

# Rising fortunes

*When it is often the only way to ensure a restaurant stays viable, why is it so difficult to increase prices on a menu? Whatever the reason, you've got to do it some time. Here's how to do it well. By Chris Sheedy*

It is, of course, absolutely understandable that restaurant owners are nervous about raising prices on their menus. After all, diners are notoriously price sensitive and the competition is as fierce as it has ever been. But still some restaurants and cafes are able to manage price increases very well, keeping their businesses healthily afloat and ensuring their owners and managers receive a regular and respectable income.

The income issue is an especially important driver of price increases, says Dr Greg Chapman, CEO of Empower Business Solutions. "Often in the restaurant industry, the wage of the owner is simply what's left over after everybody else has been paid," he says. "But this is no way to run a business. You have to know what you're worth and build that in to the pricing structure."

But when rising menu prices are perceived to send customers scurrying out the door, how does a business manage such an increase?

"First of all, have a look around your restaurant and check out the decor," Chapman says. "Customers take visual pricing cues from the decor as soon as they walk in. Is your restaurant looking tired and can it be freshened up? Experience is very important in a restaurant and customers will accept higher prices for a better quality of experience."

"Next, think about detail. You have got plenty of fixed costs including produce, power, staff, lease, etc, but providing a little extra service—a welcome drink or a sorbet between meals or better trained staff—doesn't have to cost much. The great value of such detail, though, is that it raises the expectations of the diners

and justifies a slightly higher cost. The price simply represents the wonderful dining experience you're offering."

Once you've got the atmosphere and the details sorted out, check out other similar businesses in your location. What sort of prices are they charging? There will be an upper and a lower end of what it is possible to charge, and you need to ensure your price increase doesn't go beyond where it should be.

Whatever you do, don't simply apply a standard price increase across every product on the menu, says Howard Tinker, restaurant marketing consultant and author of *More Bums On Seats*. "Don't just whack 10 per cent on top of everything on the menu," he says. "That just trumpets your price increase to customers. You have to be smarter

than that. Essentially you have to reconstruct your menu so that people read it in a less price-conscious manner. If you have all of your meals and ingredients listed on the left and prices in a line down the right then customers will simply read down the price list until they get to an amount they're happy to pay and only then will they look at what the meal contains. Instead, place the price at the end of each description so customers are more likely to read what is in each meal first."

Chapman agrees that a knowledge of the psychology behind the reading of a menu is immensely powerful. Many restaurants are now simply writing a number, for instance '24', instead of the full dollar price (in this case '\$24.00') because the smaller set of digits and



**A little bit of extra effort in service can justify price rises to customers.**

lack of a dollar sign helps with the perception that the meal costs less. In other words, '24' looks less expensive than '\$24.00', Chapman says.

"Some eateries will also utilise a higher-priced chef's special or signature dish as what is known as a 'price anchor'," Chapman says. "The restaurant doesn't believe many customers will actually purchase the dish—it is simply on the menu to make everything else look cheaper."

Speaking of menus, it can pay handsome dividends to create a new special menu every month, Tinker says. It might be themed around a country—an Italian or French theme, for instance—or perhaps around produce that is in season. Whatever the theme, such a changing menu surprises diners and at the same time makes it far more difficult for people to compare prices to other establishments. A higher price is also justified by the fact that it's a

special menu that will only exist for one month. It has an air of exclusivity.

"If you're offering burgers and fries or fish and chips then people have a pre-conceived idea of how much it should cost," Tinker says. "But if you're offering a unique and slightly unusual meal with the added twist that it won't be available in a few weeks from now, it seems of greater value."

Every restaurant manager should have an intimate understanding of the exact cost of producing every plate on the menu, Tinker says. That way the plates with the highest profit margins can be marketed to diners more powerfully—perhaps highlighted on the menu or made in a unique fashion so they become known as signature dishes. If more of those specific dishes are sold then it's the same result as a price rise but without the price rise.

Of course, the other way to increase revenue is to lower cost of production

of each plate. This includes negotiating with suppliers, closely controlling stock to reduce waste and generally being smarter about what is being spent. Once you've got this right, the only move left is to lift prices.

"If price rises are going to be done well then you have to cherry-pick where you're going to increase prices on the menu rather than doing it across the board," Tinker says. "And there's no need to communicate these price rises to customers because that simply offers them a chance to complain and to broadcast your price rises on online review forums."

But don't feel guilty about doing it, because "no matter how you do it, you have to find a way to increase prices every now and then. After all, if your only competitive advantage in your market is the fact that you're the cheapest restaurant around then you're probably in trouble." ●