

# The All-in-One Restaurant Menu Pricing Strategy Guide



Restaurant management is arguably the most overlooked aspect of menu pricing. It's a very calculated number game that involves understanding overall restaurant costs, conducting recipe costing, estimating final plate costs, and setting a price that maximizes profit. However, your restaurant's menu is more than just a means of earning money. This means that your menu will determine how much money you make. You can sum up your profits and potential success based on your menu prices.

## So, where do you begin?

Here's how to price a menu by considering all the factors that can determine your price position on a spectrum. You have at one end the lowest price you can charge for a lucrative profit, and at the other, the highest price the market will bear.

## What is Menu Pricing or Menu Costs?

A restaurateur's menu pricing approach defines how much each dish should cost. To put it simply, you need to calculate the cost per dish and charge enough to recoup those costs with a profit. However, the profits need to go a long way in covering other expenses, like rent and labor. A poorly priced menu can cost you the profits and funds you need to stay in business.

Preparing the dish and other overhead expenses are accounted for when you estimate your menu cost. That figure becomes your final menu price. By charging this price, you generate profits and cover your costs.

Following proper menu pricing strategies is critical when such high stakes are involved. Different restaurants price food differently by calculating food costs, studying the local competition, and conducting market research. Let's take a look at the bigger picture of pricing

# Factors that Affect Restaurant Menu Pricing

Restaurant ownership is a demanding job. It takes creativity, an appreciation for food, and basic math skills. Calculating your restaurant's menu prices is where the math comes into play. In the beginning, you will have to put money into a restaurant to turn a profit. As they say, you must spend money to make money.

Eventually, you will generate revenue from food sales, but you must pay for your employees' supplies, rent, utilities, insurance, and payroll.

Profitability requires some capital left over after all your expenses are covered. Menu pricing considers all the factors and determines the profit per dish.

**Keep reading to find out more!**



## Costing

Choosing the amount to charge for items on your menu largely depends on their cost. Using your food cost percentage is the simplest way to cost out your menu.

You can calculate your food cost percentage using the following formula:

$$\text{Food cost percentage} = (\text{beginning inventory} + \text{purchases} - \text{ending inventory}) \div \text{food sales.}$$



## Direct Costs

Dishes are priced based on what goes into them. Ingredients are probably the most important factor that influences prices. Rather than only considering direct costs, restaurateurs must also consider all other aspects of the ingredients used in their dishes, for example:

1. **Portion:** Consistent portions should be a rule of thumb. Keeping track of this will help you determine how much each time you spend on ingredients, penny-wise.
2. **Seasonal:** Do the ingredients change with the seasons? Because seasonal food (e.g., lobster) fluctuates in price, your cost will fluctuate with the season. Think about offsetting seasonal ingredients with items that can be purchased year-round to have a base cost to factor from.



## Indirect costs

Indirect costs include labor and operating costs. You must recoup these costs through your sales, just as you would with direct costs. You will need to charge a certain amount depending on the type of restaurant you operate. For example, you can charge less if you run a casual restaurant with counter service because you will spend less on service. Alternatively, if you run a fine dining restaurant, you'll need to charge more while providing better service. This aspect of your restaurant adds to its value and quality -- think about table decor, ambiance, lighting, etc.



## Overhead expenses

Costs associated with operations that are not directly related to production are overhead costs. Regardless of how successful the business is and how many orders it receives, costs will always be involved. A cost includes all expenses related to facilities and utilities, including utility and maintenance costs and items unrelated to production, such as supplies.



## Seasonal costs

Despite being incredibly vulnerable to seasonality, the restaurant industry remains exceptionally volatile. Some of the potential seasonal expenses include:

- **Expenses associated with hiring additional staff during peak months.**
- **Depending on the season, ingredients' prices may change.**
- **Costs associated with seasonal heating and cooling.**

Considering your seasonal costs can help you thread the needle of your entire cost.

# Appealing to Your Customers

Imagine your menu as your greatest hits album, representing what you and your team excel at. You can differentiate your brand and stand out from the crowd by featuring menu items that showcase your and your team's talents - and, as a result, price your menu differently. The ability to sell your top items at a premium is a testament to your uniqueness.

# Market Fluctuations

Various factors can cause raw material prices to fluctuate, such as natural calamities, reduced crop production, and seasonally slowdowns. A food item on your menu can have a detrimental effect on your profit.

Despite the same price on the menu, price fluctuations determine whether or not you would profit from a sale. Restaurant owners should keep in mind that it is challenging to keep editing the menu price every time a price fluctuation occurs in the market; therefore, menu pricing should take seasonal trends into account. Setting the price a little higher will allow you to create a cushion for price fluctuations.

As a result, a hike in the cost of raw materials or a drop in footfall wouldn't significantly impact the gross profit percentage.

# Customization

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# Finding the Balance

An effective menu pricing strategy involves balancing your high-cost and low-cost menu items. However, finding this balance won't happen overnight. You need time, testing, and ongoing analyses to get your menu right.

Here are some tips to help you reach your goal:

- **It is important to keep your menu costs up to date to know every item's cost.**
- **A product mix report can be generated accurately by a POS system.**
- **Ensure that you stay patient, focused, and dedicated to the project.**

Besides learning about menu psychology and menu engineering, you will also need to learn how to optimize your menu. Consequently, you will be able to maintain balance and increase your profits. Pricing menu items, the location of dishes on your menu, and how frequently you update your menu all play an important role in achieving that right balance.

## Pricing Menu from Food Cost Percentage

Restaurant expenses include a large portion of food costs. It is also essential to continuously monitor the food cost percentage. You can easily calculate your food cost percentage, stick to your budget, and effectively manage your restaurant's finances with the right resources and formulas.

Based on how much food your restaurant spends on inventory, expressed as a percentage, you can see what this inventory is generating for you (revenue).

Estimate inventory costs over time by figuring out your initial inventory cost and adding that figure to any additional inventory purchased. Then, subtract the inventory costs you are left with at the end of the period you are analyzing. Lastly, divide this number by your revenue.

$$\text{Food cost percentage} = \frac{(\text{beginning inventory} + \text{purchases} - \text{ending inventory})}{\text{food sales}}$$

The ideal food cost percentage is the sweet spot for restaurateurs to run financially viable businesses. For a restaurant to be profitable, food costs should be between 28 and 35% of revenue.

## Benefits of Calculating Restaurant Food Cost Percentage

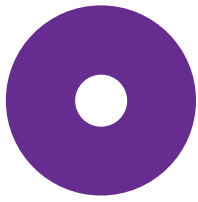
### Make smarter spending and earning decisions

Each menu item will fit within your food cost margins if priced according to its food cost percentage and cost of goods sold. In turn, you'll be able to determine which menu items are most profitable to promote.

### Efficiently engineer your menu:

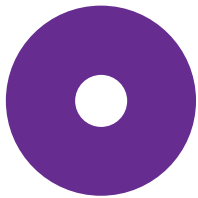
You can update menu items that are no longer profitable using food cost percentage data integrated into your restaurant POS system. You can use menu engineering to determine whether to retire, re-price, or change a menu item based on a food cost percentage





## **Become more familiar with the impact of food supplies on profitability and cost**

Farming trends and even international trade negotiations can dramatically affect your results. Therefore, understanding and managing inventory costs require an understanding and knowledge of profitability.



## **Intelligently experiment with new recipes**

You can create a new recipe to see if it aligns with your ideal food cost percentage - more on the ideal food cost percentage below. If it doesn't work, attempt to adjust the recipe and store it away for another time.

# **Benefits of Calculating Restaurant Food Cost Percentage**

The percentage of sales generated by profit is the gross profit margin. In other words, sales over your break-even point. A 25 percent gross profit margin for onion rings means that 25 cents of every dollar spent on the dish (including labor and raw ingredients) are profit.

Calculate your ideal gross profit margin

Your menu item's gross profit margin will depend on your chosen margin. There is a wide range of gross profit margins for restaurants. These margins can range anywhere from 20% to 80%. In the end, what matters is the net profit margin, which includes all restaurant operating expenses.

## Find the COGS of the menu item in question.

While a menu is more than the sum of its parts, it should at least consider the cost of goods sold (COGS) to ensure that you are recovering costs at some level. The way to calculate this is

$$\text{(Beginning Inventory + Purchased Inventory) - Ending Inventory}$$

### Calculate the price of food items

The formula for calculating food prices by gross profit margin is as follows:

$$\text{Gross profit margin} = (\text{menu price} - \text{raw food cost}) / \text{menu price}$$

Profit margins are calculated using the equation, not menu prices. This requires a little trial and error.

Consider calculating the gross profit margins for each item on your menu if you already have one. You may want to consider new pricing strategies for items with low margins.

### Your Gross Profit Margin Determines Your Bottom Line

A company's gross profit is a crucial component determining net profit, also known as the bottom line. Here is an example of how you calculate your net profit:

$$\text{Gross profit} - (\text{labor cost} + \text{operating costs}) = \text{net profit/loss}$$

So, it is clear that the higher your gross profit, the more profit you will have left after deducting labor and operating costs. Thus, you must ensure that your business has high-profit items and that you sell these items only.

# Benefits of Calculating Restaurant Food Cost Percentage

Setting up a price for a buffet menu is a science. In general, restaurants decide the price based on the number of items offered and the seating capacity for customers. It also includes the average number of customers who visit restaurants daily and the direct cost incurred to make arrangements for food. This way, they know the cost per person.

This is the first step performed by restaurants. The next step is to focus on making profits. The cheapest and most filling food is kept right at the start of the buffet—most restaurants lookout for costing advice using a la carte items. For example, pasta is a popular buffet dish, and the price is calculated by adding the cost of pasta, cheese, mushrooms, olives, and other items to ensure the item is rightly priced.

But when it comes to calculating the cost of the buffet, it is a challenge. We may observe that some guests eat food that costs two-three dollars while others eat more than what they have paid for.

# How Do You Price Drinks in a Restaurant?

Choosing to price drinks at a restaurant can be tricky. Expensive ones can drive customers away, and cheap ones are not effective for the longer term. So how do you price drinks in a restaurant?

## Let's find out.

One of the ways restaurants can price drinks and make them profitable is by managing their list of offerings. This adds a unique value to the restaurant's service, and the price of drinks must consider rent, overhead costs, and industry best practices.

These steps can guide you better in pricing a drink at your restaurant.

1

**Calculate your drink cost ( cost of drink + flavor cost/number of servings = cost per drink)**

2

**Calculate the cost of beverage by this method (cost to make drink/selling price = cost per glass)**

3

**Consider factors like location, competitors, and target audience before you set the price**

4

**Round all the costing accordingly and make the pricing visually appealing on your menu.**

# Restaurant Menu Pricing Strategies That Will Increase Your Restaurant Profits

Menu pricing is one of the most concerning the detail of the restaurant industry. No matter how great your food tastes, it's ineffective if your customers don't find it worth their money.

One way to do it is to avoid aggressive prices that may drive current or potential customers away.

Here are a few ways to increase your restaurant profits.

## **Price your Menu According to the Type of Restaurant**

Your restaurant prices must consider important elements like direct and indirect costs.

The menu prices must consider elements like raw materials, labor, restaurant, rent, payables, and expenses and adjust those costs in the menu pricing.

## **Charge More for Exotic Cuisine**

As a restaurant owner, you can charge a premium price for exotic cuisine. If your restaurant serves gourmet food or French cuisine, you can charge more for those food items. Remember that your customers will pay more for exotic dishes. If you don't charge more, most of your customers will likely not place an order. This will let them enjoy the feel of fine dining at your restaurant. You can also create an experience. For those customers through excellent service, great standards, and splendid experience.

Therefore never hesitate to charge more money and make more profits on exotic dishes.

## Revamp The Dishes With A Special Ingredient

The only way to ensure your restaurant menu is optimized is to feature different variations of the same dish. Add dishes that have low-priced ingredients and one expensive ingredient to balance and add flavor. For example, dishes like fettuccine pasta can have multiple variations in sauce and pasta types, and some exquisite ingredients may change while other remains the same for most variations.

This way, Italian herbs like basil, rosemary, and thyme can add fusion and bring out the aroma of the dishes.

## Use Relative Pricing

Relative pricing contrasts two items that shift customers' perceptions about a product.

It is a widely used strategy to maximize profits and get customers to buy more.

When restaurants place high-margin items next to expensive items on the menu, customers are likely to shift their preference towards a high-margin item. For example, a plate of french fries that costs \$4.00 is a high-margin product compared with pizza fries or cheese fries that cost \$5.50.

By placing the two items together, customers impulsively order french fries, a high-margin product. They are eventually grossing more profits for restaurants.

This works best on expensive and cheap food items, and customers would order a cheaper item that adds more profit to your restaurant.

## Decide The Right Price For The Right Quantity

Pricing is always a struggle with restaurant owners. Many restaurants either charge too much or way too less. But how to know which price is the right price on your menu?

Charging too much for a burger can drive your customers away, and charging too less for Sushi does not make sense.

Here are a few points restaurateurs should consider when setting up pricing for the menu:

- **More charges for More Quantity**

Charging more for more quantity is a big turn-off as it can shift customers away if you don't make them aware in advance. Therefore, it is recommended to avoid this blunder.

- **More Charges for Less Quantity**

Many restaurants tend to charge more for less quantity, and this way, they miss out on repetitive customers, recognition, and restaurant awareness from their customers. This also disheartens customers in the long run.

- **Lesser Charges for Less Quantity**

Many restaurants may charge less for less quantity and keep up with their competition. It is a good way to attract customers, but less quantity can put customers away after a certain time.

## Have a Chef Special in Each Section

By adding a “chef's special,” customers will get an exclusive dish personally made by the restaurant chef. It sounds fancy, and mentioning chef recommended also gives them a personal touch. But how can you do it?

## Here's how.

- 1. In each section, add ingredients, pictures of food, and describe the dish to develop curiosity among customers.**
- 2. Then mention “Chef Special” under it.**
- 3. Highlight the chef special or place it on the top to attract more eyes**

This way, you can get to promote each item on the menu and charge at a premium price that gets you more profit for your restaurant.

## Avoid Putting Currency Sign Next to Item Price

The basic strategy to price your restaurant menu is to avoid putting a currency sign next. E.g., \$ 5.00 or Rs. 500.00. This way, budget-conscious customers can determine how much they are spending and may not order high-priced items. Therefore, it is recommended to remove any currency sign on your menu.

## Write Price at the End of the Menu Description

Food descriptions and details are a must in each menu item. While it is highly important, some restaurants miss out on this detail. Mentioning descriptions of the dish are a must for all menu items. However, it is recommended that you can mention the price at the end. When reading the description, customers will crave your food items and will focus less on their price and more on the experience the food will provide. Therefore, helping you make more profits.

## Use Complimentary Item Pricing

The basic way to make more profits on your food is by offering discounts and deals or a complementary item to increase the sale of a particular food item. For example, you can offer customers a 50% discount on sandwiches to purchase any two burgers. Or compliment items like fries and burgers on the menu like fast food chains Mc Donalds, Shake Shack, and KFC. The combo is cost-effective for customers and gets your restaurant more sales.



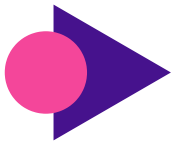
# Menu Psychology: How to Sell High Gross Profit Margin Items

Every restaurant aims toward one goal, to maximize profits. So how to make more profits? Menu psychology allows restaurant owners to study how the menu can influence people's decisions to spend more money.

The challenge here is to know the prices of your menu and evaluate the highest cost of each product and people's purchasing and buying power.

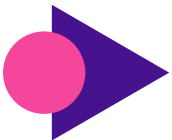
However, on some items, restaurant owners earn more by increasing prices. How is the pricing of the menu done?

The pricing is done in two simple ways.



## Menu engineering principles

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## Menu psychology principles

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Using menu psychology and menu engineering, restaurants can sell their high-profit margin items, and here are some tips to focus on.

- Customers mostly focus on the first items in each section of the menu. Always place high-margin items on top in each section.
- Grab the attention of your guests with a visual image, colored box, and more. Highlight only one item in each section of the menu to avoid confusion.
- Place profitable items on the top two places on the menu.

Besides these, you can use descriptions, visuals, and other creative ways to prompt your guests toward ordering that item.

# What is Menu Engineering?

Menu engineering evaluates and optimizes restaurant prices to create a good menu and generate business revenue. This is performed by categorizing the menu into four different categories.

According to Menu Cover Depot, menu engineering help restaurant increase their profits by 10-15%.

Menu engineering plays a key role for restaurants and helps to:

- Eliminate low-performing items from the menu
- Prominently highlight the most profitable menu items
- Create an organized system for regular running items, their analysis, and keep an optimized menu

# What is Menu Engineering?

## There are four menu engineering categories



### **Stars: High Profitability and High Popularity**

Stars are a high profit, high popularity items on the menu. They are relatively cheap and attract guests to order them more. To make more profits, keep promoting these items consistently.



### **Puzzles: High Profitability and Low Popularity**

Puzzles are high profitable items but less popular. They are difficult to sell, and you can develop ways to promote them on social media, get influencers on board, and come up with other marketing ways to attract people to order this item.



### **Plowhorses: Low Profitability and High Popularity**

Plowhorses are a low profit but highly popular item on the menu. So how to make it profitable? You can pair it with other items or offer deals that help you make more profit.



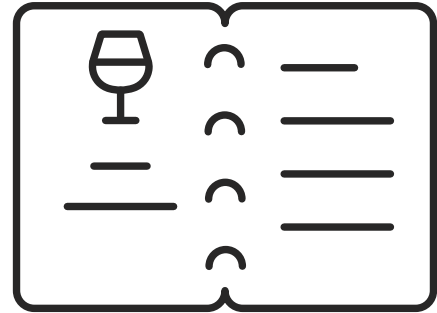
### **Dogs: Low Profitability and Low Popularity**

Dogs are the low profit and low popular items on the menu. They take up space on the menu and do not get you profits. It is best to omit those and rebrand your menu.

## Menu Psychology Principles

Next time you visit a restaurant, pick up their menu and before you order, take a minute to see the psychology of menu design. Think about why they place items in a certain way or make you choose specific items first.

Menu drives revenue for restaurants and is carefully placed with a lot of science and hours spent on positioning, branding, color theory, and some buzz words.



## 5 Ways to Influence Menu Decisions

### 1. Paradox of Choice

When looking at a menu, customers are looking for choices with limited spaces and long text. This becomes a challenge. To offer choice and not clutter your menu. Separate items in different sections, and this way, guests will remember.

### 2. Decoy Effect

Want to entice customers to order a profitable item? Try the decoy effect in your pricing model and see how guests are more likely to order a good dish. The decoy effect is psychological and shows that customers may change their preferences. This happens when a second or third valuable option is mentioned on the menu.

### 3. Social Proof

Has your menu been sorted? Want people to trust your particular item on the menu?

Social proof develops a sense of trust among customers.

Adding pictures, quotes and testimonials help to build trust, and with terms like mom's favorite, your guest may place their order for that item.

You can also encourage customers to share reviews on Yelp. TripAdvisor and honest reviews are a great way to attract customers. Hence more profits.

#### 4. Semantic Salience

Manipulating **salience** creates a powerful impact of choice in most situations. In a menu, you don't want people to miss out on your profitable items because of salience; therefore, here's how you can place your menu presentation.

**\$10.00 - 10**  
**\$14 - 14**

The dollar sign makes people ambiguous about purchasing, and you can avoid that by removing this.

## The Golden Triangle

Have you noticed that when you go to a restaurant and look at the menu, where do your eyes move? For some people, it is on visuals, and for most people, their eyes are constantly looking at the middle, or to the top right corner, and finally to the top left corner. According to Restaurant Menu Engineers, this is commonly known as Golden Triangle.

So what to put here? The answer here is simple. Place your high-profit items here and the most profitable ones. This is where your top margin dishes must be placed.

# Conclusion

Are you a restaurant owner? Do you have a great online menu? Is it getting you visibility and revenue? Is it user-friendly? Does it entice visitors to check your website and social media? If not, then there is something wrong.

We at Blink help you scale your business with our quick commerce enablement and engagement platform. We help you design processes and digitize order fulfillment time for your business. We'll make sure your well-engineered menu is user-friendly, and you are making a profit from your orders.

Want to know more? Visit our website and find out more.