Meat/Seafood/Poultry

What's the Right Price for Your Burger?

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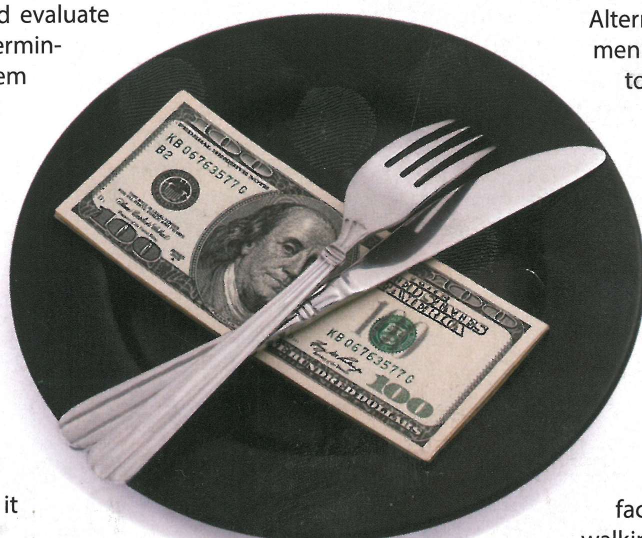
It's a classic conundrum: You have an item on your menu that your competitors also have. So how do you price your product vs. theirs? Every burger isn't exactly the same, after all.

There are a number of factors that operators should consider when determining whether the price of a commodity item should be the same, higher or lower than a competitor's.

Let's start with a burger example and evaluate some of the factors to consider when determining the price (and notice that none of them rely on the item's underlying food cost percentage).



1 ***What's the quality of ingredients in the item?*** Is the burger patty you serve USDA Prime, Choice or Select? Is it ground sirloin or ground chuck? How big is the patty?

2. ***How do you make it?*** Do you purchase frozen patties? Grind meat in-house and make the burger fresh? Purchase freshly ground meat? Then, is it flame-grilled, pan-fried, griddled? Is it cooked and held, or cooked to order? Can it be ordered to temperature?

3. ***How much labor is involved relative to other menu items?***

4. ***Is it served with accompaniments like lettuce, tomato, pickles or onions?*** Is it served with fries and, if so, how big a portion?

5. **Is this item an entry-level menu item** (i.e., do you also have "bigger, better" burgers like Bacon and Blue Cheese, or Jalapeno with Onion Straws) or is it the only one on the menu?

6. ***Is this item core to your concept*** (are you a burger joint) or is it a "veto vote" item (a chicken wing place that happens to offer a burger)?

7. ***Do you offer the item at different prices on different days or at different hours?***

8. ***Do people come to your restaurant specifically for this item?*** Is it a signature dish? Would you rather customers order this or something else?

9. ***How hard is the item to get out of the kitchen?*** Would you rather use the equipment for something else?

10. ***Is this one of your lower-priced items or does it fall at the top end?***

11. ***What do customers order with this item?*** Are they consuming other high-margin items (i.e., alcohol, sides, desserts) with it?

12. ***What is the ambience and service level*** in your establishment vs. your competition?

13. ***How do you market the product?*** Is this item a low-price, loss leader or a signature specialty?

Once all of these factors are evaluated, it's not surprising that your burger should be priced differently than the burger at the establishment next door. The key, then, is making sure the customer understands the difference between your burger and your competitor's.

The best way to do that is to tell them either through advertising, through descriptions on the menu itself or by using the best marketing tool at your disposal—your service and management staff.

A higher price can be justified when the value equation is balanced. (Price = Quality + Service + Ambience + Brand Equity.) However, sometimes a lower price may be the best solution if your goal is to drive traffic with the item. But for this strategy to work, outside marketing must be used, such as billboards, digital ads, TV and/or radio or social media.

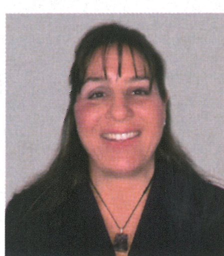
Alternatively, this may not be a product or menu item you actually want the customer to buy, so an extremely high price may make the rest of the menu items look more affordable.

To make smart decisions about your pricing, you need to understand how price impacts your restaurant's profitability. Knowledge of whether an item is a traffic driver or a check-builder and how it trades with other items is important to creating a pricing strategy that optimizes profitability.

Overall profit is driven by three factors: traffic (the number of people walking through the door), incidence (the number of items each person purchases) and item contribution margin (price minus the cost of each item). So if you change the price of one item, it's important to understand how that affects the sales volume of other items as well as how it affects each customer's purchase cycle.

For example, you might be able to lower the price on one item, driving additional traffic while encouraging incidence. And in doing so, you could increase overall profitability, even though the margin on the lower-priced item has decreased.

So take the time to analyze your pricing vs. your competitor's. It will pay off, not only in sales of that particular item but also for your restaurant's overall profitability.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Deborah Barrash is a VP at Revenue Management Solutions, a pioneer in the area of bringing a data-based approach to pricing for restaurants and retailers. RMS provides solutions for many of the largest companies in the restaurant industry.