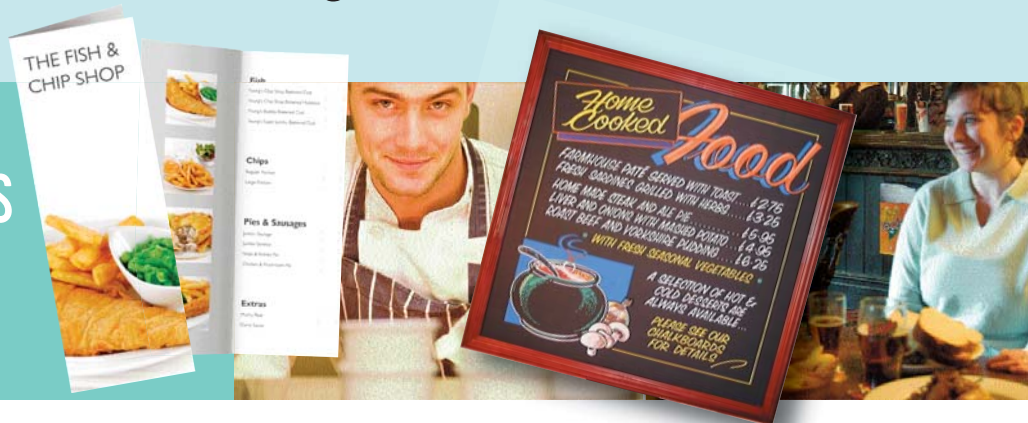


The Catering Series

Pricing your menu



Deciding what price to charge for menu items is often quite difficult, especially when starting a new food operation. Charging too little results in a lost opportunity to make more profit, while charging too much keeps customers away. You have to strike a balance between maximising your profits and providing value for money in the customer's eyes. However, there are some ways to make the task easier, and these are explained below.

Recipe costs

Every dish you sell should be costed so that you know the total ingredient costs of each dish. You should include the price of all ingredients including spices, garnish and sauces etc. you will need to set standard weights/volumes for each ingredient and use these for all future dishes. The easiest way to do this is to use a simple spreadsheet that you can update easily to take into account price changes. It is useful to update these records at least on a quarterly basis to keep up to date and reflect seasonal price changes in ingredients.

Using gross profit percentage to set your prices

Once you have established your dish cost you can use industry standard gross profit percentages (GP %) detailed in the table below as a guide to setting your VAT inclusive selling price.

Required GP%	multiply dish cost by:
30%	1.679
35%	1.808
40%	1.958
45%	2.136
50%	2.350
55%	2.611
60%	2.938
65%	3.357
70%	3.917
75%	4.700
80%	5.875

The example below illustrates the calculation and then verifies the working out.

For example: if your dish costs £2.50 to make and you wish to achieve a gross profit percentage of 60%, multiply £2.50 by 2.938 to give a VAT inclusive* selling price of £7.35.

You can verify this with the following calculation:

Selling price (inc. VAT)	£7.35
Selling price (exc. VAT)	£6.25 (100%)
Less: Cost of goods sold	£2.50 (40%)
Equals: Gross Profit	£3.75 (60%)
(ie gross profit divided by selling price (exc. VAT) x 100 = 60%)	

*Note: VAT registered businesses selling food that is ready to eat should charge VAT at the standard rate. But you are not normally required to charge VAT on cold take-away food.

Know the market you operate in

Although the above cost-based approach to setting prices is relatively straightforward, it is your customers that will ultimately determine what you will be able to charge. Bear in mind that your customers are not concerned with your gross profit calculations; their decisions whether to pay a certain price are based on their perceived value of the dish and any added value they obtain by eating in your pub.

You need to understand your target customers in terms of their levels of disposable income, the eating establishments they frequent, and the prices they are used to paying. You also need to know what your competitors are charging and what they offer. Look at their food operation and compare it with your own:

- Location (prime site or back street?)
- Food quality
- Portion sizes
- Service
- Décor
- Atmosphere
- Access
- Reputation.

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Use your competitors' prices as benchmarks

but be prepared to adjust the price of your own dishes inline with the above. Customers will be willing to spend more for your dishes if your food quality, service and facilities are superior to your competitors. Conversely, if they are inferior, don't expect customers to pay the same price as they would in your competitors' establishments.

Examine your sales

Studying your food sales provides you with useful information. It is good practice to keep a record of sales for each dish you sell. If you are selling a large percentage of higher-priced items, this can indicate that your customers are not so 'price sensitive' (influenced by price) and that their buying decisions are influenced by other factors.

Other ways to establish prices

Your staff often have a very good understanding of your customers through the large amount of interaction they have with them. They are present when customers order their meals and can see their reactions to the menu. This is useful feedback for you. Regular comments about the expense of certain dishes may indicate that customers consider them to be overpriced. Alternatively, comments like 'great value' may mean that these dishes are perceived as being under priced.

Special boards can also be used to test the water of dishes prior to adding them to your main menu. They provide an opportunity to test levels of demand for dishes at different prices. For example, what is the effect on demand if the price is increased or decreased by 50p or £1? (it is much easier to change the price of a dish on a specials board than on a printed menu.)



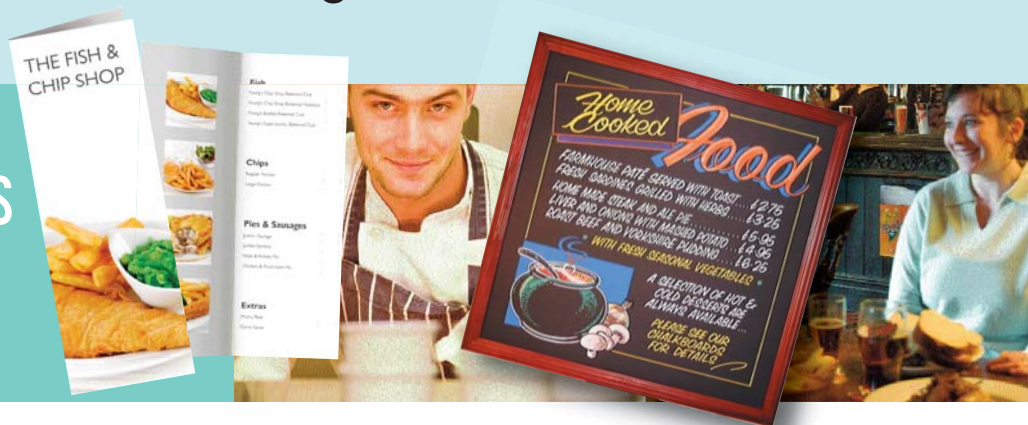
TOP TIP

Use the Specials Board to drive profitable sales. Remember customers remember the first and last dishes on the specials board. Use this to your advantage and put the dishes with the highest return first and last.

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MENU ENGINEERING

Menu engineering is a way of analysing your menu and making changes in order to maximise the profitability of your food operation. It examines the sales history of each dish and the gross profit it contributes. It then relates the profit margin to the popularity of the dish to see which items are both popular and profitable.

Though it is usually undertaken by the larger food operators, some menu engineering techniques are useful to the pub food operator.

A fictional example is given below for a range of pub menu dishes:

Explanation of the table

35% of all meals sold are "Scampi and Chips and they contribute £3.76 gross profit per plate. 5% of meals sold are "The Mixed Grill and they contribute £4.10 per plate. The average sales percentage is 14.3% (i.e. 100% divided by the number of dishes – 7 Menu Items), and the average gross profit is £3.16 (i.e. total gross profit of each menu item divided by the number of menu items.) These figures are then used as a benchmark to assess the profitability and popularity of each menu item.

'The Dog & Duck' – pub food sales % and gross profit

Menu Item	Sales percentage (sale as a percentage of total food sales)	Plates Sold	Gross profit (£) per plate	(£) Profit per item
Scampi & Chips	35.0%	70	£3.76	£263.20
Ham, egg & chips	14.2%	29	£2.50	£72.50
Mussels and Chips	9.2%	18	£2.74	£49.32
The Mixed Grill	5.0%	10	£4.10	£41.00
Steak & Ale Pie	10.6%	21	£2.89	£60.69
Cheeseburger Deluxe	15.0%	30	£2.25	£67.50
Pheasant Pie	11.0%	22	£3.86	£84.92
Average:	14.3%	200	£3.16	£639.13

Menu Items are placed into four categories according to their profitability and popularity. These categories are given memorable names.

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pub-hr business guides

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STARS

Stars are high in both popularity and profit margin. These are the Signature Items. These dishes should have prime place on your menu and be promoted by staff to further improve your overall profitability. Other than finding ways to reduce the recipe cost of these items (increasing dish gross profit further), they should be left alone.

Examples: Scampi & Chips

PLOUGH HORSES

Plough horses are high in popularity but low in profit margin. Price-sensitive. These dishes are typically very price-sensitive and sometimes used as 'loss leaders'. They can be pushed into the 'star' category by improving profit margins by reducing recipe cost.

Examples: Cheese burger Deluxe

PUZZLES

Puzzles are low in popularity but high in profit margin. These items are higher in profit per sale but hard to sell. Typically they are the more expensive dishes on a menu. They may act as 'image makers' but too many of these dishes should be avoided. Price reductions may be a way of improving popularity but must be carefully assessed. Otherwise candidates for repackaging, replacing or elimination.

Examples: The Mixed Grill & Pheasant Pie.

DOGS

Dogs are low in popularity and low in profit margin. They are possible candidates for elimination, repackaging, repricing or replacing. However, these dishes may serve a particular market segment such as kids' menu and need to remain in place to be competitive.

Examples: Mussels and Chips



TOP TIP

It is important to pay attention to BOTH the Gross profit a menu item as well as the number sold. In this example Scampi and Chips is providing over 40% of the profit from food sales. (£263.20 divided by £639.13 multiplied by 100)
If another menu item can leverage the same GP and sell as well, then profit from food will leap.

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