

Are You Leaving Money on the Table?

There are many menu engineering and merchandising techniques that can boost sales of a specific menu item. But which of your menu items deserve special sales and merchandising attention to maximize your menu's profitability? Which menu items should be the focus of your sales efforts? Hint - don't make your decision based just on food cost.

One of the primary goals of menu engineering is to encourage purchase of targeted items, presumably the most profitable items on the menu. To do this, you must first calculate the cost of each item listed on the menu. This costing exercise should extend to all items listed on the menu, and should reflect all costs incurred to produce and serve. There are a number of ways to calculate pricing. Some simplified calculations include only food costs, but it may be time to start using a more effective and profitable menu pricing strategy called Contribution Margin. Below are examples and comparisons of the two methods.

Food Cost Percentage Pricing Method

This method is a commonly used for assessing effective cost controls. It calls for the chef/owner to find the actual cost of a menu item, and take that into consideration when determining the selling price of the menu item so that they can reach their ideal food cost percentage.

Strip Steak Example:

$\$8.00$ (product cost) divided by $\$20.00$ (selling price) = 40% (food cost percentage)

In spite of its popularity and ease of use, the food cost percentage model has some limitations. For example, most food service operators would agree that's its better to achieve a 20% food cost than a 40% food cost. However, consider this. A pasta dish that costs \$2 and sells for \$10 has a food cost percentage of 20% ($\$2.00$ divided by $\$10.00$). That leaves \$8.00 left to cover operating expenses. Compare that to a steak that costs \$8 and sells for \$20. The food cost percentage on that steak is 40%, but the amount available for operating expenses is \$12. Clearly it would be better to sell more steak than pasta, even though the food cost percentage is higher.

Contribution Margin Pricing Method

Contribution margin per menu item is calculated by the amount that remains after the product cost of the menu item is deducted from the selling price.

Strip Steak Example:

$$\text{\$20.99 (selling price)} - \text{\$8.50 (product cost)} = \text{\$12.49 (contribution margin)}$$

A simple question should make the distinction clear. If you could sell one more item before your restaurant closed today, would it be a sirloin steak for \$20 that costs you \$8 or a plate of pasta primavera for \$10 that costs you \$2. While the food cost percentage of the pasta is 20% versus 40% for the steak, the steak will contribute \$12 to gross revenue as opposed to \$8 for the pasta. I'll take the \$12... thank you very much. **Contribution margin then is based on the dollars you take to the bank.**