

Test for price sensitivity; price in stages:

such as \$4.55 to \$4.75 to \$4.95

Relocate workhorses to low profile on menu

Package with lower cost menu item



CASHCOWS!

High contribution but low in popularity

Take off the menu if labor intensive

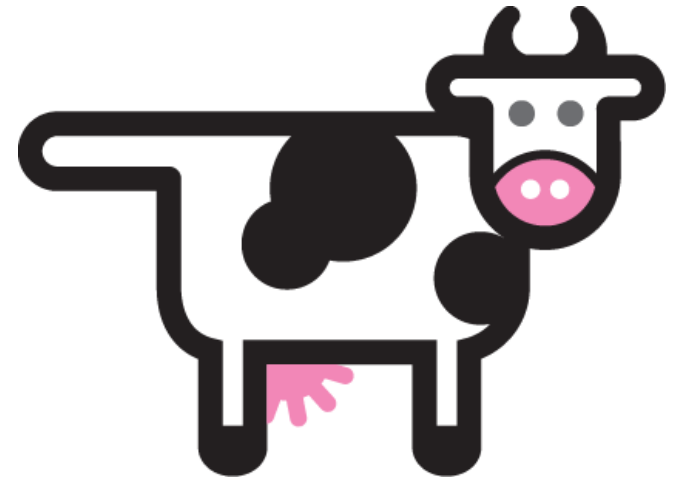
Reposition in higher profile part of menu

Rename the item

Decrease the price

Merchandise the item

Limit the number on
the menu



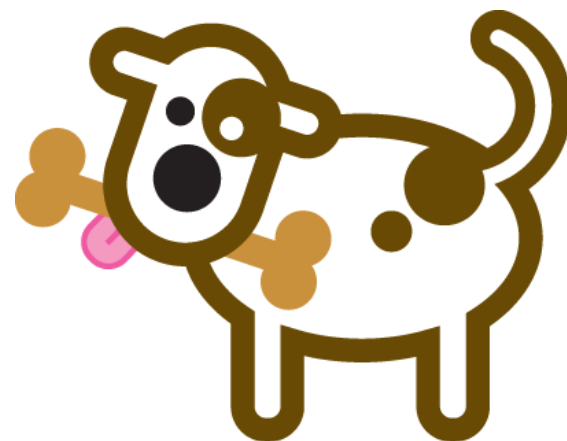
DOGS!

Menu “losers”, unpopular and low contribution

Eliminate the item from the menu

Raise item’s price to achieve at least a cash cow

Make it a special but do not list on the menu



4 Item Menu Illustration

Item	Sold No.	MM %	Food cost	Price	Item CM	Costs	Rev	Tot CM	CM Category	M M %	Classes
Pizza	5500	60	.48	\$2.59	\$2.11	\$2540	\$14243	\$11603	H	H	star
6"sub	2331	26	1.71	\$4.39	\$2.68	\$3986	\$10233	\$6247	H	H	star
Burrito	809	9	1.85	\$4.49	\$2.64	\$1497	\$3633	\$2136	H	L	cash cow
CSand	483	5	1.28	\$3.29	\$2.01	\$618	\$1589	\$971	L	L	Dog

Action on 4 Menu Items

Menu Item	Classification	Action Taken
Pizza	star	Retain, test elasticity
6 " sub	star	Retain, test elasticity
Beef burrito	cash cow	Re-price or reposition
Cheese sandwich	dog	Replace or re-price

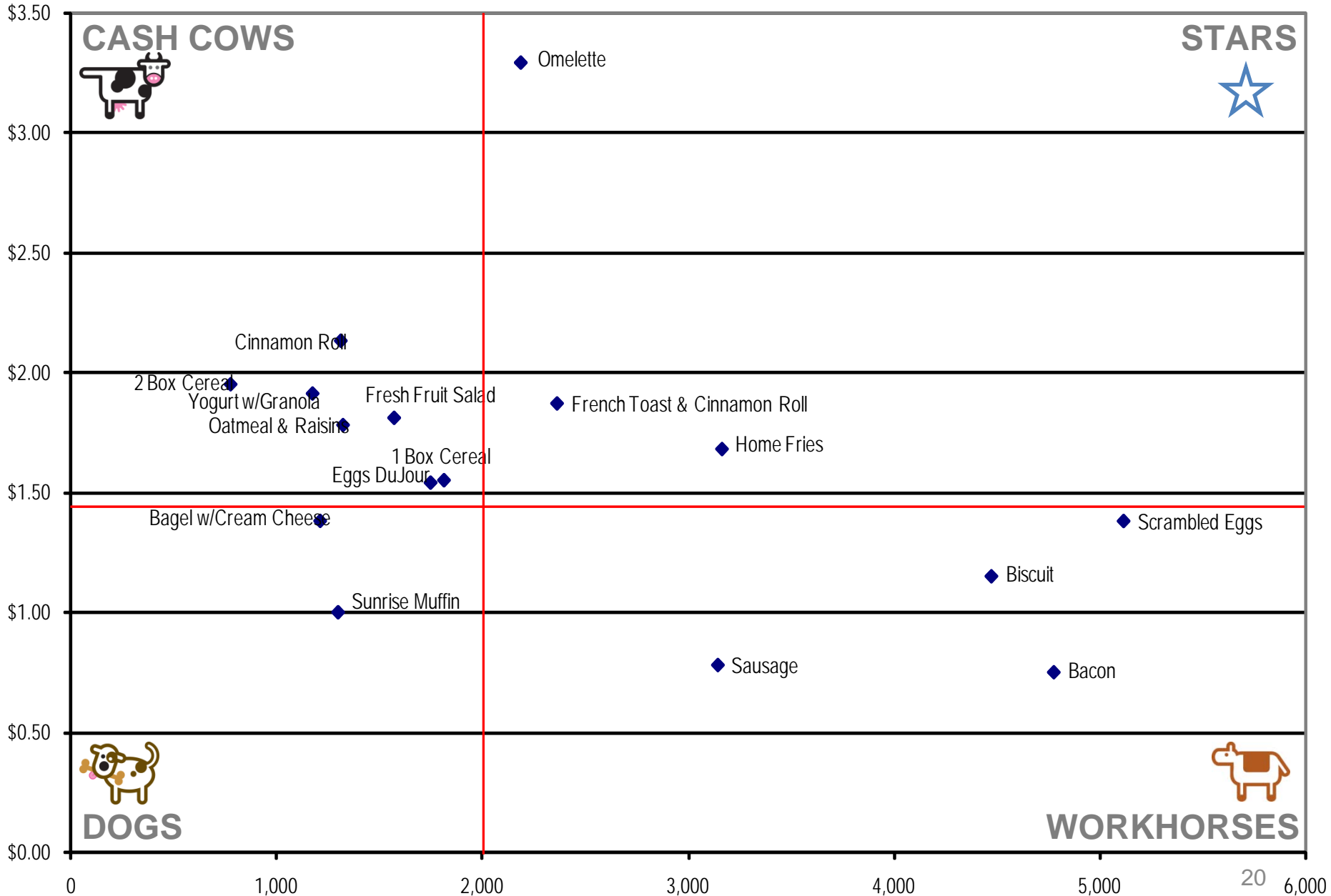


Menu Engineering Process

Analyze Sample Location menu sales :

- Based on menu sales and profit margin
- Illustrates the relative profitability and popularity of individual location offerings;
 - Will assist in menu planning, design and pricing decisions
- Recognize menu categories and items you want to sell (the most popular and profitable ones), and those items to eliminate that do not contribute to the bottom line
- Allow for more subtle menu planning by reengineering, for example, a popular but unprofitable item which can be “reengineered” to provide more profit
- Identify items for potential price changes

Cafeteria Breakfast

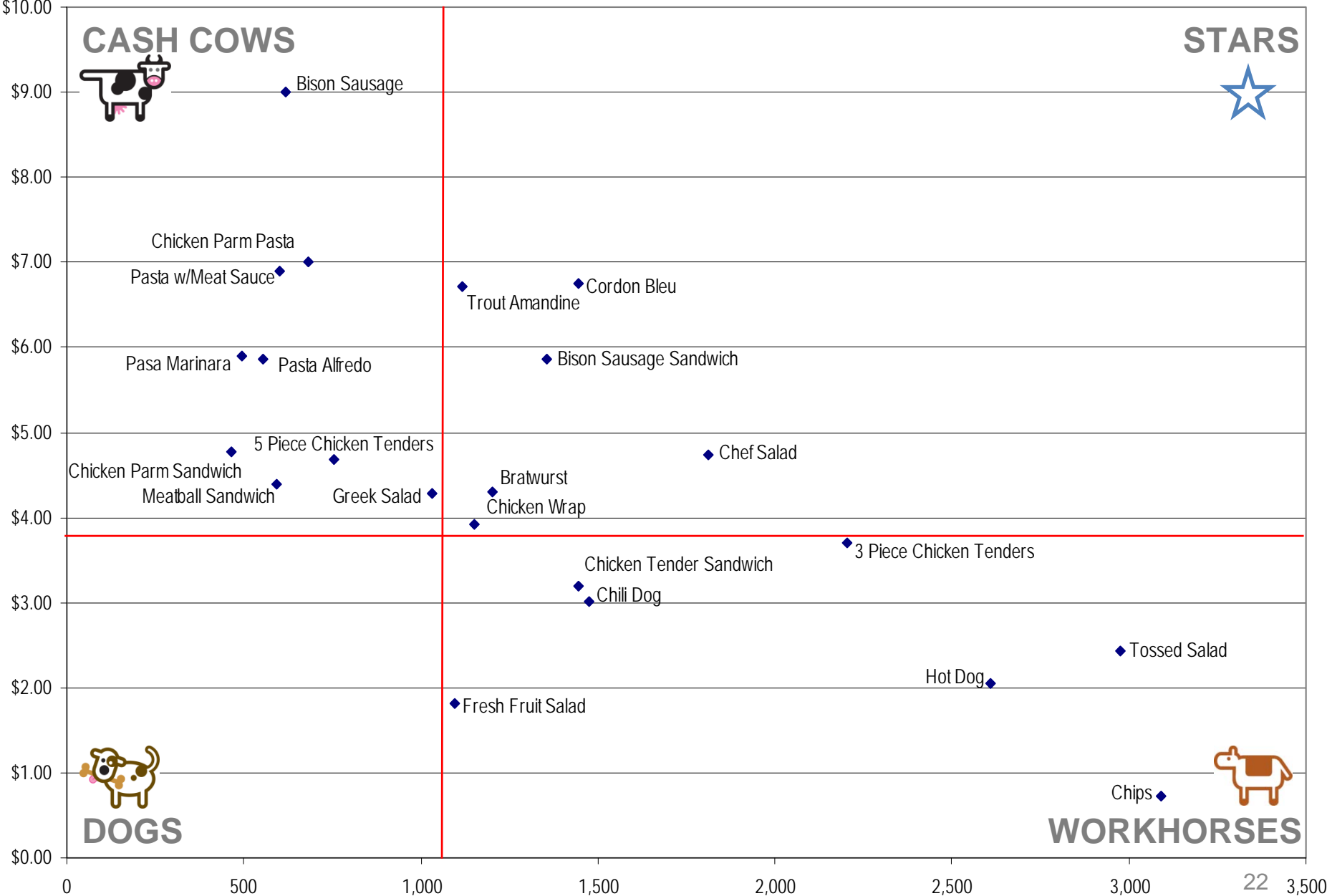


Cafeteria Breakfast

- The Breakfast menu is dominated by low margin workhorses and low volume cash cows
- Stars – 3
- Workhorses – 4
- Cash Cows – 7
- Dogs – 2
- Increase prices
 - Scrambled Eggs to move to Star category
 - Bagels move to cash cow
- Menu items targeted for re-engineering or deletion
 - Sunrise Muffin
 - Cinnamon roll
- Rethink making cinnamon rolls
- **Consider a one price all-you-can eat buffet**



Cafeteria Lunch



Cafeteria Lunch

- The lunch menu has a good distribution of menu items by profit category:
- Stars – 6
- Workhorses – 7
- Cash Cows – 9
- Dogs – 0
- Combined, your pasta entrees (2,329 menu items sold) belong in the Star category as your highest volume entrée
 - Give your pasta station more prominence
- Increase prices
 - 3 Piece Chicken Tenders (currently your highest volume entrée)
 - Chicken Wrap

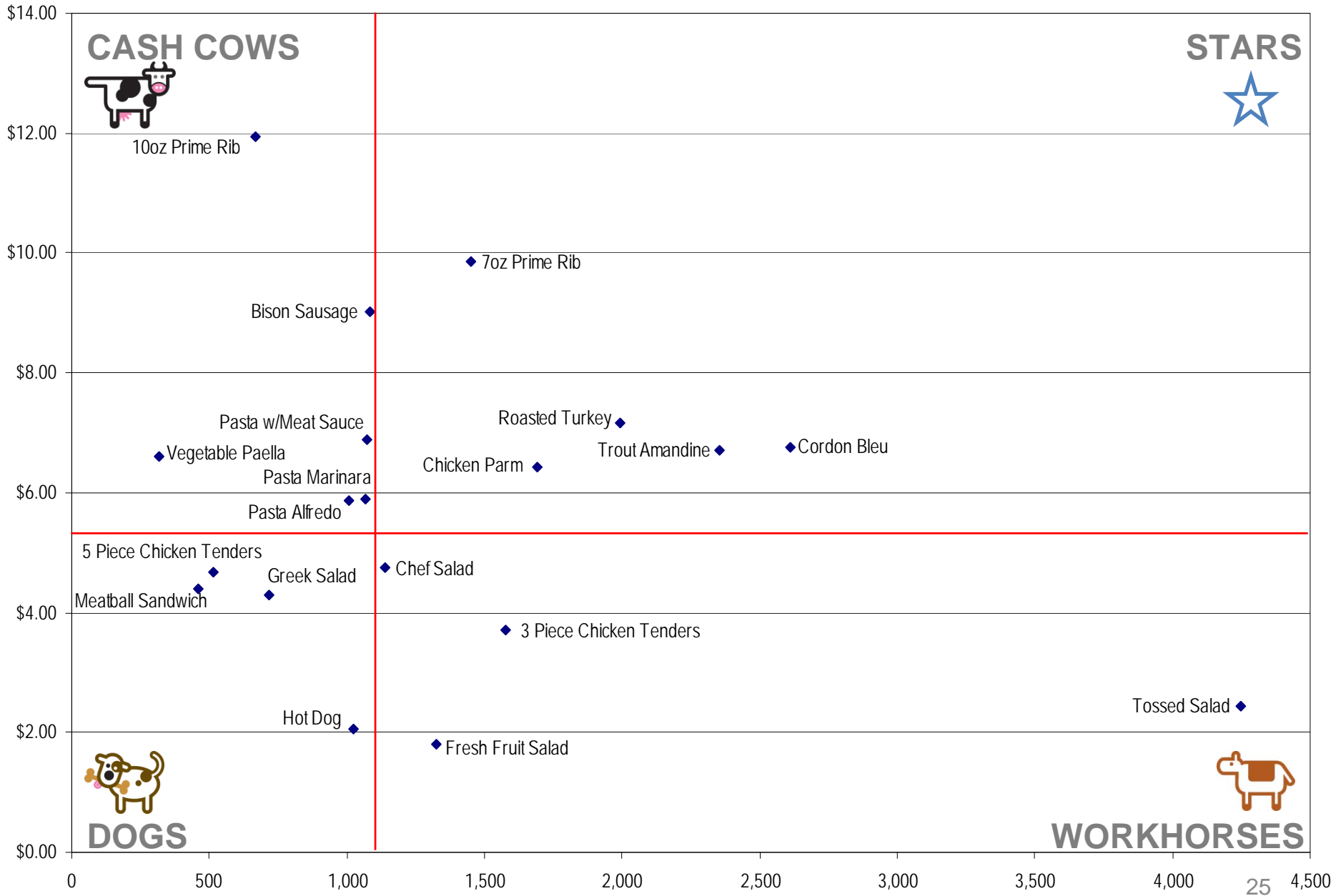


Cafeteria Lunch

- Menu items targeted for re-engineering or deletion
 - Bison Sausage
 - Hot Dogs (price is too low)
 - Chicken Parmigiana Sandwich
 - Meatball Sandwich
 - Chili Dog
 - Greek Salad
 - Bison Sausage Entrée (too expensive)



Cafeteria Dinner



Cafeteria Dinner

- The Dinner menu has a good distribution of menu items.
- Stars – 5
- Workhorses – 4
- Cash Cows – 6
- Dogs – 4
- Combined, your pasta entrees belong in the Star category
 - Give your pasta station more prominence
- Increase prices
 - 3 piece chicken tenders
- Menu items targeted for re-engineering or deletion
 - Meatball Sandwich
 - Greek Salad
 - Hot Dog



Psychology of Pricing

- Establish acceptable range of value
 - Target market: 18 year olds, 26 year olds
 - Ability of market to differentiate products and value
 - Consumer conditioning to pricing based on restaurant (Taco Bell versus Panda Express)
 - Monitoring competitive pricing: quality, service, portion size, etc.
 - Signature items: those without competitive comparison



Price Elasticity

- Price elasticity relates to quantity sold with changes in selling price
- Higher elasticity=more susceptible to price change
- Ability to retain, reposition, replace or reprice items
- The Challenge: Pricing menu high enough to cover expenses yet low enough to attract business
- Price/demand a primary focus; other factors include quality, image, location, service

Alternatives to Inflationary Pricing

- Consider the following:
 - Reduce portion size
 - Revise purchase specifications
 - Reduce complimentary food items
 - Provide ala carte pricing
 - Increase productivity
 - Improve operational controls

How to Make Price Changes

Real Challenge to avoid the risk of loss versus real gain

- Take small increases as soon as possible
 - Limit increases to low volume periods
 - Discount pricing during low volume periods
 - Use odd pricing such as \$5.95 or \$5.99 versus \$6.00
 - Think about it in relationship to contribution margin
- Call as little attention to the increase as possible
- Reorder menu/menu boards

Actions to Change Contribution Margin

- Develop a pricing philosophy-such as tiered pricing for all pocket books and market demand
- Determine sensitivity to price change
- Redo recipe-reengineer product
- Delete from menu or special only
- Increase or decrease price
- Package menu items together (combos)
- Change your concept
- Measure the payback

Summary

- Changing economic, social and competitive climate
- Growth price/value driver of spending behavior
- Rise in food and paper costs
- Need for pricing strategy models to support profitability
- Need for real time decision making

Summary

- ME an advanced tool to control contribution margin
- Margin = Good, COGS % = Who cares (% no direct relationship to profit)
- 3 elements of pricing decision
 - customer demand
 - Menu mix analysis
 - Item contribution margin
- Using data you already have in your toolbox, prepare a ME analysis

Summary

- Develop action plans for enhancing profitability
 - Develop a pricing philosophy-such as tiered pricing for all pocket books and market demand
 - Determine sensitivity to price change
 - Redo recipe-reengineer product
 - Delete from menu or special only
 - Increase or decrease price
 - Package menu items together (combos)
 - Change your concept
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Thank You

Questions?